Craigmont Mines Limited

Annual Report 1981

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DIRECTORS

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

WILLIAM JAMES,
Toronto, Ontario
Executive Vice-President
Noranda Mines 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,
Richmond, B.C.
Retired

OFFICERS

Anthony J. Petrina, *President*
James L. McPherson, *Vice-President*
Donald Hallam, *Secretary*
Geoffrey D. Bach, *Treasurer*
Ted J. Will, *Comptroller*
Michael P. Leroux, *Assistant Secretary*

DEPARTMENT HEADS

William D. Diment, *Mine Manager*
Elmer H. Olafson, *Mine Superintendent*
Philip MacIntyre, *Mill Superintendent*
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

OFFICES

Head Office:
1600 - 1055 Dunsmuir Street
Vancouver, B.C.

Mailing Address:
P.O. Box 49330
Bentall Postal Station
Vancouver, B.C. V7X 1P1
Telephone (604) 682-7082
Telex 04-55181

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

ANNUAL MEETING

The Annual General Meeting of the Company will be held at 11:00 a.m. on Thursday, January 28th, 1982 in the Tweedsmuir Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia.

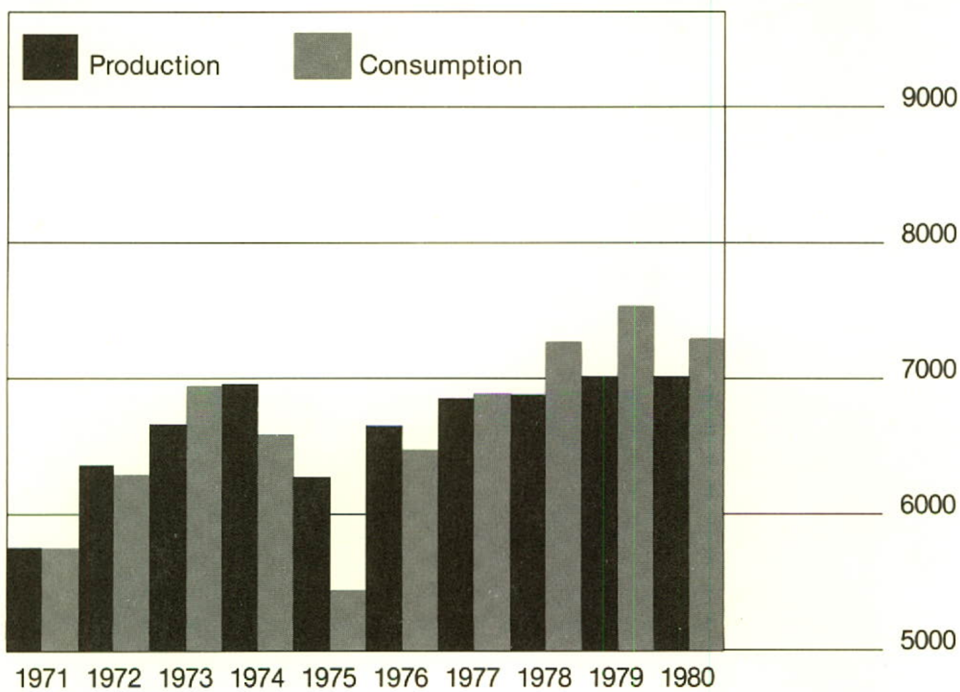
Highlights

	1981	1980
OPERATIONS —		
Concentrate sales — copper	**$11,767,000**	$24,426,000
— iron	**1,324,000**	1,564,000
Income and resource taxes	**718,000**	7,007,000
Net earnings	**1,037,000**	7,078,000*
Copper ore milled — tons	**1,536,000**	2,151,000
Grade — % copper	**0.70**	0.64
Copper concentrate produced — tons	**35,800**	44,300
Copper produced — pounds	**19,947,000**	24,717,000
Iron concentrate produced — tons	**133,300**	41,300
PER SHARE —		
Net earnings	**$0.20**	$1.39*
Dividends	**1.40**	2.00
OTHER INFORMATION —		
Number of — employees	**158**	242
— shareholders	**3,237**	3,322
Average copper price per pound on London Metal Exchange — U.S.$	**0.81**	1.01

*Includes an extraordinary item of $1,558,000 or $0.31 per share.

(tons = short dry tons)

WESTERN BLOC REFINED COPPER PRODUCTION COMPARED TO CONSUMPTION *(thousands of short tons)*



Directors' Report to the Shareholders

After 20 years the Craigmont mine is close to the end of operations. Surface stockpiles of copper ore were processed by March 1981 and since then mill capacity has been maintained by simultaneously processing copper ore from underground and coarse iron from stockpiles. It is expected that underground ore reserves will be exhausted by February 1982. The mill will then be converted for exclusive processing of the coarse iron stockpile into media grade iron concentrate.

Net earnings for the fiscal year ended October 31, 1981 were $1,037,000 or $0.20 per share on revenues of $13,971,000. Earnings in the 1980 fiscal year were $5,520,000 or $1.08 per share on revenues of $27,815,000, before an extraordinary gain of $1,558,000 resulting from the sale of 51,668 Placer Development Limited shares. A lower volume of copper ore milled and the resulting reduction in production in 1981, together with lower world copper prices, lowered Craigmont's earnings.

Dividends were gradually reduced in 1981 because of the Company's lower cash position. Four dividend payments of $0.50, $0.40, $0.30 and $0.20 per share, for a total of $7,108,000 or $1.40 per share were paid in 1981. This compares with four payments of $0.50 per share, for a total of $10,155,000 or $2.00 per share in 1980. Dividend payments in both years were substantially in excess of earnings.

At year-end, cash and short-term investments totalled $5,710,000 (1980 - $14,661,000).

Over the last several years, Craigmont has explored for mineral properties which would enable the continuation of mining activities. Although the exploration programme has not been successful it will be continued into 1982. In the event that no economic property is found, the Directors will recommend to the shareholders that the Company be wound-up following the cessation of operations which is anticipated in November 1982. The Company's assets would subsequently be sold and the proceeds distributed to shareholders on a pro-rata basis.

OPERATIONS

During 1981, 1,300,000 tons of ore, at an average grade of 0.76% copper, were mined from underground (1980 - 1,382,000 tons; 0.74% copper). In addition, 212,000 tons of low grade ore were reclaimed from surface stockpiles established in the initial years of mining. The concentrator milled 1,536,000 tons of ore averaging 0.70% copper (1980 - 2,151,000 tons at 0.64%). A total of 35,800 tons of concentrate containing 19,947,000 pounds of copper was produced during the year (1980 - 44,300 tons; 24,717,000 pounds). Copper recovery averaged 92.47% (1980 - 89.67%).

Following exhaustion of the low grade copper stockpiles in March 1981, the concentrator was converted to process coarse iron simultaneously with the remaining copper ore. Production of 133,300 tons of iron concentrate (1980 - 41,300 tons) was at a higher level than was originally anticipated and it is now expected that stocks will be completely processed by November 1982. Production is in excess of current sales and has been stockpiled.

The remaining copper ore reserves will be processed by the Spring of 1982 and at that time the concentrator will be converted to treat coarse iron exclusively. In this last phase of operation the mine will be staffed by approximately thirty-five people. It is estimated that the processing of the approximately one million tons of coarse iron in the stockpile will yield an estimated 550,000 tons of media grade iron concentrate.

MARKETING

All copper concentrate shipped during the year was sold to overseas smelters at the London Metal Exchange price less smelting and refining charges. Deliveries of iron concentrate declined to 35,500 tons (1980 - 45,900 tons) but should increase in 1982 and again in 1983 as the production of metallurgical coal increases in Western Canada. Craigmont's iron concentrate is suitable for use in all Western Canadian coal mines using magnetite heavy media iron washeries.

The copper price averaged only U.S. $0.81 per pound on the London Metal Exchange for the 1981 fiscal year compared with U.S. $1.01 for the previous year. For the past three months, the price has averaged U.S. $0.78. At these prices, most mines are losing money.

In 1982, world demand for refined copper is expected to decline to 7,900,000 tons — a reduction of about 2% over 1981. Production in the Western World appears likely to decline to match market demand. Reported stocks of refined copper held by producers and exchanges presently total over 710,000 tons, only 26,000 tons more than working minimum stock levels. Although some improvement in the price of copper is possible in 1982 if interest rates decline and economic recovery commences, it will probably come after copper production has ceased at the Company's mine.

ORE RESERVES

On October 31, 1981, the remaining mineable ore reserves were estimated to be:

	1981 Cut-off grade — 1.0%	
	Tons	% Copper
In place (proven)	108,000	1.57
Broken (in circuit)	33,000	0.71
	141,000	1.37

Under present conditions and using the sub-level caving method of mining, it is estimated that 100% of the mineable ore reserves are extractable at approximately 58% dilution. At the present rate of production, these reserves will support the underground operations until February 1982, after which the underground workings will be dismantled and sealed.

EXPLORATION

Exploration in British Columbia continued, but none of the prospects examined was sufficiently attractive for development consideration. The cost of the hard mineral exploration programme in 1981 was $892,000

(1980 - $793,000). Approximately 26,000 feet of diamond drilling, 2,400 feet of percussion drilling and 35.4 miles of grid and geotechnical surveys were completed on eight properties. The bulk of the drilling, 19,000 feet, was used to define known mineralization on properties in the Kamloops area optioned from Comet Industries Ltd. The option was dropped because reserves were judged insufficient to support an independent mining operation. Over 3,600 feet of diamond drilling and 2,400 feet of percussion drilling on a copper/silver prospect at Falkland encountered erratic mineralization and further work is planned. The remainder of the drilling tested several anomalies in the Barriere-Clearwater area with negative results. Drilling was resumed on the Chu Chua copper prospect in an effort to locate any surrounding ore.

The Redbird molybdenum project was the only one on which engineering studies were conducted in 1981. The results indicated that the property would not be economic in the near term.

OIL AND GAS

At October 31, 1981 the Company held interests in 94,416 gross acres or 16,657 net acres of oil and gas leases in Alberta and British Columbia. This represents a reduction of 59,903 gross acres and 10,137 net acres from that held in the previous year due to conversion of exploration permits in British Columbia to petroleum and natural gas leases.

During the year, one well was drilled at Silverberry, B.C. Oil was recovered on the drill stem test but failed to produce in commercial quantity upon completion, and was therefore suspended. The Company has interests ranging from 9% to 17% in one oil well, one producing gas well and four potential gas wells in British Columbia. It also holds from 11% to 44% interests in three oil wells, one producing gas well and one suspended gas well at Willesden Green in Alberta. Since commencement of the programme in 1976, a total of $2,905,000 has been spent on oil and gas exploration and development in Alberta and British Columbia. Revenue from this source amounted to $129,000 in 1981 (1980 - $121,000).

EMPLOYEE AND COMMUNITY RELATIONS

On October 31, 1981 the Company employed 158 persons (1980 - 242) at an annual payroll and benefit cost of $6,363,000 (1980 - $7,169,000). The average income per employee in 1981 was $26,930 (1980 - $24,470).

The first layoffs leading towards closure of the mine occurred in the latter part of the year. Forty-six employees received a total of $152,260 or an average of $3,310 per person in severance entitlements. Of those employees requesting relocation assistance from the joint Management/Union Employment Assistance Programme, approximately three out of four found new employment prior to termination. A further reduction in the workforce will occur in the Spring of 1982, after the mill is converted to treat coarse iron exclusively. The operation will then be staffed by approximately thirty-five people. A completion bonus has been established for each employee who remains at his job until his last scheduled shift.

The current labour agreement expires on January 28, 1982 and the Company has been meeting with Local 6523, United Steelworkers of America to negotiate a new agreement.

The Company continued its programme of scholarship assistance to students who are eligible as residents in the Merritt area, sons and daughters of employees or engaged in mining related studies. Five awards were made in 1981 at a total cost of $5,000. In 1981, the Company donated $80,000 towards the construction of Coquihalla House, a new intermediate care facility in the town of Merritt. This substantial donation was made to commemorate the part which the Company and its employees have played in the community.

Reclamation of areas associated with the open pit is nearing completion. The work to date has been very successful, with areas previously disturbed by mining operations being re-seeded with vegetation appropriate for a semi-arid climate. Funds expended on reclamation in 1981 were $22,000 (1980 - $25,000). Future reclamation efforts will be directed to the tailing pond and the plant site area when operations cease. The testing of suitable grasses for use on the tailing pond has been underway for several years.

In July, Mr. Ross G. Duthie retired as President and a Director of the Company. The Board wishes to recognize his valuable contribution to the Company over many years. He joined Craigmont in 1958 and was Mine Manager from 1958 to 1964. He was elected a Director and appointed President in 1967. In 1981 he was succeeded as President and Director by Mr. C. Allen Born, President and Chief Executive Officer of Placer Development Limited. In November, Mr. Anthony J. Petrina, formerly Vice-President, Operations was appointed President. He joined Craigmont when mining first commenced and was Mine Manager from 1968 to 1973. He was appointed Vice-President, Operations in 1975 and elected a Director in 1979.

The Board of Directors also wishes to commend mine employees for their care and calibre of work performed under difficult conditions. It is through their commitment and co-operation that stability has been maintained as the mine approaches closure.

On behalf of the Board of Directors,

A J Petrina

A. J. Petrina
President

Vancouver, B.C.
November 27, 1981

Statement of Financial Position

ASSETS

	October 31 1981	1980
CURRENT ASSETS:		
Cash and time deposits	**$ 5,487,000**	$11,209,000
Marketable securities, at market value (cost - $248,000; 1980 - $4,282,000)	**223,000**	3,452,000
Accounts receivable	**652,000**	1,733,000
Concentrate inventories	**3,682,000**	1,176,000
Materials and supplies	**944,000**	1,240,000
	10,988,000	18,810,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Buildings, equipment and underground development	**16,249,000**	16,161,000
Less: accumulated depreciation	**14,810,000**	14,978,000
	1,439,000	1,183,000
Oil and gas properties, less accumulated depletion of $145,000 (1980 - $78,000)	**1,116,000**	1,206,000
	2,555,000	2,389,000
	$13,543,000	$21,199,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	October 31 1981	1980
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	**$ 1,206,000**	$ 1,717,000
Income and resource taxes payable	**114,000**	1,177,000
	1,320,000	2,894,000
DEFERRED INCOME AND RESOURCE TAXES	**868,000**	879,000
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	**9,177,000**	15,248,000
	11,355,000	17,426,000
	$13,543,000	$21,199,000

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

Statement of Earnings

	Year ended October 31 1981	1980
REVENUES:		
Concentrate sales — copper	**$11,767,000**	$24,426,000
— iron	**1,324,000**	1,564,000
Interest and other income	**880,000**	1,825,000
	13,971,000	27,815,000
EXPENSES:		
Cost of concentrate sales	**10,307,000**	13,639,000
Depreciation and depletion	**216,000**	170,000
General and administrative	**635,000**	547,000
Exploration	**1,058,000**	932,000
	12,216,000	15,288,000
Earnings before taxes	**1,755,000**	12,527,000
INCOME AND RESOURCE TAXES:		
Current	**729,000**	6,744,000
Deferred	**(11,000)**	263,000
	718,000	7,007,000
Earnings before extraordinary item	**1,037,000**	5,520,000
Gain on sale of Placer Development Limited shares, net of income tax of $534,000	**—**	1,558,000
NET EARNINGS	**$ 1,037,000**	$ 7,078,000
Per share — earnings before extraordinary item	**$0.20**	$1.08
— net earnings	**$0.20**	$1.39

Statement of Earnings Reinvested in the Business

	Year ended October 31 1981	1980
BALANCE, BEGINNING OF YEAR	**$15,248,000**	$18,325,000
Net earnings	**1,037,000**	7,078,000
Dividends — $1.40 per share (1980 - $2.00)	**(7,108,000)**	(10,155,000)
BALANCE, END OF YEAR	**$ 9,177,000**	$15,248,000

Statement of Changes in Financial Position

	Year ended October 31 1981	1980
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations		
Earnings before extraordinary item	**$ 1,037,000**	$ 5,520,000
Add (deduct) items not involving working capital —		
Depreciation and depletion	**216,000**	170,000
Deferred income and resource taxes	**(11,000)**	263,000
Gain on disposal of property, plant and equipment	**(12,000)**	(374,000)
Total from operations	**1,230,000**	5,579,000
Disposal of Placer Development Limited shares, net of income tax of $534,000	**—**	2,504,000
Disposal of property, plant and equipment	**26,000**	424,000
	1,256,000	8,507,000
FINANCIAL RESOURCES WERE USED FOR:		
Dividends	**7,108,000**	10,155,000
Property, plant and equipment —		
Buildings and equipment	**419,000**	182,000
Oil and gas properties	**(23,000)**	353,000
	7,504,000	10,690,000
Decrease in working capital	**6,248,000**	2,183,000
Working capital, beginning of year	**15,916,000**	18,099,000
Working capital, end of year	**$ 9,668,000**	$15,916,000

Notes to Financial Statements

October 31, 1981 and 1980

1. ACCOUNTING POLICIES:

Inventories

Copper and iron concentrates are 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 replacement cost.

Property, plant and equipment

Depreciation is provided on the cost of assets over their estimated useful lives on the following annual bases:

- buildings and equipment on a diminishing-balance basis at the rate of 10%, and
- oil and gas lease and well equipment on a unit-of-production basis.

Depletion of the cost of producing 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.

Exploration

Current mineral exploration costs are charged against earnings for the year except that costs are capitalized if economically recoverable ore reserves have been determined.

Current oil and gas exploration costs, including geological, geophysical and exploratory dry hole costs, are charged against earnings for the year except for lease acquisition and drilling costs, which are initially capitalized as oil and gas properties. When an area is abandoned or when there is an impairment in value of an undeveloped property, the applicable capitalized costs are charged against earnings.

Revenue

Concentrate revenue is recognized at the time of sale. Sales values are recorded at estimated prices which may be changed when the prices are determined on finalization dates.

Deferred income and resource taxes

Income and resource taxes are recorded on the tax allocation method. Under this method, taxes reflect the effect of timing differences which arise when certain costs, principally depreciation and depletion, are recorded in different time periods for accounting purposes than for tax purposes.

Comparative figures

Certain 1980 figures have been reclassified to conform with the 1981 presentation.

2. OPERATIONS:

Ore reserves are nearly exhausted and the excess grinding capacity is being used to process the coarse iron stockpile.

Mining and milling of copper ore are expected to be completed by early 1982 and the reprocessing of the remaining coarse iron stockpile is expected to be completed later that year.

3. RELATED PARTY TRANSACTIONS:

Placer Development Limited ("Placer") owns 44.6% of the common shares of the Company and consequently is a related party. The Company contracts with Placer for management, technical and administrative services at rates equal to its proportionate share of the Placer costs. During the year, charges of $451,000 (1980 - $382,000), which were paid monthly, were incurred for these services.

4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate direct remuneration paid by the Company to its Directors and the five highest paid employees in 1981 amounted to $266,000 (1980 - $233,000) of which $12,000 (1980 - $12,000) consisted of fees paid to Directors. No direct payments were made to officers of the Company as the cost of their services is reimbursed by amounts paid to Placer Development Limited.

5. EXPORT SALES:

The Company's copper concentrate sales were made to customers outside Canada.

Auditors' Report

To the Members of Craigmont Mines Limited.

We have examined the statement of financial position of Craigmont Mines Limited as at October 31, 1981 and 1980 and the statements of earnings, earnings reinvested in the business and changes in financial position for the years 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, 1981 and 1980 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles consistently applied.

CAMPBELL SHARP
Chartered Accountants

Vancouver, Canada.
November 23, 1981.

Five Year Summary

	1981	1980	1979	1978	1977
OPERATIONS —					
Concentrate sales — copper	**$11,767,000**	24,426,000	38,496,000	20,054,000	17,701,000
— iron	**1,324,000**	1,564,000	1,381,000	790,000	1,076,000
Income and resource taxes	**718,000**	7,007,000	12,920,000	3,455,000	2,233,000
Net earnings	**1,037,000**	7,078,000*	10,387,000	3,572,000	2,359,000
Copper ore milled — tons	**1,536,000**	2,151,000	2,105,000	2,102,000	2,050,000
Grade — % copper	**0.70**	0.64	0.95	1.38	1.17
Copper concentrate produced — tons	**35,800**	44,300	60,400	94,200	81,000
Copper produced — pounds	**19,947,000**	24,717,000	34,342,000	53,813,000	45,315,000
Iron concentrate produced — tons	**133,300**	41,300	35,000	47,500	42,200
FINANCIAL POSITION —					
Cash, time deposits & marketable securities	**$ 5,710,000**	14,661,000	24,272,000	12,684,000	10,013,000
Working capital	**9,668,000**	15,916,000	18,099,000	16,536,000	16,770,000
Total assets	**13,543,000**	21,199,000	31,690,000	22,264,000	21,692,000
Shareholder's equity	**11,355,000**	17,426,000	20,503,000	18,747,000	19,237,000
PER SHARE —					
Net earnings	**$ 0.20**	1.39*	2.05	0.70	0.46
Dividends	**1.40**	2.00	1.70	0.80	0.80
Book value	**2.24**	3.43	4.04	3.69	3.79
OTHER INFORMATION —					
Number of — employees	**158**	242	283	294	373
— shareholders	**3,237**	3,322	3,328	3,569	4,012
Average copper price per pound on London Metal Exchange — U.S.$	**0.81**	1.01	0.85	0.60	0.60

*Includes an extraordinary item of $1,558,000 or $0.31 per share
(tons = short dry tons)

LITHO'D IN CANADA
AGENCY PRESS LIMITED