

Dated June 14, 1985



**Up to 44,006,680 Shares of Class B Common Stock
convertible into
44,006,680 Shares of Class A Common Stock**

This Prospectus relates to the shares of Class B Common Stock, \$0.10 par value per share ("Class B Common Stock") of Battle Mountain Gold Company, a Nevada corporation (the "Company"), that are to be distributed to the common stockholders of Pennzoil Company, a Delaware corporation ("Pennzoil"), and the shares of Class A Common Stock, \$0.10 par value per share ("Class A Common Stock"), issuable upon conversion thereof (collectively, the "Company Stock"). As of the date of this Prospectus, all issued and outstanding shares of Class B Common Stock are owned by Pennzoil and no shares of Class A Common Stock are outstanding. Following the distribution ("Distribution") of the shares of Class B Common Stock, the Company will be a separate publicly held corporation in which Pennzoil will have no equity ownership.

The shares of Class B Common Stock are being distributed as a dividend and are not being offered for cash or other property and neither the Company nor Pennzoil will receive any proceeds from the offering made hereby. See "The Distribution."

The Distribution will be made to holders of record of Pennzoil common stock, \$0.83 1/3 par value per share ("Pennzoil Common Stock"), at the close of business on August 1, 1985, the record date ("Record Date"). On June 1, 1985, 42,696,952 shares of Pennzoil Common Stock were outstanding and up to an additional 1,204,881 shares could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options. In addition, 104,847 shares of Class B Common Stock may be reserved for delivery apart from the Distribution pursuant to an existing employee benefit plan of Pennzoil. See "The Distribution."

The Distribution will be made on the basis of one share of Class B Common Stock for each share of Pennzoil Common Stock owned of record on the Record Date. Certificates representing shares of Class B Common Stock will be mailed on or about August 1, 1985, or as soon thereafter as practicable.

The Class A Common Stock and the Class B Common Stock will be identical, except that the Class A Common Stock will have one vote per share and the Class B Common Stock will have ten votes per share in the election of directors and all other matters submitted to a vote of the stockholders of the Company. However, commencing at such time as the shares of Class A Common Stock first represent 30% or more of the total shares of Company Stock outstanding, the holders of Class A Common Stock will be entitled to elect one director, voting as a separate class, out of the total number of authorized directors. See "Description of Capital Stock."

All outstanding shares of the Company's capital stock have been owned by Pennzoil since their original issuance and, accordingly, no established market for such stock currently exists. Class B Common Stock will be transferable as Class B Common Stock only upon satisfaction of certain conditions to a "Permitted Transferee" as defined under "Description of Capital Stock — Common Stock — Transferability." Transfers of shares of Class B Common Stock to transferees who are not Permitted Transferees will result in automatic conversion of the shares so transferred into an equal number of shares of Class A Common Stock. *Moreover, Class B Common Stock cannot be held in "street name" after 120 days following the date of the Distribution. See "Description of Capital Stock."* Class A Common Stock will be freely transferable. No application has been made to list the Class A Common Stock on a national securities exchange. Any trading in the Class A Common Stock after the Distribution, as well as any "when issued" trading prior to the Distribution, is expected to occur in the over-the-counter market. The Company intends to apply to the National Association of Securities Dealers, Inc. ("NASD") for inclusion of the Class A Common Stock in the NASDAQ System and designation of such stock as a National Market System security.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Prospectus is July 1, 1985.

This document is not a prospectus and does not constitute an offer of securities. It is intended only for informational purposes. The information contained herein is subject to change without notice. The registration statement becomes effective only when the Commission has approved it. The registration statement is filed with the Commission. The Commission does not guarantee the accuracy or completeness of the information contained herein. The registration statement is filed with the Commission. The Commission does not guarantee the accuracy or completeness of the information contained herein.

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Until September , 1985 (90 days after the date of this Prospectus), all dealers effecting transactions in the shares to which this Prospectus relates may be required to deliver a Prospectus.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to or solicitation of any person in any jurisdiction in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances imply that information contained herein is correct as of any time subsequent to its date.

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SUMMARY

This summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Prospectus.

BATTLE MOUNTAIN GOLD COMPANY

The Company was formed in December 1984 to receive the existing gold mining operations and certain related exploration and development activities previously conducted by Duval Corporation ("Duval"), a subsidiary of Pennzoil. Most of these assets and operations were transferred from Duval to the Company on December 31, 1984. See "Business and Properties of the Company — The Company — Organization."

The Company's business consists of the operation of a gold mine with related milling facilities near Battle Mountain, Nevada. Full scale production at the mine commenced at the end of December 1984 following mining of several lower grade ore deposits beginning in 1979. The Company also maintains an exploration staff and is currently evaluating several mineral prospects in the United States and the Pajingo gold prospect in Queensland, Australia. The Pajingo prospect and most of the domestic exploration activities are conducted through wholly owned subsidiaries the stock of which was transferred to the Company by Pennzoil effective as of June 1, 1985. See "Business and Properties of the Company."

The principal executive offices of the Company are located at Pennzoil Place, P.O. Box 1383, Houston, Texas 77251-1383 and its telephone number at such address is (713) 546-4715.

THE DISTRIBUTION

The Distribution will be made to holders of record of Pennzoil Common Stock on the Record Date. On June 1, 1985, 42,696,952 shares of Pennzoil Common Stock were outstanding and up to an additional 1,204,881 shares could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options. In addition, 104,847 shares of Class B Common Stock may be reserved for delivery apart from the Distribution pursuant to an existing employee benefit plan of Pennzoil.

On the Record Date, each holder of record of shares of Pennzoil Common Stock will become entitled to one share of Class B Common Stock for each share of Pennzoil Common Stock held. Upon completion of the Distribution, the Company will be a separate publicly held corporation in which Pennzoil will have no continuing equity interest. See "The Distribution."

TAX MATTERS

Pennzoil has received an opinion from its counsel to the effect that, subject to the qualifications set forth therein: (1) the Distribution will qualify as a tax-free distribution under section 355 of the Internal Revenue Code of 1954, as amended (the "Code"); (2) no gain or loss will be recognized by Pennzoil upon the Distribution; (3) no gain or loss will be recognized by, and no amount will be included in the income of, holders of Pennzoil Common Stock upon the receipt of shares of Class B Common Stock; (4) the basis of the shares of Pennzoil Common Stock with respect to which the Class B Common Stock is distributed will be allocated between such Pennzoil Common Stock and the Class B Common Stock received by a holder of Pennzoil Common Stock with respect thereto in proportion to their respective fair market values determined immediately after the Distribution; and (5) the holding period of the shares of Class B Common Stock will include the period for which the shares of Pennzoil Common Stock were held provided such shares of Pennzoil Common Stock were held as a capital asset on the date of the Distribution.

SUMMARY FINANCIAL INFORMATION

The operations at the Company's facilities near Battle Mountain, Nevada (the "Battle Mountain Property") prior to 1985 consisted of the mining and milling of several low grade gold and silver deposits, copper leaching operations and the development of a high grade gold and silver ore deposit known as the Fortitude mine. Effective December 31, 1984, a majority of the assets at the Battle Mountain Property was transferred to the Company, which had been organized in December 1984 for the purpose of receiving those assets. In addition, on June 1, 1985, the stock of two wholly owned subsidiaries of Pennzoil holding certain assets and properties related to the Pajingo gold exploration prospect and various domestic exploration prospects was transferred to the Company. The current operations of the Company primarily relate to commercial production of gold and silver at the Fortitude mine, which commenced in late December 1984. Because the assets at the Battle Mountain Property comprise a majority of the assets of the Company, the Battle Mountain Property has been identified as the "predecessor entity" of the Company for purposes of presenting historical financial information. Because the Fortitude mine was in the process of being developed from 1982 through 1984 and commercial production from the Fortitude mine did not commence until late December 1984, the historical operating results of the Battle Mountain Property are not comparable to the historical operating results of the Company for the three months ended March 31, 1985 and the forecasted operating results of the Company for the twelve months ending June 30, 1986.

The following table sets forth a summary of selected financial data (i) of the Battle Mountain Property for the years ended December 31, 1982, 1983 and 1984 and the three months ended March 31, 1984, (ii) of Battle Mountain Gold Company for the three months ended March 31, 1985 and, (iii) on a forecasted basis for Battle Mountain Gold Company for the twelve months ending June 30, 1986. The following information should be read in conjunction with the historical financial statements of Battle Mountain Gold Company and related notes thereto, the Pro Forma Balance Sheet of Battle Mountain Gold Company and related notes thereto, the Statements of Historical and Forecasted Income for Battle Mountain Gold Company and the Summary of Significant Forecast Assumptions and Management's Discussion and Analysis of Selected Financial Information.

	Battle Mountain Property				Battle Mountain Gold Company	
	Year Ended December 31,		Three Months Ended		Three Months Ended	Forecast for Twelve Months Ending
	1982	1983	1984	March 31, 1984	March 31, 1985	June 30, 1986(d)
	(Expressed in thousands)					(Unaudited)
Revenues	\$28,779	\$38,961	\$27,922	\$ 6,214	\$19,002	\$71,473
Mining, milling and other direct costs(a) ..	37,071	35,602	38,606	7,931	10,806	39,767
Depreciation, depletion and amortization ..	1,914	1,677	1,637	360	1,637	5,388
General and administrative and other expenses(b)	1,797	2,422	2,543	569	1,334	7,217
Less: Amounts capitalized related to development of Fortitude mine(c)	(9,288)	(1,044)	(14,937)	(2,646)	—	—
Income (loss) before interest and income taxes	\$(2,715)	\$ 304	\$ 73	\$ —	\$ 5,225	\$19,101
Net income (loss)	\$(2,715)	\$ 304	\$ 73	\$ —	\$ 3,756	\$14,892
Capital expenditures (exclusive of interest capitalized)	\$10,133	\$ 2,610	\$17,623	\$ 2,653	\$ 358	\$ 4,744

(a) Consists of mining, premining stripping, milling, plant, other operating costs and copper cost of goods sold.

(b) Consists of selling, general and administrative expense, general exploration expense and taxes, other than income.

(Notes continued on following page)

- (c) During the period in which the Fortitude mine was in the process of being developed, all costs incurred related to this mine were offset against revenues from the milling of the mineralized overburden at this mine, with the net cost capitalized in the property accounts. Reference is made to Note 3 of Notes to Financial Statements included elsewhere in this Prospectus.
- (d) Financial information for the three months ending June 30, 1985 has not been included because final information for this period is not yet available. However, preliminary information for the two months ended May 31, 1985 and an estimate of June net income based on the assumptions used in this forecast indicate that net income for the second quarter of 1985 will more than likely exceed the net income shown for the first quarter of 1985.

SUMMARY MINING DATA

The following table sets forth certain information with respect to the gold and silver mining operations of the Company at Battle Mountain for the years ended December 31, 1982, 1983 and 1984, the three months ended March 31, 1985 and forecasted information for the twelve months ending June 30, 1986.

	Year Ended December 31,			Three Months	Forecast
	1982	1983	1984	Ended March 31, 1985	for Twelve Months Ending June 30, 1986
	(Tons and ounces expressed in thousands)				
Tons of ore milled	1,400	1,291	1,231	335	1,314
Mill feed ore grade (ounces of gold per ton) .....	.059	.072	.071	.182	.190
Mill recovery factor for gold .....	.85	.87	.85	.88	.90
Ounces of gold recovered	71	80	73	53	225
Ounces of silver recovered	92	307	357	124	577

RISK FACTORS AND OTHER SPECIAL FEATURES

The following risk factors and other special features should be considered in connection with the Company Stock.

Gold Price Fluctuations. Gold prices fluctuate widely and are affected by numerous factors such as expectations for inflation, levels of interest rates, demand for gold, global or regional political and economic crises and production costs in major gold producing regions such as South Africa and the Soviet Union. The aggregate effect of these factors, all of which are beyond the Company's control, is impossible to predict. See "Business and Properties of the Company — Mining and Milling Operations — Gold Prices, Demand and Supply." Should the price of gold decrease markedly for a significant period to levels below those at which the Company can profitably maintain its production operations, the Company might curtail or suspend its mining activities.

Limited Operating History from New Deposit. Full scale production from the Company's Fortitude mine at Battle Mountain only recently has commenced. Although the reserves at the Fortitude mine are believed to be well established and have been estimated by independent consultants as set forth under "Business and Properties of the Company — Mining and Milling Operations — Reserves," reserve estimates are necessarily imprecise and depend to some extent on statistical inferences drawn from limited drilling, which may, on occasion, prove unreliable. Should the Company encounter, as mining proceeds at the Fortitude mine, mineralization or formations different from those predicted by historic drilling samples and similar examinations, mining plans might have to be altered in a way that would adversely affect the Company's operations.

Speculative Nature of Mineral Exploration. The Company is conducting exploration activities in a number of areas. Initially, it will be the policy of the Company to concentrate its exploration activities on prospects in which it currently has an ownership interest. While the Company may acquire interests in additional prospects from time to time, it is anticipated that such acquisitions will be held to a minimum until such time as the properties currently owned have been fully evaluated. See "Business and Properties of the Company — Exploration Activities."

Funds for exploration activities will be derived from cash flow from operations at the Company's Fortitude mine unless other sources of exploration funds, such as additional equity capital, are available on terms the Company considers acceptable. Mineral exploration, particularly for gold and other precious metals, is highly speculative in nature, involves many risks and frequently is nonproductive. There can be no assurance that the Company's mineral exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable. Moreover, to the extent exploratory efforts are unsuccessful, that portion of the cash flow from the Fortitude mine required to finance such exploration activities will be unavailable and not result in any funds for distribution to the Company's stockholders. See "Dividend Policy."

Additional Financing. The Company may finance the cost of development of any new prospects that exploratory efforts demonstrate to contain economically recoverable ore through borrowings from banks and others or from the sale of equity securities. Because the likelihood of discovery of an economically recoverable deposit and the amount of funds required to finance the development of any particular project cannot be predicted, it is impracticable to estimate the Company's requirements for additional financing for development purposes. Any such additional financing might involve a pledge or mortgage of the Company's properties and of any production therefrom. There is, of course, no assurance that satisfactory financings could be obtained. In addition to borrowings to finance particular development projects, the Company may also borrow from time to time for working capital and other general corporate purposes.

Administrative and Technical Services Contract with Pennzoil. The Company and Pennzoil have entered into an administrative and technical services contract whereby Pennzoil has agreed to provide the Company with certain administrative and technical services on a transitional basis and the Company has agreed to provide Pennzoil on a transitional basis with geological expertise and related services in the

evaluation of certain foreign mining prospects and concessions. See "Management — Administrative and Technical Support Services."

Mining Risks and Insurance. The business of gold mining is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, encountering unusual or unexpected formations, cave-ins, flooding, periodic interruptions due to inclement or hazardous weather conditions, dishonesty and gold bullion losses. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining and possible legal liability. Although the Company intends to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that such insurance will be available at economically feasible premiums.

Governmental Regulation and Environmental Controls. The Company's activities are subject to extensive federal, state and local laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Existing and possible future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Company's properties, the extent of which cannot be predicted. Congress has considered from time to time various bills that would affect the mining industry and could increase significantly the cost of the Company's exploration and development operations.

Compliance with environmental quality requirements and reclamation laws imposed by federal, state and local government authorities may necessitate significant capital outlays or may cause material changes in the Company's intended activities. No assurance can be given that environmental standards imposed by any government authority will not be changed, become more stringent or otherwise adversely affect the Company. See "Business and Properties of the Company — Mining and Milling Operations — Environmental Matters; Mining Regulation; Occupational Safety."

Taxation. United States federal income tax laws are of particular significance to the mining industry. In May 1985, the President proposed a comprehensive package of tax reforms (the "President's Proposals") that included a proposal to phase out percentage depletion over a five-year period beginning in 1986. While the President's Proposals also included a recommendation to reduce the corporate tax rate generally, the President's Proposals as a whole and after taking full effect would materially increase the U.S. federal income taxes expected to be paid by the Company. In addition, several bills that could materially increase the U.S. federal income taxes expected to be paid by the Company have been introduced recently in the U.S. Congress. These bills include proposals similar to the President's Proposals to eliminate percentage depletion as well as proposals to impose an alternative minimum tax on the preference income (including certain amounts of percentage depletion) of corporations. At this time it is impossible to predict whether any such proposed legislation will be enacted. Any changes in state severance and similar taxes levied on mining operations could also have a significant effect on the Company's operations.

THE DISTRIBUTION

Separation of the Company from Pennzoil

Background. Prior to 1985, the Company's primary operations were owned and conducted by Duval, a wholly owned subsidiary of Pennzoil. On December 31, 1984, the Company acquired those properties and assets of Duval that were related to Duval's existing gold mining operations and certain related exploration and development activities in Lander County, Nevada and Duval distributed all of the stock of the Company to Pennzoil. As a result of such transactions, Pennzoil became the direct owner of 100% of the outstanding capital stock and will continue as such until the Distribution. On June 1, 1985, all the stock of a wholly owned subsidiary of Pennzoil owning (through a wholly owned Australian subsidiary named Pajingo Gold Mine Pty. Ltd.) certain assets and properties related to the Pajingo gold exploration prospect was also transferred to the Company. In addition, the stock of another subsidiary of Pennzoil owning certain domestic exploration prospects outside the Lander County area was transferred to the Company on the same date. See "Business and Properties of the Company — The Company — Organization." Upon consummation of the Distribution, Pennzoil will have no continuing equity ownership in the Company.

Purpose. Pennzoil's Board of Directors in November 1984 announced a decision to withdraw Pennzoil from the mining of base metals, precious metals and potash and to divest the properties and assets of Pennzoil related to these activities in an orderly manner. The Board of Directors of Pennzoil has determined that the Distribution is in the best interests of Pennzoil, the Company and Pennzoil's stockholders.

Distribution Procedures

Declaration of Distribution. On June 11, 1985, the Board of Directors of Pennzoil authorized the Distribution of the Class B Common Stock to holders of Pennzoil Common Stock. Each holder of Pennzoil Common Stock on the Record Date (August , 1985) will receive one share of Class B Common Stock for each share of Pennzoil Common Stock held of record on the Record Date. Neither the Company nor Pennzoil will receive any proceeds as a result of the Distribution.

Shares Subject to Distribution. On June 1, 1985, 42,696,952 shares of Pennzoil Common Stock were outstanding. Up to an additional 1,204,881 shares of Pennzoil Common Stock could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options. In addition, 104,847 shares of Class B Common Stock may be reserved for delivery apart from the Distribution pursuant to an existing employee benefit plan of Pennzoil. As of the date of this Prospectus, all of the Company's outstanding shares of Class B Common Stock are owned by Pennzoil. Prior to the Distribution, any shares of Class B Common Stock not to be distributed by Pennzoil to its stockholders or reserved for delivery under its employee benefit plan will be contributed by Pennzoil to the Company for its treasury.

It is expected that Pennzoil Common Stock will begin to trade "ex-Distribution" on the New York Stock Exchange on July , 1985. Similar procedures will apply to the trading of Pennzoil Common Stock on the Pacific Stock Exchange and the Toronto, London and Swiss Stock Exchanges.

Restrictions on "Street Name" Ownership of Class B Common Stock. Class B Common Stock may be transferred as Class B Common Stock only to a Permitted Transferee. Otherwise, the transfer of shares of Class B Common Stock will result in automatic conversion of the shares into Class A Common Stock. See "Description of Capital Stock — Common Stock — Transferability." So that this requirement cannot be circumvented by record ownership in the name of a clearing agency, broker, dealer or other member of a clearing agency or in the name of a person holding shares in a nominee, "street name" or similar capacity for a clearing agency, broker, dealer or other member of a clearing agency (hereinafter called "street name holders"), the Company's Articles of Incorporation exclude street name holders from the class of Permitted Transferees and further provide that shares of Class B Common Stock initially registered in the name of street name holders (by virtue of ownership of Pennzoil Common Stock by such street name holders on the Record Date) will be automatically converted into an equal number of shares of Class A Common Stock on a date 120 days after the date of the Distribution unless theretofore transferred into the name of the beneficial owners who are Permitted Transferees. The Articles of Incorporation provide that any street name holder who is a broker, dealer or other member of a clearing agency may avoid conversion of the shares of Class B Common Stock registered in its name by furnishing the Company prior to the expiration of the 120 day period with an affidavit, in form and substance acceptable to the Company, to the effect that the affiant is the beneficial owner of the shares of Class B Common Stock in question. See "Description of Capital Stock — Common Stock — Transferability" and " — Conversion."

Delivery of Certificates. Certificates representing Class B Common Stock will be mailed on or about August , 1985, or as soon thereafter as practicable.

Distribution and Transfer Agent. Morgan Guaranty Trust Company of New York will act as Pennzoil's distribution agent in effecting the Distribution. The transfer agent and registrar for the Company Stock will also be Morgan Guaranty Trust Company of New York, whose address for such purposes is 30 Broadway, New York, New York 10015.

DIVIDEND POLICY

The Board of Directors of the Company intends to declare an initial quarterly dividend of \$.025 per share of Company Stock. It is contemplated that the Company's initial dividend payment will be made in mid-September to stockholders of record at a date in early September 1985. It is expected that future dividends will be paid on a quarterly basis in March, June, September and December of each year. A determination actually to pay future dividends and the amount thereof will be dependent on the Company's future earnings, capital requirements, financial condition and other relevant factors.

TAX MATTERS

Pennzoil has received an opinion from its counsel, Messrs. Baker & Botts, Houston, Texas, to the effect that: (1) the Distribution will qualify as a tax-free distribution under section 355 of the Code; (2) no gain or loss will be recognized by Pennzoil upon the Distribution; (3) no gain or loss will be recognized by, and no amount will be included in the income of, holders of Pennzoil Common Stock upon the receipt of shares of Class B Common Stock; (4) the basis of the shares of Pennzoil Common Stock with respect to which the Class B Common Stock is distributed will be allocated between such Pennzoil Common Stock and the Class B Common Stock received by a holder of Pennzoil Common Stock with respect thereto in proportion to their respective fair market values determined immediately after the Distribution; and (5) the holding period of the shares of Class B Common Stock will include the period for which the shares of Pennzoil Common Stock were held provided such shares of Pennzoil Common Stock were held as a capital asset on the date of the Distribution.

The opinion of counsel is based upon current provisions of the Code, Treasury Regulations, legislative history of the Code, rulings of the Internal Revenue Service (the "IRS"), and judicial decisions, as well as proposed Treasury Regulations to the extent such proposed Treasury Regulations are believed by counsel to represent the position of the IRS on the proper interpretation of section 355. Because of time limitations, no rulings have been sought or will be obtained from the IRS concerning any of the federal income tax matters discussed above, and the opinion of counsel is of course not binding upon the IRS. If, contrary to the opinion of counsel, the Distribution did not qualify under section 355, the Distribution would constitute a dividend to holders of Pennzoil Common Stock in an amount which would, in the case of non-corporate stockholders, be equal to the fair market value of the shares distributed, and Pennzoil would recognize gain upon the Distribution in an amount equal to the excess of the fair market value of the Class B Common Stock distributed over Pennzoil's basis in such stock. In this regard, however, counsel have further advised Pennzoil that it is their belief, on the basis of published rulings and other available materials indicating the manner in which the IRS interprets and applies section 355, that if rulings to the same effect as the opinion of counsel, described above, had been requested from the IRS, such rulings could have been obtained.

Counsel have further advised Pennzoil that, in their opinion, no gain or loss will be recognized on the conversion of shares of Class B Common Stock into shares of Class A Common Stock.

Separate considerations in some cases apply to holders of Pennzoil Common Stock who acquired such stock in connection with their employment. No information is provided herein with respect to the tax consequences, if any, under estate, state, local or foreign tax laws. Holders of Pennzoil Common Stock are urged to consult their own tax advisors with respect to the tax consequences of the Distribution to them in light of their particular circumstances.

CAPITALIZATION

The following table sets forth the capitalization for financial reporting purposes of the Company at March 31, 1985, together with adjustments thereto to give effect on a pro forma basis to reflect (i) a capital contribution to the Company on June 1, 1985 of the stock of two wholly owned subsidiaries of Pennzoil owning certain domestic exploration prospects and the Pajingo gold exploration prospect, (ii) a dividend to Pennzoil in an amount equal to the Company's retained earnings and (iii) the Distribution. See the Battle Mountain Gold Company Pro Forma Balance Sheet and related notes thereto.

	March 31, 1985		
	Company Historical	Adjustments (Expressed in thousands)	Company Pro Forma
Short-term debt(a)	\$ 20	\$ —	\$ 20
Long-term debt, less current portion	20	—	20
Shareholders' equity:			
Preferred Stock, \$1 par value; 20,000,000 shares authorized, no shares issued(b)	—	—	—
Common Stock, \$1 par value; 1,000 shares authorized, 1,000 shares issued, no shares as adjusted	1	(1)(b)	—
Class A Common Stock, \$.10 par value; 100,000,000 shares authorized, no shares issued(b)	—	—	—
Class B Common Stock, \$.10 par value; 100,000,000 shares authorized, no shares issued, 44,006,680 shares as adjusted(b)	—	4,401 (b)	4,401
Additional capital	38,103	(4,400)(b) 1,571 (c) }	35,274
Retained earnings	3,756	(3,756)(d)	—
Total shareholders' equity	41,860	(2,185)	39,675
Total capitalization	<u>\$ 41,900</u>	<u>\$ (2,185)</u>	<u>\$ 39,715</u>

(a) Consists entirely of current portion of long-term debt.

(b) Gives effect to a recapitalization of the Company for purposes of this presentation effective as of June 1, 1985, including authorization of a class of Preferred Stock, authorization of the Class A Common Stock and authorization of the Class B Common Stock. In the recapitalization, the 1,000 shares of Common Stock, \$1 par value, were converted into 44,006,680 shares of Class B Common Stock, \$.10 par value. The latter number was obtained by adding to the assumed maximum number of shares issuable pursuant to the Distribution (calculated by adding to the 42,696,952 shares of Pennzoil Common Stock outstanding as of June 1, 1985 the 1,204,881 additional shares that could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options) the 104,847 shares of Class B Common Stock that will be placed immediately prior to the Distribution in a trust for the benefit of participants in an existing employee benefit plan of Pennzoil. In the Distribution, each holder of Pennzoil Common Stock on the Record Date will receive one share of Class B Common Stock for each share of Pennzoil Common Stock held on the Record Date. The outstanding shares of Class B Common Stock not issued in the Distribution or placed in the trust will be contributed by Pennzoil to the capital of the Company immediately prior to the Distribution. Of the authorized shares of Class A Common Stock, 44,006,680 shares are reserved for issuance upon the conversion of outstanding shares of the Company's Class B Common Stock. Of the authorized shares of Class B Common Stock, 1,320,000 shares of Class B Common Stock are reserved for issuance under the Company's 1985 Stock Option Plan. The Preferred Stock may be issued in series upon such terms as the Board of Directors may determine.

(c) Reflects a capital contribution to the Company on June 1, 1985 of the stock of two wholly owned subsidiaries of Pennzoil owning certain domestic exploration prospects and the Pajingo gold exploration prospect.

(d) Immediately prior to the Record Date for the Distribution, the Company will declare a dividend to Pennzoil (consisting of partial discharge of a receivable from Pennzoil) to the extent of the Company's retained earnings as of July 31, 1985. The Company will receive a cash payment from Pennzoil to discharge the balance of the receivable.

SELECTED FINANCIAL AND OPERATING DATA

The following table sets forth a summary of selected financial and operating data (i) on a historical basis for the Battle Mountain Property at December 31, 1980, 1981, 1982, 1983 and 1984 and for the years then ended and at March 31, 1984 and for the three month period then ended, (ii) on a historical basis for the Company at March 31, 1985 and for the three month period then ended and (iii) on a forecasted basis for Battle Mountain Gold Company for the twelve months ending June 30, 1986. The following information should be read in conjunction with the historical financial statements of Battle Mountain Gold Company and related notes thereto, the Statements of Historical and Forecasted Income of Battle Mountain Gold Company and the Summary of Significant Forecast Assumptions and Management's Discussion and Analysis of Selected Financial Information. The historical financial information at December 31, 1982, 1983 and 1984 and for the years then ended, for the three month period ended March 31, 1984 and at March 31, 1985 and for the three month period then ended, is derived from audited financial statements. The remaining information is unaudited for all periods but includes, in the Company's opinion, all adjustments necessary for a fair presentation.

	Battle Mountain Property						Battle Mountain Gold Company	
	Historical						Historical	Forecast
						Three Months Ended March 31, 1984	Three Months Ended March 31, 1985	Twelve Months Ending June 30, 1986(e)
	Year Ended December 31,							
	1980	1981	1982	1983	1984			
	(Expressed in thousands, except mill recovery factor, ore recovered and prices)							
FINANCIAL INFORMATION:								
Revenues	\$32,127	\$30,853	\$28,779	\$38,961	\$ 27,922	\$ 6,214	\$19,002	\$71,473
Mining, milling and other direct costs(a) ...	24,397	32,274	37,071	35,602	38,606	7,931	10,806	39,767
Depreciation, depletion and amortization ...	1,760	2,886	1,914	1,677	1,637	360	1,637	5,388
General and administrative and other expenses(b)	1,309	1,486	1,797	2,422	2,543	569	1,334	7,217
Less: Amounts capitalized related to development of Fortitude mine(c) ..	—	(1,822)	(9,288)	(1,044)	(14,937)	(2,646)	—	—
Income (loss) before interest and income taxes	\$ 4,661	\$(3,971)	\$(2,715)	\$ 304	\$ 73	\$ —	\$ 5,225	\$19,101
Net income (loss)	\$ 4,589	\$(3,956)	\$(2,715)	\$ 304	\$ 73	\$ —	\$ 3,756	\$14,892
Funds provided (used) by operations	\$ 6,235	\$(1,085)	\$(1,706)	\$ 381	\$ 112	\$ —	\$ 5,275	\$20,502
Capital expenditures, exclusive of interest capitalized	\$ 3,740	\$ 4,393	\$10,133	\$ 2,610	\$17,623	\$ 2,653	\$ 358	\$ 4,744
Total assets	\$18,559	\$22,951	\$29,547	\$35,130	\$ 55,717	\$39,374	\$60,424	(d)
OPERATING INFORMATION:								
Tons of ore milled	1,086	1,234	1,400	1,291	1,231	295	335	1,314
Ore recovered (ounces of gold per ton) .....	.073	.064	.059	.072	.071	.069	.182	.190
Mill recovery factor for gold .....	.87	.85	.85	.87	.85	.84	.88	.90
Ounces of gold recovered	69	66	71	80	73	17	53	225
Ounces of silver recovered	21	39	92	307	357	61	124	577
Average prices realized (per ounce):								
Gold	\$422.48	\$429.56	\$373.64	\$423.35	\$ 364.07	\$385.80	\$300.73	\$300.00
Silver	\$ 11.30	\$ 9.74	\$ 8.73	\$11.48	\$ 8.24	\$ 8.81	\$ 5.79	\$ 6.00

- (a) Consists of mining, premining stripping, milling, plant, other operating costs and copper cost of goods sold.
 (b) Consists of selling, general and administrative expense, general exploration expense, and taxes, other than income.
 (c) During the period in which the Fortitude mine was in the process of being developed, all costs incurred related to this mine were offset against revenues from the milling of the mineralized overburden at this mine, with the net cost capitalized in the property accounts. Reference is made to Note 3 of Notes to Financial Statements included elsewhere in this Prospectus.
 (d) Forecasted amounts relate to income statement amounts only.
 (e) Financial information for the three months ending June 30, 1985 has not been included because final information for the period is not yet available. However, preliminary information for the two months ended May 31, 1985 and an estimate of June net income based on the assumptions used in this forecast indicate that net income for the second quarter of 1985 will more than likely exceed the net income shown for the first quarter of 1985.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SELECTED FINANCIAL INFORMATION

This discussion should be read in conjunction with the historical financial statements and the notes thereto included elsewhere in this Prospectus.

Capital Resources and Liquidity

The primary source of funds for the Company is expected to be cash flow generated from operations. Management does not believe that historical cash flow from operations at the Battle Mountain Property is indicative of the future. Historically, operations at the Battle Mountain Property have been funded not only through cash flow internally generated at the Battle Mountain Property itself, but also with funds derived from Pennzoil's other operations. Requirements of capital from Pennzoil were particularly significant during the development of the Fortitude mine from late 1982 until the end of 1984. Commercial production from the Fortitude mine commenced in late December 1984, resulting in funds generated from operations of \$5.3 million for the quarter ended March 31, 1985. Based on the assumptions as to gold prices and other factors set forth in the Summary of Significant Forecast Assumptions to the Statement of Forecasted Income, funds generated from operations would be expected to approximate \$20.5 million over the twelve month period from July 1, 1985 through June 30, 1986. Because current reserves at the Fortitude mine have a remaining life of approximately nine years, future cash flows will ultimately decline absent acquisitions of additional properties or substantial reserve additions at the Battle Mountain Property or elsewhere. See "Business and Properties of the Company — Exploration Activities" and "Risk Factors and Other Special Features — Speculative Nature of Mineral Exploration."

In addition to relying on cash flow from operations, the Company might make borrowings or issue additional equity securities, especially if such financing appeared to be a desirable means of providing funds for future exploration or development activities considered to have economic potential. There can be no assurance that any such financing would be available on satisfactory terms. After the Distribution, Pennzoil will have no further equity interest in the Company and does not expect to provide any additional advances, loans or credit support to the Company.

Future capital expenditures are expected to be significantly lower than those incurred to develop the Battle Mountain Property. Aside from operating additions and replacements at the Battle Mountain Property, currently anticipated capital expenditures are limited to exploration expenditures. Operating additions and replacements were \$800,000, \$1.4 million and \$2.0 million for the three years ended December 31, 1984 and are budgeted to be \$1.4 million in 1985. Exploration expenditures related to the Battle Mountain Property were \$34,000, \$170,000 and \$600,000 for the three years ended December 31, 1984 and are budgeted to be \$1.1 million in 1985. Exploration expenditures related to certain other domestic exploration prospects and the Pajingo gold prospect which were transferred to the Company on June 1, 1985 were \$54,000, \$265,000 and \$1.1 million for the three years ended December 31, 1984 and are budgeted to be \$2.0 million in 1985. Because these exploration expenditures relate to the subsidiaries whose stock was transferred to the Company after March 31, 1985, these expenditures have not been reflected in the historical balance sheet. However, the cumulative exploration expenditures have been reflected in the Pro Forma Balance Sheet. The portion of the exploration expenditures budgeted for 1985 that is expected to be expensed has been included in the Statement of Forecasted Income for the twelve month period ending June 30, 1986. Actual costs for the quarter ended March 31, 1985 for operating and exploration expenditures were \$68,000 and \$359,000, respectively. Should the Company's Pajingo exploration prospect or any of the Company's other exploration prospects warrant development, capital expenditure requirements could be significant.

The Company's ratio of current assets to current liabilities at December 31, 1984 was 1.9 to 1 and increased to 2.8 to 1 by the end of the first quarter of 1985. Immediately prior to the Record Date for the Distribution, the Company will declare a dividend to Pennzoil (consisting of partial discharge of a receivable from Pennzoil) to the extent of the Company's retained earnings as of July 31, 1985. The Company will receive a cash payment from Pennzoil to discharge the balance of the receivable. This transaction would have reduced the Company's working capital ratio to 1.9 to 1 if made at March 31, 1985. The Company's management believes that the Company's working capital, after giving effect to this transaction and together

with future cash flow from operations, will be adequate for the ongoing operations of the Company. See the Pro Forma Balance Sheet included elsewhere in this Prospectus.

Results of Operations

Management does not believe that the results of operations reflected in the Statements of Income for the years ended December 31, 1982, 1983 and 1984 are indicative of future operating results. During 1982, the net loss incurred by the Company was the result of mining low grade ore deposits in the Battle Mountain range. Earnings during 1983 and 1984 were primarily generated from copper leaching operations. Although significant revenues and costs resulted from milling the mineralized overburden in connection with the development of the Fortitude mine during 1982 through 1984, all costs incurred related to this mine were offset against the revenues, with the net costs capitalized in the property accounts. See Note 3 of Notes to Financial Statements included elsewhere in this Prospectus. Development of the Fortitude mine was completed and commercial production commenced in late December 1984. Revenues for the quarter ending March 31, 1985 were \$19 million on sales volumes of 61,100 ounces of gold and 132,400 ounces of silver. Comparable 1984 statistics were \$6.2 million in revenues on sales of 15,100 ounces of gold and 50,500 ounces of silver. Operating expenses for this period were lower per ounce of gold due to higher ore grade experienced in the Fortitude mine. These results are more indicative of future operations and reflect the much higher ore grade that was anticipated in the Fortitude mine as opposed to the lower grades mined in the past.

The table below sets forth the total tons of material mined and the cost related thereto for the three year periods ended December 31, 1984 as well as the three month periods ended March 31, 1984 and 1985.

	Year Ended December 31,			Three Months Ended March 31,	
	1982	1983	1984	1984	1985
	(Expressed in thousands except per ton data)				
Tons mined	14,284	16,960	22,491	5,810	5,763
Total mining costs(a)	\$12,944	\$12,744	\$16,259	\$ 3,665	\$ 3,730
Cost per ton mined	\$.91	\$.75	\$.72	\$.63	\$.65

(a) Consists of mining costs incurred prior to the capitalization of mining costs related to the Fortitude mine, as well as mining costs capitalized in inventory.

The decreases in cost per ton mined over the three year period were a result of increased productivity. The fixed element of the mining costs causes a reduction in cost per ton at levels of greater output.

The following table sets forth the total tons milled and the cost related thereto for the three year periods ended December 31, 1984 as well as the three month periods ended March 31, 1984 and 1985.

	Year Ended December 31,			Three Months Ended March 31,	
	1982	1983	1984	1984	1985
	(Expressed in thousands except per ton data)				
Tons milled	1,400	1,291	1,231	295	335
Total milling costs(a)	\$20,239	\$20,588	\$20,276	\$ 4,890	\$ 5,459
Cost per ton milled	\$ 14.46	\$ 15.95	\$ 16.47	\$ 16.58	\$ 16.30

(a) Consists of milling costs incurred, prior to the capitalization of milling costs related to the Fortitude mine, as well as milling costs capitalized in inventory.

The increases in cost per ton milled over the three year period were caused by the high soluble sulfide content of the mineralized overburden of the Fortitude mine. Significantly greater amounts of reagents are required to prevent the sulfide from interfering with the gold adsorption process.

The following table sets forth the average prices per ounce realized for the three year periods ended December 31, 1984 and the three month periods ended March 31, 1984 and 1985.

	Year Ended December 31,			Three Months Ended March 31,	
	1982	1983	1984	1984	1985
Gold	\$373.64	\$423.35	\$364.07	\$385.80	\$300.73
Silver	\$ 8.73	\$ 11.48	\$ 8.24	\$ 8.81	\$ 5.79

For additional information regarding the future estimated results of operations of the Company, see the Statement of Forecasted Income for Battle Mountain Gold Company and the Summary of Significant Forecast Assumptions included elsewhere in this Prospectus.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Battle Mountain Gold Company:

The summarized historical balance sheet presented with the accompanying pro forma balance sheet is taken from the historical balance sheet of Battle Mountain Gold Company as of March 31, 1985, which statement we examined. The historical balance sheet and our report thereon dated June 7, 1985 are included elsewhere in this Prospectus. We have checked, for compilation only, the accompanying pro forma adjusting entries giving effect to the transactions described in Note 2 and, in our opinion, those entries have been properly applied to the summarized historical balance sheet of Battle Mountain Gold Company as of March 31, 1985 to reflect the transactions as though they had occurred on March 31, 1985.

ARTHUR ANDERSEN & CO.

Houston, Texas
June 7, 1985

BATTLE MOUNTAIN GOLD COMPANY
PRO FORMA BALANCE SHEET
 March 31, 1985

	<u>Historical</u>	<u>Adjustments</u> (Note 2) <u>(Unaudited)</u> (Expressed in thousands)	<u>Pro Forma</u> (Unaudited)
ASSETS			
Cash	\$ 28	\$ 282 (a) 1,595 (b)	\$ 1,905
Receivables:			
Customer	2,858	60 (a)	2,918
Pennzoil Company	5,351	(5,351) (b)	—
Inventories	681	—	681
Other current assets	2,824	—	2,824
Total current assets	11,742	(3,414)	8,328
Property, plant and equipment, net	48,682	1,534 (a)	50,216
Other assets	—	91 (a)	91
Total assets	<u>\$ 60,424</u>	<u>\$ (1,789)</u>	<u>\$ 58,635</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable	\$ 2,734	\$ 28 (a)	\$ 2,762
Other current liabilities	1,496	—	1,496
Total current liabilities	4,230	28	4,258
Note payable, less current maturities	20	—	20
Deferred income tax	14,314	368 (a)	14,682
Total liabilities	<u>18,564</u>	<u>396</u>	<u>18,960</u>
Shareholders' equity:			
Preferred Stock, \$1.00 par value; 20,000,000 shares authorized, no shares issued	—	—	—
Common Stock, \$1.00 par value; 1,000 shares authorized, 1,000 shares issued	1	(1) (c)	—
Class A Common Stock, \$.10 par value; 100,000,000 shares authorized, no shares issued	—	— (c)	—
Class B Common Stock, \$.10 par value; 100,000,000 shares authorized, no shares issued, 44,006,680 shares as adjusted	—	4,401 (c)	4,401
Additional capital	38,103	1,571 (a)	39,674
Retained earnings	3,756	(4,400) (c)	—
Total shareholders' equity	<u>41,860</u>	<u>(2,185)</u>	<u>39,675</u>
Total liabilities and shareholders' equity	<u>\$ 60,424</u>	<u>\$ (1,789)</u>	<u>\$ 58,635</u>

The accompanying notes are an integral part of this pro forma balance sheet.

BATTLE MOUNTAIN GOLD COMPANY
NOTES TO PRO FORMA BALANCE SHEET
(Unaudited)

1. The accompanying condensed historical balance sheet of Battle Mountain Gold Company (the "Company") as of March 31, 1985 should be read in conjunction with the audited financial statements of the Company as of March 31, 1985 and related notes thereto included elsewhere in this Prospectus.

2. The accompanying pro forma balance sheet has been prepared without audit and is presented based on certain adjustments to the March 31, 1985 balance sheet of the Company. These pro forma adjustments have been made as follows:

- (a) Gives effect to a capital contribution from Pennzoil to the Company on June 1, 1985 consisting of the stock of two wholly owned subsidiaries of Pennzoil whose primary assets consist of certain domestic exploration prospects and the Pajingo exploration prospect. The balances detailed below are stated as of March 31, 1985 at which time the capital contribution would have totaled \$1,571,000.

	(Expressed in thousands)
Cash	\$ 282
Receivables	60
Net property and equipment —	
Pajingo prospect	\$ 303
Domestic exploration prospects	1,152
Other	<u>79</u>
	1,534
Other assets	91
Accounts payable	(28)
Deferred income tax	<u>(368)</u>
Net capital contribution.....	<u>\$1,571</u>

- (b) Represents a dividend by the Company to Pennzoil in an amount equal to the Company's retained earnings for the partial discharge of a receivable from Pennzoil, and the cash payment to the Company from Pennzoil equal to the balance of the Company's receivable from Pennzoil. These transactions are expected to be based on the Company's respective balances as of July 31, 1985. Management believes that the Company's initial working capital, after giving effect to this transaction, together with future cash flow from operations, will be adequate for the operations of the Company.
- (c) Gives effect to a recapitalization of the Company for purposes of this pro forma presentation effective as of June 1, 1985, including authorization of a class of Preferred Stock, authorization of the Class A Common Stock and authorization of the Class B Common Stock. In the recapitalization, the 1,000 shares of Common Stock, \$1 par value were converted into 44,006,680 shares of Class B Common Stock, \$.10 par value. The latter number was obtained by adding to the assumed maximum number of shares issuable in the Distribution (calculated by adding to the 42,696,952 shares of Pennzoil Common Stock outstanding as of June 1, 1985 the 1,204,881 additional shares that could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options) the 104,847 shares of Class B Common Stock that will be placed immediately prior to the Distribution in a trust for the benefit of participants in an existing employee benefit plan of Pennzoil. In the Distribution, each holder of Pennzoil Common Stock on the Record Date will receive one share of Class B Common Stock for each share of Pennzoil Common Stock held on the Record Date. The outstanding shares of Class B Common Stock not issued in the Distribution or placed in the trust will be contributed by Pennzoil to the capital of the Company immediately prior to the Distribution.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Battle Mountain Gold Company:

The accompanying statement of forecasted income and the summary of significant forecast assumptions of Battle Mountain Gold Company (a Nevada corporation) for the twelve months ending June 30, 1986, is management's estimate of the most probable results of operations for the forecast period. Accordingly, the forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and its most likely course of action. The summarized historical statement of income presented with the forecast for comparative purposes is taken from the historical statement of income of Battle Mountain Property for the year ended December 31, 1984, and Battle Mountain Gold Company for the three months ended March 31, 1985, which statements we examined. The historical statement of income and our report thereon dated June 7, 1985 are included elsewhere in this Prospectus.

We have reviewed the financial forecast in accordance with the applicable guidelines for a review of a financial forecast of the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe the financial forecast referred to above is presented in conformity with the applicable guidelines for presentation of a financial forecast, as established by the American Institute of Certified Public Accountants. We also believe that the underlying assumptions provide a reasonable basis for management's forecast. However, some assumptions may not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period may vary from the forecast, and the variations may be material.

ARTHUR ANDERSEN & CO.

Houston, Texas
June 7, 1985

BATTLE MOUNTAIN GOLD COMPANY
STATEMENTS OF HISTORICAL AND FORECASTED INCOME

	<u>BATTLE MOUNTAIN PROPERTY</u>	<u>BATTLE MOUNTAIN GOLD COMPANY</u>	
	<u>Historical</u>	<u>Historical</u>	<u>Forecast</u>
	Year Ended December 31, 1984	Three Months Ended March 31, 1985	Twelve Months Ending June 30, 1986
			(Unaudited)
	(Expressed in thousands)		
Revenues:			
Gold and silver mining	\$26,544	\$19,002	\$70,307
Copper leaching	<u>1,378</u>	<u>—</u>	<u>1,166</u>
	<u>27,922</u>	<u>19,002</u>	<u>71,473</u>
Costs and expenses:			
Mining, premining stripping and other costs ..	15,863	4,179	15,637
Milling and plant costs	21,688	6,627	23,140
Copper cost of goods sold	1,055	—	990
Depreciation, depletion and amortization	1,637	1,637	5,388
Selling, general and administrative	1,626	788	4,426
General exploration	—	—	1,102
Taxes, other than income	917	546	1,689
Less: Amount capitalized related to develop- ment of Fortitude mine	<u>(14,937)</u>	<u>—</u>	<u>—</u>
Income before interest and income taxes	73	5,225	19,101
Interest income	—	—	(508)
Interest expense	2,446	6	24
Interest capitalized	<u>(2,446)</u>	<u>—</u>	<u>—</u>
Income before income taxes	73	5,219	19,585
Income tax expense	<u>—</u>	<u>1,463</u>	<u>4,693</u>
Net income	<u>\$ 73</u>	<u>\$ 3,756</u>	<u>\$14,892</u>
Earnings per share	N/A	N/A	<u>\$.34</u>

The accompanying Summary of Significant Forecast Assumptions is an integral part of these Statements of Historical and Forecasted Income.

BATTLE MOUNTAIN GOLD COMPANY
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

(1) General

This financial forecast has been prepared on the basis of the generally accepted accounting principles expected to be used in the historical financial statements covering the forecast period, which are the same as those used to prepare the historical financial statements for the year ended December 31, 1984 and the three months ended March 31, 1985, as described in Note 2 of Notes to Financial Statements included elsewhere in this Prospectus.

Financial information for the three months ending June 30, 1985 has not been included in the Statement of Historical Income because final information for this period is not yet available; however, preliminary information for the two months ended May 31, 1985 and an estimate of June net income based on the assumptions used in this forecast indicate that net income for the second quarter of 1985 will more than likely exceed the net income shown for the first quarter of 1985.

This financial forecast is management's estimate of the most probable results of operations for the forecast period. Accordingly, the forecast reflects management's judgment based on present circumstances of the most likely set of conditions and its most likely course of action. The assumptions disclosed herein are those that management believes are significant to the forecast or are key factors upon which the financial results of the Company depend. Some assumptions may not materialize, and unanticipated events and circumstances may occur subsequent to June 7, 1985, the date of this forecast. Therefore, the actual results achieved during the forecast period may vary from the forecast, and the variations may be material. Management has no intent to update this forecast for events and circumstances occurring after June 7, 1985. Reference should also be made to the discussion of significant risk factors under the caption "Risk Factors and Other Special Features" in this Prospectus.

The historical information for the year ended December 31, 1984 and the three months ended March 31, 1985, are extracted from the Company's historical financial statements for those periods presented elsewhere in this Prospectus. These historical financial statements should be read in conjunction with this forecast for additional information.

(2) Revenues

Gold and silver revenues for the quarter ended March 31, 1985 were \$19 million on sales volumes of 61,100 ounces of gold (average price of \$300.73) and 132,400 ounces of silver (average price of \$5.79). Gold and silver production volumes for the quarter ended March 31, 1985 were 53,000 ounces of gold and 124,000 ounces of silver, respectively. Gold and silver revenues for the twelve months ending June 30, 1986 were calculated based on management's estimated production volumes multiplied by the assumed average sales prices set forth below, net of a weighted average rate for freight and allowances of \$2.20 per ounce on existing gold contracts. Management estimates higher future gold and silver production volumes will result from the mining of higher grade ore and that future gold and silver production will be sold as produced. The following reflects management's estimate of production volumes and the assumptions as to sales prices for the twelve month period ending June 30, 1986 used to compute forecasted gold and silver revenues:

	<u>Production Volumes</u> (thousands of ounces)	<u>Average Sales Price</u>
Gold	225	\$ 300
Silver	577	\$ 6

The assumptions on gold and silver sales prices set forth above approximate the actual prices being received as of June 1985. The assumptions on sales prices are especially significant to the financial forecast, and the forecasted results may vary materially as a result of differences in the prices actually received in the

BATTLE MOUNTAIN GOLD COMPANY
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS — (Continued)

future from those assumed. See "Risk Factors and Other Special Features — Gold Price Fluctuations" and "Business and Properties of the Company — Mining and Milling Operations — Gold Prices, Demand and Supply." A \$50 increase or decrease in the price of gold per ounce from the assumed \$300 level for the forecast period would result in approximately a 55% increase or decrease in forecasted net income. The same quantitative relationships between the change in price and the change in net income described in the preceding sentence should not be assumed to apply to any other changes in price.

Management estimates that the existing copper leach dumps will permit the recovery of approximately 2.4 million pounds of copper precipitates annually through 1989. For the twelve month period ending June 30, 1986, copper leaching revenues were calculated using an average price of \$.48 per pound, which is net of a weighted average rate for freight and allowances of \$.15 per pound.

(3) Mining, Premining Stripping and Other Costs

Mining costs for the quarter ended March 31, 1985 were \$.65 per ton mined on 5.8 million tons. Mining costs for the twelve months ending June 30, 1986, were calculated based on management's estimate of the cost of \$.70 per ton on 22.3 million tons mined (average of 61,200 tons per day). Management estimates that mining costs will increase \$.05 per ton mined during the twelve months ending June 30, 1986 as a result of an increase in mining equipment maintenance costs.

(4) Milling and Plant Costs

Milling and plant costs for the quarter ended March 31, 1985, excluding milling and plant costs inventoried in 1984, were \$17.94 per ton on 335,000 tons milled. Milling and plant costs for the twelve months ending June 30, 1986 were calculated based on management's estimate of \$17.61 per ton on 1.3 million tons milled (average of 3,600 tons per day). Management estimates that milling costs will decrease \$.33 per ton milled during the twelve months ending June 30, 1986 as a result of improved treatment methods of ore milled.

(5) Copper Cost of Goods Sold

Copper cost of goods sold for the twelve months ending June 30, 1986 was calculated by management based on historical costs incurred for the copper leaching process. The future estimated copper cost of goods sold was based on approximately 2.4 million pounds of annual precipitate copper production.

(6) Depreciation, Depletion and Amortization

The effective unit of production rate and the straight line amount for depreciation, depletion and amortization for the quarter ended March 31, 1985, excluding depreciation, depletion and amortization costs inventoried in 1984, was \$3.08 per ton milled and \$106,000 per month, respectively. Management calculated depreciation, depletion and amortization for the twelve months ending June 30, 1986 using an effective unit of production rate of \$3.12 per ton milled and \$107,000 per month for the straight line assets. Forecasted capital expenditures for the twelve months ended June 30, 1986 were considered in calculating depreciation, depletion and amortization for this period.

(7) Selling, General and Administrative

Management estimates that the future selling, general and administrative costs for the twelve months ending June 30, 1986 will include a management fee based on 105% of cost for services to be provided by Pennzoil under the administrative services agreement. See "Management — Administrative and Technical Support Services." In addition, estimated amounts of direct costs for salaries, benefits and expenses of the

BATTLE MOUNTAIN GOLD COMPANY
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS — (Continued)

Company's employees and other general and administrative expenses, including, among others, legal fees, audit fees and rent, were included in forecasted general and administrative costs.

(8) General Exploration Expense

This amount is calculated based on the portion of budgeted exploration expenditures which is expected not to be identified with a specific project and therefore will be written off to expense during the twelve month period ending June 30, 1986. This amount is presented net of amounts to be received from Pennzoil which are based on 105% of the cost of exploration services rendered by the Company to Pennzoil under a service agreement. See "Management — Administrative and Technical Support Services."

(9) Taxes, Other than Income

Management calculated taxes, other than income, for the twelve months ending June 30, 1986 in accordance with the published tax rates for payroll taxes, Nevada net proceeds taxes and property taxes.

(10) Interest Expense

Interest expense is related to outstanding debt and is calculated in accordance with individual loan agreement provisions. In addition, interest expense includes charges related to other short-term obligations. The assumption has been made that no additional financing will be required during the twelve months ending June 30, 1986.

(11) Interest Income

Interest income was calculated by assuming cash balances in excess of working capital requirements at the end of each month will be invested in short-term obligations earning approximately 8% interest per annum. The average excess cash balance for the forecasted period is estimated to be \$6.9 million. The cash balance at the end of the forecasted period is estimated to be \$11.6 million.

(12) Income Tax Expense

Management calculated income tax expense for the twelve months ending June 30, 1986 by multiplying net income before taxes by an effective tax rate of 24.0%, which gives effect to an estimate of the excess of statutory depletion over cost basis, the exemption of certain foreign sales corporation income, investment tax credit based on estimated future capital expenditures for qualifying assets, and estimated minimum tax related to preference items. Income tax expense was estimated based on current tax laws.

(13) Earnings Per Share

Earnings per share for the forecasted twelve month period ending June 30, 1986 was calculated by dividing net income by the estimated number of shares of Class B Common Stock to be distributed pursuant to the Distribution to holders of record of Pennzoil Common Stock on the Record Date. The total number of shares of Pennzoil Common Stock used for the purpose of calculating forecasted earnings per share is 44,006,680. This amount is calculated by adding to the 42,696,952 shares of Pennzoil Common Stock outstanding as of June 1, 1985 the 1,204,881 additional shares that could be outstanding on the Record Date as a result of conversion of outstanding debentures and exercise of presently exercisable stock options and the 104,847 shares that are assumed to be placed immediately prior to the Distribution in a trust for the benefit of participants in an existing employee benefit plan of Pennzoil.

BUSINESS AND PROPERTIES OF THE COMPANY

The Company

Organization. The Company is a Nevada corporation. It was originally incorporated in December 1984 as a Delaware corporation. On December 31, 1984, Duval made a capital contribution to the Company of substantially all of its domestic gold and silver mining and milling operations, including properties and related assets, in exchange for all of the outstanding capital stock of the Company. Such capital stock was distributed by Duval to Pennzoil on December 31, 1984 as a dividend. On June 1, 1985, all the stock of a wholly owned Delaware subsidiary of Pennzoil owning (through a wholly owned Australian subsidiary) certain assets and properties related to the Pajingo gold exploration prospect in Australia was transferred to the Company. The stock of another subsidiary of Pennzoil owning certain domestic exploration prospects was transferred to the Company on the same date.

Effective June 7, 1985, the Company reincorporated in Nevada by statutory merger into its wholly owned Nevada subsidiary. Subsequently, the Company was recapitalized in order to increase the number of shares constituting its issued and outstanding capital stock to that referred to under "Description of Capital Stock."

General. The Company operates a gold and silver mine with related milling facilities near Battle Mountain, Nevada. Open pit mining is currently from the Fortitude mine, which was discovered in 1981. Full scale production from the Fortitude mine commenced at the end of December 1984 following mining from several smaller deposits of lower grade ore beginning in 1979 and completion of premining stripping of overburden at Fortitude, which began in 1982. During the first quarter of 1985, 334,835 tons of ore were milled, from which 53,392 ounces of gold and 124,354 ounces of silver were recovered.

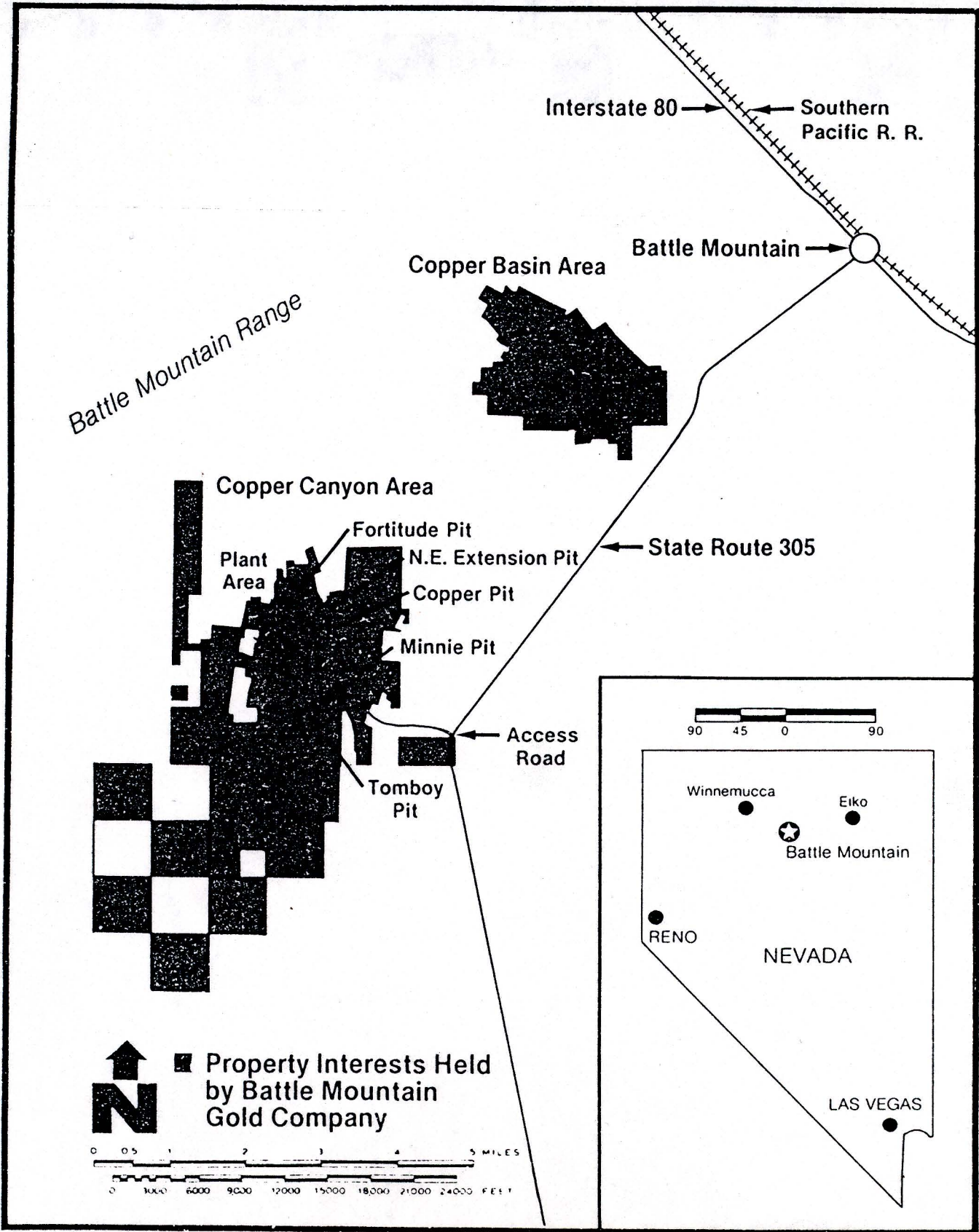
The Company also maintains an exploration staff and has an inventory of approximately twenty-three active exploration prospects located in the United States and one in Australia. Results from exploratory drilling currently underway at the Company's Pajingo prospect in northern Queensland, Australia are believed by the Company to be encouraging. However, the drilling done to date is insufficient to establish the existence of a commercially minable ore body, and substantial additional drilling will be required to determine the grade and continuity of the gold mineralization encountered at the Pajingo prospect. There is no assurance that further work at the Pajingo prospect or at any of the Company's other exploration prospects will result in the commercial recovery of precious metals.

Mining and Milling Operations

General. The Company's gold and silver mining operations are located approximately 14 miles southwest of Battle Mountain, Nevada. See the map appearing below. Open pit mining is conducted at the Fortitude mine, discovered in 1981 by Duval. The final product at Battle Mountain is in the form of doré bars. Doré is an unrefined gold and silver mixture. The doré is subsequently processed by refiners and the refined product is marketed outside the United States.

Production. Full scale production from the Fortitude mine commenced at the end of December 1984, following completion of premining stripping of the mineralized overburden, which began in 1982. Several smaller deposits of lower grade ore were also mined from various deposits at the Battle Mountain Property from 1979 through early 1983. Capitalized costs incurred through March 31, 1985 to develop the Battle Mountain gold mining and milling facilities total approximately \$78 million on a gross basis, or \$49 million net of accumulated depreciation, depletion and amortization. These costs include approximately \$32 million related to total costs incurred (net of revenues earned) during the period that the Fortitude mine was being developed.

Battle Mountain Area



The mill at Battle Mountain is currently processing approximately 3,600 short tons (3,270 metric tons) of ore per day. Production statistics for the Fortitude mine for the first three months of 1985 are as follows:

	<u>January</u>	<u>February</u>	<u>March</u>	<u>Three Months Ended March 31, 1985</u>
Tons of ore milled	104,346	110,048	120,441	334,835
Stripping ratio	16.8:1	15.8:1	16.0:1	16.2:1
Mill feed ore grade (ounces of gold per ton)	0.165	0.187	0.193	0.182
Mill recovery factor for gold .....	.88	.90	.86	.88
Ounces of gold recovered	14,926	18,419	20,047	53,392
Ounces of silver recovered	23,675	42,043	58,636	124,354

Reserves. Total demonstrated reserves at Battle Mountain as of January 1, 1985, as estimated by DeGolyer and MacNaughton, are as set forth in the table below. The cut-off grade used in determining the reserves in the report was 0.0633 troy ounces per ton of gold and gold equivalent (converting silver to gold on the basis of relative values). Use of a lower cut-off grade would result in higher ore volumes, but the cost of mining the ores below the cut-off grade would not be economic under current market conditions. The estimated stripping ratio was assumed to average 13:1 in 1985, declining in subsequent years to an average of approximately 5:1 over the remaining life of the mine. The reserve report of DeGolyer and MacNaughton dated May 28, 1985 sets forth these estimates of reserves and contains definitions and additional details regarding assumptions and procedures employed. The reserve report of DeGolyer and MacNaughton dated May 28, 1985 has been filed as an exhibit to the Registration Statement of which this Prospectus is a part and should be consulted for additional information. The meanings of the terms "reserves," "measured," "indicated" and "demonstrated" as used in the reserve report are set forth in the Glossary of Certain Mining Terms set forth as Appendix A to this Prospectus. Excerpts from the report are as follows:

"Pursuant to your request, we have prepared estimates, as of January 1, 1985, of the extent of the mineral reserves in certain gold properties owned by Battle Mountain Gold Company, hereinafter referred to as the 'Company.' These properties contain gold and silver mineralization and are located near Battle Mountain, Lander County, Nevada. Gold and silver are being recovered in doré bars through the Company's mining, milling, and refining operations. The Company is a wholly owned subsidiary of the Pennzoil Company, hereinafter referred to as 'Pennzoil.'

"Information used in the preparation of this report was obtained from the Company's files, from Pennzoil, from technical literature, and from our files. In our preparation of this report we have relied, without independent verification, upon information furnished by the Company and Pennzoil with respect to properties owned by the Company, production from such properties, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the gold properties was made in October 1984.

(continued on next page)

"We estimate these certain net mineral reserves owned by the Company, as of January 1, 1985, to be as follows:

(Tons and ounces expressed in thousands)			
<u>Location Property Mineral</u>	<u>Measured</u>	<u>Indicated</u>	<u>Total Demonstrated</u>
NEVADA			
Fortitude Pit			
Gold			
Ore (short tons)	7,723	3,961	11,684
Average Grade (troy ounces per short ton)	.159	.145	.154
In-place Contained Gold (troy ounces) ..	1,228	575	1,803
Recovery Factor .....	.85	.85	.85
Recoverable Gold (troy ounces)	1,044	489	1,533
Silver			
Ore (short tons)	7,723	3,961	11,684
Average Grade (troy ounces per short ton)	.887	.723	.831
In-place Contained Silver (troy ounces) .	6,849	2,865	9,714
Recovery Factor .....	.35	.35	.35
Recoverable Silver (troy ounces)	2,397	1,003	3,400
Northeast Extension			
Gold			
Ore (short tons)	389	304	693
Average Grade (troy ounces per short ton)	.099	.106	.102
In-place Contained Gold (troy ounces) ..	39	32	71
Recovery Factor .....	.85	.85	.85
Recoverable Gold (troy ounces)	33	27	60
Silver			
Ore (short tons)	389	304	693
Average Grade (troy ounces per short ton)	.353	.337	.346
In-place Contained Silver (troy ounces) .	137	103	240
Recovery Factor .....	.35	.35	.35
Recoverable Silver (troy ounces)	48	36	84
TOTAL			
In-place Contained Gold (troy ounces)	1,267	607	1,874
In-place Contained Silver (troy ounces)	6,986	2,968	9,954
Recoverable Gold (troy ounces)	1,077	516	1,593
Recoverable Silver (troy ounces)	2,445	1,039	3,484

"In summary, we estimated the Fortitude Pit and Northeast Extension to contain a total of 1,874,000 troy ounces of gold in place and 9,954,000 troy ounces of silver in place. After the application of a .85 recovery factor for gold and a .35 recovery factor for silver, the total net demonstrated reserves are estimated to be 1,593,000 troy ounces of gold and 3,484,000 troy ounces of silver. Of the total demonstrated gold reserves, 1,077,000 troy ounces are measured reserves and 516,000 troy ounces are indicated reserves. Of the total demonstrated silver reserves, 2,445,000 troy ounces are measured reserves and 1,039,000 troy ounces are indicated reserves."

In addition to the DeGolyer and MacNaughton reserve estimates outlined above, the Company's internal reserve calculations prepared by its engineering, mining and geological personnel using three different methods (computer generated, polygonal, and geological cross section or zoning methods) are, in

the opinion of the Company, consistent with the DeGolyer and MacNaughton estimates. The internal calculations exceed the DeGolyer and MacNaughton in-place estimates by an average of less than 10%.

Subsequent to January 1, 1985, the date as of which reserves were estimated in the reserve report of DeGolyer and MacNaughton, the Company encountered ore grades from the benches then being mined that were higher than the corresponding grades from the earlier drilling that was used as a basis for the estimates by DeGolyer and MacNaughton. In addition, a supplemental 16 hole drilling program completed in March 1985 has resulted in a modification of the pit design that, in the opinion of the Company, will reduce waste stripping by about 8 million tons (13%) over the life of the mine. Although these recent results do not lead to a conclusion that the recoverable gold reserves are higher than previously estimated, the Company believes it reasonable to expect that the same amount of reserves will be recovered by mining less ore and removing less waste than indicated by the data available at the time of the DeGolyer and MacNaughton report. Based on the early 1985 mining results and an expected decrease in the stripping ratio as mining proceeds into the Fortitude mine, the Company anticipates that mining tonnage will decrease from 1,850,000 tons per month to approximately 1,380,000 tons per month during the last half of 1986. The Company also anticipates that during the last half of 1986, average ore grade will increase to approximately .22 ounces per ton and that the mill rate will be approximately 3,000 tons per day. These changes are expected to result in production cost reductions of approximately \$21 per equivalent ounce of gold below the costs actually experienced in the first quarter of 1985. After 1986, when the waste stripping ratio is expected to be reduced to 3.6:1, production costs are expected to decline an additional \$16 per equivalent ounce of gold. Based on operating results during the first three months of 1985, the Company expects a mill recovery factor for gold of approximately 90% in the future.

Prices and Costs. The following table shows, for the first three months of 1985, the average prices received by the Company for its gold and silver production, the average operating costs and the depreciation, depletion and amortization per unit of production.

	<u>January</u>	<u>February</u>	<u>March</u>	<u>Three Months Ended March 31, 1985</u>
Average prices (per troy ounce)				
Gold	\$308.75	\$297.01	\$295.10	\$300.73
Silver	5.60	5.63	6.00	5.79
Expenses per equivalent ounce of gold(1)				
Operating costs(2)	225.60	177.42	198.62	199.78
Depreciation, depletion and amortization ..	28.21	23.68	22.18	24.41

- (1) For purposes of providing a common unit of measure for costs, silver production is converted to gold equivalent on the basis of 50 ounces of silver to one ounce of gold.
- (2) Operating costs include operating expenses and payroll taxes, net proceeds tax and ad valorem taxes, upgrading and sales expenses and administrative and other indirect expenses, but exclude depreciation, depletion and amortization and income taxes. Operating costs are based on the quantity of precious metals poured and assayed during the relevant period, in contrast to quantities recovered.

Geology. The Fortitude mine lies within the Battle Mountain Mining District, Lander County, Nevada. The mine is situated in the southern part of the Battle Mountain Range which consists of thrust and block faulted Paleozoic sediments that have been intruded and mineralized by Tertiary intrusives.

The ores of the Fortitude mine occur within calc-silicated and skarn-like contact metamorphosed calcareous rock units adjacent to a porphyritic intrusive stock. These calc-silicated and skarn-like rock units are selectively replaced by sulfide minerals which have associated gold and silver in the form of electrum and silver sulfides. Locally the ores are strata-bound massive sulfide replacement bodies or mantos.

Mining. Mining at the Fortitude mine is by a conventional open-pit method involving excavation of benches 25 feet high cut into steep mountain slopes. Drilling equipment consists of several rotary blast-hole

drills. A fleet of front-end loaders and trucks moves ore to the mill and waste to the dumps located near the property perimeter. The average per ton mining cost was \$0.65 during the three months ended March 31, 1985.

Milling and Extraction. The following paragraphs describe the Company's facilities for coarse gold recovery, cyanide leaching and carbon-in-pulp (CIP) adsorption at Battle Mountain. The majority of the facilities at the mill were originally constructed by Duval to process copper ore. Costs incurred through 1984 to modify the mill to process gold and silver total approximately \$11 million.

Ore from the mine is first crushed. Crushed ore is fed to the primary ball grinding mill. Primary mill discharge is pumped to cyclones and the cyclone overflow is fed to a thickener, which in turn feeds the cyanide leach section of the mill described below. The underflow from the cyclones is either recycled to the primary mill, or to a secondary ball mill.

Discharge from the secondary mill is pumped to a coarse gold recovery circuit to produce a concentrate that can be directly refined. Typically, 5-7% of the Company's total gold production at Battle Mountain is recovered in the coarse gold recovery circuit.

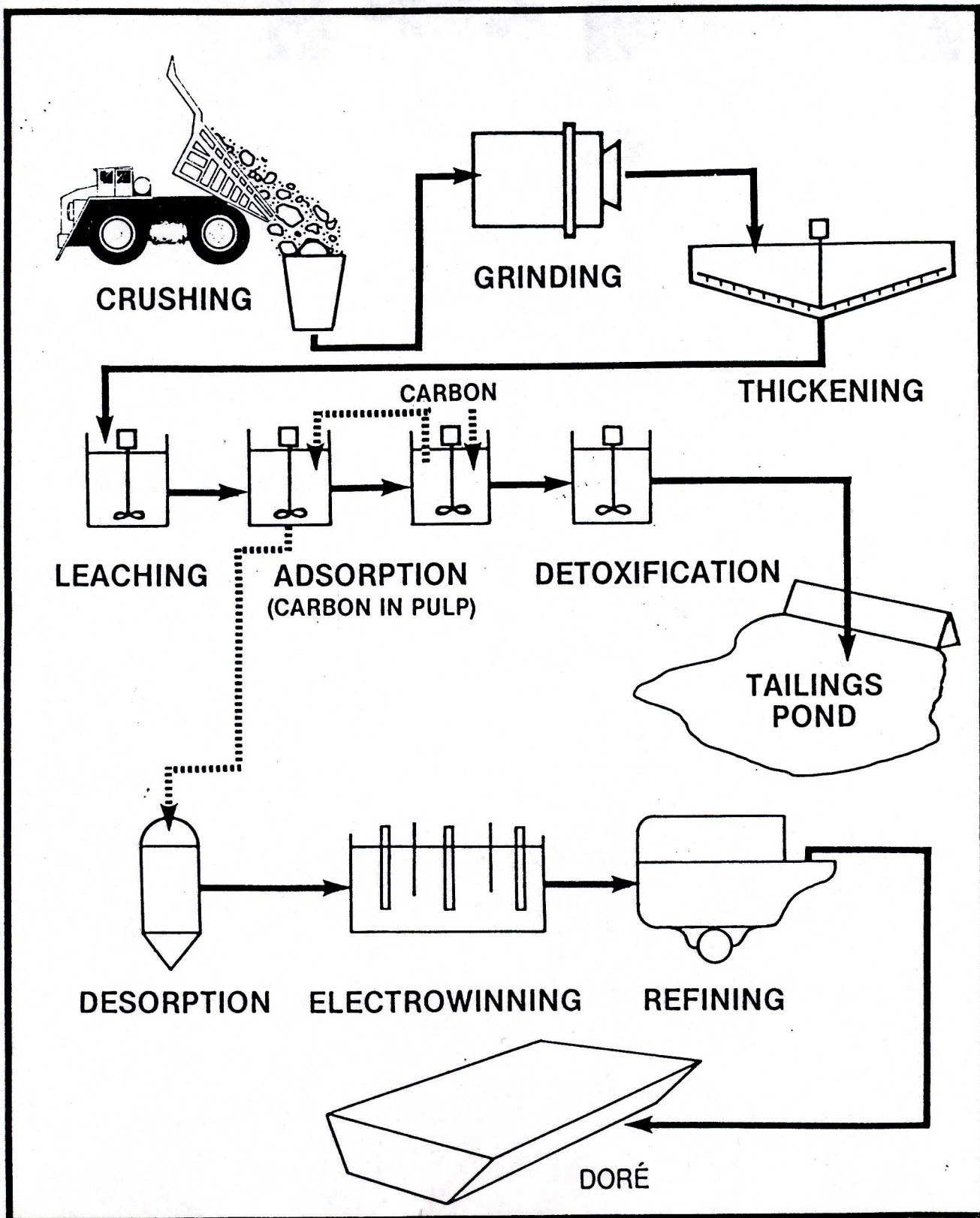
Slurry flows from the thickener to 14 mechanically agitated tanks. Sodium cyanide is added to these tanks to leach the precious metals from the ore. Retention time available for leaching varies from 24 to 36 hours.

For precious metal adsorption, the slurry flow is divided into two streams and contacted with activated carbon in five stages. Carbon flow is counter current to the slurry flow. The average adsorption retention time is nine hours.

Precious metals are stripped from the loaded carbon with a hot sodium hydroxide-sodium cyanide solution in four vessels, each having a capacity of 16 tons of carbon. Gold and silver are recovered from the solution by electrolysis on steel wool. Metal laden steel wool and sludge removed from the electrolytic cells are fire refined to produce doré bars averaging 95% gold and silver. The doré is shipped to refiners for processing into refined gold and silver.

The following diagram illustrates the precious metals recovery circuit:

PRECIOUS METAL RECOVERY



History of Mining at Battle Mountain; Prior Gold and Silver Production. Duval began copper mining operations at its Copper Canyon facility in 1967. Copper Canyon is located near the southern end of the Battle Mountain range, approximately 14 miles southwest of the town of Battle Mountain, Nevada. Another facility, Copper Basin, is located six miles southwest of Battle Mountain. Claims for the sites, which had experienced intermittent mining activity since 1866, were acquired by Duval in the early 1960's.

A precious metals exploration program initiated by Duval in 1973 outlined, by 1977, several million tons of low grade gold and silver ore in two small deposits (the "Tomboy-Minnie deposits") located immediately southeast of the mining operations at Copper Canyon. In 1977, Duval elected to terminate mining and milling copper ore at Copper Canyon and Copper Basin because of depletion of economically millable copper ore reserves, and to exploit instead the more recently discovered gold and silver deposits. The mill located adjacent to the Copper Canyon pit, which had served as a concentrator mill for copper recovery, was converted to a gold and silver recovery mill. Duval modified existing plant facilities to produce doré by adding cyanide leach and CIP adsorption sections. See "Milling and Extraction" above. Production of doré commenced at this facility in early January 1979. The following table summarizes gold and silver production at Battle Mountain from the first full year of production from the mill in 1980 through the end of December 1984 when full scale production from the high-grade Fortitude ore body began.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
	(Tons and ounces expressed in thousands)				
Tons of ore milled	1,086	1,234	1,400	1,291	1,231
Stripping ratio	3.95:1	6.31:1	9.32:1	12.06:1	17.26:1
Mill feed ore grade (ounces of gold per ton) .....	.073	.064	.059	.072	.071
Mill recovery factor for gold	87 %	85 %	85 %	87 %	85 %
Ounces of gold recovered	69	66	71	80	73
Ounces of silver recovered	21	39	92	307	357

Copper Production. While no copper sulfide concentrates have been produced at Battle Mountain since Duval ceased copper mining operations in 1978, the Company currently is producing precipitate copper from leach dumps constructed before the gold mining began. Facilities include an iron launder system. No additional copper ore for the leach operations is being mined, but recovery of precipitate copper from the existing leach dumps is expected to be approximately 2.4 million pounds of copper per year through 1989.

Title to Mineral Properties. The Battle Mountain property consists of two areas, known as Copper Canyon and Copper Basin, totalling approximately 13,000 acres and 7,000 acres, respectively. Title is held by the Company in the form of patented claims and other land held in fee simple absolute, unpatented lode, placer and millsite claims, and a small amount of leased claim acreage. All of the reserves at the Fortitude mine lie beneath patented claims. The outer perimeter of the backslope of the Fortitude mine will encompass about 20 acres of unpatented lode mining claims, but most of the pit (approximately 132 acres) will be located on the patented claims. None of the Fortitude mine production is subject to royalties or rents.

Water Supply. A subsurface aquifer and surface runoffs are the primary sources of water to supply operations at the Battle Mountain property. A complete water delivery facility is in place. The water rights, dating back to 1910, are permitted by regulatory authorities and all filings with appropriate state agencies are current. The existing facility and water rights are adequate for current and projected operations associated with the Fortitude mine. Water availability would not be a deterrent to additional or expanded operations at Battle Mountain.

Sales. During the first five years of gold production at Battle Mountain, a single refiner was utilized to refine the doré bars produced. The refined metal was in turn sold to the same refiner. More recently, with the increase in production resulting from mining of the Fortitude mine, the Company has shipped gold to three refineries. To date, all refined gold has been purchased by the refineries and the Company has not

found it necessary to sell bullion directly on the open market. Forward sales of gold are not contemplated currently, but might be made in the future should gold prices rise to levels at which management believes forward sales would be advantageous. The Company has recently formed a "Foreign Sales Corporation" under the laws of the United States Virgin Islands and has made arrangements to export gold through the use of such corporation in order to take advantage of tax benefits recently extended by the Code to Foreign Sales Corporations.

Gold Prices, Demand and Supply. The price of gold is affected by many factors, including supply and demand, political developments and the anticipation of inflation. The volatility of gold prices is illustrated by the following table, which sets forth, for the periods indicated, the annual high, low and unweighted average gold prices per troy ounce on the London bullion market and the Comex in New York:

	London Bullion Market(1)			Comex(2)		
	High	Low	Average	High	Low	Average
1985 (through March 31)	\$330.40	\$284.25	\$301.34	\$339.00	\$282.00	\$302.19
1984	405.85	307.50	360.44	404.60	307.30	360.36
1983	509.25	374.25	424.18	510.10	372.60	424.12
1982	481.00	296.75	375.79	486.00	298.00	376.23
1981	599.25	391.25	459.72	597.00	388.50	459.02
1980	850.00	481.50	612.56	825.00	463.00	611.98
1979	512.00	216.85	306.69	513.80	217.60	307.82

(1) Afternoon prices set by London bullion dealers.

(2) Spot New York Commodity Exchange contract settlement prices.

On June 12, 1985, the afternoon fixing price of gold on the London Bullion Market was \$314.50 and the settlement price of gold on the Comex in New York was \$313.60.

Product fabrication and bullion investment are the two principal uses of gold. Within the fabrication category, a wide variety of end uses exist, the largest of which is the manufacture of carat jewelry. Other fabrication purposes include official coins, electronics, miscellaneous industrial and decorative uses, dentistry, medals and medallions.

The supply of gold consists of a combination of sales from new mine production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations and private individuals. Most of the gold supplied to the non-communist market comes from mine production, with South African mine production accounting for approximately 60% of the total non-communist mine production in 1984. In 1984, non-communist mine production was approximately 1,100 metric tons.

Because gold is virtually indestructible and few of its uses result in its irretrievable loss, most of the gold that has ever been mined is still in existence and approximately 50,000 tons are estimated to be held in private hands. Approximately 36,000 tons are held today by various Western countries and in international agency vaults.

Environmental Matters; Mining Regulation; Occupational Safety. Legislation and implementing regulations adopted or proposed by the United States Environmental Protection Agency ("EPA"), the Office of Surface Mining and by comparable agencies in various states directly and indirectly affect the mining industry in the United States. These environmental agencies regulate potential contamination of soil and water from tailings, discharges and other wastes generated by mining companies. In particular, Federal legislation (including the Federal Water Pollution Act of 1977, the Clean Air Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act of 1980) imposes high toxic effluent standards, new source performance standards and air quality and concentration standards for specific contaminants resulting from mining operations.

Further, mine operators must comply with the Federal Mine Safety and Health Act of 1977, as amended, which is enforced by the Mine Safety and Health Administration ("MSHA"), an agency within the Department of Labor. All mines, both underground and surface, are subject to regulation and inspections by MSHA.

The Company's current air quality operating permit for particulate emissions from mining, crushing, grinding and handling of ore is issued by the Nevada Division of Environmental Protection and expires in August 1987. Under current law, the permit will be renewed upon the timely filing of a renewal application that shows, utilizing appropriate emission tests and other relevant information, that the Company's mining activities will not result in any violation of Nevada or Federal air quality regulations. The Company does not anticipate difficulty in securing permit renewal under existing laws and regulations.

The process utilized by the Company for separating gold from the impurities in the ore includes utilization of cyanide. Although elaborate steps are currently taken to reduce the amount of cyanide present in mill tailings, additional regulations may be imposed upon the Company's tailings disposal operations by the EPA under the Resource Conservation and Recovery Act.

Changes in the aforementioned Federal and state environmental laws and regulations or enactment or promulgation of new laws and regulations could require increases in operating costs and delays or interruptions of operations.

Personnel. The Battle Mountain property has a work force of approximately 400 employees. The approximately 280 hourly paid employees are represented by an Operating Engineers local of the AFL-CIO. The current labor contract expires on May 1, 1988. Salaried employees include a professional staff of approximately 30. See "Management."

Exploration Activities

Prior to the formation of the Company, a metals and minerals exploration program and staff were maintained by Duval. A portion of this staff has been transferred to the Company in order to enable it to pursue an ongoing exploration program directed toward the identification of commercially recoverable gold and silver deposits, including the exploration and evaluation of the exploration properties that have been transferred to the Company as described below. Initially, it will be the policy of the Company to concentrate its exploration activities on prospects in which it currently has an ownership interest. While the Company may acquire additional prospects from time to time, it is anticipated that such acquisitions will be held to a minimum until such time as the properties currently owned have been fully evaluated. The Company's exploration staff, including approximately 30 professional employees, is currently headquartered in Tucson, Arizona, with branch and field offices in Anchorage, Alaska, Salt Lake City, Utah, Reno, Nevada and Perth and Townsville, Australia.

Primary exploration prospects currently under evaluation by the Company include eight prospects in the vicinity of Battle Mountain, 15 other prospects in the United States and one prospect in Australia, and represent a cumulative expenditure of approximately \$3.0 million as of March 31, 1985. Total costs of exploration activities during 1984 totalled approximately \$1.7 million and estimated exploratory expenditures for 1985 are approximately \$3.1 million. The portion of the exploratory expenditures budgeted for 1985 that is expected to be expensed has been included in the Statement of Forecasted Income for the twelve month period ending June 30, 1986. See "Risk Factors and Other Special Features — Speculative Nature of Mineral Exploration" for a description of the uncertainty and risks inherent in mineral exploration activities.

United States. Within the Battle Mountain area precious metals exploration is being conducted by the Company with the objective of identifying any additional reserves in close enough proximity to be processed at the existing milling facilities. A total of 81 test holes have been drilled at two of the sites, approximately 50% of which have encountered economic grade precious metal mineralization, albeit of a size and grade

substantially less than the Fortitude mine. Preliminary metallurgical studies indicate that the precious metals at these two sites are amenable to recovery by conventional cyanide methods.

At the 21 other sites in the United States, exploration work is underway or scheduled in 1985, subject to weather conditions and in some cases obtaining required governmental permits. All of these projects may be summarized generally as having geological features that the Company believes suggest the possible presence of mineralization required for mineral deposits appropriate for either open pit or underground mining. Few of the United States prospects outside the Battle Mountain Area have undergone significant previous exploration work. There can be no assurance that any of these exploration prospects will result in the establishment of reserves or commercial production.

Australia. Duval has engaged in exploration for mineral deposits in Australia since 1973, with an emphasis on precious metals for the last seven years. The currently active Pajingo prospect, located in the Drummond Basin area of Queensland, comprises approximately 2,000 square miles held under granted or approved Authorities to Prospect. The Company's exploration activities in Queensland are conducted through its wholly owned indirect subsidiary, Pajingo Gold Mine Pty. Ltd. ("Pajingo Australia"). The Pajingo prospect was initiated in 1983 following discovery of geochemical anomalies and outcropping gold mineralization. The prospecting area had no prior history of mining activity. Reconnaissance prospecting and mapping continued through 1984 and in November 1984, a reconnaissance drilling program was initiated. The reconnaissance drilling consisted of 21 holes in four separate areas within the Drummond Basin. Eight percussion holes were drilled in the first area (Starlight), one percussion hole was drilled in the second area (Mt. Roff, 3.5 miles west/southwest of the Starlight), four percussion holes were drilled in the third area (Janet B, three miles northwest of the Starlight), and seven percussion holes and one diamond core hole were drilled in the fourth area (Janet A, 2,000 feet northwest of the Janet B area). The first three areas revealed mineralization that will warrant further exploration in the future. In the fourth area (Janet A), a mineralized zone 6,000 feet in length was identified. One diamond drill hole and seven percussion holes were drilled in the Janet A. Intersections in three of these shallow inclined holes drilled along a 1,400 foot strike (within the 6,000 feet in length mentioned above) had significant mineralization. One hole had average gold assays of 177 feet at 0.67 ounces per ton (including 105 feet at 0.93 ounces per ton). The second hole, located 550 feet east of the first hole, had 46 feet at 7.80 ounces per ton (including 6.6 feet at 45.97 ounces per ton). The third hole, located 70 feet southwest of the first hole, had 187 feet at 0.23 ounces per ton (including 29.5 feet at 0.87 ounces per ton). Inclement weather then forced the evacuation of the area for several months. In May 1985, the Company drilled an additional widely spaced seven hole pattern spaced at nonuniform intervals along the 1,400 foot strike at Janet A. This seven hole program was to confirm the continuity of mineralization and to provide the basis for an intense 60 to 80 hole test program of directional drilling later this year. Confirmation assays on the seven test holes had not been received as of the date of this Prospectus. Test work as of the date of this Prospectus is insufficient to establish the existence of a commercially minable ore body. Additional drilling, sampling, assaying and metallurgical testing is underway at the Janet A site as well as more general exploration activity on the overall Pajingo prospect.

Australian law requires a 50% reduction within one year in the amount of acreage covered by the Authorities to Prospect, except that no reduction is required with respect to Authorities to Prospect or portions thereof converted to mining leases. A program for continued evaluation of the remainder of the Pajingo prospect is underway, including a rapid preliminary evaluation of the entire 2,000 square mile area so that acreage most suitable for relinquishment under the requirements of Australian law can be identified. This program is to consist of completion of aerial photography and topographic surveying and establishment of a base camp, to be followed by airborne geophysical surveys and systematic ground prospecting and geologic mapping. Expenditures through 1984 at the Pajingo prospect total \$265,000 and budgeted 1985 expenditures amount to \$963,000. Complete evaluation of the area could take a number of years.

Prior to production from any commercially minable deposit, Pajingo Australia would be required to comply with Australian law requiring a portion (generally 50%) of the ownership of the deposit and related facilities to be sold or otherwise divested to Australian interests, by means of a public or private sale or otherwise. All details of such a disposition would be subject to approval of the Australian Foreign Investment Review Board.

MANAGEMENT

Directors and Executive Officers

The names, ages and positions of the directors and executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Douglas J. Bourne	62	Chairman of the Board, Chief Executive Officer and Director
Theodore H. Pate, Jr.	57	President, Chief Operating Officer and Director
Joseph L. Mazur	46	Vice President — Administration and Finance, Treasurer and Secretary
John I. Sharpe	50	Vice President — Exploration
Richard A. Sumin	49	Vice President — Battle Mountain Operations
Delo H. Caspary	59	Director
Richard J. Howe	56	Director
Baine P. Kerr	65	Director
J. Hugh Liedtke	63	Director
Charles P. Milner	54	Director

Each of the executive officers of the Company has held the positions indicated above since June 13, 1985.

Douglas J. Bourne is Chairman of the Board and Chief Executive Officer of the Company. Prior to joining the Company, he served as Group Vice President — Mining of Pennzoil and as Chairman of the Board of Pennzoil Sulphur Company, a wholly owned sulphur producing and sales subsidiary of Pennzoil. Mr. Bourne served Duval, Pennzoil's mining subsidiary prior to its restructuring in December 1984, as its President from 1980 to August 1983 and as its Chairman of the Board of Directors and Chief Executive Officer since that time. He served on the Board of Directors of Pennzoil and as a member of Pennzoil's Executive Committee of the Board since August 1983. Mr. Bourne's career in mining began in 1946. He holds a bachelor's degree in chemical engineering from the University of Oklahoma and completed the Advanced Management Program at Harvard Business School. Mr. Bourne has authored numerous technical papers and holds five U.S. patents. He lives in Houston and is also a director of Anderson, Greenwood & Co. (manufacturing).

Theodore H. Pate, Jr. is President, Chief Operating Officer and a Director of the Company. Prior to joining the Company, he served Duval as Senior Vice President — Operations. Mr. Pate joined Duval in 1952, holding various accounting positions, including Chief Accountant, until he was promoted in 1965 to Resident Manager at Duval's Carlsbad, New Mexico potash property. In 1969, he was promoted to General Manager — Nonmetallics and transferred to the Tucson, Arizona operations office. In 1972 he was named General Manager at the Sierrita copper/molybdenum property near Tucson and promoted to Vice President — Production in 1975. Mr. Pate holds a bachelor's degree in business administration from the University of New Mexico and is a member of the American Institute of Mining, Metallurgical and Petroleum Engineers. Mr. Pate will reside in Houston.

Joseph L. Mazur is Vice President — Administration and Finance, Treasurer and Secretary of the Company. Before joining the Company, Mr. Mazur served Duval as Vice President — Copper Sales. He joined Duval Sales Corporation as Manager, European Molybdenum Sales, in 1968 and participated in the establishment of Duval Sales International in Brussels as well as originating Duval's European Molybdenum sales program. In 1979, Mr. Mazur moved to Duval's Houston offices where he managed worldwide sales of molybdenum and later served as Director of Public Relations of Pennzoil before being promoted to Vice President — Copper Sales in 1980, where his responsibilities also included the sale of gold and silver. He has a bachelor's degree in industrial economics from Purdue University. Mr. Mazur lives in Houston.

John I. Sharpe is Vice President—Exploration of the Company. Dr. Sharpe previously served as Vice President and General Manager of Exploration for Duval and as Managing Director for Australian subsidiary companies. Prior to joining Duval as District Geologist — Canada in 1969, Dr. Sharpe had served as Resident Officer in Noranda, Quebec with the Department of Natural Resources and as a geologist with Canadian mining companies. In 1971, he was assigned to head Duval's Australian exploration in Sydney and

subsequently was promoted to General Manager of Worldwide Exploration in 1973 and to Vice President in 1983. Dr. Sharpe holds a master's degree from the University of New Brunswick and a Ph.D. in economic geology from McGill University. He is the author of a number of technical papers on mineral deposits. Dr. Sharpe will reside in Houston.

Richard A. Sumin is Vice President—Battle Mountain Operations of the Company. Mr. Sumin served as Resident Manager at the Battle Mountain Property since 1980 after joining Duval as Plant Design Supervisor at Battle Mountain in 1976, where he was instrumental in development of the gold mining plant and the operation of the Fortitude mine. Mr. Sumin has extensive experience in surface and underground mining, both production and maintenance, prior to joining Duval. He has a bachelor's degree in civil engineering and technology from North Arizona University. Mr. Sumin lives in Battle Mountain, Nevada.

The remaining directors of the Company are as follows:

Delo H. Caspary has been engaged for more than five years in managing his personal investments. Mr. Caspary lives in Rockport, Texas and is also a director of British Empire Securities and General Trust (London investment trust) and Victoria Bank and Trust Company (Victoria, Texas).

Richard J. Howe is President of Pennzoil, a member of its Board of Directors and a member of its Executive Committee. Dr. Howe previously had served Pennzoil as Executive Vice President since July 1984. He served as Group Vice President—Communications and Management Support Systems from July 1983 to July 1984 and as Vice President and Assistant to the President prior to July 1983. Dr. Howe lives in Houston.

Baine P. Kerr was President of Pennzoil and Chairman of the Executive Committee of the Board of Pennzoil until his retirement this April. Mr. Kerr, whose service as a director of Pennzoil dates from 1964, remains an active director. Mr. Kerr lives in Houston and is also a director of MCorp (Texas bank holding company) and MBank Houston, N.A.

J. Hugh Liedtke is Chairman of the Board and Chief Executive Officer of Pennzoil. He has served as a director of Pennzoil since 1962 and is a member of the Executive Committee of the Board of Pennzoil. Mr. Liedtke lives in Houston.

Charles P. Milner is President and a member of the Board of Directors of Ryder Scott Company Petroleum Engineers Incorporated. Mr. Milner has been a professional petroleum engineer since 1953, serving with Ryder Scott Company since 1967. He holds bachelor's and master's degrees in petroleum engineering from the University of Texas at Austin, is a registered professional engineer and a member of the Society of Petroleum Engineers of AIME, the Society of Petroleum Evaluation Engineers, the Houston Geological Society, the Independent Petroleum Association of America and the Texas Independent Royalty Owners. Mr. Milner lives in Houston.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Battle Mountain Gold Company:

We have examined the balance sheet of Battle Mountain Gold Company (a Nevada corporation) and its predecessor, Battle Mountain Property (see Note 1 of Notes to Financial Statements), as of December 31, 1983 and 1984 and March 31, 1985, the related statements of income and changes in financial position for each of the three years in the period ended December 31, 1984 and for the three month periods ended March 31, 1984 and 1985, the related statement of equity control account for each of the three years in the period ended December 31, 1984 and the related statement of shareholder's equity for the three months ended March 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Battle Mountain Gold Company and the Battle Mountain Property as of December 31, 1983 and 1984 and March 31, 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1984 and for the three month periods ended March 31, 1984 and 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedules listed in Item 16(b) are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities Act of 1933 and are not otherwise a required part of the basic financial statements. The financial statement schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Houston, Texas
June 7, 1985

BATTLE MOUNTAIN GOLD COMPANY

BALANCE SHEET
(Notes 1 and 2)

	Battle Mountain Property		Adjustments (Note 1) (Expressed in thousands)	Battle Mountain Gold Company	
	December 31,			December 31,	March 31,
	1983	1984		1984	1985
ASSETS					
CURRENT ASSETS					
Cash	\$ 15	\$ 16	\$ —	\$ 16	\$ 28
Receivables:					
Customer	1,424	1,168	—	1,168	2,858
Pennzoil Company	—	—	—	—	5,351
Inventories	462	1,721	—	1,721	681
Material and supplies, at average cost	2,473	3,016	—	3,016	2,782
Other current assets	—	—	—	—	42
TOTAL CURRENT ASSETS	<u>4,374</u>	<u>5,921</u>	<u>—</u>	<u>5,921</u>	<u>11,742</u>
PROPERTY, PLANT AND EQUIPMENT, at cost:					
Fortitude mine (Note 3)	14,573	31,956	—	31,956	31,956
Mining, milling and other equipment	38,497	41,768	—	41,768	41,646
Other	3,760	4,585	—	4,585	4,859
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>56,830</u>	<u>78,309</u>	<u>—</u>	<u>78,309</u>	<u>78,461</u>
Less accumulated depreciation, depletion and amortization	<u>26,074</u>	<u>28,513</u>	<u>—</u>	<u>28,513</u>	<u>29,779</u>
PROPERTY, PLANT AND EQUIP- MENT, net	<u>30,756</u>	<u>49,796</u>	<u>—</u>	<u>49,796</u>	<u>48,682</u>
TOTAL ASSETS	<u>\$ 35,130</u>	<u>\$ 55,717</u>	<u>\$ —</u>	<u>\$ 55,717</u>	<u>\$ 60,424</u>
LIABILITIES AND SHAREHOLDER'S EQUITY					
CURRENT LIABILITIES					
Current maturities of long-term debt (Note 5)	\$ 20	\$ 20	\$ —	\$ 20	\$ 20
Accounts payable	1,208	1,863	—	1,863	2,734
Taxes accrued	87	61	—	61	412
Payroll and related benefits accrued	936	1,189	—	1,189	1,003
Other current liabilities	49	28	—	28	61
TOTAL CURRENT LIABILITIES	<u>2,300</u>	<u>3,161</u>	<u>—</u>	<u>3,161</u>	<u>4,230</u>
NOTE PAYABLE, less current maturities (Note 5)	40	20	—	20	20
DEFERRED INCOME TAX (Note 4)	—	—	14,432	14,432	14,314
TOTAL LIABILITIES	<u>2,340</u>	<u>3,181</u>	<u>14,432</u>	<u>17,613</u>	<u>18,564</u>
EQUITY CONTROL ACCOUNT	32,790	52,536	(52,536)	—	—
SHAREHOLDER'S EQUITY					
Common stock, \$1.00 par — authorized 1,000 shares, issued 1,000 shares	—	—	1	1	1
Additional capital	—	—	38,103	38,103	38,103
Retained earnings	—	—	—	—	3,756
TOTAL SHAREHOLDER'S EQUITY	<u>—</u>	<u>—</u>	<u>38,104</u>	<u>38,104</u>	<u>41,860</u>
TOTAL LIABILITIES AND SHARE- HOLDER'S EQUITY	<u>\$ 35,130</u>	<u>\$ 55,717</u>	<u>\$ —</u>	<u>\$ 55,717</u>	<u>\$ 60,424</u>

The accompanying notes are an integral part of these financial statements.

BATTLE MOUNTAIN GOLD COMPANY

STATEMENT OF INCOME
(Notes 1 and 2)

	Battle Mountain Property				Battle Mountain Gold Company
	Year Ended December 31,			Three Months Ended March 31, 1984	Three Months Ended March 31, 1985
	1982	1983	1984		
	(Expressed in thousands)				
REVENUES:					
Gold and silver mining	\$ 26,935	\$37,110	\$ 26,544	\$ 6,214	\$19,002
Copper leaching	1,844	1,851	1,378	—	—
	<u>28,779</u>	<u>38,961</u>	<u>27,922</u>	<u>6,214</u>	<u>19,002</u>
COSTS AND EXPENSES:					
Mining, premining stripping and other costs	13,921	12,563	15,863	3,262	4,179
Milling and plant costs	21,913	21,930	21,688	4,669	6,627
Copper cost of goods sold ...	1,237	1,109	1,055	—	—
Depreciation, depletion and amortization	1,914	1,677	1,637	360	1,637
Selling, general and adminis- trative	912	1,515	1,626	393	788
Taxes, other than income ...	885	907	917	176	546
Less: Amounts capitalized re- lated to development of Fortitude mine (Note 3) ..	<u>(9,288)</u>	<u>(1,044)</u>	<u>(14,937)</u>	<u>(2,646)</u>	<u>—</u>
INCOME (LOSS) BEFORE INTEREST AND INCOME TAXES	(2,715)	304	73	—	5,225
Interest expense	779	1,568	2,446	478	6
Interest capitalized	<u>(779)</u>	<u>(1,568)</u>	<u>(2,446)</u>	<u>(478)</u>	<u>—</u>
INCOME (LOSS) BEFORE INCOME TAXES	(2,715)	304	73	—	5,219
Income tax expense (Note 4) ..	—	—	—	—	1,463
NET INCOME (LOSS)	<u>\$ (2,715)</u>	<u>\$ 304</u>	<u>\$ 73</u>	<u>\$ —</u>	<u>\$ 3,756</u>

The accompanying notes are an integral part of these financial statements.

BATTLE MOUNTAIN GOLD COMPANY
STATEMENT OF EQUITY CONTROL ACCOUNT
(Notes 1 and 2)

	Battle Mountain Property		
	Year Ended December 31,		
	1982	1983	1984
	(Expressed in thousands)		
Balance — Beginning of Period	\$ 20,147	\$ 26,540	\$ 32,790
Net Income (Loss)	(2,715)	304	73
Advances from Pennzoil Company, net	9,108	5,946	19,673
Balance — End of Period	\$ 26,540	\$ 32,790	\$ 52,536

The accompanying notes are an integral part of these financial statements.

BATTLE MOUNTAIN GOLD COMPANY
STATEMENT OF SHAREHOLDER'S EQUITY
(Notes 1 and 2)

	Common Stock	Additional Capital	Retained Earnings
(Expressed in thousands)			
Balance, January 1, 1985	\$ 1	\$ 38,103	\$ —
Net Income	—	—	3,756
Balance, March 31, 1985	\$ 1	\$ 38,103	\$ 3,756

The accompanying notes are an integral part of these financial statements.

BATTLE MOUNTAIN GOLD COMPANY
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Notes 1 and 2)

	Battle Mountain Property			Battle Mountain Gold Company	
	For the Year Ended December 31,			Three Months Ended March 31, 1984	Three Months Ended March 31, 1985
	1982	1983	1984		
	(Expressed in thousands)				
FUNDS PROVIDED					
From operations					
Net income (loss)	\$(2,715)	\$ 304	\$ 73	\$ —	\$ 3,756
Charges (credits) to income or loss not requiring (providing) funds:					
Depreciation, depletion and amortization	1,914	1,677	1,637	360	1,637
Less amounts of depreciation, depletion and amortization capitalized related to development of Fortitude mine	(905)	(1,600)	(1,598)	(360)	—
Deferred income taxes (Note 4) ..	—	—	—	—	5,275
Total Funds From Operations	(1,706)	381	112	3,379	—
Advances from Pennzoil, net	9,108	5,946	—	—	—
Issuance of long-term debt	462	—	—	—	—
	<u>7,864</u>	<u>6,327</u>	<u>19,785</u>	<u>3,379</u>	<u>5,275</u>
FUNDS APPLIED					
Additions to property, plant and equipment, including capitalized interest ..	10,912	4,178	20,069	3,131	358
Retirements and transfers of property, plant and equipment, net	(3,092)	1,598	(990)	177	165
Retirement and reclassification of long-term debt	—	422	20	—	—
	<u>7,820</u>	<u>6,198</u>	<u>19,099</u>	<u>3,308</u>	<u>523</u>
INCREASE IN WORKING CAPITAL .	<u>\$ 44</u>	<u>\$ 129</u>	<u>\$ 686</u>	<u>\$ 71</u>	<u>\$ 4,752</u>
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL :					
Cash	\$ —	\$ —	\$ 1	\$ —	\$ 12
Receivables:					
Customer	(270)	(221)	(256)	294	1,690
Pennzoil Company	—	—	—	—	5,351
Inventories	(87)	—	1,259	540	(1,040)
Materials and supplies	142	105	543	102	(234)
Other current assets	—	—	—	—	42
Current maturities of long-term debt...	(35)	15	—	—	—
Accounts payable	559	176	(655)	(431)	(871)
Taxes accrued	(26)	8	26	(56)	(351)
Payroll and other related benefits	(169)	25	(253)	(349)	186
Other current liabilities	(70)	21	21	(29)	(33)
INCREASE IN WORKING CAPITAL .	<u>\$ 44</u>	<u>\$ 129</u>	<u>\$ 686</u>	<u>\$ 71</u>	<u>\$ 4,752</u>

The accompanying notes are an integral part of these financial statements.

BATTLE MOUNTAIN GOLD COMPANY

Notes to Financial Statements

1. Basis of Presentation

Battle Mountain Gold Company (the "Company") was organized in December 1984 to receive the ongoing mining operations at the Battle Mountain Property (the "Property") and to conduct certain foreign and domestic exploration and development activities previously conducted by Duval Corporation ("Duval"), a wholly owned subsidiary of Pennzoil Company ("Pennzoil"). On December 31, 1984, Duval made a capital contribution to the Company of substantially all of its domestic gold and silver mining and milling operations located at the Property, including properties, related assets and liabilities in exchange for all of the outstanding common stock of the Company. Such capital stock was then distributed by Duval to Pennzoil on December 31, 1984 as a dividend.

The Company's business consists principally of the operation of the Fortitude gold mine and related milling facilities near Battle Mountain, Nevada. See Note 3 for further discussion of the Fortitude mine. The Company also conducts copper leaching operations from existing copper leach dumps.

Because the assets related to the Property comprise a majority of the assets of the Company, the Property has been identified as the "predecessor entity" of the Company for purposes of presenting historical financial information. For this reason, the financial statements presented for the periods ended December 31, 1982 through December 31, 1984, represent the financial position, results of operations and changes in financial position relative to the Property.

As a non-corporate entity, the Property did not have a separately identified equity account. Moreover, it was not a separately identified division of Duval. Therefore, deferred taxes related to the Property or transactions between Duval and the Property, including financing, were not specifically recorded in the accounts of the Property, but were recorded in the accounting records of Duval. Consequently, in order to present the financial position of the Property, an "Equity Control Account" has been presented which represents the net asset position of the Property.

Upon the formation of the Company as a separate entity on December 31, 1984, shareholder's equity and deferred income taxes related to the difference between the book and tax basis of the properties transferred to the Company were established as they related to the Company at the date of formation. To reflect this transition from the Property to the Company in the historical financial statements, adjustments to separately recognize deferred income taxes, Duval's contribution of capital to the Company, and the elimination of the "Equity Control Account" of the Property have been presented in the accompanying financial statements.

2. Summary of Significant Accounting Policies

Inventories —

Inventories, consisting of copper, gold and silver, are reported at cost using the last-in, first-out (LIFO) method. LIFO cost is lower than market. The current cost of inventories at December 31, 1983, December 31, 1984 and March 31, 1985 was approximately \$591,800, \$3,065,600 and \$727,600, respectively.

Depreciation, depletion and amortization —

Mining properties are generally depleted and amortized on the unit of production method except that assets having an estimated life less than the estimated life of the mineral deposits, such as mining equipment, are depreciated on the straight line method. Lives of equipment other than those being depleted and amortized on the unit of production method range from three to fifteen years. Ore reserve estimates used in the unit of production computations include proven tonnages at the beginning of each year.

BATTLE MOUNTAIN GOLD COMPANY
Notes to Financial Statements — (Continued)

Property, plant and equipment —

Property, plant and equipment are stated at cost. Mine development expenditures at new mines and major development expenditures at operating mines which are expected to benefit future production are capitalized and amortized, generally on the unit of production method based on the estimated commercially recoverable minerals. See Note 3. Mine exploration costs and development costs to maintain production of operating mines are charged to expense as incurred. Exploration costs related to specific projects are initially capitalized and charged to expense in the year any project is considered unproductive. Exploration costs which cannot be identified with a specific project are expensed as incurred.

Capitalization of interest —

Certain amounts of interest have been allocated to the Property from the consolidated Pennzoil group. These interest costs are capitalized as they relate to funds borrowed by Pennzoil which were assumed to be utilized in acquiring and developing the various projects at the Property. Capitalization of interest is discontinued when the property is ready to begin production. As a separate entity, the Company will continue to capitalize interest costs generated from independent financing to the extent they relate to acquisition and development costs of qualifying projects.

Retirement plans —

Substantially all employees of the Company are presently covered under the various retirement plans of Pennzoil. During 1982, 1983, 1984 and the three months ended March 31, 1985, the Property or the Company was charged \$369,900, \$205,900, \$287,300 and \$68,500, respectively, in retirement plan expense for the annual contributions made to the various plans. Retirement plan expense, which is accrued and funded, includes normal cost plus amortization of prior service costs (generally over 30 to 40 years for the majority of the plans).

As of January 1, 1983 and January 1, 1984, the most recent valuation date, the net assets available for plan benefits exceeded the actuarial present value of accumulated plan benefits for each defined benefit plan of Pennzoil in which the employees associated with the Property participate. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5% for all plans.

Major customers —

During the three years ended December 31, 1984, and the quarter ended March 31, 1985, the following customers accounted for 10% or more of total revenues:

<u>Customer</u>	<u>Year Ended December 31,</u>			<u>Three Months</u>
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Ended</u> <u>March 31,</u> <u>1985</u>
Engelhard Industries, West, Inc.	94 %	95 %	41 %	20 %
Johnson Matthey Commodities Inc.	—	—	34 %	49 %
J. Aron & Company, Inc.	—	—	19 %	31 %

3. Fortitude Mine

Duval began copper mining at the Property in 1967. A precious metals exploration program initiated by Duval in 1973 outlined several million tons of low grade gold and silver ore in two small deposits located near the existing copper deposits. In 1977, Duval terminated the mining and milling of copper ore at the Property because of the depletion of economically millable copper ore reserves, and to exploit the newly discovered gold and silver deposits. In connection therewith, the mill located at the Property was converted to a gold and silver recovery mill and existing plant facilities were modified to produce gold and silver doré. From 1979 through early 1983, gold and silver ore was mined from various low grade deposits at the Property. In addition, copper leaching and cathode operations continued; however, the cathode operations were abandoned at the end of 1984 and have not been reflected in these financial statements.

BATTLE MOUNTAIN GOLD COMPANY

Notes to Financial Statements — (Continued)

In 1981, a high grade gold and silver deposit known as Fortitude was discovered while mining another gold deposit. Premining stripping of the Fortitude mine began in 1982. The Fortitude deposit was covered by a significant amount of mineralized overburden. As the Property already contained a milling facility and a full work force to run the mill, Duval determined that it was economical to mill the mineralized overburden as revenues from the sale of the minerals exceeded the direct costs of milling the mineralized overburden. Therefore, during the premining stripping operations from 1982 through the end of December of 1984, revenues were earned from milling the mineralized overburden. Because the Fortitude mine was being developed from 1982 through 1984, all costs incurred, net of revenues earned during this development period, were capitalized as property costs. The amounts capitalized related to the development of the Fortitude mine are set out separately in the accompanying Statement of Income. Amortization of development costs against the commercial production of the Fortitude began in January 1985.

4. Income Taxes

No income tax expense is reflected in the accompanying Statement of Income for any of the years in the three year period ended December 31, 1984, as the Property was not considered an entity for purposes of computing income taxes. Income tax expense and associated tax liabilities were recorded in the accounting records of Duval, but not at the Property level. Had income taxes been calculated at the Property level, no total income tax expense would be reflected for the Property for any of the years in the three year period ended December 31, 1984 as taxable losses were generated in each of these years. Any deferred provision in 1983 and 1984 would have been offset by the utilization of net operating loss carryforwards.

As further discussed in Note 1, deferred taxes relating to the difference between the book and tax basis of the properties transferred to the Company were recorded on the books of the Company upon formation.

Current income taxes payable at March 31, 1985 have been netted in the receivable from Pennzoil in the accompanying Balance Sheet, as the Company's taxes are currently being paid by Pennzoil. The income tax provision for the Company for the three months ended March 31, 1985, is summarized below:

	<u>(In thousands)</u>
Current	\$1,608
Investment tax credit	(27)
Deferred	<u>(118)</u>
	<u>\$1,463</u>

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the three months ended March 31, 1985 follows:

Statutory rate	46.0 %
Increases (reductions) resulting from:	
Statutory depletion in excess of cost basis	(21.3)
Minimum tax	3.8
Investment tax credit	<u>(0.5)</u>
Effective rate	<u>28.0 %</u>

BATTLE MOUNTAIN GOLD COMPANY
Notes to Financial Statements — (Continued)

The Company follows deferred tax accounting for timing differences between the recognition of revenues and expenses for tax and financial reporting purposes. The tax effects of these differences were as follows for the three months ended March 31, 1985:

	<u>(In thousands)</u>
Depreciation and amortization recorded for financial purposes over amounts deducted for tax purposes	\$ (182)
Mining exploration and development cost deducted for tax purposes over amounts capitalized for financial purposes	<div style="text-align: right; margin-right: 10px;">64</div> <u>\$ (118)</u>

The Company follows the practice of taking investment tax credits into income currently.

5. Note Payable

Long-term debt of the Company consists of a note to an individual relating to the purchase of certain mineral rights near Battle Mountain, Nevada. The note matures on June 30, 1986 and bears interest at 15% per annum.

6. Related Party Transactions

The Property and the Company have engaged in various transactions with Pennzoil and its affiliates that are characteristic of a consolidated group under common control.

Activities of the Property to the extent not funded by revenues from the Property were funded by Pennzoil or Duval. Interest was allocated to the Property only to the extent that Pennzoil capitalized such interest in connection with the development of the Fortitude mine, as explained in Note 2. A majority of the general and administrative expenses represent an allocation of Duval's general and administrative expenses based generally on formulas using weighted average factors of property, revenues, expenses and number of employees. General and administrative expenses also include costs that can be directly associated with the operation of the Property. The general and administrative expenses incurred during the development of the Fortitude mine were offset against the revenues earned from the milling of the mineralized overburden. See Note 3 for capitalization policy during the development of the Fortitude mine. These general and administrative expenses are not indicative of the future general and administrative expenses to be incurred under the administrative services agreement, as presented in the Statement of Forecasted Income included elsewhere in this Prospectus.

7. Subsequent Events

On June 11, 1985, the Board of Directors of Pennzoil authorized the tax-free spinoff distribution (the Distribution) of the Company to Pennzoil's common shareholders. On the Record Date for the Distribution, each holder of Pennzoil Common Stock will become entitled to receive one share of the Company's Class B Common Stock for each share of Pennzoil Common Stock held. Upon completion of the Distribution, the Company will be a separate publicly held corporation in which Pennzoil will have no continuing equity interest.

Immediately prior to the Record Date for the Distribution, the Company will declare a dividend to Pennzoil, consisting of a partial discharge of the receivable from Pennzoil, to the extent of the Company's retained earnings as of July 31, 1985. The Company will then receive the balance of the receivable from Pennzoil in cash. Management believes that the Company's initial working capital, after giving effect to this transaction, together with future cash flow from operations, will be adequate for the operations of the Company.

On June 1, 1985, all the stock of two wholly owned subsidiaries of Pennzoil which own certain assets and properties related to the Pajingo gold exploration prospect in Australia and certain domestic exploration prospects was transferred to the Company. See the Pro Forma Balance Sheet included elsewhere in this Prospectus, where this transaction has been reflected.

GLOSSARY OF CERTAIN MINING TERMS

As used in the reserve report of DeGolyer and MacNaughton dated May 28, 1985, the following terms have the meanings set forth below opposite such terms.

reserves: That portion of the *identified resource* that could be economically and legally extracted or produced at the time of determination. *Identified resources* are concentrations of naturally occurring solid, liquid, or gaseous materials in or on the Earth's crust in such form and amount that economic extraction of a commodity from the concentration is currently or potentially feasible, and include economic, marginally economic and subeconomic components that can be subdivided into *measured*, *indicated*, and *inferred* categories to reflect varying degrees of geologic certainty. The term *reserves* need not signify that extraction facilities are in place and operative. *Reserves* include only recoverable materials.

measured: Quantity is computed from dimensions revealed in outcrops, trenches, workings, or drill holes; grade and (or) quality are computed from the results of detailed sampling. The sites for inspection, sampling, and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth, and mineral content of the resource are well established.

indicated: Quantity and grade and (or) quality are computed from information similar to that used for *measured resources*, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for *measured resources*, is high enough to assume continuity between points of observation.

demonstrated: A term for the sum of *measured* plus *indicated*.

As used in this Prospectus, the following terms have the meanings set forth below opposite such terms.

assay: A test to determine quantity or weight of gold or silver in a substance or sample.

bullion: Refined gold or silver, normally in the form of bars or ingots.

carbon-in-pulp (CIP) adsorption: A stage in the gold recovery process utilizing adsorption by activated carbon.

cut-off grade: The lowest grade of mineralized material that qualifies as commercial (profitable) ore in a given deposit.

cyanide leach process: A gold recovery process where ore slurry is conditioned with lime and leached through the introduction of cyanide.

doré: An unrefined mixture of gold and silver, normally in the form of bars.

fire refining: Purification of a metal by heating to a molten condition to segregate and separate impurities.

grade: Measurement of the quality of ore by the relative occurrence of minerals or precious metals in the ore body.

mill: A mineral treatment or reducing plant in which crushing and wet grinding is conducted and ore is processed to remove valuable constituents from nonvaluable (or waste) constituents.

open pit mining: Mining of gold or silver ore bodies by excavating into the land surface.

ore: A mixture of minerals from which at least one of the metals can be extracted at a profit.

ore body: An economically recoverable deposit of minerals, the extent and grade of which has been defined through exploration and development work.

patented mining claim: Those claims, either lode or placer, for which a patent has been issued by the United States after the owners have completed the applicable patent proceedings pursuant to federal law.

recovery factor: The values recovered as a percentage of the values present in mill feed.

stripping ratio: The ratio of waste removed (or to be removed) to ore mined (or to be mined).

sulfide: A mineral compound characterized by the linkage of sulfur with a metal or semimetal.

troy ounce: A measurement of weight utilized for precious metals equal to 1.097 avoirdupois common ounces or 31.1035 grams.

unpatented mining claim: Those claims, either lode or placer, for which no patent has been issued. The owner has rights to exclusive possession and to mine certain minerals present on or in the area claimed. Such claims are only possessory property rights, always subject to the paramount title of the United States until a patent is obtained.



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