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CITY RESOURCES LIMITED

WAPOLU — WILD DOG
GRAHAM ISLAND

City prepares to join the gold producers
March 1987

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CITY RESOURCES LTD

Appendix

Introduction

City Resources has undergone a major metamorphosis over the last six months with the development of its Hong Kong and Canadian companies.

The Exxon acquisition further consolidates this remarkable expansion programme.

The last piece of the jigsaw will be revealed at the financial year end (June) when the simplification of the company's complex financial position is revealed. We believe that City will be debt free, report a massive profit and increase its dividend significantly.

Analysts who have not researched the company are in for a shock.

Christopher Mowbray **London, March 1987**

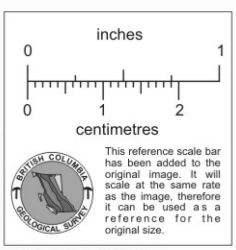
Graham Island Deposit, British Columbia, Canada

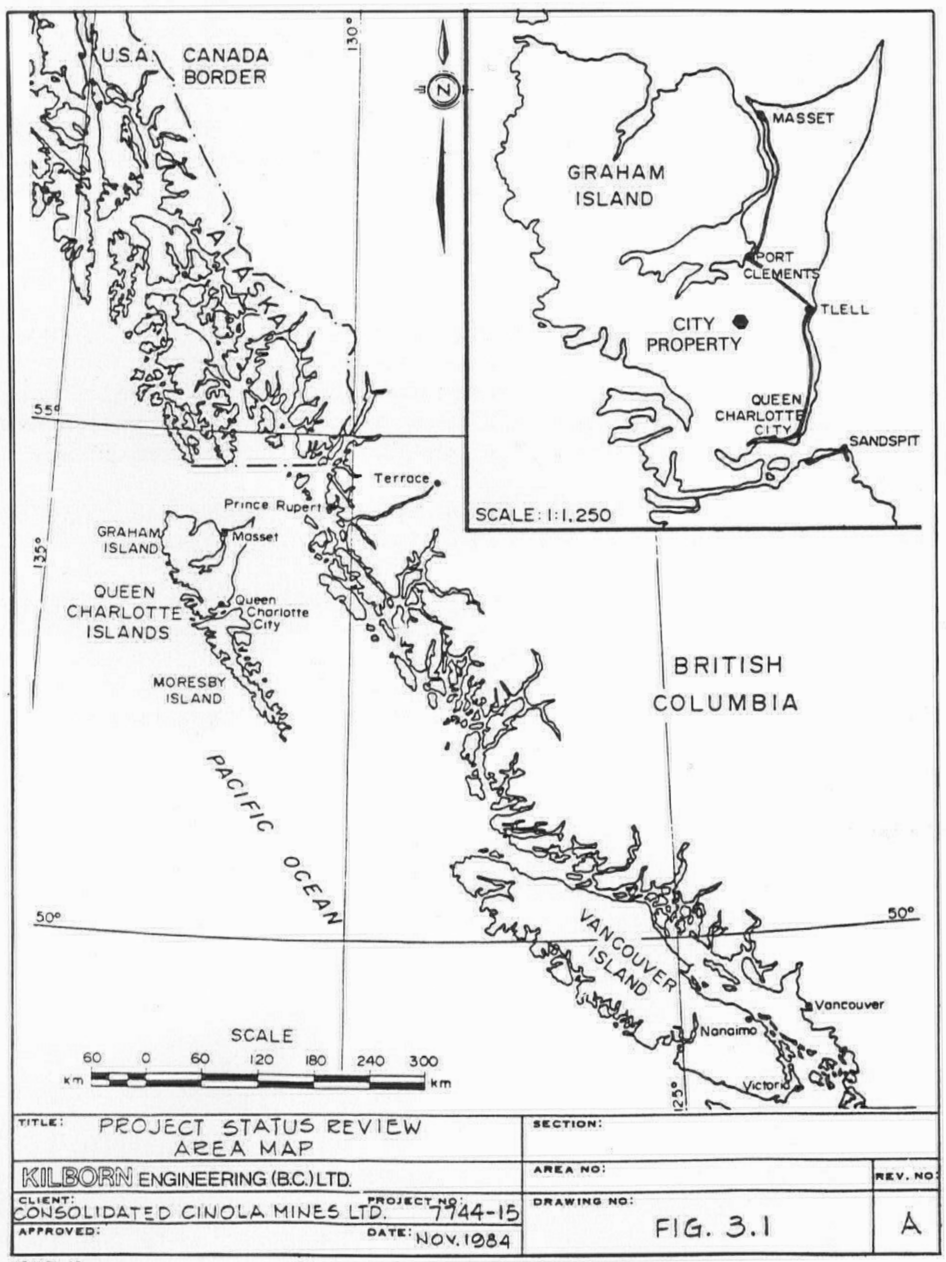
(100% City (Canada) being 29% going to 44% City (Asia), City Resources has an effective 33% indirect interest.)

Background

The deposit (previously known as the Cinola Desposit) is located in Graham Island, part of the Queen Charlotte Islands of British Columbia. Initially discovered in 1970 by two prospectors, several companies have been associated with the discovery. A succession of companies carried out extensive geochemical soil sampling, trench sampling and a moderate amount of drilling up until 1977. In 1978 **Consolidated Cinola** bought the deposit with Energy Reserves of Canada. Consolidated Cinola has now been renamed **City Resources (Canada)**.

In September 1986 **City Resources (Asia)** acquired a 29% interest in Consolidated Cinola through a placement of 2.5m shares at C$3.02. An option was also granted over a further 2.5m shares, exercisable within two years at 25c higher per annum to the initial placement price. The option, if exercised, would take City Resources (Asia) to a 44% interest. C$2,500,000 of the funds provided by City Resources (Asia) has cleared the final payment to Energy Resources, thus giving Cinola 100% of the project.





Geology and Mineralisation

The Charlotte Islands lie in the western system of the Canadian Cordillera within the Insular Fold Belt which contains late Paleozoic Mesozoic and Tertiary rocks. There are numerous gold occurrences on Queen Charlotte Island with a belt of gold mineralisation at least 30 miles wide and 150 miles long, containing over 70 gold development and exploration properties.

The deposit has all the hallmarks of a classical epithermal deposit with a toxic mercury geochemical signature. It is found in intrusive sub-volcanic felsic rocks and tertiary volcanistic sediments that have been intensely brecciated and silicified. The mineralisation is bounded at its base and on the west side by a younger normal fault which may have substantial lateral movement.

The gold mineralisation is closely associated with the degree of silification and spatially with the felsic instrusive rocks. Two types of gold mineralisation are present: thick, moderate grade disseminations and thin, high grade veins.

Climate and Topography

The climatic environment is moderate but with heavy rainfall (100" per annum). Snowfall is light and the area can be worked the year round. The entire pit area has been logged, stripped of all trees and vegetation (see photo opposite) and road access, by logging road, is in place providing year round access for heavy equipment.

Exploration to Date

Today the Graham Island deposit main mineralisation zone covers an area of 700m by 200m with gold present from the surface to depths of 300m. The fault zone forms the lower boundary to the main zone of mineralisation. **Geolgical reserves have been confirmed by over 50,000m of drilling to be in excess of 40mt @ 1.8 gpt (0.06 oz/t) giving a contained gold reserve of 2.4m oz. Mineable reserves are assessed at 8mt at 3.1 gpt (0.1 oz/t) from surface, then a further 10mt at 2.39 gpt (0.074 oz/t) giving approximately 1.5m oz in situ.**

Preliminary feasibility is a for a production of approximately 5,000 tpd to give 150,000 oz per annum at a total cost of US$225 per oz. Capital costs are estimated to be up to C$100m (US$75m).

Tenders have been called for final feasibility and a contract is expected to be let by the beginning of April 1987. **Construction is expected to commence in the beginning of summer 1988 with full production by the beginning of summer 1989.**

We believe that actual mining grades will be significantly higher than presently stated reserves. This will have a major beneficial impact on our present value assessment.

Graham Island Case Study

GEOLOGICAL/MINING PARAMETERS PROJECT: GRAHAM ISLAND

		Stage 1	Stage 2	
Mineable Reserves	(mt)	8m @ 3.11	8m @ 3.11 5m @ 3.5 (1)	Stage 1. High grade pit Stage 2. Extension of Stage 1
Gold in situ	(oz)	800,000	800,000	Using Flotation and Autoclawing of concentrates
Capex	(C$m)	100	120	Tax credit C$20m
Mine Production	(mtpa)	1.5	2.00	
Recovery rate	(%)	85.	85.	
Expected production	(oz/pa)	127,500	170,000	
Mine Life	(years)	5	6.5 (1)	
Stripping Ratio		under 1:1	3:1	
Costs Total	C$/t US$/t	20.55 14.80	20.55 14.80	

Financing of Project		
Project Bank Finance @ 10%	C$40m	At 10%, repayable in year 6
Gold Loans @ 3% (US$400/oz)	C$60m	repayable over 6 years (108,000 oz)

(1) Pit 3 will follow this programme. In these calculations we have assumed a straight continuation of mining. Grade improves at depth.

(2) Opposite: Depreciation assumes write off in over 10 years highly likely as Case B going into the third pit seems most probable, giving a 10 year life.

General Comment

Work at the adit running underneath the orebody is indicating that the Graham Island resource will be significantly better than indicated above. However, at this stage, no firm date is available to enable us to uplift our figures.

Case 'A'

Graham Island

Stage 1 (years 1-5)

Target Starting Date: Q2.1989

Earnings Potential:										**Case 'A'**
Starting Q2.1989	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Production										
Ore Treated (000t)	1,500	1,500	1,500	1,500	1,500					
Head Grade (gpt)	3.11	3.11	3.11	2.46	2.46					
Recovery Grade (gpt)	2.64	2.64	2.64	2.02	2.02					
Milling Rate (tpd)	5,000	5,000	5,000	5,000	5,000					
Gold Production (oz)	127,350	127,350	127,350	127,350	127,350					
Financial (US$ 000)										
Sales (Gold @ US$400/oz)	50,940	50,940	50,940	50,940	50,940					
Other income (@ 8%)	—	490	1,040	2,704	2,392					
Total Revenues	50,940	51,430	51,980	53,640	53,332					
Operating Costs	22,200	22,200	22,200	22,200	22,200					
Interest	8,000	4,000	4,000	4,000	4,000					
Gold Loan Interest	3,600	1,038	780	522	26					
Depreciation (2) (10yr SL)	10,000	10,000	10,000	10,000	10,000					
Exploration	1,000	1,000	1,000	1,000	1,000					
Pretax Profit	6,120	13,192	23,560	15,922	16,106					
Taxation (@ 50%)	Nil	Nil	Nil	6,525	8,053					
Net Profit US$ 000	6,120	13,192	23,560	9,397	8,053					
Net Profit C$000	8,500	18,322	32,722	13,051	11,185					

(2) See note prior page. Case A will inevitably lead into Stage 2.

Loan Debt File										**Graham Island Case 'A'**
Starting	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Bank Project Finance										
Drawn Down C$	40.0	40.0	40.0	40.0	40.0					
New Drawn Down C$	—	—	—	—	—					
Repayments C$	—	—	—	—	40.0					
Net Outstanding C$	40.0	40.0	40.0	40.0	Nil					
Gold Loans (180,000 oz)										
Drawn Down US$m	43.2	34.6	26.0	17.4	8.8					
New Drawn Down US$m	—	—	—	—	—					
Repayments US$m	8.6	8.6	8.6	8.6	8.8					
Net Outstanding US$m	34.6	26.0	17.4	8.8	Nil					
US$0.72 = C$1.00										

Graham Island

Case 'A'

Cash Position C$m	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Opening Balance	Nil	6.6	13.0	33.8	34.9					
Net Profit	8.5	18.3	32.7	13.0	11.2					
Depreciation	10.0	10.0	10.0	10.0	10.0					
Less Gold Loan	11.9	11.9	11.9	11.9	12.2					
Bank repayment	—	—	—	—	40.0					
Balance	6.6	23.0	43.8	44.9	3.9					
Dividends	—	10.0	10.0	10.0	15.0					
Carried forward	6.6	13.0	33.8	34.9	(11.1)					

Graham Island

Case 'B'

Target Starting Date: Q2.1989

Earnings Potential:

Starting Q2.1989	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Production										
Ore Treated (000t)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Head Grade (gpt)	3.11	3.11	3.11	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Recovery Grade (gpt)	2.64	2.64	2.64	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Milling Rate (tpd)	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600
Gold Production (oz)	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000
Financial (US$ 000)										
Sales (Gold @ US$400/oz)	68,000	68,000	68,000	77,200	77,200	77,200	77,200	77,200	77,200	77,200
Other income (@ 8%)	—	1,720	1,736	1,336	1,440	—	(1,850)	420	850	310
Total Revenues	68,000	69,720	69,736	78,536	78,640	77,200	73,350	77,620	78,050	77,150
Operating Costs	29,600	29,600	29,600	29,600	29,600	29,600	29,600	29,600	29,600	29,600
Interest	5,760	2,880	2,880	2,880	2,880	1,440	—	—	—	—
Gold Loan Interest	2,592	1,038	1,212	882	552	222	—	—	—	—
Depreciation (2) (10yr SL)	10,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Exploration	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Pretax Profit	18,048	23,202	23,044	32,174	32,608	32,938	32,750	35,020	35,450	34,910
Taxation (@ 50%)	—	9,649	11,522	16,087	16,304	16,469	16,375	17,510	17,725	17,455
Net Profit US$ 000	18,048	13,553	11,522	16,087	16,304	16,469	16,375	17,510	17,725	17,455
Net Profit C$000	25,067	18,824	16,003	22,343	22,644	22,874	22,743	24,319	24,618	24,243

(2) See note prior page.

Graham Island **Case 'B'**

Loan Debt File											
Starting		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Bank Project Finance											
Drawn Down	C$	40.0	40.0	40.0	40.0	40.0	20.0				
New Drawn Down	C$	—	—	—	—	—	—				
Repayments	C$	—	—	—	—	20.0	20.0				
Net Outstanding	C$	40.0	40.0	40.0	40.0	20.0	Nil				
Gold Loans (216,000 oz)											
Drawn Down	US$m	43.2	34.6	40.4	29.4	18.4	7.4				
New Drawn Down	US$m	—	4.4	—	—	—	—				
Repayments	US$m	8.6	8.6	11.0	11.08.6	11.0	7.4				
Net Outstanding	US$m	34.6	40.4	29.4	18.4	7.4	Nil				
US$0.72 = C$1.00											

Cash Position C$m	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Opening Balance	Nil	21.5	21.7	16.7	18.0	(0.4)	(8.5)	4.2	8.5	3.1
Net Profit	25.1	18.8	16.0	22.3	22.6	22.9	22.7	24.3	24.6	24.2
Depreciation	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Less Gold Loan	8.6	8.6	11.0	11.0	11.0	11.0	—	—	—	—
Bank repayment	—	—	—	—	20.0	20.0	8.5	—	—	—
Balance	26.5	41.7	36.7	38.0	19.6	1.5	24.2	38.5	43.1	37.3
Dividends	5.0	20.0	20.0	20.0	20.0	10.0	20.0	30.0	40.0	40.0
Carried forward	21.5	21.7	16.7	18.0	(0.4)	(8.5)	4.2	8.5	3.1	(2.7)

City Resources (Canada) Postulated Earnings/Dividends

	Case A	Case B
Gold Production (oz)		
Year 1989	127,300	170,000
1990	127,300	170,000
1991	127,300	170,000
1992	127,300	193,000
1993	127,300	193,000
1994	–	193,000
1995	–	193,000
1996	–	193,000
1997	–	193,000
1998	–	193,000

Earnings (C$ 000)	Earnings	Dividend	Earnings	Dividend
Year 1989	8,500	–	25,067	5.0
1990	18,322	10,000	18,824	20.0
1991	32,722	10,000	16,003	20.0
1992	13,051	10,000	22,343	20.0
1993	11,185	15,000	22,644	20.0
1994	–	–	22,874	10.0
1995	–	–	22,743	20.0
1996	–	–	24,319	30.0
1997	–	–	24,618	40.0
1998	–	–	24,243	40.0

Current Programme and Earnings Potential

Graham Island is now moving towards becoming a mine. Whilst further drilling is expected to extend known reserves, City's management, who are now taking over as operators, are about to let contracts for Stage One.

Stage 1 contains the higher grade ore near the surface with probable reserves of 6.3mt @ 3.42 gpt (732,000 oz) with a cut off grade of 1.7 gpt. The stripping ratio is expected to be 1.7:1. Annual production from a throughput of 4,000 to 6,000 tonnes per day is expected to be 160,000 oz (127,500 to 184,000 oz pa on a worst and best case analysis). Preliminary estimated operating costs are US$225/oz. There appears to be a good prospect of these initial estimated costs being reduced. **Mining is expected to commence at the end of 1988.**

Stage 2 of the open pit contains probable reserves of 10.9mt @ 2.09 gpt (640,000 oz).

The current parameters of the project at its pre-feasibility stage are as follows:

Capital cost	US$72m – US$86m
Operating cost	US$14.30 per tonne
Capital payback	2.2 years with gold at US$300/oz 1.4 years with gold at US$375/oz

The **financing** of the mine will probably be through a 60% Gold Loan repayable over a six year period with 40% bank financed. The company has already received full financing proposals from Canadian banks.

The company will have a useful initial **tax free period** as it works off a C$20m accumulated tax loss. This is reflected in the estimates.