

~~ME~~ Property File
~~ME~~ EUGENE 104P005 Cassiar
~~STAFF~~ - ENGINEERING
(104P 084 McDame)

020216



CASSIAR MINING CORPORATION
1986 ANNUAL REPORT



CASSIAR MINING CORPORATION

HIGHLIGHTS

FINANCIAL

	1986	1985 (restated)
	(in thousands)	
REVENUE	\$ 48,739	\$ 61,317
CASH FLOW FROM OPERATIONS	12,589	10,522
OTHER EXPENDITURES		
Capital Costs	1,005	332
Cost of Borrowing	2,927	4,270
McDame	4,589	2,135
INDEBTEDNESS NET OF SHORT-TERM DEPOSIT (AT YEAR END)	34,680	43,327
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(1,447)	404
NET EARNINGS (LOSS)	(283)	2,778

PRODUCTION

	1986	1985
CASSIAR MINE — OPEN PIT		
FIBRE PRODUCTION, TONNES	80 676	86 401
ORE MINED, TONNES	794 015	1 065 299
WASTE REMOVED (BANK CUBIC METRES)	729 000	1 308 200
ORE RESERVES (TONNES) PROVEN	4 570 300	5 500 000
WASTE TO BE REMOVED (BANK CUBIC METRES)	3 450 000	4 090 800
McDAME		
RESERVES (TONNES) PROVEN AND PROBABLE	32 450 000	—
SAN ANTONIO		
ORE RESERVES (TONS) PROVEN AND PROBABLE (Grade 0.233 oz/ton gold)	1,460,000	500,000

COMMON SHARE DATA

	1986	1985
NUMBER OF SHARES OUTSTANDING AT YEAR END	10,149,107	6,713,831
CASH FLOW PER SHARE FROM OPERATIONS, BASED ON OUTSTANDING SHARES AT YEAR END (1985 restated)	\$1.24	\$1.57
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	7,557,836	3,784,178
EARNINGS (LOSS) PER SHARE		
BEFORE EXTRAORDINARY ITEM	\$(0.24)	\$0.14
AFTER EXTRAORDINARY ITEM	\$(0.07)	\$0.66

DIRECTORS' REPORT TO SHAREHOLDERS

1986 IN REVIEW

Despite downward pressure on sales volumes and prices, the Company was able to generate a cash flow of \$11 million to service and reduce bank debt. As of March 1987, the outstanding bank debt is \$34.6 million as compared to \$43.3 million one year ago.

The Company sales revenues in 1986 were \$48.7 million as compared to \$61.3 million in 1985. The decrease in revenue was offset by a significant reduction in the cost of fibre produced. The Company had an accounting loss of \$283,000 as compared to a restated profit of \$2,778,000 in 1985.

The Company has changed its method of accounting for waste rock removal costs from a deferral method, where costs are charged to production on a per tonne of ore mined basis, to expensing costs in the year in which they are incurred. The Company believes that the accounting method of charging waste removal costs to production expenses as they are incurred is more consistent with accounting practices of many Canadian mining companies and facilitates a closer relationship between statement of earnings and cash flow. 1985 expenses have been restated to conform with the change in accounting policy.

The Cassiar mine produced 80 676 tonnes of fibre from 794 015 tonnes of ore mined during nine months of operation. Waste removal requirements for the year were met in the first six months.

Continuing cost reductions were made through the implementation of operating efficiencies and reduction in townsite services and facilities together with a lower electrical power and ore drying cost due to a reduction in fuel prices.

The McDame exploration program was financed by a further \$4.6 million by issuing 3,597,704 "flow-through" shares from the treasury. These funds were spent on adit development, diamond drilling and bulk sampling. Information obtained from this program provided the basis for a preliminary feasibility study which was completed in early 1987.

Asbestos markets and prices continued to be depressed and the Company has reacted aggressively by appointing two new sales representatives and placing renewed emphasis on the development of new grades to meet market requirements. With the current reduced output from most mines, there is an apparent balance between production and usage which should lead to more stable pricing. In addition, the Company is well positioned to take advantage of the growth markets of South East Asia.

On the world scene, there have been some indications of acceptance that chrysotile asbestos fibre does not pose a health risk, relative to alternate products, provided its use is properly controlled. The most significant development in this regard was the adoption of the controlled use approach for chrysotile asbestos fibre by the International Labour Organization (part of the United Nations). In the United States, the Occupational Safety and Health Administration published new standards for control of asbestos in the work place. The greatest challenge in this area came from the Environmental Protection Agency ("EPA") in the United States, which issued a proposal to ban asbestos in that country. Public hearings were conducted and, in October 1986, questioning of EPA staff members revealed that much of the evidence supporting EPA's proposal was inaccurate and outdated. EPA has undertaken a re-analysis of the evidence it offered to support the proposal. The Canadian Government believes that EPA's proposal to ban asbestos in the United States is out of step with the controlled use approach adopted by most countries. (See excerpts from Canadian Government brief on page 8.)

The rate of new product liability suits brought against the Company in the United States has levelled off. Substantially all of the litigation costs continue to be paid by insurers (see page 16).

In August 1986, the Company and Consolidated Brinco Limited, the largest shareholder of the Company at the time, both sold exploration properties to Western Canadian Mining Corporation in exchange for 50% each of the outstanding shares. Effective January 14, 1987, that company was amalgamated with a Vancouver listed public company and continued under the name of Western Canadian Mining Corporation. Following the amalgamation, Cassiar Mining Corporation owns 2,571,292 shares, being approximately 40% of those issued. On January 21, 1987, the stock commenced trading and to March 16, 1987, 94,550 shares had traded in the price range of \$0.77 to \$1.50.

In 1986, drilling conducted on the Company's San Antonio property indicated 1.46 million tons of reserves grading 0.233 oz/ton gold, equal to 340,000 ounces of contained gold. The San Antonio project is described in more detail later in this report.



McDAME DEPOSIT

The \$4.6 million 1986 underground exploration program consisting of drifting, drilling and bulk sampling provided the necessary technical and cost information to carry out a preliminary feasibility study. Indications are that development of the McDame deposit is technically feasible and that the project warrants a full feasibility study. Such a feasibility study is being commissioned for completion by late 1987.

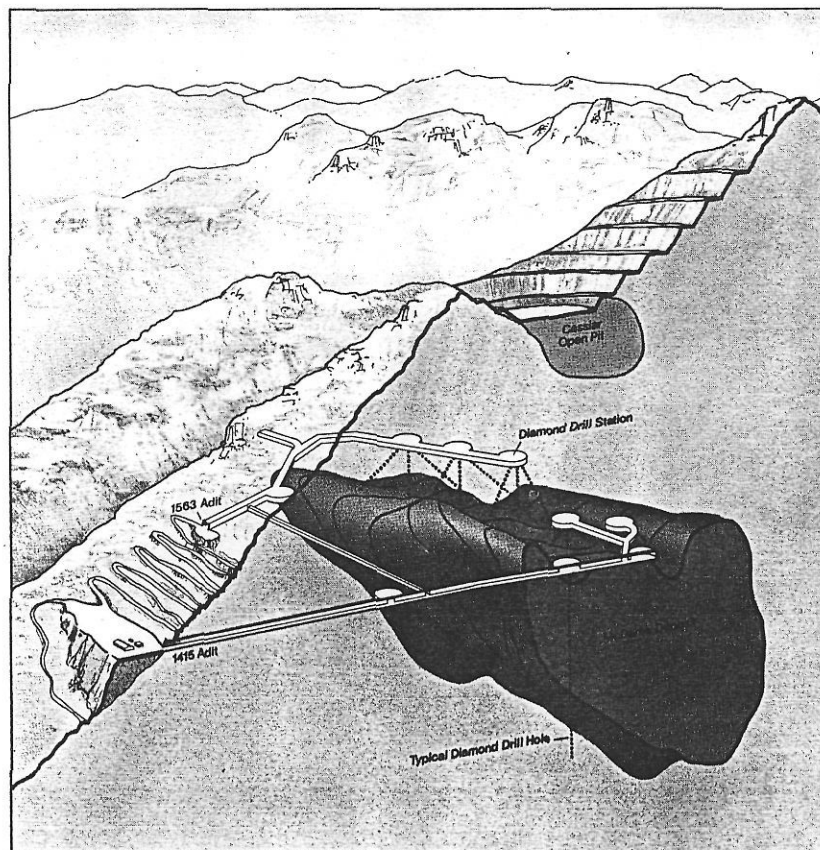
On the basis of the 1986 program, the currently estimated geological proven and probable reserves above the 1200 metre level are 32.45 million tonnes grading 5.57% compared to 7.15% for the balance of open pit reserves. Because of the high quality of fibre in the McDame deposit, fibre value per tonne of ore is comparable to the currently operating open pit deposit.

In 1986, 5000 metres of diamond drilling was carried out in 27 holes bringing total drilling on the McDame deposit to 14 000 metres in 65 drill holes. Most of the 1986 drilling was from the 1415

metre level adit which was driven 1081 metres in 1985, and extended a further 331 metres in 1986. Additional drilling was also carried out from the upper adit at the 1563 metre level, which had been completed in 1980.

In 1986, a bulk sample was taken from the lower grade eastern edge of the McDame deposit to provide additional data on fibre quality, distribution and recovery. Results were as anticipated.

The 1986 program included the driving of a raise of 241 metres joining the 1415 metre level drift to the upper adit at the 1563 metre level to provide air ventilation and a secondary access. Drifting was carried out by both a "continuous miner" machine and conventional drill and blast methods and various ground support methods were tested. This work has provided the Company with the structural and rock quality information necessary for ascertaining the appropriate mining methods, and estimating mining costs for purposes of the full feasibility study.



ARTIST'S IMPRESSION OF COMPUTER SIMULATION OF McDAME DEPOSIT



3. Property, Plant and Equipment

	1986		1985 (Restated Note 2)	
	Cost	Accumulated depreciation	Net	Net
	(in thousands)			
Operating				
Mining property	\$ 109,542	\$ 79,141	\$ 30,401	\$ 34,741
Non-Operating	\$ 12,623	\$ —	12,623	8,100
			\$ 43,024	\$ 42,841

NON-OPERATING

Technical and financial reviews are continuing in respect of the McDame asbestos property contiguous to the Cassiar orebody in British Columbia. At December 31, 1986 a total of \$6,560,000 (1985 \$2,023,000) in proceeds from the issue of "flow-through" shares were applied to fund expenditures on the McDame deposit. These amounts are not deductible to the Company for income tax purposes.

4. Long-term Investments

BRINCO 1981 ENERGY PROGRAM

The Company holds 2,186 units (unchanged from 1985) of the Brinco 1981 Energy Program. The investment has been written down to an amount expected to be recovered from future operations of the properties.

WESTERN CANADIAN MINING CORPORATION ("Western Canadian")

In August 1986, the Company and Consolidated Brinco Limited, the largest shareholder of the Company at the time, both sold exploration properties of equal value to Western Canadian in exchange for 50% each of the outstanding shares. Effective January 14, 1987, Western Canadian was amalgamated with a Vancouver listed public company. The company continued under the name of Western Canadian, of which Cassiar Mining Corporation owns 2,571,292 shares, being 40.8% of those issued. On January 21, 1987, the stock commenced trading and to March 16, 1987, 94,550 shares have traded in the price range of \$0.77 to \$1.50. Due to the Company's exploration properties having been previously written-off, for accounting purposes this investment is recorded at no cost in the balance sheet.

5. Redeemable Preferred Shares of Subsidiary

During 1985, the Company's indebtedness with a Canadian chartered bank, together with the related security interests, was purchased by and assigned to 144603 Canada Limited ("144603"). The bank purchased cumulative, redeemable, retractable Preferred Shares ("Preferred Shares") of 144603. The Preferred Shares are retractable at the option of the holder at any time at the issue price plus accrued and unpaid dividends thereon. The Preferred Shares are redeemable at the option of 144603 at any time (on 90 days notice unless all shares are redeemed) for the same price, in minimum amounts of \$100,000, excluding accrued and unpaid dividends thereon. 144603 may be required to redeem the Preferred Shares in the event of certain adverse changes in income tax treatment afforded to the Preferred Shares. The retraction or redemption price for the Preferred Shares may be satisfied by 144603 in cash or by assigning to the bank the interest of 144603 in the indebtedness of the Company and the related security. Sixty days after the end of each quarter, net cash flow of the Company as defined in the bank loan agreement must be applied to the redemption of Preferred Shares. An aggregate of \$1,764,000 of Preferred Shares was redeemed during 1986 and a further \$8,079,000 was redeemed on February 27, 1987.

The Preferred Shares entitle the holder to a monthly dividend which is payable on the first business day of the following month at a rate equal to 50% of the bank's average prime rate for such month, plus a premium, applied to the stated capital and accrued and unpaid dividends on such Preferred Shares as are issued and outstanding from time to time.