consolidated BRINCO

Annual Report 1990

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ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on May 24, 1991 at the Westin Hotel, Calgary.

consolidated BRINCO

Statistics

	1990	1989	1988
Coal Sales Revenues	**$ 9,238,000**	$7,411,000	NIL
Production (tonnes)	**276,000**	198,000	126,000
Earnings (Loss) (from continuing operations)	**$(2,487,000)**	$1,619,000	–
Earnings (Loss) Per Share (from continuing operations)	**$(0.38)**	$0.23	–
Common Shares Issued	**7,468,556***	7,500,250	7,461,950

*Pro forma; after providing for total effects of Arrangement

Corporate Profile

Consolidated Brinco Limited is a Canadian natural resource company with common shares listed for trading on The Toronto Stock Exchange symbol CBW.

Our goal is to dominate the development of the considerable coal reserves located on Vancouver Island, British Columbia.

We currently operate the Quinsam coal mine situated near the City of Campbell River, B.C. The location of the mine, near tidewater, provides substantial transportation advantages in the delivery of thermal coal products to Pacific Rim customers.

Our exploration division is active in the search for additional coal reserves on Vancouver Island and other minerals across Canada.

To the Shareholders

PLAN OF ARRANGEMENT COMPLETE

The end of the year 1990 marked the substantial completion of important changes to the corporate group structure of Consolidated Brinco Limited . Whereas the asset development of the Company has historically included oil, gas and mining exploration activities; in future, Consolidated Brinco Limited will operate as a mining company trading on the Toronto Stock Exchange under a new symbol – "CBW".

The completed acquisition of all the shares of Western Canadian Mining Corporation by Consolidated Brinco Limited will centralize all the mining activities previously conducted by these companies. Additionally on December 31, 1990, Dorset Exploration Ltd. was spun off to Consolidated Brinco shareholders and now operates as a separate and independent oil and gas company.

STRATEGIC PLAN

Consolidated Brinco Limited is a mining company. Our long-term goal is to dominate the future development of the considerable coal reserves located on Vancouver Island, British Columbia, Canada. We currently operate the Quinsam Mine, situated on approximately 40,000 acres of coal lands, which are predominantly owned in fee by the Company.

The principal markets for our products are located on tidewater; both local, along the western seaboard of North America; and, in the Pacific Rim export markets, mainly Northeast Asia. The Quinsam Mine, located near the eastern coast of Vancouver Island at Campbell River, provides significant transportation advantages over inland coal mines which must bear the cost of long railroad transportation to coastal ports.

Under the terms of an exploration agreement, Consolidated Brinco Limited is exploring an additional 54,000 acres of coal lands located south of the Quinsam property in the Comox coal basin. Previous activity by other companies on these lands provides valuable evidence that significant reserves may exist for exploitation.

1990 OPERATIONAL ACHIEVEMENTS

Significant progress was made during the past twelve months in the continued development of the Quinsam Mine. Operational highlights were:

- our first operations under winter conditions; in all prior periods the mine was operated only during the drier summer months.
- the completion of construction of the Texada Island Shiploading Terminal and the loading there of three export cargoes for overseas customers prior to year-end.
- record loading of the largest cargo in the history of the Company – 66,000 tonnes.
- the commencement of testing for suitable underground mining conditions, which led to the full-time operation of a one-section underground mine.
- the design and construction of coal processing and washery facilities to provide a low-ash, high quality underground coal product in accordance with customer specifications. These facilities were completed and operational on January 31, 1991.
- the financing of a $500,000 exploration program conducted in the Comox coal basin. The results of the program will be available in the second quarter of 1991.

OTHER MINING ACTIVITIES

In addition to their strategic focus on coal exploration, our exploration team, who were formerly employees of Western Canadian Mining, is responsible for enhancing the value of prospects currently held in our inventory and is constantly searching for exciting new mineral prospects.

Of significant interest and receiving our attention is our 100% interest in the Port au Port limestone property in Newfoundland. This property which contains over 300 million tonnes of high purity limestone is located near tidewater. It is adjacent to workings recently developed by another company which has constructed a shiploader and aggregate crushing facility. During the past year our activities on the property have been concentrated on the mining of bulk samples which have been scientifically analyzed and tested. Results from these tests have been compiled in a market study which identifies specific products and uses for future limestone production from the property.

Another significant exploration property, the Gossan, is owned by our subsidiary Vector Industries International Inc. The Gossan property which is highly prospective for gold, is located in the Golden Triangle Area, north of Stewart, B.C. near the Iskut River – Eskay Creek mining camp. During July and August, field crews completed an exploration program of drilling, geophysical surveying and rock sampling with excellent results. The program was financed through the issuance of flow-through shares from the treasury of Vector. Future additional exploratory work is planned.

FINANCIAL RESULTS

Coal sales revenues were 25% higher in 1990 over 1989 reflecting a higher level of production and tonnage sold. Sales reached $9,238,000 during the year compared with $7,411,000 in the comparable period.

Earnings from continuing operations in 1990, prior to inclusion of oil and gas operations, were significantly reduced to a loss of $2,487,000 from the comparable period in 1989 when profits of $1,619,000 were earned.

This reversal is attributable to a number of factors but is primarily due to initial development and start-up of the underground mining section. The lack of suitable coal processing facilities during the testing phase of the start-up operation led to a significantly higher level of operating costs. To ensure that coal products produced during the testing phase met customers' specifications and could therefore be sold to generate revenues from the testing operation, a complicated blending operation with open pit coal was required which lead to higher than normal costs. It is expected that the commissioning of the coal preparation plant in early 1991 will alleviate the pressures of these higher costs in future. Also a high level of administrative expenses associated in part with the corporate plan of arrangement and in part with the rapid expansion at the Quinsam mine were contributing factors.

Coal production tonnage increased during the year as planned in accordance with the integrated production schedule developed for the mine in association with Wright Engineers Limited. Sales tonnage in 1990 was 225,000 tonnes which does not include 11,000 tonnes of underground coal production, revenues from which were credited to the fixed asset account as preproduction revenues. The comparable sales tonnage figure in 1989 was 198,000 tonnes.

Working capital at year-end was healthy at $3,875,000 including cash and marketable securities totalling $5,000,000. Capital investment in the mine during the year continued at a high level of $5,978,000 commensurate with the rapid mine construction. Approximately one half of this amount was financed through equipment leasing contracts reflected on the consolidated statement of changes in financial position as an increase in long-term liabilities of $3,211,000 and the remainder was financed from working capital.

"Our reliance on mine cash flows to make a contribution to funding construction costs during development of the Quinsam Mine is only possible because the coal seam is of excellent quality and located so near the Pacific Ocean."

C. Alan Smith
Chief Executive Officer

CHANGES IN SHAREHOLDERS' EQUITY

Accounting for the transactions effecting the plan of arrangement, whereby shares of Western Canadian Mining were acquired in exchange for treasury shares of Consolidated Brinco and shares of Dorset Exploration were divested by a spin-off, had the following effects on the shareholders' equity of Consolidated Brinco Limited.

The proforma number of outstanding common shares of Consolidated Brinco as at December 31, 1990 was 7,468,556 shares, after reflecting the consummation of the acquisition of Western Canadian Mining and the elimination of all previous interlocking shareholdings between the companies. The equity value recorded on the accounts of the company at December 31, 1990 relating to these shares was $22,009,000 reflecting a book value per share of $2.95.

Share capital on the accounts of Consolidated Brinco was reduced by $31,920,000 on December 31, 1990 to reflect the distribution of 10,379,264 common shares of Dorset Exploration Ltd. to shareholders of Consolidated Brinco.

OUTLOOK

Management believes that Consolidated Brinco has the opportunity to become a significant and profitable export coal producer in Canada due to the quality and the location of its Vancouver Island coal reserves. Therefore, the development of the Quinsam Mine production capability continues in accordance with the integrated production schedule developed in association with Wright Engineers Limited of Vancouver. It provides for combined capacity of both open-pit and underground mining operations to reach 500,000 tonnes in 1991 with increases annually thereafter until a rate of 1.3 million tonnes per year is achieved in 1995.

Continued development of the Quinsam Mine will require additional equity financing. It is the intention of management to address this matter during the course of 1991.

The development of the mine is on a modular basis which allows the mine to be totally reactive to changing market conditions. Accordingly, production increments of 250,000 tonnes per year can be added or deleted annually as changes in the market dictate.

Prices for coal imports by Japan power utilities are historically established annually in negotiations between Japanese buyers and Australian producers. Recently 1991-92 prices were agreed by these parties at a price $1 USA lower than those of the previous period. At this time, Consolidated Brinco management is conducting price negotiations with our customers for this same 1991-92 time period.

Our coal products sold in the international market are quoted in terms of United States dollars. In addition to the effects of both our negotiation of prices with customers and the influence of Australian producers on pricing, of extreme importance to overall revenues is the value of the Canadian currency exchange rate; particularly in relation to the United States and the Australian currencies. Policies of the Canadian government with respect to high dollar exchange rates and high interest rates in Canada have been damaging to our competitiveness in establishing prices for our products in international markets. For 1991 there continues to be uncertainty as to the ultimate value of the Canadian dollar exchange rate.

The discovery and development of economically viable natural resources is a difficult task. Our employees have responded well to the challenges of the past year. We wish to thank and commend all our employees who have made the substantial progress of the Company possible.

Respectfully submitted on behalf of the Board,

C. ALAN SMITH
President

April 1, 1991

Coal Operations

PRODUCTION

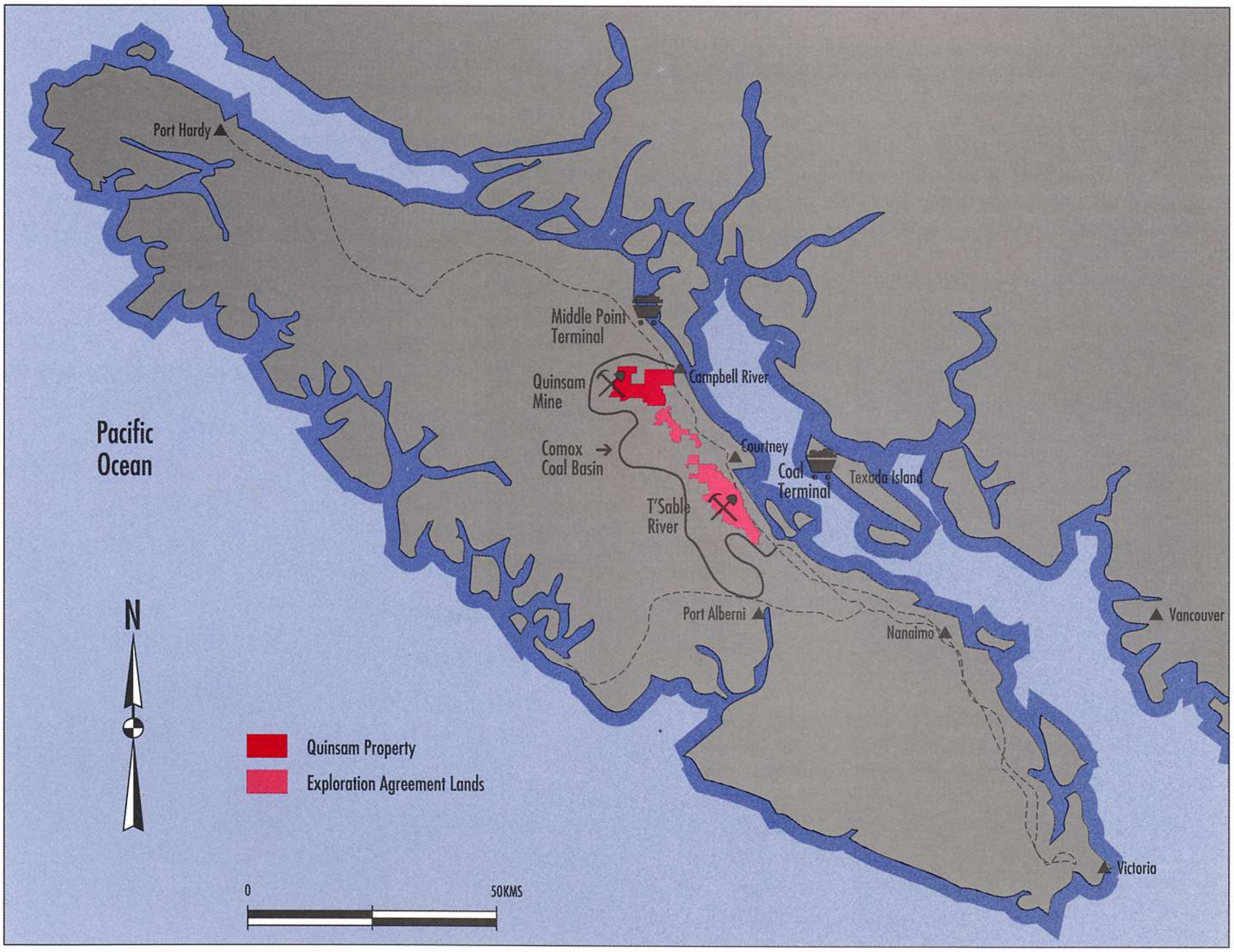
During the year ended December 31, 1990, the Quinsam Mine produced 276,000 tonnes of product coal of which 11,000 tonnes were produced from the test workings underground. 170,000 tonnes came from open-pit operations and 106,000 tonnes were produced from underground operations.

All open-pit coal was produced from the 2N pit at an average strip ratio for the year of 9.47 to 1. At year-end mining in the 2N pit was complete in accordance with phase V of the mine plan except for 50,000 tonnes of coal remaining at a strip ratio of 1.3 to 1. This coal will be mined in early 1991 as part of a cargo for a Japanese utility in the first quarter.

The scale of equipment in the open-pit operations utilizes 35 ton capacity trucks and loaders scaled appropriately. This equipment is inefficient in handling the higher strip ratios now being encountered in the 2N pit. Accordingly, the mine plan provides for the commencement of mining in the south pits during 1991 utilizing the existing small scale mining equipment for the balance of its useful life. As the markets for our coal products continue to develop and expand, operations in the 2N pit will resume utilizing larger scale draglines and larger trucks.

Initial preparations to commence work in the south pits has begun. The mine plan, which can always be overridden by marketing considerations, provides for the removal of up to 250,000 tonnes of coal per year from the south pits for the ensuing four year period at an approximate average strip ratio of 4.5 to 1.

Vancouver Island

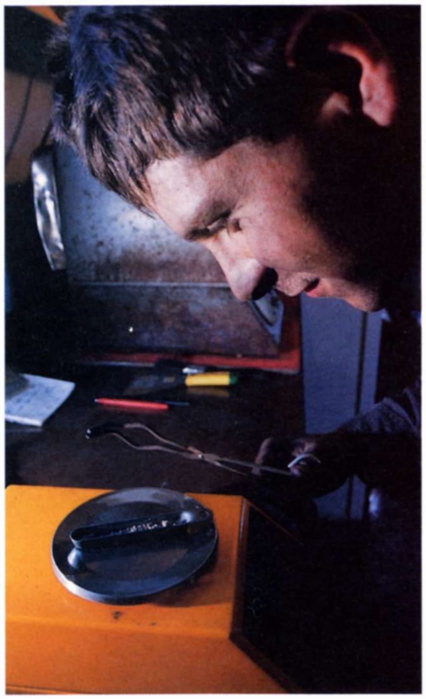


During the year we commenced commercial underground mining by collaring portals along the high wall at the south end of the 2N pit in an area where the strip ratio had advanced to a stage where open-pit operations were no longer efficient. The underground mine plan provides for room and pillar type mining development utilizing a standard drum-type continuous miner, two shuttle cars and a feeder breaker. The No. 1 seam is approximately eight feet (2.4 metres) thick, is relatively consistent and dips at angles of approximately 6 to 10 degrees. These conditions are excellent for underground mining methods.

It is expected that production capacity from this one section underground mine is approximately 150,000 tonnes per year. Subject to market conditions, the mine plan provides for the commissioning of a second section towards the end of 1991. This will have the effect of expanding underground capacity to 350,000 tonnes per year.

COAL QUALITY

Since the commencement of surface mining at the Quinsam Mine, selective mining methods in the 2N pit produced a coal product of sufficiently low ash content that the only processing required was crushing and screening to ensure a consistent size specification for our customers. With the introduction of underground mining in 1990, the ash content of raw coal increased because we were unable to be as selective in our mining methods.



At the outset of underground mining, ash specifications were maintained by compensating for the higher ash content of underground coal through a blending process with the lower ash open-pit coal from the 2N pit, but was necessary to obtain the required test results prior to commitment of capital for expanded coal processing facilities. This blending was an expensive and inefficient procedure. Additionally, production costs on a unit basis rose as the limits of efficiency of the smaller scale equipment were reached due to strip ratios in the 2N pit advancing to the high level of 9.47:1.

With the confirmation of the existence of suitable conditions for underground mining, a decision to revamp the coal processing facilities to include a coal washing facility at a cost of $1.8 million was taken in mid-1990. At year-end the construction of the plant was nearing completion. The plant was commissioned into service in late January, 1991.

The operation of the plant consists of an initial screening of raw coal to six millimetres. All coal larger than six millimetres in diameter is subjected to a heavy media separation bath which separates the coal from the ash dilution. Raw coal from the Quinsam Mine is relatively coarse with the result that approximately 65% of the raw coal is subjected to the heavy media bath.

With the commissioning of the coal processing facility, a new expanded laboratory has been constructed to ensure the adherence of production coal to customers' rigid clean coal specifications. Sulphur content of coal production during the past year has averaged approximately 0.7%. Over the life of the mine it is anticipated that it will average less than 1% sulphur which is the generally accepted specification for low sulphur coal.

"We believe quality control is important! A fundamental principle of international trade is the integrity of one's products."

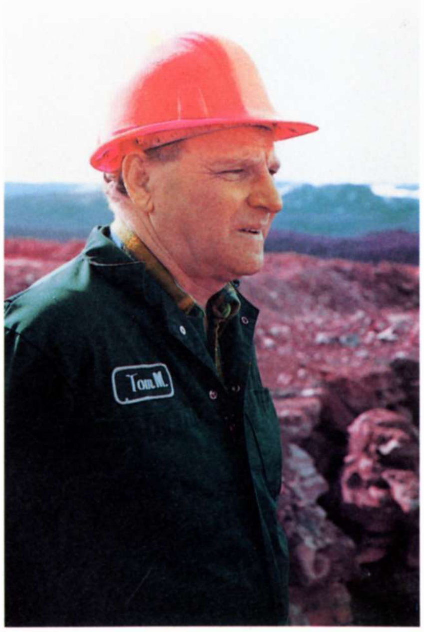
MARKETING

The favourable location of the Quinsam Mine near tidewater on Vancouver Island, provides a competitive advantage over mines located inland which require costly railroad transportation to gain access to marine coal terminals. As a consequence, the thrust of our marketing effort has been in the development of export markets for Quinsam coal located on tidewater.

Marketing efforts to date have focused on utility and industrial customers in Japan and on industrial customers located on the west coast of North America.

During the year deliveries to established customers in these market areas continued under frame-type contracts negotiated in previous years. Additionally, in early 1991 a long-term coal supply agreement was signed with a Japanese utility for 100,000 tonnes per year with deliveries scheduled to commence in late 1991. It is anticipated that the potential for additional long-term contracts with Japanese utilities exists.

Power utilities account for approximately one half of thermal coal demand in Japan and rely on 70% of their coal supply from Australian exporters. Accordingly, annual negotiations between these groups set thermal coal prices which are used as reference prices by other suppliers in establishing their prices. In price negotiations conducted in early 1991, the Australian reference price for 6,700 kcal (air dried) thermal coal was agreed at a value of $39.85 USA per tonne. This represents a reduction of $1 USA per tonne from the $40.85 USA price in the preceding year. Management is currently conducting price negotiations with Japanese customers to set 1991-92 prices for Quinsam Mine production.



TRANSPORTATION

The ability to load Panamax sized vessels of up to 70,000 tonnes at a loading rate of not less than 15,000 tonnes per day is essential to being competitive in the international coal markets.

With this goal, a lease agreement was negotiated with the owner of a shiploading facility located on Texada Island whereby we paid for the refurbishment of the facility for our exclusive use as a marine coal terminal. Ship loading at the Texada terminal commenced in mid-1990. To date several ships of varying sizes have been loaded successfully for overseas customers.

This facility is intended to be a temporary solution. In the longer term as production volumes from the Quinsam Mine increase, it is planned to participate with Ports and Harbours Canada in their plan to expand their Middle Point barge terminal to facilitate the berthing of ships thus eliminating the need for transshipment to Texada Island..

ENVIRONMENTAL

Environmental awareness is an ever present aspect of the operations of the Quinsam Mine and of all operations of the entire company. Full time employees devote their attention to ensuring that all environmental impacts are understood and minimized in connection with our operations. At the Quinsam Mine, the Provincial Ministry of Environment, in conjunction with Federal and Provincial agencies, the Municipal government and Brinco Coal have organized an Environmental Technical Review Committee. The purpose of this committee is to monitor the ongoing environmental impacts of the mining operations at the Quinsam Mine. An annual report is prepared and submitted to ensure that the mine is being run in an environmentally safe manner.

"Quinsam Coal is committed to environmentally sound methods of mining."

Exploration Division Activities

VANCOUVER ISLAND COAL EXPLORATION

Between 1888 and 1965 over 15 million tonnes of coal were extracted from the T'Sable River mine and several mines near Cumberland on Vancouver Island, British Columbia. The source of the coal was a number of coal seams within the Comox Formation, a sequence of sandstone, mudstone and siltstone distributed within an area referred to as the Comox Basin. The Quinsam Mine, currently operated by Consolidated Brinco, is located at the northern end of this basin, and, in 1990 Consolidated Brinco managed to acquire the exclusive coal rights to a significant portion of the remainder of it.

Previous exploration for coal within this enormous land package (over 21,000 hectares) acquired by Consolidated Brinco was conducted sporadically between 1955 and 1979. Old reports had suggested the presence of many tens of millions of tonnes of coal in a number of areas. Consolidated Brinco studied this historical information and decided to direct initial efforts to an area immediately south of the old T'Sable River mine where wide spaced diamond drilling completed prior to 1979 had intersected numerous coal seams.

Diamond drilling totalling 3,614 metres in 20 holes began in December, 1990. Geophysical surveys were conducted to provide information useful to mine planning such as location of faults and coal seam continuity. The main target, a thick coal seam (No. 1) was present in 19 of the 20 holes drilled. The western margin of the No. 1 coal seam is defined by outcrop or subcrop; the eastern, northern and southern limits were not reached with the drilling.

The coal seam lies as a flat tabular body starting at surface and dipping approximately 13 degrees to the east. Faults displace large blocks of coal in an up/down direction. The No. 1 seam has been drilled to a maximum depth of 200 metres but is assumed to continue beyond this depth.

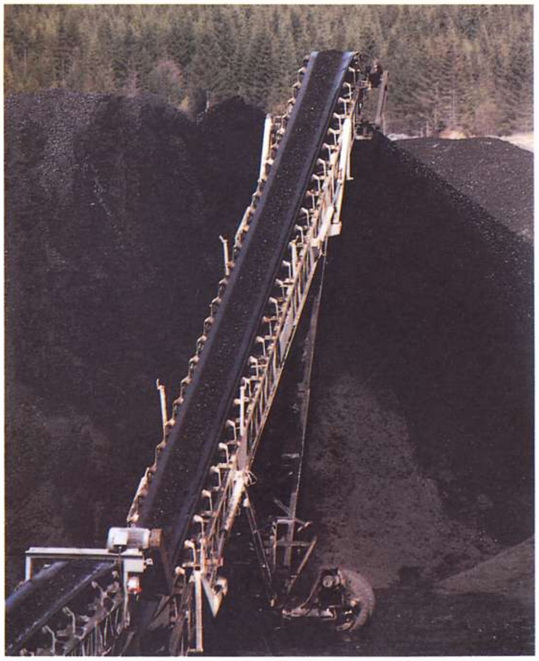
The average thickness of the No. 1 coal seam from the 1990-1991 diamond drilling was 2.78 metres as determined from down hole geophysics. The program in total indicated about 8 million tonnes of coal and clearly demonstrates the potential for a much larger body.

Analytical tests on composite samples of coal are under way. Preliminary analyses on individual samples suggest that an unwashed coal with less than 25% ash, less than 1% sulphur and a calorific value well over 6,000 cal/g (the maximum was 7,390 cal/g) will be obtainable.

Although work is still at a preliminary stage and evaluation is continuing, results have been very exciting. Only a very small portion of the overall land package has been tested and other targets have been identified. Consolidated Brinco is firmly entrenched in the area through operation of Quinsam Mine and therefore in the enviable position of having the infrastructure in place to develop additional coal operations.

PORT AU PORT

The Port au Port limestone property situated on the west coast of Newfoundland is ideally located to ship or barge high-quality limestone to a variety of markets throughout eastern North America. Market studies have indicated suitability of Port au Port limestone for cement, fillers, metallurgical flux, agricultural limestone, and flue gas desulphurization. As concerns over environmental pollution grow, particularly regarding acid waste, demand for limestone is anticipated to grow for use in acid neutralization.



In 1990 a diamond drilling program of 29 holes on a 200 metre grid pattern resulted in the definition of 73 million tonnes of high-quality limestone. Widespread diamond drilling from the early 1970's indicate the overall potential to be over 300 million tonnes.

In addition to the diamond drilling, a bulk sample was collected and divided into smaller lots to be sent to potential markets for trial processing.

The Company is enthusiastic about the potential development of Port au Port limestone property and has undertaken an aggressive marketing study. Product specifications have been obtained from a number of eastern North America companies who are potential customers. The market study report will be utilized to formulate a development plan.

GOSSAN

The Gossan property is located in the Iskut River area west of Eskay Creek, east of the Snip deposit and immediately south of the Inel property on which a $2.5 million underground development and diamond drilling program is reportedly being funded by another company. During 1990, a nine hole diamond drill program on the Gossan property tested a number of targets and confirmed the presence of gold and silver in the original zone and intersected gold and silver values in a number of new areas.

Large areas contain gold in soil values in excess of 700 parts per billion, values that are considered very anomalous. Rock samples have returned over one ounce per ton gold. Diamond drilling in 1987 identified an area, the original zone, where gold values extend from surface to a depth of over 200 feet, suggesting the possibility of a bulk tonnage open-pit gold deposit. Within this zone, values such as 9.8 feet of 0.28 ounces of gold per ton with 1.54 ounces silver per ton suggest the possibility of a higher grade underground operation.

The property is owned by a subsidiary of the Company, Vector Industries International Inc. Plans to finance continued exploration in 1991 are currently being formulated by Vector.

JASON

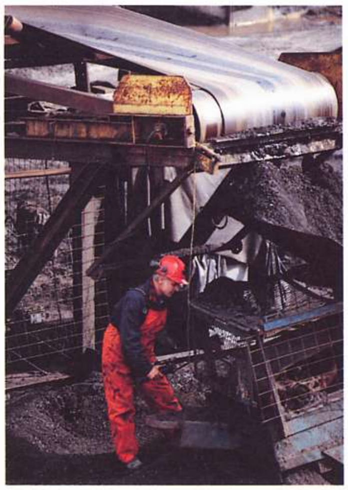
In 1990 the Company transferred its 22.453% interest in the Jason property to MacPass Resources Limited, a private company, in exchange for a 22.453% interest in MacPass share capital and retained 2% Net Smelter Return Royalty.

Subsequently, MacPass signed an agreement with Phelps Dodge Corporation of Canada whereby Phelps Dodge has the right to acquire up to a 60% interest in MacPass shares through a combination of cash payments and work expenditures totalling $13.5 million over a period of 12 years, and by completion of a feasibility study.

During 1990, Phelps Dodge completed a program of geology, geophysics and drilling by late September at a cost in excess of $500,000.

OTHER

The Company also owns varying interests in eleven other mining properties which are at various stages of exploration and are considered to be of significant value.



Management's Discussion and Analysis

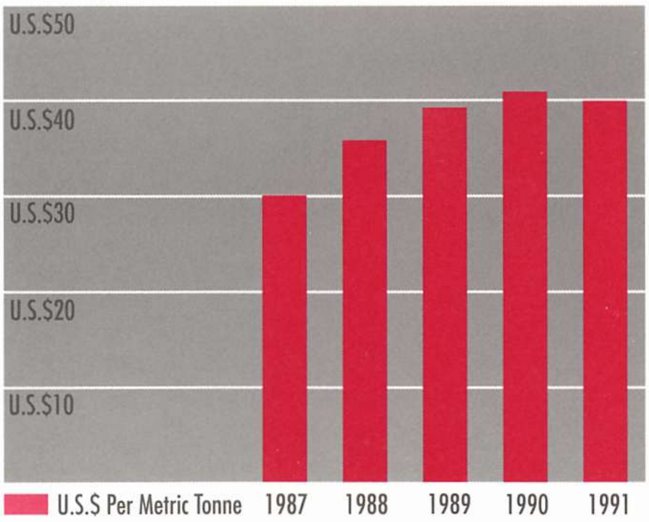
The Company is in the mining business. The primary operation of the Company is the production and sale of coal from the Quinsam Mine located near Campbell River, British Columbia. In addition, the Company conducts mineral exploration and development activities in Canada.

PLAN OF ARRANGEMENT

Until December 31, 1990 the Company was engaged in the oil and gas business through its 82% ownership of Dorset Exploration Ltd. On December 17, 1990 the shareholders of the Company approved a Plan of Arrangement, implemented on December 31, 1990, under which substantially the entire interest of the Company in Dorset was distributed to shareholders on the basis of 1.4 Dorset shares for each Class "A" common share held. The shares owned by Western Canadian Mining Corporation were excluded from this distribution. A total of 10,379,264 Dorset shares were distributed. Share capital has been reduced by $31,920,000 being the aggregate of the book value of the investment in Dorset distributed, net of the costs associated with the Plan of Arrangement and the assigned value of the Dorset shares retained by the Company in the amount of $883,000. The results of the operations of Dorset until December 31, 1990 and for the year ended December 31, 1989 are shown as discontinued operations.

On December 21, 1990, the Company acquired 66.7% of the shares of Western Canadian Mining Corporation which, together with the 31.9% of the shares of Western previously owned, resulted in the ownership by the Company of 98.6% of Western at year end. The Company has exercised its statutory rights to acquire the balance of the Western shares not owned. The cost of the acquisition of Western was $9,376,000 and the consideration paid was 2,970,818 shares of Consolidated Brinco Limited.

Prices of Japanese Thermal Coal Imports from Australia *(based on 6700 kcal)*



Following the acquisition of the remaining minority interest in Western, the Company intends to take steps to cancel the 3,047,492 shares of the Company owned by Western. Taking into account other changes in issued share capital after year end, this will result in issued common shares of 7,468,556.

RESULTS OF OPERATIONS

The operations of the Company are centred on the production of coal from the Quinsam Mine.

	1990	1989	Increase (Decrease)
Coal sold (tonnes)	**218,300**	184,200	18.5%
		(thousands)	
Coal sales revenue	**$9,238**	7,411	24.6
Production and transportation costs	**5,911**	3,866	52.7
General and administrative expenses	**2,477**	1,756	40.9
Investment and other income	**(955)**	(1,233)	(22.5)
Mine development and waste removal	**3,844**	2,195	75.1
Earnings from continuing operations	**$(2,487)**	1,619	not meaningful

Coal revenue increased in 1990 due to increased tonnage and higher prices. Operating profit decreased as the Company experienced higher than expected costs of mining and of blending open pit and underground coal to meet product specifications.

General and administrative costs were greater in 1990 as personnel was increased and other costs were incurred in preparing for an increase in the scale of mining operations.

Mine development and waste mining costs increased in 1990 due to higher strip ratios.

Investment and other income decreased due to a reduction in cash balances.

LIQUIDITY AND CASH RESOURCES

The Company's cash position decreased by $4,926,000 in 1990, although current assets decreased by only $169,000. Inventories were increased during 1990 in anticipation of coal sales in the first quarter of 1991. The proceeds from a sale leaseback transaction which was drawn down in January 1991 but completed in 1990 are also included in current assets.

The Company's current ratio decreased to 1.6 from 2.6 in 1989. The reduction reflects a higher level of payables due to increase in the level of operations and a greater amount of capital lease obligations in 1990 due to financing of new equipment acquired in 1990.

The Company's debt-equity ratio at December 31, 1990 was 1:3.8 which is an increase from 1:4.6 at the end of 1989. The ratio increased due to the greater amounts of debt financing relative to the book value of the equity of the Company without its oil and gas operations in 1990 as compared to 1989 when these operations were included.

CAPITAL EXPENDITURES

Capital expenditures increased to $6.0 million in 1990 from $2.8 million in 1989. Virtually all of these expenditures in both years were made in conjunction with the Company's coal operations.

The Company is not committed to any significant capital expenditures as at December 31, 1990. It does intend to make further capital expenditures at the Quinsam Mine to expand the production capacity if these expenditures are warranted based on conditions in the world thermal coal market. These expenditures aggregate approximately $4.5 million. Although no decision has been made on the source of financing for these expenditures it is expected that the Company will utilize its existing cash resources, cash flow from operations and will undertake some equipment financing. The Company is currently investigating methods of equity financing.

IMPACT OF INFLATION AND CHANGING PRICES

The prices which the Company receives for coal it sells are established in international markets. These prices are generally not affected by domestic inflation and cannot be adjusted to offset inflationary cost increases.

Operating and capital costs are generally subject to inflation. Although the company has been producing coal on a commercial basis for only two years the Company has generally not experienced cost increases at rates greater than the general rate of inflation.

The Company expects that increased productivity through the development and implementation of new mining and other operating methods will reduce the impact of increased costs. Production cost increases can also be expected from changes in operating conditions which are specific to individual situations and not the result of general inflationary factors.

OUTLOOK

Profitability of the Company's mining operations is primarily dependent on the quality of coal produced, the cost of production and the prices received.

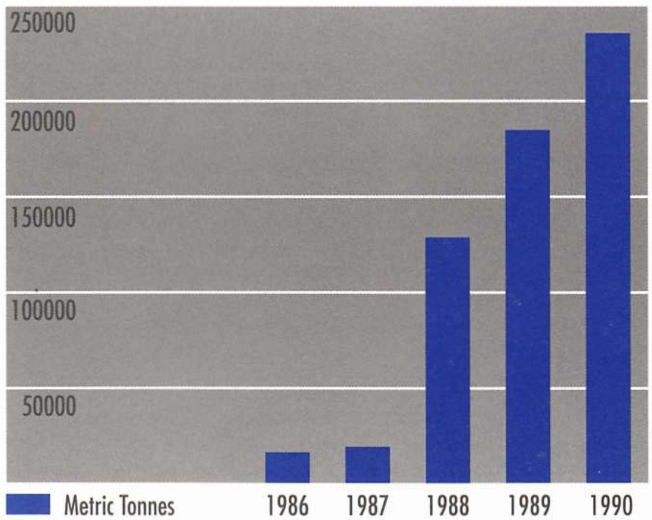
The quality of coal produced is dependent on the quality of the in situ coal reserve as well as the efficiency of the Company's coal processing facilities. Generally, the Company's in situ reserves are high volatile bituminous coal with average sulphur content of less than 1%. The design of the Company's coal processing facilities is to provide washed and screened coal with a heat content of 6,500 kilo calories with an ash specification of less than 13% on an air dried basis.

The cost of producing coal from this reserve utilizing these facilities is dependent upon labour costs, size of mining equipment deployed, the cost of consumable items and other factors.

The selling price of thermal coal is influenced by world market conditions. International selling prices are set on the basis of United States dollars. The Company's current prices are therefore very sensitive to changes in foreign currency exchange rates. Changes in selling prices have a significant effect on profitability of operations of the Company.

The Company sells coal on the spot market or on the basis of multi-year contracts which provide for annual sales tonnage at prices which are negotiated on an annual basis. The prices the Company receives are determined in relation to the price received by large thermal coal producers in Australia. For the fiscal year 1990 the price received by these suppliers was U.S. $40.85 FOBT for coal with an energy value of 6,700 kcal. In 1991 this price is U.S. $39.85. The Company produces a 6,500 kcal. coal product. The price the Company actually receives for its coal is dependent upon the actual qualities of the delivered coal including ash content and heat value and the terms of the contract and may be more or less than the price indicated above.

Coal Production from the Quinsam Mine



Consolidated Balance Sheets

	December 31, 1990	1989
	(in thousands)	
ASSETS		
Current assets		
Cash and short term investments (note 5)	**$ 2,871**	7,797
Marketable securities	**2,127**	–
Proceeds of sale leaseback transaction (note 8)	**1,728**	–
Coal inventory	**1,111**	60
Accounts receivable	**1,524**	1,946
Other	**485**	212
	9,846	10,015
Capital assets (note 6)	**22,751**	64,499
Investments (note 7)	**3,869**	5,305
	$36,466	79,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 4,792**	3,184
Current portion of long term liabilities	**1,179**	630
	5,971	3,814
Long term liabilities (note 8)	**5,782**	11,772
Deferred foreign exchange gains	**59**	121
Deferred revenue	**–**	450
Deferred income taxes	**1,903**	4,061
Minority interest	**742**	4,471
Shareholders' equity (note 4)	**22,009**	55,130
	$36,466	79,819

On behalf of the Board,

, Director

, Director

Consolidated Statements of Earnings and Retained Earnings

	Years Ended December 31, 1990	1989
	(in thousands)	
Coal sales	**$ 9,238**	7,411
Production and transportation costs	**5,911**	3,866
General and administrative expenses	**2,477**	1,756
Interest (note 8)	**460**	271
Investment and other income	**(955)**	(1,233)
	1,345	2,751
Mine development and waste removal (note 6)	**3,887**	2,195
Earnings (loss) before the following	**(2,542)**	556
Income tax recovery (expense) (note 9)	**60**	(273)
Equity in earnings (loss) of affiliate (note 2)	**(5)**	1,336
Earnings (loss) from continuing operations	**(2,487)**	1,619
Loss from discontinued operations (note 10)	**(386)**	(654)
Net earnings (loss) (note 11)	**(2,873)**	965
Retained earnings, beginning of year	**1,987**	1,022
Retained earnings (deficit), end of year	**$ (886)**	1,987

See accompanying notes.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Consolidated Brinco Limited as at December 31, 1990 and 1989 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne
Chartered Accountants

Calgary, Canada
April 12, 1991

Consolidated Statements of Changes in Financial Position

	Years Ended December 31, 1990	1989
	(in thousands)	
Operating Activities		
Earnings (loss) from continuing operations	**$ (2,487)**	1,619
Items not involving cash:		
Amortization	**1,377**	601
Deferred income taxes	**(80)**	255
Equity (earnings) loss	**5**	(1,336)
Other	**79**	(127)
	(1,106)	1,012
Change in non-cash working capital	**(754)**	592
	(1,860)	1,604
Financing Activities		
Increase in long term liabilities	**3,211**	3,649
Repayment of long term liabilities	**(767)**	(518)
Proceeds of common share issue	**-**	395
Purchase of shares pursuant to issuer bid	**(20)**	(157)
	2,424	3,369
Investing Activities		
Expenditures on capital assets	**(5,978)**	(2,773)
Purchase of Western Canadian Mining Corporation (net of cash acquired – $1,417,000)	**(7,495)**	–
Common shares issued to acquire Western Canadian Mining Corporation	**8,912**	–
Purchase of investments	**(621)**	(2,715)
Sale of investments	**386**	723
	(4,796)	(4,765)
Increase (decrease) in cash attributable to continuing operations	**(4,232)**	208
Increase (decrease) in cash attributable to discontinued operations	**(694)**	383
Cash, beginning of year	**7,797**	7,206
Cash, end of year	**$ 2,871**	7,797

Cash includes short term investments

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 1990 and 1989

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The Consolidated financial statements include the accounts of the company, its wholly owned subsidiary, Brinco Coal Corporation and its 98.6% interest in Western Canadian Mining Corporation ("Western"). The interest in the former subsidiary, Dorset Exploration Ltd. ("Dorset"), which was spun off to shareholders on December 31, 1990 has been accounted for as a discontinued operation.

(b) Capital assets

Coal production

Commercial open pit mining operations commenced at the Quinsam Mine on April 1, 1989 and commercial underground operations commenced on July 1, 1990. Development and waste removal costs prior to the start of commercial operations, reduced by revenues during that period, are amortized using the unit of production method based on proven reserves included in the current mine plan. Subsequent development and waste removal costs are expensed as incurred, except costs associated with an increase in capacity which are capitalized.

Costs associated with the Texada Island ship loading facility are amortized based on the estimated tonnage to be handled over a six year period.

Buildings, plant and equipment are recorded at cost. Amortization of the cost less residual value is provided on the straight line method based on the estimated useful lives of the assets which range from approximately 3 to 10 years.

Exploratory mining

Exploratory expenditures are capitalized, provided that the properties are considered to be of continuing value to the Company. The amount shown for exploratory mining properties does not necessarily reflect present or future values. When commercial production is achieved, costs will be charged to earnings using the unit-of-production method. In the event of abandonment or disposal, any resulting gain or loss is included in earnings.

Many of the Company's exploration activities are conducted jointly with others. Only the Company's proportionate interest is included in these financial statements.

(c) Reclamation

The estimated cost of future reclamation is accrued over the period of the current mine plan based on the extent of disturbance.

(d) Coal inventory

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

Consolidated Statements of Changes in Financial Position

	Years Ended December 31,	
	1990	1989
	(in thousands)	
Operating Activities		
Earnings (loss) from continuing operations	**$ (2,487)**	1,619
Items not involving cash:		
Amortization	**1,377**	601
Deferred income taxes	**(80)**	255
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	(1,106)	1,012
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	(1,860)	1,604
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Increase in long term liabilities	**3,211**	3,649
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Proceeds of common share issue	**–**	395
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Cash, end of year	**$ 2,871**	7,797

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See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 1990 and 1989

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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Many of the Company's exploration activities are conducted jointly with others. Only the Company's proportionate interest is included in these financial statements.

(c) Reclamation

The estimated cost of future reclamation is accrued over the period of the current mine plan based on the extent of disturbance.

(d) Coal inventory

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

2. WESTERN CANADIAN MINING CORPORATION

On December 21, 1990 the company acquired a further 66.7% of Western which, together with the existing interest of 31.9%, resulted in the Company controlling 98.6% of Western at year end. At the date of acquisition Western owned 3,047,492 of the Company's Class A common shares, representing a 40.6% interest, comprising 32.6% owned at December 31, 1989 and a further 8.0% purchased during 1990. The principal activity of Western is mineral resource exploration and development.

The consideration for the acquisition, which has been accounted for by the purchase method, was 2,970,818 shares of the company valued at $8,912,000 together with expenses of $464,000. The consideration has been allocated as follows:

	Interest acquired in December 1990	Previously acquired equity interest	Total
		(in thousands)	
Shares of Consolidated Brinco Limited	$ 6,289	4,357	10,646
Exploratory mining properties	2,812	140	2,952
Working capital	1,300	607	1,907
Investments	819	383	1,202
Deferred income taxes	(1,248)	(583)	(1,831)
Minority interest	(596)	(146)	(742)
	$ 9,376	4,758	14,134

Prior to December 21, 1990, the interest in Western had been accounted for by the equity method and thereafter the results of operations of Western have been included in the consolidated earnings statement.

Subsequent to year end, the company exercised its statutory rights to acquire all remaining shares of Western which were not tendered to the take over bid. Subject to any other order of the court, this will entail the issuance of 62,101 common shares together with 86,941 Dorset shares pursuant to the terms of the Plan of Arrangement.

Equity income in 1989 includes $1,580,000 relating to a gain made by Western on the disposition of a subsidiary.

3. PLAN OF ARRANGEMENT

On December 17, 1990 the shareholders approved a Plan of Arrangement, implemented on December 31, 1990, pursuant to which substantially the entire interest of the Company in Dorset was spun off to shareholders on the basis of 1.4 Dorset shares for each Class A common share, except that those shares of the Company held by Western and 5,421 shares held by dissenters to the Plan of Arrangement did not participate. The Arrangement also provided for the replacement of the existing Class A common shares with new common shares.

The Arrangement resulted in a disposition of 10,379,264 Dorset shares. Share capital has been reduced by $31,920,000 being the aggregate of the book value of the Company's investment in Dorset (net of the assigned value of 1,102,110 Dorset shares retained by the Company), the book value of the shares of dissenting shareholders and the expenses of $203,000 associated with the Plan of Arrangement. Of the retained Dorset shares, 545,000 are reserved in relation to an option in favour of an executive of Dorset and have been assigned a carrying value of $0.65 per share, being the option price. The remainder, which includes shares reserved for distribution under flow through share agreements and in connection with the planned acquisition of the remaining minority interest in Western, have been assigned a value of $0.95, being the market value at year end.

4. SHAREHOLDERS' EQUITY

	1990	1989
	(in thousands)	
Common shares		
10,461,247 issued	**$ 33,383**	–
Class A common shares		
7,500,250 issued	**–**	56,418
Contributed surplus	**158**	151
Shares held by Western Canadian Mining Corporation	**(10,646)**	(3,426)
	22,895	53,143
Retained earnings (deficit)	**(886)**	1,987
	$ 22,009	55,130

The authorized share capital at December 31, 1990 comprises an unlimited number of common shares, Class A shares and preferred shares issuable in series.

The following is a summary of changes in issued Class A common share capital.

	Number of shares	Amount
		(in thousands)
Balance, January 1, 1989	7,461,950	$ 56,331
Flow through shares issued	79,000	395
Cancelled pursuant to issuer bid	(40,700)	(308)
Balance, December 31, 1989	7,500,250	56,418
Acquisition of Western	2,970,818	8,912
Cancelled pursuant to issuer bid	(4,400)	(27)
Reduction under Plan of Arrangement	(5,421)	(31,920)
Balance, December 31, 1990, converted to new common shares	10,461,247	$ 33,383

At December 31, 1990, the Company had entered into an exploration agreement which will entail the issuance in 1991 of 100,000 flow through common shares for an aggregate consideration of $393,000. The Company will retain the related entitlements under the Canadian Exploration Incentive Program, amounting to $168,000 which will be credited to exploratory mining properties. Each flow through common share will be issued together with 1.4 Dorset shares pursuant to the terms of the Plan of Arrangement.

At December 31, 1990 employee stock options were outstanding for 7,000 units, consisting of one common share and 1.4 Dorset shares, at an exercise price of $4.50 per unit, expiring in 1993. Options on a further 20,000 shares from treasury have been granted at an exercise price of $5.00 per share which expire in 1993. Options vest at an annual rate of 20% for a five year period following the issue date.

In April 1991 the employee stock option plan was collapsed, resulting in a cancellation of 107,300 of the Company's common shares and a consequent reduction in shareholders' equity of $312,000.

Pursuant to issuer bids the Company acquired and cancelled 4,400 class A common shares at an aggregate cost of $20,000 in 1990 and 40,700 shares at an aggregate cost of $157,000 in 1989. The excess of the book value of these shares over the cost has been credited to contributed surplus.

Following the acquisition of the remaining minority interest in Western, the Company intends to take steps to cancel the 3,047,492 shares of the Company owned by Western. Taking into account other changes in issued share capital after year end, this will result in issued common shares of 7,468,556.

5. CASH AND SHORT TERM INVESTMENTS

Short term investments at December 31, 1989 include interest bearing advances to an affiliate amounting to $1,037,000. These advances were repaid in January, 1990. Interest income earned on these advances during 1989 amounted to $87,000.

6. CAPITAL ASSETS

1990	**Cost**	**Accumulated amortization**	**Net book value**
		(in thousands)	
Coal production:			
Quinsam Mine acquisition and development costs	**$11,848**	**442**	**11,406**
Texada Island ship loading facility	**1,569**	**72**	**1,497**
Buildings, plant and equipment	**8,503**	**1,742**	**6,761**
	21,920	**2,256**	**19,664**
Exploratory mining properties	**3,087**	**–**	**3,087**
	$25,007	**2,256**	**22,751**

1989	Cost	Accumulated amortization	Net book value
		(in thousands)	
Coal production:			
Quinsam Mine acquisition and development costs	$10,783	186	10,597
Buildings, plant and equipment	5,231	628	4,603
	16,014	814	15,200
Petroleum and natural gas properties	66,043	16,744	49,299
	$82,057	17,558	64,499

Quinsam mine development costs represent expenditures prior to the start of commercial production. Since commercial start up, all development costs, including waste removal, have been charged against earnings.

Capital assets at December 31, 1990 include construction in progress with a book value of $1,992,000, which will not be amortized until the assets are put into use early in 1991.

Substantially all of the buildings, plant and equipment are subject to capital lease obligations.

Amortization of capital assets charged against earnings from continuing operations amounted to $1,377,000 in 1990 and $601,000 in 1989.

7. INVESTMENTS

	1990	1989
	(in thousands)	
Investments deposited to secure mining permits and other obligations (market value – $1,268,000)	**$ 1,291**	–
Lease financing	**678**	–
Dorset Exploration Ltd. (note 3)	**883**	–
Cost of shares held by trustees of employee stock option plan	**507**	507
Government Bonds (market value – $3,280,000)	**–**	3,372
Western Canadian Mining Corporation, at equity	**–**	1,337
Other	**510**	89
	$ 3,869	5,305

During the year, the Company and Western provided $1,000,000 of financing for a sale leaseback transaction by Dorset. This financing is repayable over a four year period.

As a consequence of the Plan of Arrangement, the employee stock option plan holds shares of Dorset in addition to shares of the Company.

8. LONG TERM LIABILITIES

	1990	1989
	(in thousands)	
Capital lease obligations	**$ 6,115**	3,586
Less current portion	**1,179**	630
	4,936	2,956
Banker's acceptances issued by Dorset Exploration Ltd.	**–**	7,963
Other	**846**	853
	$ 5,782	11,772

Capital lease obligations of Brinco Coal Corporation are denominated in U.S. dollars and include leases with effective fixed interest rates of between 10% and 11% and floating rate leases at U.S. prime. Some leases have options to convert from effective fixed interest rates to floating rates or vice-versa. Future minimum lease payments, excluding the interest component, are as follows:

	(in thousands)
1991	$ 1,179
1992	1,261
1993	2,183
1994	854
1995	350
1996	288
	$ 6,115

Capital lease obligations include $1,728,000 in respect of financing drawn down in January 1991 under the terms of a sale leaseback transaction completed in 1990.

Interest on long term liabilities charged against earnings from continuing operations amounted to $398,000 in 1990 and $271,000 in 1989.

9. INCOME TAXES

	1990	1989
	(in thousands)	
Current	$ 20	18
Deferred	(80)	255
	$(60)	273

The amount differs from that which would result from applying the combined Canadian federal and provincial income tax rate of 42.8% (1989 - 43.8%) to earnings from continuing operations.

	1990	1989
	(in thousands)	
Computed expected taxes	$(1,086)	244
Increase (decrease) in taxes resulting from:		
Losses not recognized	1,070	–
Other	(44)	29
	$ (60)	273

10. DISCONTINUED OPERATIONS

The results of oil and gas operations of Dorset Exploration Ltd. have been excluded from the financial statements with effect from December 31, 1990.

Revenue relating to discontinued oil and gas operations amounted to $7,816,000 in 1990 and $6,013,000 in 1989.

Income tax expense (recovery) amounted to $191,000 in 1990 and $(268,000) in 1989.

11. EARNINGS PER SHARE

Earnings per share are calculated based on the weighted average number of common shares outstanding, reduced by the reciprocal shareholdings with Western, resulting in a basis of 6,602,701 shares for 1990 and 6,902,110 shares for 1989.

	1990	1989
	(in thousands)	
Earnings (loss) from continuing operations	$ (0.38)	0.23
Net earnings (loss)	$ (0.44)	0.14

12. CONTINGENCY

A legal action claiming $2,700,000 plus interest has been commenced against the Company in connection with the alleged receipt of an amount by a former subsidiary relating to the dissolution of a pension fund in 1986. The Company has denied liability.

13. COMPARATIVE AMOUNTS

Certain of the 1989 amounts have been reclassified in accordance with the presentation for 1990.

Corporate Information

DIRECTORS

C. Alan Smith, Calgary, Alberta
Aubrey W. Baillie, Toronto, Ontario
E. Jacques Courtois, Q.C., Montreal, Quebec
Thomas N. Davidson, Toronto, Ontario
Dan A. Hughes, Beeville, Texas
John M.S. Lecky, Calgary, Alberta
J. Douglas Little, Vancouver, British Columbia
Morris N. Palmer, Calgary, Alberta
Michael J. Read, London, England

OFFICERS AND SENIOR PERSONNEL

C.A. Smith, President and Chief Executive Officer
W.H. Smith, Corporate Secretary
A.S. Burgess, Senior Vice-President, Corporate Development
T.E. Milner, President, Coal Operations
A.P. Keogh, Vice-President, Finance
T.A. Robson, Quinsam Mine Manager
R.S. Hewton, Vice-President, Exploration

OFFICES

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LEGAL COUNSEL

McCarthy Tetrault

AUDITORS

Peat Marwick Thorne

BANKERS

The Toronto Dominion Bank
The Royal Bank of Canada

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
411 - 8 Avenue S.W.
Calgary, Alberta
T2P 1E7

Orion Royal Bank Limited
London, England

STOCK EXCHANGE LISTINGS

Consolidated Brinco Limited
The Toronto Stock Exchange
Symbol: CBW

Vector Industries International Inc.
Alberta and Vancouver Stock Exchanges
Symbol: VII

CONVERSION TABLE
TO CONVERT IMPERIAL TO METRIC

1 acre	= .40469 hectare
1 short ton (coal)	= .907186 tonne
1 mile	= 1.6093 kilometres

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