

# Mining Research

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Toronto, Ontario

## Westmin Resources

(WMI — TSE, VSE)

### *Turnaround at Myra Falls and Exploration Success at Wolverine Lake Revitalizes Company*

Recent Price	52-Week High-Low	EPS/CFPS			P/E & P/CF			Yield	Target Price	Rating
		1994A	1995E	1996E	1994A	1995E	1996E			
\$7	\$8 3/8 - \$5	(\$0.77)	\$0.26	\$0.50	N/A	26.9	14.0	2.9%	\$9 1/2	4
		(\$0.57)	\$0.78	\$1.03	N/A	9.0	6.8			

### Summary and Recommendation

The outlook for Vancouver-based Westmin Resources is the brightest it has been in several years. Since resolving a labour dispute at its Myra Falls operation in late 1994, the operational performance at the mine has improved significantly. Growing metal production, combined with significantly reduced mining costs, will result in Westmin reporting positive earnings and cash flow for the first time since 1990. Westmin's balance sheet has been severely eroded after experiencing years of operating losses. However, the company's improving financial performance gives it the financial flexibility to restructure and strengthen its balance sheet moving forward. Priority has been placed on paying down its large debt level. The net result will be declining interest obligations and, ultimately, improved earnings and cash flow. **The exploration results being generated at the Wolverine Lake Discovery in the Yukon indicate that a mine is in the making. We believe that the medium to long-term exploration potential in this region is very significant. Westmin's improving financial position, combined with the very promising exploration results emerging from the Wolverine project, leads us to rate the stock a buy (4) with a 12-month target price of \$9 1/2.**



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## The Company

Vancouver-based Westmin Resources is a growth-oriented mining company focusing on base metal, gold and coal development opportunities in British Columbia, the Yukon and Alberta. Brascade Resources Inc., a subsidiary of Brascan, is the majority shareholder, owning 76.0% of the common shares outstanding. Westmin's main operating asset is the Myra Falls copper-zinc-gold-silver mine located near Campbell River, Vancouver Island. The company also owns the 2,000-tonne-per-day Premier gold mill in northern British Columbia that is currently custom milling precious metal concentrates from the Snip Mine. Other sources of revenue include lease payments from a coal property located in northcentral Alberta. Westmin's primary growth strategy is to increase its base metal and gold reserves by expanding its existing mineable reserves at Myra Falls, as well as systematically explore for other base metal and gold deposits in British Columbia, the Yukon and Alaska.

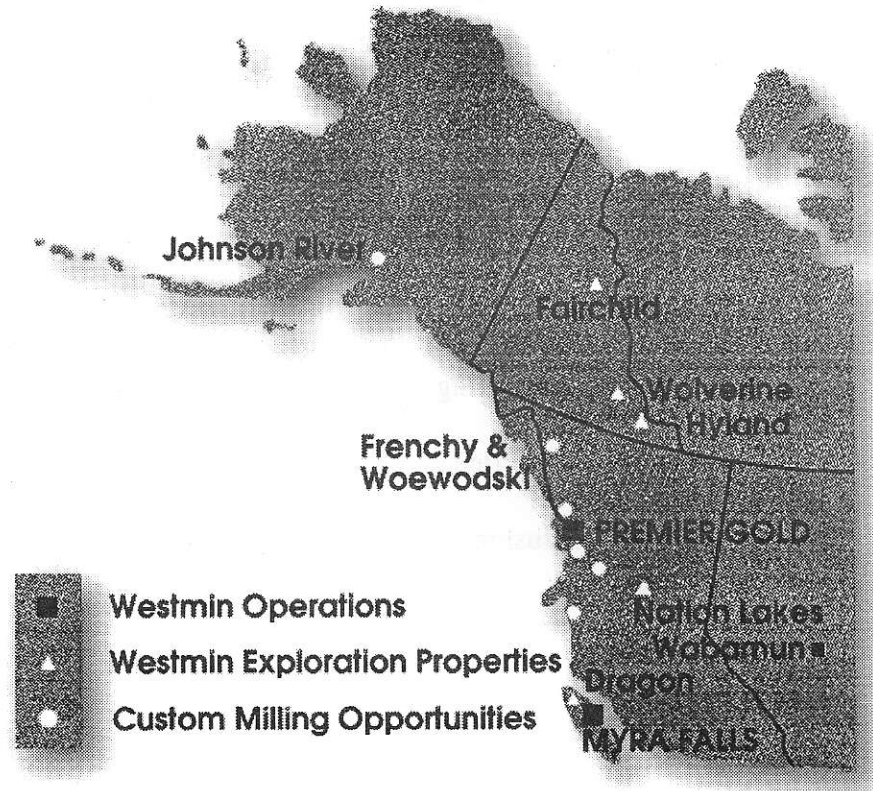


Figure 1. Location of Westmin's Key Exploration Properties

Source: Westmin Resources

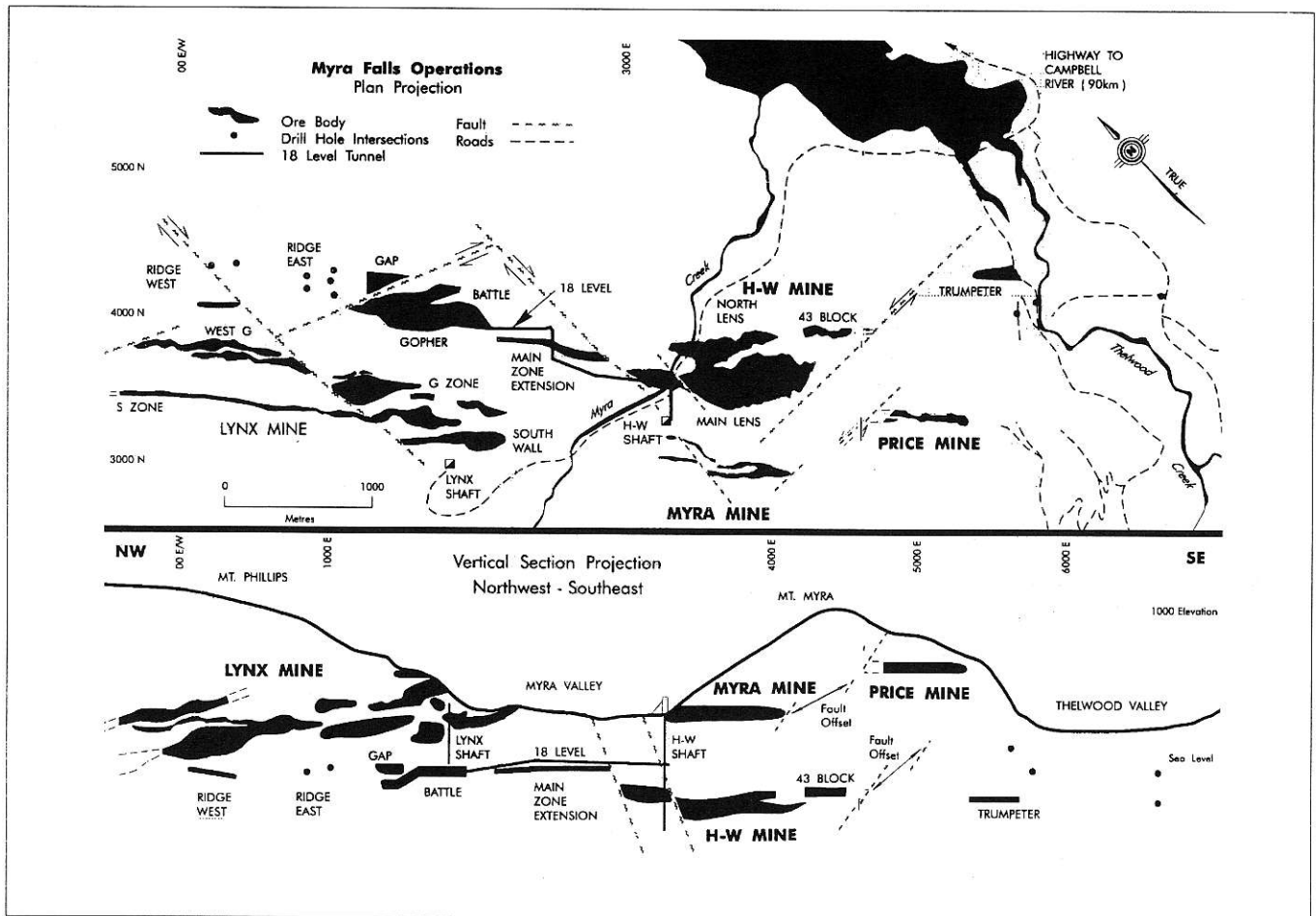


Figure 2. Plan View and Vertical Section of Myra Falls  
Source: Westmin Annual Report, 1994

## The Myra Falls Operation — An Update

### Myra Falls Labour Dispute Resolved

The Myra Falls mine is an underground polymetallic mine producing copper, zinc, silver and gold. The mine is located on Vancouver Island near the town of Campbell River (Figure 1). A labour dispute that began April 24, 1993 was finally resolved in August 1994. The key issues that led to the strike included the high cost of unusual non-performance-based cash compensation items for unionized workers, as well as the general negative state of management-labour relations. A three-year collective agreement that expires August 15, 1997 was awarded through binding arbitration and signed. The main issues that were resolved included the elimination of a costly housing allowance, the removal of a daily attendance bonus for unionized workers, lowering of entry-level wage rates, maintaining the ability to manage an underground production bonus program, and having the ability to maintain open shop contracting out language.

In the past, management directed the mining operations with little input from the workers and miners. The flow of information between the various business units was restricted, resulting in low worker productivity. A key element of the labour negotiations was to empower the workers and use their ideas to improve the operational efficiency at the mine. Some of the new strategies adopted have included organizing a new operating team (including a new mine manager), engineering a new mining plan that emphasizes high output methods, and upgrading and modernizing mining equipment. **The net result of all of these changes is that mining operating costs have decreased from an average of \$65/tonne to \$45/tonne this year.** In addition, an ongoing long-term exploration effort has been implemented to expand and discover new reserves at Myra Falls. The outlook for the Myra Falls operation is the brightest it has been in several years.

### Ore Reserves and Production Forecasts

The total mineable reserve base at Myra Falls is 9.7 million tonnes grading 1.7% copper, 6.6% zinc, 1.6 g/t gold, and 35.6 g/t silver from six different zones, sufficient for at least nine years of mine life (see Table 1).

**Table 1**  
**Myra Falls — Mineable Reserves**

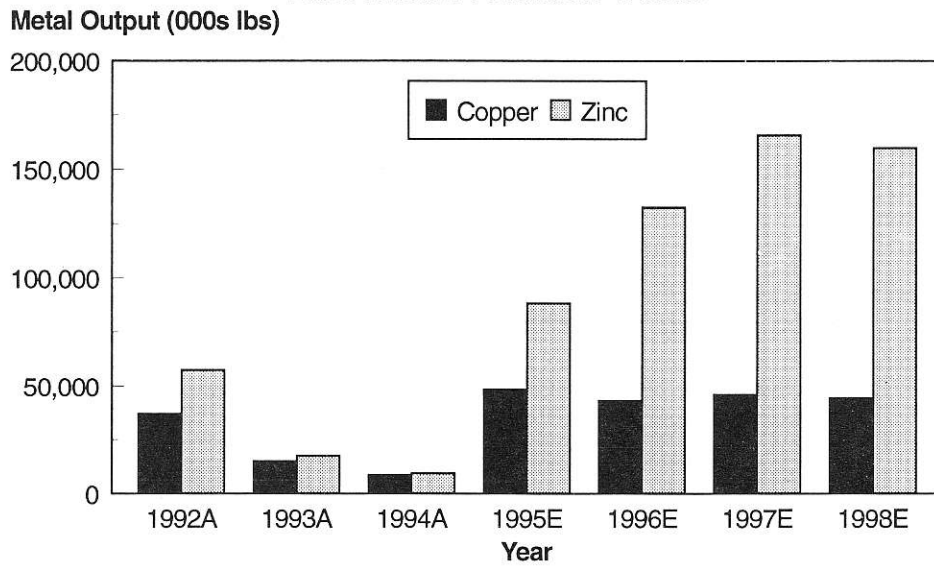
Zone/Deposit	Proven & Probable (Tonnes)	Grades Gold (g/t)	Silver (g/t)	Copper (%)	Zinc (%)
H-W	5,615,240	1.9	33.3	1.5	3.9
Gap	713,475	2.5	121.2	1.5	10.6
Battle	2,546,442	1	20.3	2	10.6
Gopher	371,780	1	13.7	1.8	10.5
Gnu	334,580	0.5	27.5	1.3	9
Extension (W37)	136,300	1.05	1.2	1.4	3.2
<b>TOTAL</b>	<b>9,717,817</b>	<b>1.6</b>	<b>35.6</b>	<b>1.7</b>	<b>6.6</b>

Source: Westmin Resources Annual Report 1994

Notes: Mineable Reserves as of January 1, 1995. Mine waste dilution is included Mineable Reserve and Categories. Total geological resource is 14.7 million tonnes at marginally higher grades than those stated above.

### Westmin Resources Limited

#### Base Metal Production Trends



### Westmin Resources Limited

#### Precious Metal Production Trends

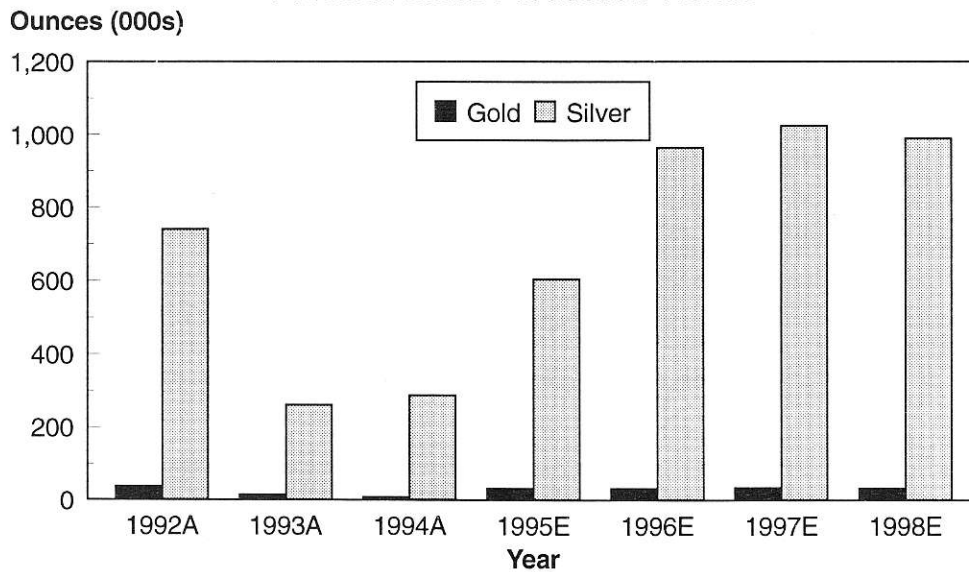


Figure 3. Metal Production Trends for Westmin Resources

Source: Westmin Resources Annual Reports 1992-1994; Nesbitt Burns Estimates

In 1992, prior to the strike, Myra Falls was processing 1.6 million tonnes of mill feed containing 37.0 million pounds of copper, 57.4 million pounds of zinc, 613,000 ounces of silver, and 34,000 ounces of gold. Production declined drastically during the strike in 1993 and 1994, with mill production reaching a low of 425,000 tonnes. With the resumption of operations, we project that the milling rate will increase to 3,450 tonnes per day (1.25 million tons) this year, and reach 3,850 tonnes per day (1.40 million tons) by 1997. Mining will focus on extracting ore from the HW and Battle-Gap zones. Our metal production projections for Myra Falls are illustrated in Figure 3, and summarized in Appendix 1. This year, the mine should produce 48 million pounds of copper, 88 million pounds of zinc, 604,000 ounces of silver, and 32,600 ounces of gold. In 1996, copper production should total 43 million pounds, with zinc production rising to 129 million pounds. The significant increase in zinc output reflects the higher zinc head grades being extracted from the Battle-Gap zones.

The metal production increases, combined with declining operating costs, are having a very positive impact on Westmin's bottom line earnings and cash flow. We expect that the company will report its first positive earnings since 1990 this year.

### Minesite Exploration Potential

The exploration upside proximal to the Myra Falls minesite remains excellent as 40% of the ground remains unexplored. Myra Falls is a classic volcanogenic massive sulphide (VMS) environment. A key feature of VMS deposits is that they tend to occur in clusters reflecting the nature of the geological processes that led to their formation. Synvolcanic fault structures act as conduits that focus metal-bearing hydrothermal fluids up through the host rocks, eventually forming massive sulphides deposits on the seafloor. It is the combination of structural control (faulting), and stratigraphic control (the sea floor) which leads to VMS deposits forming in clusters. The prolific Rouyn-Noranda camp in northwestern Quebec, and the newly emerging Val D'Or camp where Aur Resources (AUR-TSE) is working, are good examples of VMS base metal camps.

Through an ongoing systematic exploration effort, Westmin has been very successful discovering new reserves at Myra Falls. For example, in 1991, the Battle-Gap zones were discovered. More recently, the Trumpeter and Marshall zones have been found. Drilling results from the Marshall zone are shown in Table 2.

**Table 2**  
**Drilling Results from the Marshall Zone — Myra Falls Property**

Drill Hole	Intercept	Zinc (%)	Copper (%)	Gold (g/t)	Silver (g/t)
15-502	4.0	8.8	0.4	0.7	42.0
	11.3	17.0	1.1	1.4	51.0
15-503	6.4	13.2	0.5	1.4	51.0
	8.1	3.4	0.3	2.1	65.0

These are extremely good results and confirm the excellent exploration potential that exists on the property. We believe that the nine-year mine reserve at Myra Falls is a minimum, and that there is a lot of scope for future discoveries.

### **Summing Up**

In summary, Westmin has turned around its operations at Myra Falls and this should serve as the foundation for Westmin's longer-term future growth. There remains very substantial exploration upside at the Myra Falls property as 40% of the ground remains to be tested. Areas of focus include the Trumpeter zone, as well as ongoing exploration at the Battle zone. The nine-year mine life at Myra Falls is likely a minimum, and we expect that the mineable reserve base will continue to increase over time.

### **Premier Gold Mine**

At the Premier gold mining operation, located near Stewart, British Columbia, a custom milling contract was entered into to process ore from Cominco's nearby Snip Mine until March 1997. The mill on the Premier property has a daily capacity of 2,000 tonnes per day. Westmin has implemented an exploration effort in the vicinity of the Premier Mine to try and identify a new source of reserves for the mill. Ore reserves from the Northern Light Underground Zone, which has been the source of mill feed on the Premier property since 1992, were depleted in 1994. Key areas of exploration focus which hold the most promise for identifying new reserves include the Kansas/West Kansas Zones that occur immediately south of the previously mined out Facecut 35 zone. In addition, exploration work is testing for extensions to the mined out workings at the Premier gold mine.

If no new reserves can be identified by Westmin for the Premier Mill, then the company will have to continue to focus on securing other custom milling contracts. Potential candidates include: renewing a longer-term contract for the Snip concentrates, and investigating the possibility of custom milling ore from a number of other potential mineral deposits in the region including Dome Mountain, or Red Mountain. It is conceivable that the Premier mill could be moved to the new Wolverine Discovery in the Yukon should this turn out to be an economic deposit.

### **Coal Assets**

Westmin owns coal rights on approximately 222,800 hectares of freehold and leasehold lands with reserves of high quality, low sulphur coal. The mineral rights are held in north-central Alberta, mainly in the Wabamun Lake area, 60 km west of Edmonton.



In the Highvale area, Westmin has 126 million tonnes of coal leased to TransAlta Utilities Corporation's Whitewood coal mine and Wabamum power plant. The Magnolia coal field lands contain an estimated 106 million tonnes of mineable coal. In addition, there is a total of 240 million tonnes of coal reserves available for surface mining. Westmin is currently receiving an annual royalty stream of \$5 million from its coal assets. Westmin's coal assets are not a core holding. We would view a move to sell its coal reserves and use the proceeds to pay down its debt load as a positive step.

## Outside Exploration Programs

### Background

Westmin spends approximately \$3.0 million annually on mineral exploration and is searching for base metal and gold targets throughout British Columbia, the Yukon, and Alaska. As the company's financial position strengthens, it is likely that more money will be invested in mineral exploration. Westmin is focussing on targets in Western North America. Exploration projects in eastern Canada, including the Detour Lake area of northeastern Ontario and the Clearwater property in northern Quebec, have been farmed out. Westmin's exploration group has particular expertise in polymetallic massive sulphide exploration and is prioritizing these targets as part of its overall exploration strategy. Figure 1 on Page 2 illustrates the location of current exploration activities.

### New Base Metal Discovery at Wolverine Lake, Yukon

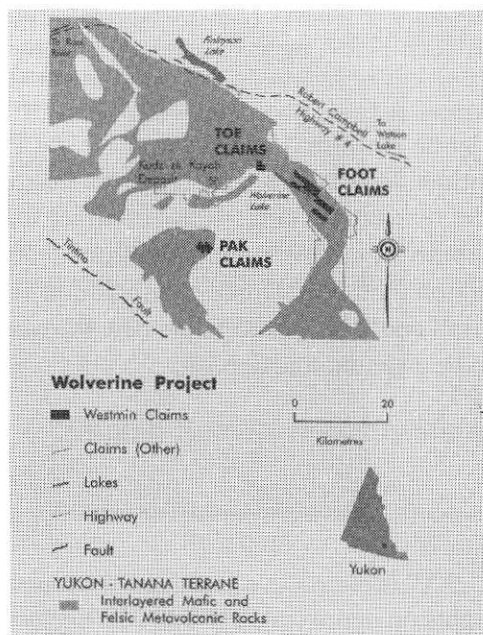


Figure 4. Location of the Wolverine Discovery  
Source: Westmin Resources, Annual Report 1994

A significant new polymetallic base metal discovery has been made on the Wolverine Lake property in the Yukon. The property is a joint venture with Vancouver-based Atna Resources (ATN-VSE). Under the terms of the agreement, Westmin can earn a 60% interest in three properties, termed the Pak, the Foot and the Toe, by spending \$3 million in exploration. Thereafter, expenditures are split proportionally.

The geology underlying these properties is very favourable to hosting volcanogenic massive sulphide (VMS) deposits similar to the Kidd Creek, Horne, Louvicourt and Myra Falls Mines. In fact, Cominco's new ABM base metal discovery that hosts 13 mil-

lion tonnes grading 1.0% copper, 5.5% zinc, 1.3% lead, 125 g/t silver, and 1.2 g/t gold is located approximately 25 kilometres north of the Wolverine discovery in a similar geological setting. Although still relatively early in the exploration process, the mineralization hosted at the Wolverine discovery is very near surface, and has exceptionally high zinc, gold, and silver grades. The assay results from the first eight drill holes at the Wolverine discovery are listed in Table 3. Figure 5 illustrates a plan view and west-facing section for the Wolverine property.

**Table 3**  
**Wolverine Massive Sulphide Deposit**  
**Summary of Drill Results**

Drill Hole	Interval (m)	Copper (%)	Lead (%)	Zinc (%)	Gold (g/t)	Silver (g/t)
WV 95-1	3.9	0.3	0.5	10.2	0.3	59.6
WV 95-4	8.3	0.6	3.5	14.2	7.6	1,348.9
WV 95-5	6.8	1.5	1.4	19.2	2.5	435.1
WV 95-8	2.2	0.8	1.6	11.2	2.0	485.8
WV 95-9	5.4	2.7	0.3	12.4	0.8	183.6
WV 95-10	7.4	0.4	2.3	15.4	2.6	253.3
WV 95-11	9.3	1.4	1.7	14.5	1.1	248.8
WV 95-12	11.9	0.9	0.8	9.0	2.3	316.2
<b>Average</b>	<b>6.9</b>	<b>1.1</b>	<b>1.5</b>	<b>13.3</b>	<b>2.4</b>	<b>416.4</b>

Based on the drilling completed to date, we estimate that the Wolverine discovery has 150 metres of strike length, 450 metres of down dip extent and an average width of 6.5 metres. This implies a tonnage of 1.7 million tonnes so far. The deposit remains open at depth and along strike. We are confident that this tonnage will increase with further drilling.

The histograms in Figure 6 illustrate that the quality of the metal grades reported to date are among the highest for this deposit type. Although at this stage the deposit is relatively small, indications are the deposit size will grow.

The purpose of the current drilling program, which will last until the end of November, is to increase the tonnage of the known mineral deposit both along strike and down dip of the known intersections. There are currently two drill rigs working on this delineation drilling program. In addition, a third drill has been mobilized to the property to test a number of other targets on the property. Thus far, a new separate zone of mineralization termed the Fisher Zone has intersected anomalous copper-zinc-lead-gold-silver mineralization in the form of semi-massive and stringer sulphides. This suggests that the medium to long-term exploration potential on this property is very significant. The key to the project is to continue to build up the tonnage of the known mineral deposits through a systematic, integrated exploration effort. An airborne geophysical survey (magnetics and electromagnetics) will be conducted during the winter to define priority targets for ground follow-up in the spring.

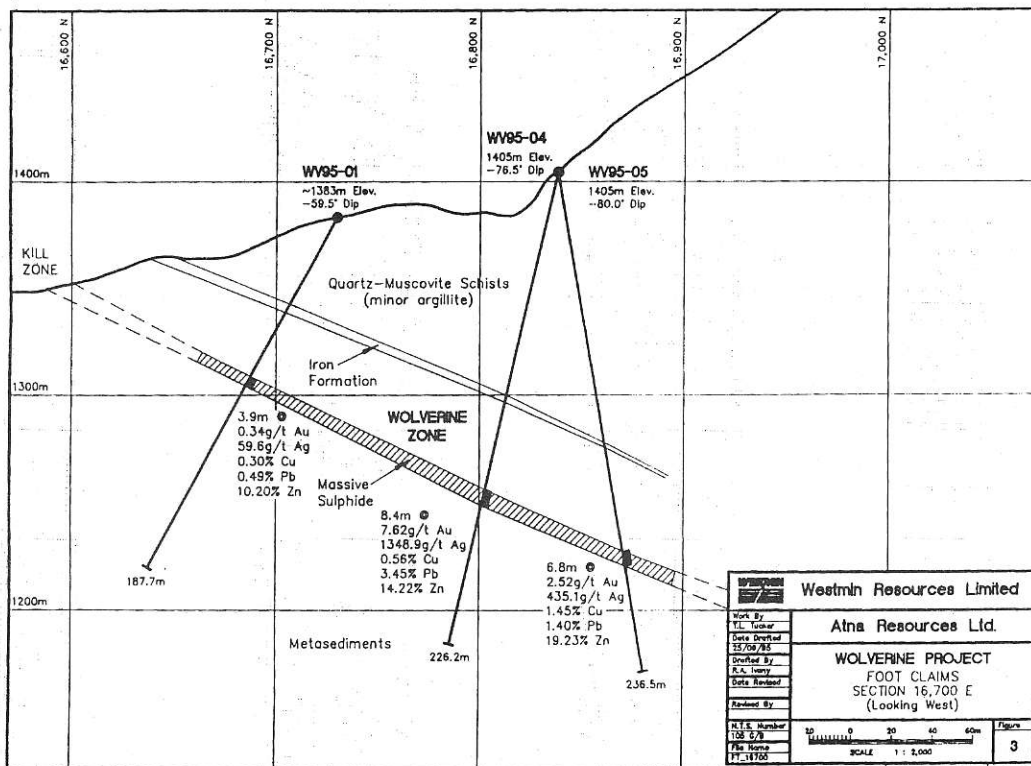
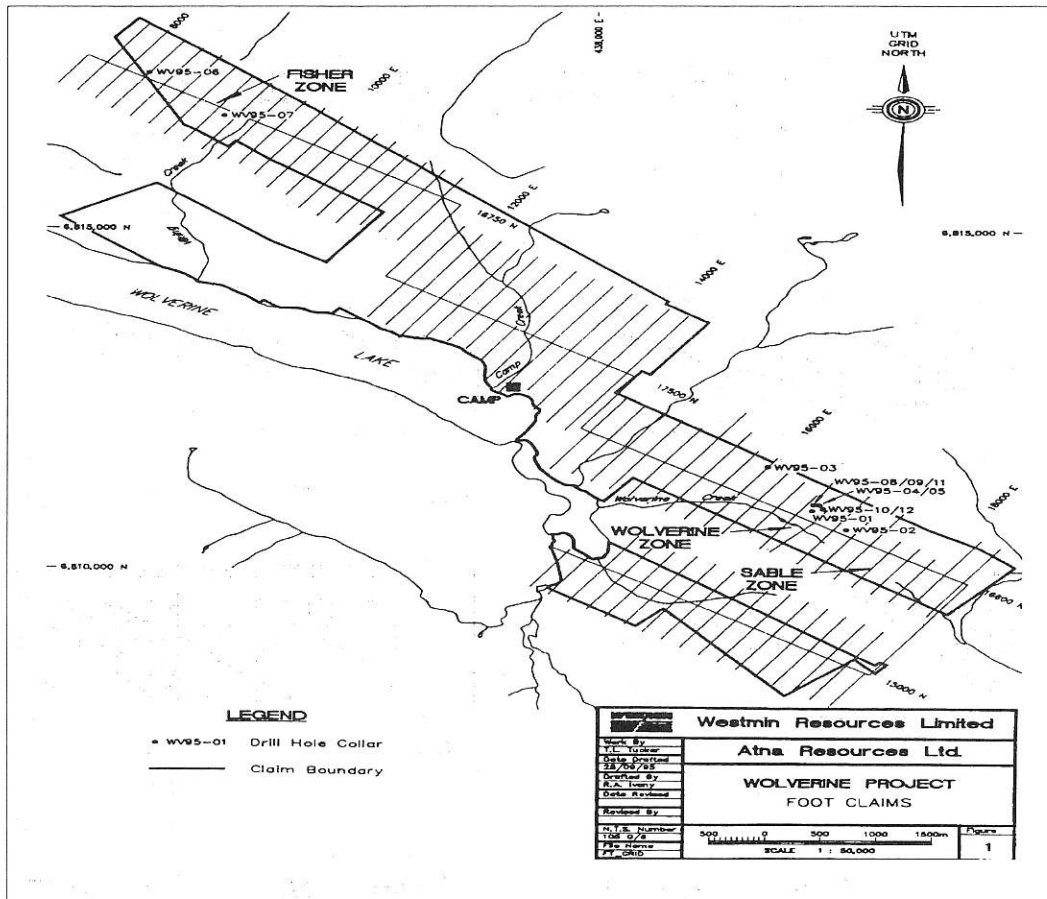


Figure 5. Plan View and West-Facing Section of the Wolverine Zone  
Source: Westmin Resources

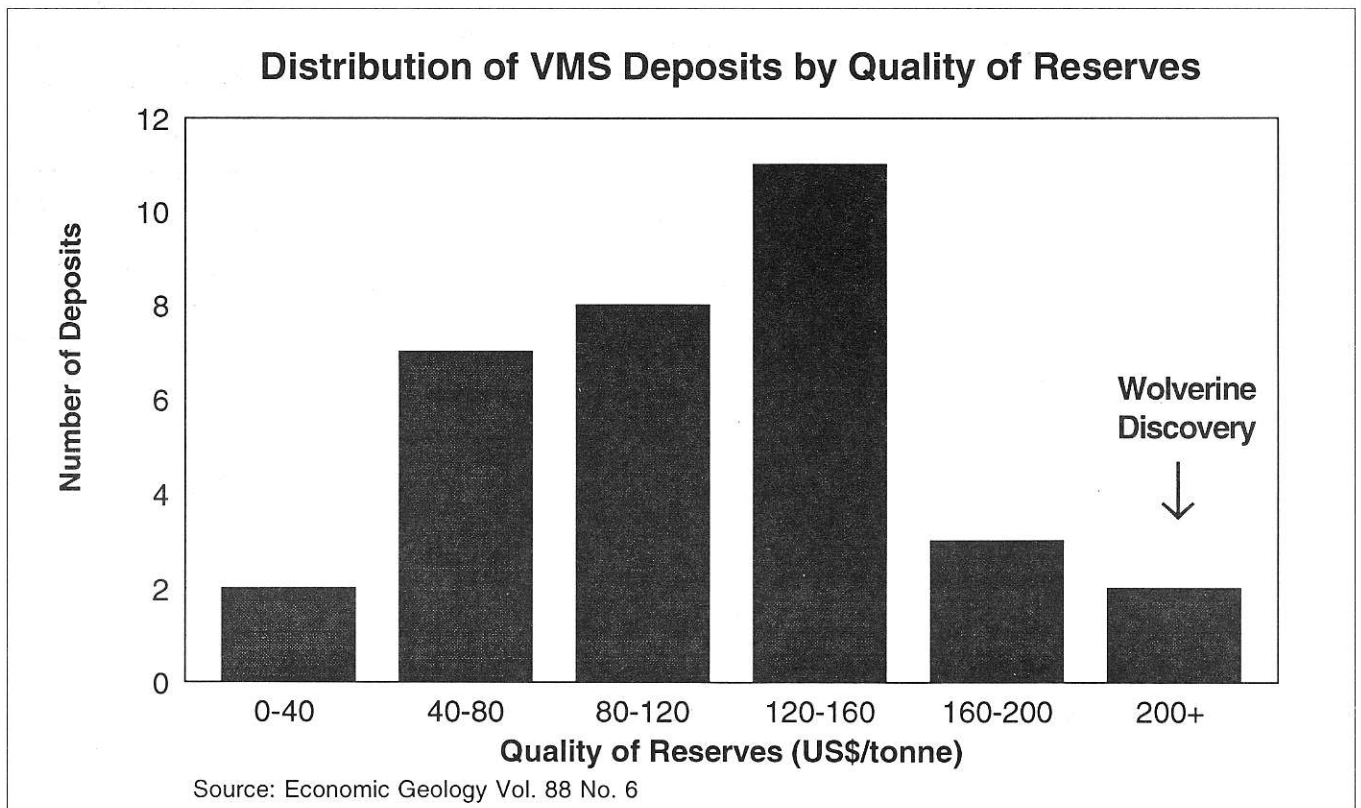
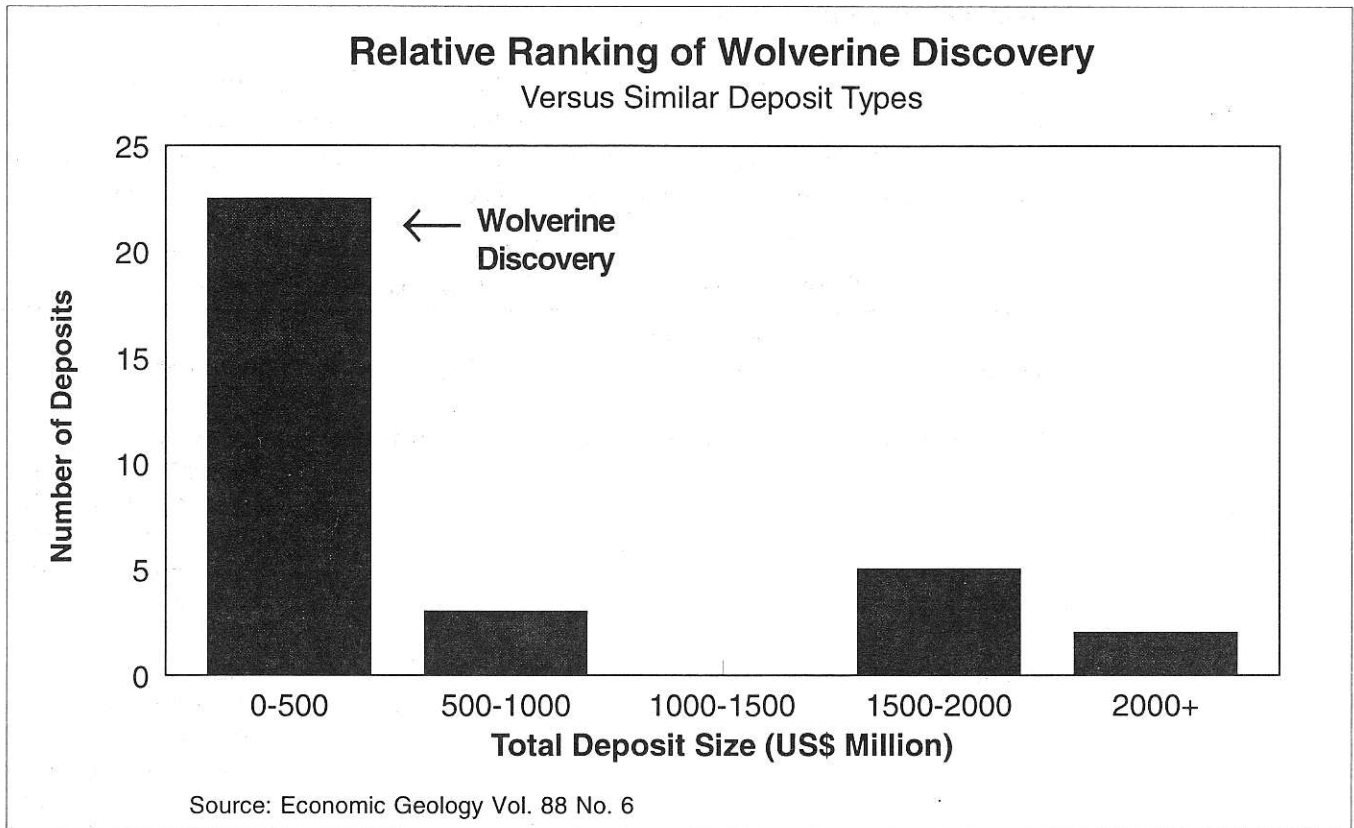


Figure 6. Relative Ranking of the Wolverine Discovery Compared to Other Similar Deposit Types

## Other Exploration Programs

Westmin has exposure to a number of other base metal and gold programs in Alaska, the Yukon and British Columbia (Figure 1). Some of the more interesting exploration projects include the Johnson River property in Alaska, the Hyland project in the Yukon, and the Dragon Project in British Columbia. The table below provides highlights.

**Table 4**  
**Summary of Westmin's Key Exploration Projects**

<b>Project Name</b>	<b>Exploration Target</b>	<b>Location</b>	<b>Comment</b>
Johnson River	Gold, Base Metals	Alaska	Volcanogenic massive sulphide target. Geological resource is one million tonnes grading 10.35 g/t Au, 7.8 g/t Ag, 0.76% Cu, 1.17% Pb, 8.37% Zn.
Hyland Project	Gold, Base Metals	Yukon	Piglet claims host 6.75 million tonnes grading 2.0 g/t Au. The McMillian deposit hosts 1.1 million tonnes grading 8.3% zinc, 4.1% lead, 62.2 g/t silver.
Dragon Project	Base Metals	B.C.	Base metal showings in Sicker Group volcanics 60 km northwest of Myra Falls. The Falls showings have returned the following results: 3.9% Zn, 0.78% Pb, 2.3 g/t Au. The north showing has returned 11.2% Zn, 0.18% Pb, 4.3 g/t Au

## Revenues and Earnings

### Growing Cash Flows and Earnings

We are projecting a significant turnaround in Westmin's operating cash flows and earnings performance this year, reflecting the resolution of the labour dispute at Myra Falls. Increased metal production combined with lower mining costs will result in Westmin reporting positive financial results for the first time since 1990. Our revenue and earnings projections are highlighted in Table 5 and further detailed in Appendix 1.

**Table 5**  
**Historical and Forecast Revenues and Earnings**  
((\$000s) except per share data)

	1994A	1995E	1996E	1997E	1998E
Mining Revenues	32,718	105,049	114,041	125,544	124,070
Per share	\$0.75	\$2.23	\$2.42	\$2.66	\$2.63
Mining Costs	41,609	56,356	56,502	55,902	53,900
Per share	\$0.88	\$1.20	\$1.20	\$1.19	\$1.14
After-tax earnings (loss)	-24,786	17,779	28,667	30,484	32,730
Per share	(\$0.57)	\$0.38	\$0.61	\$0.65	\$0.69
Earnings (loss) to common	-33,396	12,241	23,465	25,618	28,199
Per share	(\$0.77)	\$0.26	\$0.50	\$0.54	\$0.60
Operating Cash Flow	(\$24,786)	\$36,564	\$48,377	\$51,447	\$52,942
Per share	(\$0.57)	\$0.78	\$1.03	\$1.09	\$1.12
Wtd. Avg Shares O/S (000s)	43,536	47,110	47,110	47,110	47,110

### Sensitivity Analysis

Westmin's earnings are very sensitive to changes in metal prices, as summarized in Table 6. Earnings are particularly sensitive to zinc prices.

**Table 6**  
**Sensitivity Analysis**

Commodity	% Change	Earnings Impact
Copper	10%	\$0.09
Zinc	10%	\$0.14
Silver	10%	\$0.01
Gold	10%	\$0.03

## Balance Sheet Restructuring

With the turnaround that has been orchestrated at Myra Falls, Westmin is now in a position to restructure and strengthen its balance sheet. At the end of the second quarter of 1995, Westmin reported \$119.1 million in long-term debt outstanding. This debt consists of three components, a coal loan totalling \$44.3 million, \$69.4 million in other long-term debt owed to Westmin's principal shareholder Brascade, and other debt of \$5.5 million. Westmin has prioritized paying down its debt levels from the free cash flow being generated by Myra Falls. We estimate that annual debt repayment will be in the order of \$13 million per year (see Appendix). Current interest obligations are approximately \$9.1 million per year, although this should decrease to \$7.2 million by 1997 as the debt load is reduced.

In addition to paying down its long term debt, Westmin has implemented a preferred share repurchase program, whereby the company is repurchasing a maximum of 158,000 of its Class B preferred shares per year at a price not to exceed the \$25 issue price. There are currently 2.9 million Class B preferred shares outstanding. Dividend payment obligations on the preferred shares are \$5.5 million per year. The combination of paying down its long-term debt and retiring its Class B preferred shares will result in a much stronger balance sheet for Westmin over the medium to long term.

## Valuation and Target Price

Westmin's net asset value, shown in Table 7, is estimated to be \$5.83 per share. The major component of Westmin's asset value is Myra Falls, followed by the market value of the Wolverine project, and the coal assets. What this asset value analysis highlights is the high level of debt Westmin is carrying. We view Westmin's net asset value as its intrinsic value, and the "base price" to which the stock should trade. This net asset value appraisal is likely conservative, as we have assumed no reserve increases at Myra Falls.

The comparative analysis shown in Table 9 suggests that Westmin's share price should trade between \$6 1/2 and \$7 5/8 based on 1996 earnings and cash flow estimates. However, given the positive exploration results emerging from the Wolverine project in the Yukon, in combination with the exploration upside at Westmin's other projects — then a 12-18 month target price of \$9 1/2 is appropriate. Our comparative analysis (Price-Earnings and Price-Cash Flow) is summarized in Table 8.

**Table 7**  
**Net Asset Value**

	<b>Total</b>		
	<b>(C\$000's)</b>	<b>Per share</b>	<b>Comment</b>
Myra Falls	\$301,657	\$6.40	Nine-year mine life, DCF 10%
Coal (Highvale)	\$56,289	\$1.19	Royalty stream - 30 yrs, DCF 8%
Undeveloped coal properties	\$20,000	\$0.42	Estimated transaction value
Premier Mill	\$12,000	\$0.25	Salvage value
Exploration properties	\$10,000	\$0.21	Estimate
Wolverine Lake	\$66,563	\$1.41	Market value
Working Capital	\$5,197	\$0.11	
<b>Sub Total</b>		<b>\$9.73</b>	
Debt	(\$119,100)	(\$2.53)	
Other liabilities	(\$4,928)	(\$0.10)	
Preferred shares	(\$73,048)	(\$1.55)	
<b>Sub Total</b>		<b>\$4.18</b>	
<b>Net Asset Value</b>	<b>\$274,629</b>	<b>\$5.83</b>	

**Table 8**  
**Comparative Analysis**

**Price - Earnings Analysis**

<b>Company</b>	<b>Market Price</b>	<b>EPS</b>	<b>1996</b>
	<b>11-Oct-95</b>	<b>1996E</b>	<b>P/E Ratio</b>
Brunswick M & S	\$13.38	\$1.04	12.9
Cominco	\$25.63	\$1.80	14.2
Inmet Mining	\$10.00	\$0.89	11.2
Westmin Resources	\$7.00	\$0.50	14.1
Aur Resources	\$5.25	\$0.43	12.2
<b>Average Multiple</b>			<b>12.9</b>
<b>Target Price for Westmin</b>			<b>\$6.43</b>

**Price - Cash Flow Analysis**

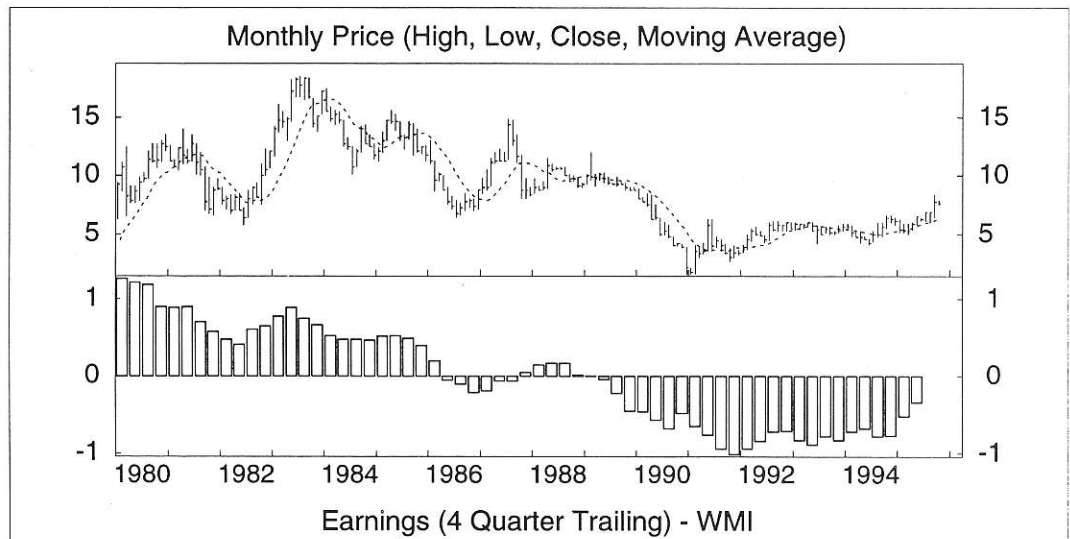
<b>Company</b>	<b>Market Price</b>	<b>CFPS</b>	<b>1996</b>
	<b>11-Oct-95</b>	<b>1996</b>	<b>P/CF Ratio</b>
Brunswick M & S	\$13.38	\$2.07	6.5
Cominco	\$25.63	\$3.92	6.5
Inmet Mining	\$10.00	\$1.65	6.1
Westmin	\$7.00	\$1.03	6.8
Aur Resources	\$5.25	\$0.48	10.9
<b>Average Multiple</b>			<b>7.4</b>
<b>Target Price for Westmin</b>			<b>\$7.56</b>





## Summary and Conclusion

Westmin is a turnaround situation. The labour problems at the Myra Falls operation have been resolved and a new labour contract has been ratified. We are projecting a significant increase in the metal output from Myra Falls together with decreasing mine operating costs. The net result will be significantly enhanced operating earnings and cash flow. In fact, 1995 will be Westmin's first profitable year since 1990. Investors should be aware of Westmin's weak balance sheet — a situation that tempers the company's profitability. Nevertheless, the improved operating performance at Myra Falls gives the company the flexibility to continue to restructure and strengthen its balance sheet through paying down long-term debt, as well as retiring its preferred shares. Westmin's prospects are the best they have been in several years. The exploration success at Wolverine Lake has added sizzle to the stock, and there is a very good possibility that an economic discovery is in the making. **Westmin is rated a 4 (buy) with a 12-month target price of \$9 1/2.**



**APPENDIX 1**  
**Consolidated Statement Of Income and Retained Earnings**

	1994A	1995E	1996E	1997E	1998E
<b>Major Assumptions</b>					
Copper	\$1.05	\$1.33	\$1.20	\$1.20	\$1.10
Zinc	\$0.45	\$0.45	\$0.50	\$0.50	\$0.55
Silver	\$5.29	\$5.19	\$5.25	\$5.25	\$5.25
Gold	\$384.00	\$384.00	\$385.00	\$375.00	\$375.00
Exchange rate (C\$/US\$)	1.37	1.38	1.38	1.33	1.33
<b>Production Summary</b>					
Copper (pounds)	7,871,893	48,316,289	43,090,560	45,830,451	44,189,140
Zinc (pounds)	11,012,110	88,128,911	128,967,513	165,636,642	159,704,751
Silver (ounces)	224,565	603,950	963,194	1,024,439	987,751
Gold (ounces)	9,058	32,613	32,318	34,373	33,142
<b>Revenues</b>					
Mining revenue	32,718	105,049	114,041	125,544	124,070
Coal Royalty		5,000	5,000	5,000	5,000
Investment and other income	1,521	1,500	1,500	1,500	1,500
	34,239	111,549	120,541	132,044	130,570
<b>Expenses</b>					
Operating costs	41,609	56,356	56,502	55,902	53,900
Depletion and depreciation	4,666	18,785	19,710	20,963	20,213
Interest & financing expenses	7,393	9,143	8,176	7,209	6,241
Mineral exploration costs	2,465	3,000	3,500	3,500	3,500
Administration	2,076	2,250	2,250	2,250	2,250
	58,209	89,534	90,138	89,824	86,104
Non-adjusted earnings (loss) before income taxes	-23,970	22,015	30,403	42,220	44,466
Less one-time gain for coal arbitration award	0	2,500	0	0	0
Provision for deferred income taxes	816	1,736	1,736	11,736	11,736
<b>Earnings (loss) (basic)</b>	<b>-24,786</b>	<b>17,779</b>	<b>28,667</b>	<b>30,484</b>	<b>32,730</b>
Less preferred share dividend	8,610	5,538	5,202	4,866	4,530
<b>Earnings to common</b>	<b>-33,396</b>	<b>12,241</b>	<b>23,465</b>	<b>25,618</b>	<b>28,199</b>
Earnings (loss) per share (wtd. avg)	(\$0.77)	\$0.26	\$0.50	\$0.54	\$0.60
Earnings (loss) per share (basic)	(\$0.71)	\$0.26	\$0.50	\$0.54	\$0.60
Net earnings (loss) fully diluted	(\$0.65)	\$0.24	\$0.46	\$0.50	\$0.56
Operating cash flow	(\$24,786)	\$36,564	\$48,377	\$51,447	\$52,942
<b>Operating cash flow per share (wtd. avg)</b>	<b>(\$0.57)</b>	<b>\$0.78</b>	<b>\$1.03</b>	<b>\$1.09</b>	<b>\$1.12</b>
Operating cash flow per share (basic)	(\$0.53)	\$0.78	\$1.03	\$1.09	\$1.12
Operating cash flow per share (fully diluted)	(\$0.48)	\$0.72	\$0.95	\$1.01	\$1.05
<b>Statement of Retained Earnings (Deficit)</b>					
Balance at beginning of year	-134,678	-176,773	2,819	14,043	16,196
Net earnings (loss)	-24,786	17,779	28,667	30,484	32,730
Increase (Reduction) of share capital	-159,464	17,779	28,667	30,484	32,730
Dividends	-17,309	-14,960	-14,624	-14,288	-13,952
Retained earnings end of year	-176,773	2,819	14,043	16,196	18,777
<b>Total shares outstanding</b>					
Weighted average shares outstanding	43,536	47,110	47,110	47,110	47,110
Common	47,110	47,110	47,110	47,110	47,110
Class B Preferred Shares	2,922	2,606	2,448	2,290	2,132
Options	1,354	1,354	1,354	1,354	1,354
<b>Fully diluted shares outstanding</b>	<b>51,386</b>	<b>51,070</b>	<b>50,912</b>	<b>50,754</b>	<b>50,596</b>

## Balance Sheet (\$000s)

	1994A	1995E	1996E	1997E	1998E
<b>ASSETS</b>					
<b>Current Assets</b>					
Marketable Securities	0	858	858	858	858
Cash & short-term investments	0	6,407	19,828	36,655	55,313
Inventories	15,998	9,000	9,000	9,000	9,000
Accounts receivable	17,623	10,000	10,000	10,000	10,000
	33,621	26,265	39,686	56,513	75,171
Investments	6,857	9,938	13,888	17,838	21,788
Capital Assets	154,613	139,328	123,118	105,655	88,942
Other	7,006	7,000	7,000	7,000	7,000
<b>Total Non-Current Assets</b>	168,476	156,266	144,006	130,493	117,730
<b>Total Assets</b>	202,097	182,530	183,692	187,006	192,901
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable & accrued	16,988	7,500	7,500	7,500	7,500
Current portion of long-term debt	11,344	11,000	11,000	11,000	11,000
<b>Total Current Liabilities</b>	28,332	18,500	18,500	18,500	18,500
Long-term debt, net	119,571	106,875	93,835	80,795	67,755
Other liabilities	4,016	4,000	4,000	4,000	4,000
<b>Total Noncurrent Liabilities</b>	151,919	110,875	97,835	84,795	71,755
<b>SHAREHOLDERS' EQUITY</b>					
Shareholders equity	193,688	50,178	53,155	67,357	83,711
Contributed surplus	33,263	158	158	158	158
Retained earnings (deficit)	-176,773	2,819	14,043	16,196	18,777
<b>Total shareholders' equity</b>	50,178	53,155	67,357	83,711	102,646
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	202,097	182,530	183,692	187,006	192,901
<b>Working Capital (\$000s)</b>	5,289	7,765	21,186	38,013	56,671
Current Ratio	1.2	1.4	2.1	3.1	4.1
Trend (1994 = 0)	1.0	1.2	1.8	2.6	3.4
Acid Ratio	0.6	0.9	1.7	2.6	3.6
Trend (1994 = 0)	1.0	1.5	2.7	4.1	5.8
Return on Common Equity	-66.6%	23.0%	34.8%	30.6%	27.5%
Trend (1995 = 0)	N/AP	1.0	1.5	1.3	1.2
Percent total debt to debt and equity	72.3%	68.9%	60.9%	52.3%	43.4%
Trend (1994 = 0)	1.0	1.0	0.8	0.7	0.6
Book Value per Common Share	\$1.15	\$1.13	\$1.43	\$1.78	\$2.18
Trend (1994 = 0)	1.0	1.0	1.2	1.5	1.9


**NESBITT BURNS**

Member of the Bank of Montreal Group of Companies

## Consolidated Statement Of Changes In Financial Position

	1994A	1995E	1996E	1997E	1998E
<b>Operating Activities</b>					
Net earnings (loss)	-24,786	17,779	28,667	30,484	32,730
<b>Non-Cash Items</b>					
Mineral exploration expenditures	2,465	3,000	3,500	3,500	3,500
Depletion and depreciation	4,666	18,785	19,710	20,963	20,213
Other liabilities	1,282	0	0	0	0
Other	(335)	0	0	0	0
<b>Cash provided from (used in) operations</b>	<b>-16,708</b>	<b>39,564</b>	<b>51,877</b>	<b>54,947</b>	<b>56,442</b>
<b>Change in Non-Cash W/C</b>					
A/R changes	-13,543	7,623	0	0	0
Inv. changes	-6,464	6,998	0	0	0
A/P changes	9,521	-9,488	0	0	0
<b>Changes in non-cash W/C</b>	<b>-10,486</b>	<b>5,133</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash Flow from Operations</b>	<b>-27,194</b>	<b>44,697</b>	<b>51,877</b>	<b>54,947</b>	<b>56,442</b>
<b>Cash provided by Financing Activities</b>					
Long-term debt issued	49,170	0	0	0	0
Repayment of long-term debt	-1,101	-13,040	-13,040	-13,040	-13,040
Repurchase of Series 1 Class B Prefs.	-3,309	-3,792	-3,792	-3,792	-3,792
Common share capital	3,647	0	0	0	0
Dividends	-17,309	-14,960	-14,624	-14,288	-13,952
Other	817	0	0	0	0
<b>Funds from financial activities</b>	<b>31,915</b>	<b>-31,792</b>	<b>-31,456</b>	<b>-31,120</b>	<b>-30,784</b>
<b>Investing Activities</b>					
Investments	1,517	0	0	0	0
Capital assets	-3,756	-3,500	-3,500	-3,500	-3,500
Other assets	-37	0	0	0	0
Mineral exploration	-2,465	-3,000	-3,500	-3,500	-3,500
	<b>-4,741</b>	<b>-6,500</b>	<b>-7,000</b>	<b>-7,000</b>	<b>-7,000</b>
Increase in cash and short-term investments	-20	6,406	13,421	16,827	18,658
Cash, beginning of year	20	1	6,407	19,828	36,655
<b>Cash, end of year</b>	<b>1</b>	<b>6,407</b>	<b>19,828</b>	<b>36,655</b>	<b>55,313</b>
Year-over-year Growth in Cash Reserves	0%	N/AP	209%	85%	51%

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