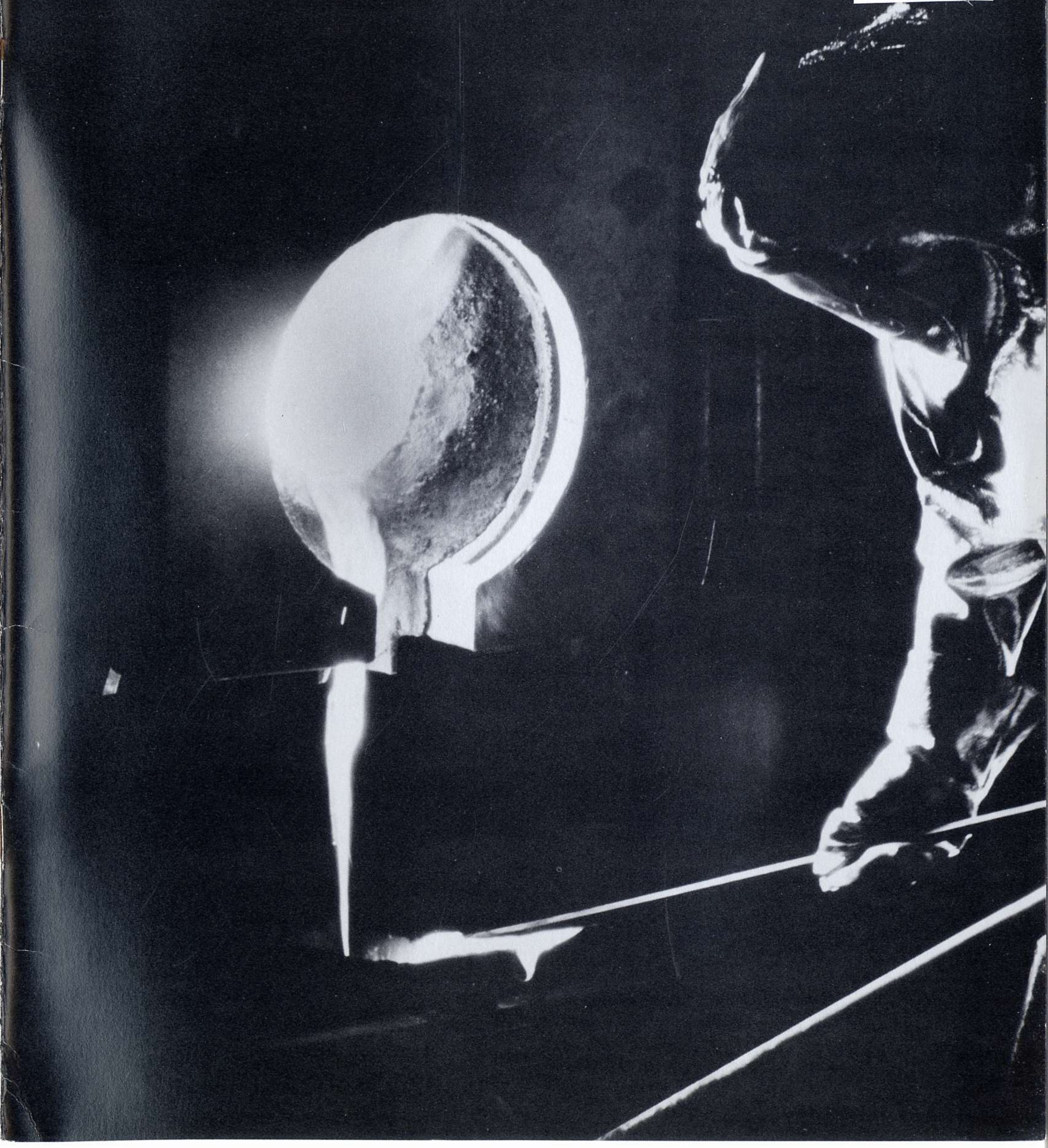
EQUITY SILVER MINES LIMITED
Annual Report 1984



EQUITY SILVER MINES LIMITED

Conversion Table

The Canadian mining industry converted to the International System of Metric Units or "S.I." in 1980. The figures in this report are primarily in metric units. A conversion table is provided below.

To convert from	To	Multiply by
tonnes (t)	short tons	1.10231
kilograms (kg)	pounds	2.205
grams (g)	troy ounces	0.032151

Cover:

Precious metal recovered by the new scavenger circuit is poured into bars of doré. Output from the circuit, which captures the metal from the concentrator tailing, will add to cash flow and enhance the mine's economics. This recovery plant began operations in January 1985.

Directors

WINSLOW W. BENNETT,
Vancouver, British Columbia
Chairman of the Board
of the Company
President
Winwood Holdings Limited
a private investment company

C. ALLEN BORN,
Vancouver, British Columbia
President and Chief Executive
Officer of the Company
Chairman and Chief Executive
Officer and President
Placer Development Limited

*WILLIAM J. CAREY,
Dallas, Texas, U.S.A.
Independent oil and gas producer
Vice-Chairman
CoCa Mines Inc.

*THOMAS E. CONGDON,
Denver, Colorado, U.S.A.
Chairman
CoCa Mines Inc.
President
St. Mary Parish Land Company

JAMES H. EASTMAN,
West Vancouver, British Columbia
Retired

*JAMES L. McPHERSON,
West Vancouver, British Columbia
Senior Vice-President and
Chief Financial Officer
Placer Development Limited

ANTHONY J. PETRINA,
North Vancouver, British Columbia
Vice-President, Operations,
of the Company
Senior Vice-President and
Chief Operating Officer
Placer Development Limited

*Member of the Audit Committee

Officers

Winslow W. Bennett,
Chairman of the Board

C. Allen Born, President and
Chief Executive Officer

Anthony J. Petrina, Vice-President,
Operations

John A. Eckersley, Secretary

Clifford A. Grandison, Treasurer

Gerald A. Hodgson, Comptroller

Sheryl A. Thomson, Assistant
Secretary

Department Heads

D.W. (Dick) Zandee,
Mine Manager

Elmer B. Borneman, Employee
Relations Superintendent

Glenn J.H. Taylor,
Plant Superintendent

Charles R. Edwards,
Leach Plant Superintendent

Douglas J. Fraser, Mine Superintendent

Phillip J. MacIntyre, Mill Superintendent

Robert D. Schmidt, Administration
Superintendent

Offices

Head Office:
1600 - 1055 Dunsmuir Street,
Vancouver, British Columbia
Telephone: (604) 682-7082
Telex: 04-55181

Mailing Address:
P.O. Box 49330,
Bentall Postal Station,
Vancouver, British Columbia V7X 1P1

Mine Office:
P.O. Box 1450
Houston, British Columbia V0J 1Z0

Auditors

Price Waterhouse
Chartered Accountants
Vancouver, British Columbia

Registrar and Transfer Agent

Preferred Shares:
The National Victoria and Grey Trust Company, Vancouver, British Columbia, Toronto, Ontario, Calgary, Alberta and, through its Agent, Canada Permanent Trust Company, in Regina, Saskatchewan

Common Shares:
The National Victoria and Grey Trust Company, Vancouver, British Columbia and Toronto, Ontario

Listings

Toronto Stock Exchange
Vancouver Stock Exchange

Annual General Meeting

The Annual General Meeting of the Company will be held at 11:00 a.m. on Thursday, April 25, 1985 in the Prince of Wales Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The year 1984 was a disappointing one for producers of many commodities, including precious metals. High interest rates, a strengthening United States dollar and reduced inflation led to lower silver and gold prices through the year, with a direct impact on Equity's financial results. A loss of $4,758,000 or $0.19 per common share was incurred on revenues of $70,615,000 for the year ended December 31, 1984. This compares to earnings of $5,179,000 or $0.21 per common share on revenues of $71,849,000 in the previous year.

Silver sales volume increased 17% due to shipments from higher than normal opening inventories, but the benefit was offset by lower metal prices. The Handy & Harman price of silver, which averaged US$0.37 per gram (US$11.44 per ounce) in 1983, fell to an average of US$0.26 per gram (US$8.14 per ounce) in 1984 and has continued to weaken.

The decline in earnings is also attributable to increased cost per gram of silver produced, due in part to lower recoveries, following the transition from Southern Tail ore to metallurgically different ore from the new Main Zone pit.

The lower prices and higher unit costs reduced the cash flow from operations and led the company to undertake a financial restructuring. Long-term bank loans were repaid from the proceeds of a public offering of preferred shares. The long-term loan from Placer Development Limited was eliminated through a silver sale to that company. The resulting reduction in interest expense will be of significant benefit to Equity in 1985 and thereafter.

A secondary recovery circuit has been installed which will add to cash flow and enhance the economics of the mine. This facility, which employs a scavenger circuit, will increase recoveries of gold and silver by treating the concentrator tailing.

Cost benefits are being realized from the April 1984 suspension of leaching operations, which became possible largely because of the lower levels of impurities in Main Zone ore. The resulting cost savings partially offset the increased costs associated with the processing of Main Zone ore.

Part of the leach plant has been modified to allow the conversion of technical grade molybdic oxide to chemical and catalytic grade molybdenum products for a division of Placer. This circuit went into production in the first quarter of 1985 and will generate additional cash flow through toll charges.

Scavenger Circuit

The scavenger circuit began operating in January 1985 and the first doré was poured on February 13, 1985. The cost of construction was $11,400,000.

The plant is intended to recover an average of 713 kilograms (22,900 ounces) of gold and 17,500 kilograms (563,000 ounces) of silver annually. Production from the circuit in any given year may fluctuate, reflecting changes in metal prices and operating costs and their effect on the economics of the recovery process. In 1985, the circuit is expected to produce approximately 435 kilograms (14,000 ounces) of gold and 5,816 kilograms (187,000 ounces) of silver, having an estimated value of $7,000,000 at prices quoted on the date of this report.

With the added output from the scavenger circuit, total annual production of gold through the remaining life of the mine is expected to increase to an average of 1,353 kilograms (43,500 ounces) while silver output will average 136,400 kilograms (4,385,000 ounces). These production levels are substantially higher than could have been achieved without the scavenger circuit, since the mine's flotation process is less efficient on Main Zone ore than ore from the Southern Tail pit.

HIGHLIGHTS

(dollars in thousands, except per share data)

	1984	1983
EARNINGS		
Concentrate sales	$ 70,460	$ 71,615
Earnings (loss) for common shareholders	(4,758)	5,179
PER COMMON SHARE		
Earnings (loss)	$ (0.19)	$ 0.21
Cash provided from operations	0.44	1.29
Price on Toronto Stock Exchange — high	13.75	19.00
— low	6.50	10.38
FINANCIAL POSITION		
Working capital (deficiency)	$ (13,940)	$ (13,942)
Property, plant and equipment — net	129,472	130,748
Long-term debt	—	82,125
Deferred revenue	62,256	—
PRODUCTION		
Ore milled — t	2,090,000	2,180,000
Concentrate — t	48,500	40,600
— silver — kg	143,820	154,210
— oz	4,624,000	4,958,000
— gold — kg	740	880
— oz	23,800	28,300
— copper — t	9,020	8,080
— lb	19,882,000	17,813,000

Financing

Cash flow from operations in 1984 was insufficient for capital expenditure requirements, and as a result the Company's operating lines of credit were used to finance construction of the scavenger circuit. To permit Equity to make this additional use of the operating lines, Placer agreed to the deferral of interest payments on the loan it made to Equity in 1983. In September 1984 Placer also advanced an additional $4,000,000 to allow the Company to meet bank loan requirements.

To reduce the cost of financing, a public offering was completed in December 1984. The offer consisted of 1,540,000 of $1.60875 Cumulative Redeemable Convertible Preferred Shares, Series One at a price of $19.50 per share. The proceeds were used primarily to fully retire the long-term bank loans of $25,873,000 and to reduce short-term bank loans. The shares are convertible into Common Shares of the Company on the basis of two Common Shares for each Convertible Preferred Share until the end of 1989. Dividend number 1 of $0.45 per Preferred Share has been declared payable on April 1, 1985 to shareholders of record on March 8, 1985.

In conjunction with the share issue, the Company entered into a silver sale agreement with Placer. Under the agreement the Company received $69,456,000 as proceeds on the sale of 225,000 kilograms (7,235,000 ounces) of silver, for future delivery to Placer, at a price of $0.31 per gram ($9.60 per ounce). This sale has been reported as deferred revenue and will be recognized as silver deliveries are made.

Delivery of the silver will not be less than 23,300 kilograms (750,000 ounces) annually. Should the price of silver average US$0.29 per gram (US$9.00 per ounce) or higher for any consecutive 12-month period, the Company will deliver the greater of 23,300 kilograms (750,000 ounces), er an amount equivalent to 20% of the Company's silver production in that 12-month period. Other sales continue at current market prices.

The proceeds from the silver sale were used to retire the Company's indebtedness to Placer on December 21, 1984 which amounted to $69,414,000, including accrued interest of $8,414,000. Together, the share issue and the silver sale eliminated all of the Company's long-term debt.

The amount outstanding on the $40,000,000 operating lines of credit at December 31, 1984 was $12,000,000 of which $10,300,000 was used to finance construction of the scavenger circuit. Capital expenditures during the year totalled $12,343,000 (1983 - $5,663,000) and were primarily for the scavenger circuit.

Marketing

Silver stocks on the London, Comex and Chicago metal exchanges stayed at unprecedented high levels through 1984, fluctuating around 5,900,000 kilograms (190,000,000 ounces). These excessive inventories together with high interest rates, a strong United States dollar and sluggish industrial demand, led to a steady decline in the price of silver to US$0.20 per gram (US$6.29 per ounce) at year-end. On the date of this report the price was US$0.18 per gram (US$5.67 per ounce). Similarly, a decline in the price of gold began in February 1983 primarily in response to the strength of the United States dollar and to high interest rates.

Concentrate delivories to smelters in Japan, Europe, Latin America and Canada were made by the Company through the year. Total shipments during the year amounted to 43,600 tonnes of unleached and 15,400 tonnes of leached concentrate containing 180,550 kilograms (5,805,000 ounces) of silver, 990 kilograms (31,800 ounces) of gold and 11,040 tonnes (24,339,000 pounds) of copper.

An improvement in the terms of sale and market acceptance of the mine's unleached concentrate made possible the suspension of leaching operations. The improvement is attributable to lower levels of impurities in mill feed and to widespread mine closures which have reduced the supplies of concentrate available to copper smelters. The last shipment of 3,900 tonnes of leached concentrate was made in May 1984.

The long-term contract with Dowa Mining Company, covering the sale of a major portion of the Company's unleached concentrate production, has been extended two years to the end of 1987. Production in excess of this contract will be available for delivery to Placer or sale on a spot basis.

Deliveries of silver-gold doré from the scavenger circuit to Canadian and European precious metal refiners are expected to commence in March 1985. The Company's doré refining arrangements allow for either the direct sale of doré to the refiner or toll conversion to refined silver and gold.

Mining Operations

A total of 11,397,000 tonnes of ore, low grade and waste was mined (1983 - 10,477,000), of which 10,577,000 tonnes were from the Main Zone pit at a strip ratio of 5.3 tonnes of low grade and waste to one tonne of ore. The balance of the year's ore production was from the Southern Tail pit, where mining ceased in April 1984.

Ore Reserves

Drilling during the year identified the Waterline Zone. Ore from this zone has been added to mineable ore reserves which at December 31, 1984 were estimated to be:

	Tonnes	g/t Silver	g/t Gold	% Copper	Strip Ratio	Cut-off Grade g/t Silver Equivalent
Main Zone	16,756,000	110.0	0.99	0.37	3.8	90
Waterline Zone	2,526,000	93.4	1.39	0.38	3.6	90
Total	19,282,000	107.8	1.04	0.37	3.8	

(g/t = grams per tonne)

A small high grade zone beneath the Southern Tail pit is not included in the above table. Ore reserves are adjusted annually by the amount extracted, by the additions and deletions resulting from new geological information and interpretation and from changes in operating costs and metal prices. However, ore reserves are not usually revised in response to short-term cyclical price variations of metal markets.

The mining rate was increased to offset the higher strip ratios required in the initial mining of the Main Zone. Continuous pit operations were adopted through the second half of the year in order to maintain the required tonnage of ore for the mill and waste for tailings dam construction.

Concentrator

The concentrator operated continuously, processing a total of 2,090,000 tonnes at an average daily rate of 5,700 tonnes (1983 - 2,180,000; 6,000).

As anticipated, recoveries and throughput were lower since Main Zone ore is harder and its mineralization more finely grained than Southern Tail ore. The extent to which throughput and recoveries were affected by the transition to Main Zone ore was minimized through the 1983 installation of additional grinding, flotation and dewatering equipment. An increase in the average grade of the ore milled, from 92 grams of silver per tonne to 113 grams per tonne, was also of benefit.

A total of 143,820 kilograms (4,624,000 ounces) of silver, 740 kilograms (23,800 ounces) of gold and 9,020 tonnes (19,882,000 pounds) of copper were produced, compared to 154,210 kilograms (4,958,000 ounces) of silver, 880 kilograms (28,300 ounces) of gold and 8080 tonnes (17,813,000 pounds) of copper in 1983.

Leach Plant

The leach plant was operating at its design capacity of 90 tonnes per day when leaching of concentrate was suspended. A total of 7,900 tonnes of leached concentrate was produced in 1984.

The plant, with a net book value of $47,652,000, will continue to be depreciated at $4,800,000 per annum and can be reactivated should a leached product again be required.

In addition to the molybdenum circuit, other uses of the leaching facilities are being studied, including bio-oxidation of tailing from the Southern Tail pit.

Environment

The mine continued to collect and treat acidic drainage water, which is generated from most areas of the mine site through the natural processes of oxidation and leaching. The system was further developed with the addition of new pumping and treatment facilities and more ditching.

YEARLY AVERAGE SILVER PRICES

(US cents per gram) Handy & Harman

1980	**66.33**
1981	**33.82**
1982	**25.55**
1983	**36.78**
1984	**26.17**

To accommodate the scavenger circuit tailing, application has been made to amend the mine's discharge permit to include traces of cyanide which, with treatment and dilution, would be present after discharge at levels less than half those permitted by the Waste Management Branch.

During the year the Honourable Stephen Rogers, Minister of Energy, Mines and Petroleum Resources, presented the Company with a certificate of commendation in recognition of outstanding achievement in reclamation of the mine's waste dumps.

Employee Relations

Salary and benefit costs in 1984 amounted to $14,348,000 with 291 full-time employees on the payroll at year-end (1983 - $15,380,000; 321). The reduction in the workforce resulting from closure of the leach plant was less than anticipated due to staffing requirements related to the scavenger circuit, the leach plant molybdenum circuit, tailings dam construction and increased mining activity.

Employee relations remained excellent and staff in all departments maintained high levels of performance. The mine continues to enjoy an excellent safety record.

D.W. Zandee, formerly Resident Manager of a Placer group mine in the Philippines, was appointed Mine Manager effective in August 1984. A.W. Brown, Acting Mine Manager, accepted an appointment with an associated company in Mexico.

Directors

James H. Eastman and James L. McPherson will not be standing for re-election to the Board in 1985. Their valued contributions to the development of the mine and to its operating and financial performance are hereby acknowledged with the Board's appreciation.

John Racich and Clifford A. Grandison will be nominees for election as Directors at the Annual General Meeting. Mr. Racich is Vice-President, Finance of Placer and Mr. Grandison is its Treasurer.

In March 1985 Mr. Grandison was appointed Treasurer of the Company to succeed Mr. Racich.

Outlook

Continued weakness in the price of silver due to weak investment and industrial demand and high inventories will have a negative impact on both earnings and cash flow in 1985. Cash flow will also be affected by the need to deliver silver to Placer under the silver sale agreement. However, these adverse effects will be diminished by the additional precious metals output commencing this year and the reduction in interest expense resulting from the financial restructuring. These measures will contribute to a better performance than would otherwise have been possible through the remaining life of the mine.

Vancouver, B.C.
March 14, 1985

C. Allen Born,
President

Equity Silver Mines Limited

STATEMENT OF EARNINGS

Years ended December 31 (in thousands)	1984	1983
REVENUES:		
Concentrate sales	$ 70,460	$ 71,615
Interest and other income	155	234
	70,615	71,849
EXPENSES:		
Cost of sales	51,676	35,549
Depreciation and depletion	13,427	12,897
Long-term debt interest	12,724	7,160
Other interest	1,830	1,731
General and administrative	1,437	2,126
	81,094	59,463
EARNINGS (LOSS) BEFORE TAXES	(10,479)	12,386
DEFERRED INCOME TAXES	(5,796)	4,265
NET EARNINGS (LOSS)	(4,683)	8,121
Requirements for preferred share dividends	75	2,942
EARNINGS (LOSS) FOR COMMON SHAREHOLDERS	$ (4,758)	$ 5,179
EARNINGS (LOSS) PER COMMON SHARE	$ (0.19)	$ 0.21

AUDITORS' REPORT

To the Shareholders of
Equity Silver Mines Limited:

We have examined the balance sheet of Equity Silver Mines Limited as at December 31, 1984 and the statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended.
Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Vancouver, B.C.
February 1, 1985

PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Equity Silver Mines Limited

BALANCE SHEET

Assets

December 31 (in thousands)	1984	1983
CURRENT ASSETS:		
Cash and time deposits	$ 333	$ 352
Accounts receivable	2,108	3,893
Concentrate inventory	3,329	15,565
Supplies	3,984	4,195
	9,754	24,005
DEPOSITS AND MORTGAGES RECEIVABLE	1,912	2,342
PROPERTY, PLANT AND EQUIPMENT:		
Buildings and equipment	151,898	140,462
Mining properties and development	21,638	21,638
	173,536	162,100
Less accumulated depreciation and depletion	44,064	31,352
	129,472	130,748
	$141,138	$157,095

Liabilities and Shareholders' Equity

	1984	1983
CURRENT LIABILITIES:		
Short-term debt	$ 12,000	$ 12,000
Accounts payable and accrued liabilities	4,223	4,734
Customer advances	271	6,713
Deferred revenue (Note 5)	7,200	—
Long-term debt due within one year	—	14,500
	23,694	37,947
LONG-TERM DEBT	—	82,125
DEFERRED REVENUE (Note 5)	62,256	—
DEFERRED INCOME TAXES	12,155	18,375
SHAREHOLDERS' EQUITY (Note 4):		
Share capital — preferred	30,030	—
— common	10,588	10,588
Earnings reinvested in the business	2,415	8,060
	43,033	18,648
	$141,138	$157,095

Approved by the Board:

C. ALLEN BORN, Director

J.L. McPHERSON, Director

Equity Silver Mines Limited

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31 (in thousands)	1984	1983*
CASH PROVIDED:		
Operations—		
Net earnings (loss)	$ (4,683)	$ 8,121
Depreciation and depletion	13,427	12,897
Deferred income taxes	(5,796)	4,265
Other	260	1,227
	3,208	26,510
Net decrease in receivables, inventories and payables	7,279	18,498
Preferred share dividends and redemption premiums	—	(12,754)
Other	430	(161)
	10,917	32,093
Silver sale to shareholder	69,456	—
Preferred shares issued	28,576	—
Shareholder loan	4,000	57,000
	112,949	89,093
CASH USED:		
Shareholder loan	62,053	—
Long-term debt	38,572	26,428
Property, plant and equipment	12,343	5,663
Preferred share redemptions	—	60,251
	112,968	92,342
CASH DECREASE	19	3,249
CASH, BEGINNING OF YEAR	(11,648)	(8,399)
CASH, END OF YEAR	$ (11,667)	$ (11,648)

"Cash" comprises cash and time deposits less short-term debt.
*Restated to conform with the 1984 presentation.

STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

Years ended December 31 (in thousands)	1984	1983
BALANCE, BEGINNING OF YEAR	$ 8,060	$ 12,693
Net earnings (loss)	(4,683)	8,121
Share issue expenses, net of income taxes of $492,000	(962)	
Preferred share dividends and redemption premiums		(12,754)
BALANCE, END OF YEAR	$ 2,415	$ 8,060

NOTES TO FINANCIAL STATEMENTS

December 31, 1984

1. ACCOUNTING POLICIES:

Inventories

Concentrate inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Supplies are valued at the lower of average cost and replacement cost.

Depreciation and depletion

Depreciation of the cost of buildings and equipment is provided over their estimated useful lives on the following bases:

— buildings and machinery, straight-line, at rates of 7% and 8%, and
— mobile equipment, diminishing-balance, at rates of 15% to 36%.

Depletion of the cost of mining properties and development is provided on the straight-line basis over the estimated life of the mine.

2. OPERATIONS:

In April 1984 leaching operations were suspended due to lower ore impurity levels and greater market acceptance of the unleached concentrate. The leaching facilities are being maintained on a standby basis ready for reactivation should conditions change. The net book value of the leach plant was $47,652,000 at December 31, 1984 (1983 - $52,608,000) and is being depreciated at $4,800,000 per annum.

Concentrate sales are primarily exported, of which 69% in 1984 and 47% in 1983 were to a Japanese smelter.

3. DEBT:

Short-term

At December 31, 1984 the Company had short-term lines of credit of $40,000,000 of which $12,000,000 (1983 - $12,000,000) was drawn. Interest is at the bank prime rate (average in 1984 - 12.0%; 1983 - 11.2%) and the loan is secured by charges against accounts receivable and concentrate inventory. The loan agreement contains provisions limiting indebtedness, reduction of capital, sale of capital assets, mergers and amalgamations.

Long-term

Long-term debt was repaid in December 1984 following the preferred share issue to the public and the silver sale to Placer Development Limited.

An exchange loss of $2,028,000 on repayment of bank long-term debt was included in long-term debt interest expense.

4. SHAREHOLDERS' EQUITY:

On December 7, 1984 the shareholders approved an increase in the number of authorized common shares without par value from 24,854,700 to 28,600,000 shares.

The authorized share capital of the Company consists of 2,400,000 non-voting 8.25% cumulative preferred shares, issuable in series and 28,600,000 common shares, all without par value. At December 31, 1984, 1,540,000 Series One preferred shares and 24,798,000 common shares were issued and outstanding.

The Series One preferred shares were issued for gross cash proceeds of $30,030,000 on December 21, 1984. Each share is convertible until December 29, 1989 into two common shares. The preferred shares are redeemable commencing in 1990 at $20.50 per share declining by $0.25 per share for each twelve month period thereafter to $19.50, being the issue price. Redemption may begin in 1988 at $20.50 per share under certain conditions.

5. DEFERRED REVENUE AND SILVER DELIVERY COMMITMENT:

The Company received $69,456,000 on December 21, 1984 under a contract to sell to Placer Development Limited 7,235,000 ounces of silver at $9.60 per ounce. Beginning in 1985, the minimum annual delivery commitment is the greater of 750,000 ounces or, if for any twelve-month period, the average silver price equals or exceeds U.S.$9.00 per ounce, 20% of silver production. The deferred revenue arising from the sale will be recognized as sales revenue when silver deliveries occur.

6. REVENUE CONTINGENCY:

Concentrate sales are recorded on title transfer dates using estimates of metal content and value. Final sales values for precious metals are generally based on quoted market prices up to five months after title transfer. At December 31, 1984 concentrate containing 1,556,000 ounces of silver was subject to price finalization.

7. INCOME TAXES:

At December 31, 1984 earned depletion of approximately $47,000,000 (1983 - $43,000,000) was available to reduce taxable income in future years.

The reconciliation between the combined federal and provincial statutory income tax rate and the Company's 1984 effective income tax recovery rate is as follows:

Statutory tax rate	
Gross federal and provincial rate	52.0%
Less: Resource allowance	(9.0)
Earned depletion	(10.8)
Provincial mineral resource tax	11.2
Expected income tax recovery rate	43.4%
Differences resulting from —	
Inventory allowance	1.9
Rate differences — non-mining expenses	9.4
— prior years	3.3
Other	(2.7)
Effective income tax recovery rate	55.3%

8. RELATED PARTY TRANSACTIONS:

Placer Development Limited ("Placer") owns 70% of the common shares of the Company. The Company contracts with Placer for management, technical and administrative services at rates equal to Placer's costs. In addition, Placer receives a fee for financing which it provides. During the year, Placer's charges were $2,154,000 (1983 - $2,012,000) for these services and $282,000 (1983 - $295,000) for providing funds.

The Company borrowed $57,000,000 from Placer in 1983 and $4,000,000 in 1984. Interest on these funds was $7,362,000 (1983 - $2,272,000). The total debt of $61,000,000 together with accrued interest, was repaid in December 1984 following the silver sale to Placer.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate direct remuneration paid by the Company to its directors and the five highest paid employees in 1984 was $321,000 (1983 - $352,000) of which $23,000 (1983 - $20,000) consisted of fees paid to directors. No direct payments, other than some directors' fees, were made to officers of the Company as their services are provided by Placer Development Limited.

Equity Silver Mines Limited

FOUR-YEAR SUMMARY

(dollars in thousands, except per share and metal price data)

	1984	1983	1982	1981
EARNINGS				
Revenues	$ 70,615	71,849	84,734	59,830
Cost of sales	51,676	35,549	37,379	13,894
Depreciation and depletion	13,427	12,897	8,807	8,060
Interest	14,554	8,891	16,097	20,766
General and administrative	1,437	2,126	1,472	1,233
Deferred income taxes	(5,796)	4,265	8,399	5,932
Requirements for preferred share dividends	75	2,942	6,509	5,661
Earnings (loss) for common shareholders	$ (4,758)	5,179	6,071	4,284
PER COMMON SHARE				
Earnings (loss)	$ (0.19)	0.21	0.24	0.17
Cash provided from operations	0.44	1.29	1.71	(0.82)
Price on the Toronto Stock Exchange				
— high	13.75	19.00	11.29	16.83
— low	6.50	10.38	3.33	4.00
FINANCIAL POSITION				
Working capital (deficiency)	$ (13,940)	(13,942)	13,945	(56)
Property, plant and equipment — net	129,472	130,748	138,156	142,385
Long-term debt	—	82,125	56,640	66,000
Deferred revenue	62,256	—	—	—
Shareholders' equity	43,033	18,648	83,532	72,937
PRODUCTION				
Ore milled — t	2,090,000	2,180,000	2,073,000	1,910,000
— silver g/t	113	92	126	144
— gold g/t	1.2	1.3	1.4	1.1
— copper %	0.59	0.48	0.40	0.36
Concentrate — t	48,500	40,600	36,200	35,200
— silver — kg	143,820	154,210	216,840	227,930
— gold — kg	740	880	930	640
— copper — t	9,020	8,080	6,860	5,740
OTHER				
Average metal prices — US$				
— Silver (Handy & Harman) — g	0.26	0.37	0.26	0.34
— Gold (London) — g	11.59	13.64	12.08	14.78
— Copper (London Metal Exchange) — kg	1.38	1.59	1.48	1.74
Number of				
— employees	291	321	310	268
— shareholders	1,008	971	1,041	1,066

STATISTICS

	Second Quarter	Six Months	
	1985	1985	1984
ORE MILLED			
Tonnes	533,000	1,034,000	1,097,000
Average daily - t	5,800	5,700	6,000
Silver g/t	108	111	113
Gold g/t	1.0	1.0	1.4
Copper %	0.49	0.52	0.63
PRODUCTION			
Silver - kg	33,900	65,030	80,660
Gold - kg	260	480	470
Copper - t	1,840	3,790	5,330
SALES			
Silver - kg	31,090	60,330	112,530
Gold - kg	270	420	690
Copper - t	1,790	3,470	6,930
INVENTORY			
Silver - kg	16,620	16,620	16,790
Gold - kg	100	100	80
Copper - t	900	900	990
AVERAGE METAL PRICES — US$			
Silver (Handy & Harman) - g	0.20	0.20	0.29
Gold (London) - g	10.27	9.99	12.26
Copper (London Metal Exchange) - kg	1.49	1.43	1.44

Conversion factor from metric to imperial
- Tonnes (t) x 1.1023 = tons
- Kilograms (kg) x 2.205 = pounds
- Grams (g) x .032151 = troy ounces

EQUITY
SILVER MINES
LIMITED

Second Interim Report

June 30, 1985

TO THE SHAREHOLDERS EQUITY SILVER MINES LIMITED:

A loss of $1,328,000 or $0.05 per common share, all except $163,000 occurring in the first quarter, was recorded on revenues of $22,997,000 in the six months ended June 30, 1985. This compares to net earnings of $584,000 or $0.02 per common share on revenues of $47,326,000 in the same period of 1984.

Weak prices for precious metals have continued with the silver price in the first half of 1985 averaging US$0.20 per gram compared to US$0.29 in the previous year (US$6.18 and US$8.98 per oz.). Of the 31,090 kilograms sold in the second quarter 61%, priced at $0.31 per gram ($9.60 per oz.), represented committments under the silver sale agreement with Placer Development Limited.

Sales revenues in the two periods are not directly comparable because of the unusually high volume of sales from inventory, and the last production of higher grade ore from the Southern Tail pit, in 1984.

Interest expense declined by $6,082,000 as a result of the December 1984 financial restructuring. This reduction is partially offset by preferred share dividends of $1,239,000.

An underwriting of common shares, combined with a sale of investment tax credits that could not be used by the Company, was deferred in June when market conditions became unfavourable. The proceeds were to have been used to further reduce the bank loan.

The Company's bank loan agreement has been replaced with a new long-term loan agreement, including a silver loan facility which is expected to significantly reduce interest costs.

Gold recovery in the scavenger circuit which treats the tailing is improving. The volume of silver recovered, however, is well below potential due to the depressed market price of this metal relative to the cost of its recovery. As a result, the circuit is operating at less than full capacity. Technical problems are also evident when the circuit is operated at design capacity.

The Directors appointed A. J. Petrina as President effective June 1, 1985 to succeed C. A. Born who resigned at the end of May.

A. J. Petrina
President

Vancouver, B.C.
August 2, 1985

STATEMENT OF EARNINGS (Unaudited)

	Second Quarter 1985	Six Months 1985	Six Months 1984
	(in thousands)		
REVENUES			
Sales	$13,098	$22,814	$47,259
Interest and other income	152	183	67
	13,250	22,997	47,326
EXPENSES			
Cost of sales	9,046	16,104	33,248
Depreciation and depletion	3,445	6,717	6,601
Interest	365	735	6,817
General and administrative	179	371	851
	13,035	23,927	47,517
EARNINGS (LOSS) BEFORE TAXES	215	(930)	(191)
Deferred income taxes	(242)	(841)	(775)
NET EARNINGS (LOSS)	457	(89)	584
Requirements for preferred share dividends	620	1,239	—
EARNINGS (LOSS) FOR COMMON SHAREHOLDERS	$ (163)	$(1,328)	$ 584
EARNINGS (LOSS) PER COMMON SHARE	$ —	$ (0.05)	$ 0.02

STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

	Six Months 1985	Six Months 1984
	(in thousands)	
CASH PROVIDED		
Operations—		
Net earnings (loss)	$ (89)	$ 584
Depreciation and depletion	6,717	6,601
Deferred income taxes	(841)	(775)
Interest on shareholder loan	—	3,397
Other	—	193
	5,787	10,000
Net decrease (increase) in receivables, inventories and payables	(3,265)	6,185
Other	155	145
	2,677	16,330
Long-term debt	12,000	—
	14,677	16,330
CASH USED		
Property, plant and equipment	881	3,100
Preferred share dividends	1,312	—
Long-term debt	—	6,095
	2,193	9,195
CASH INCREASE	12,484	7,135
CASH, BEGINNING OF PERIOD	(11,667)	(11,648)
CASH, END OF PERIOD	$ 817	$ (4.513)

"Cash" comprises cash and term deposits less short-term debt.

BALANCE SHEET (Unaudited)

	June 30 1985	December 31 1984
	(in thousands)	
ASSETS		
Current assets	$ 13,335	$ 9,754
Deposits and mortgages receivable	1,757	1,912
Property, plant and equipment – net	123,636	129,472
	$138,728	$141,138
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	$ 11,526	$ 23,694
Long-term debt	12,000	—
Deferred revenue	62,256	62,256
Deferred income taxes	11,314	12,155
Shareholders' equity	41,632	43,033
	$138,728	$141,138

Approved by the Board:

Director

Director

STATISTICS

	First Quarter 1985	First Quarter 1984
ORE MILLED:		
Tonnes	501,000	610,000
Average daily — t	5,600	6,700
Silver g/t	114	108
Gold g/t	1.0	1.7
Copper %	0.55	0.68
PRODUCTION:		
Silver — kg	31,130	48,160
Gold — kg	220	350
Copper — t	1,950	3,430
SALES:		
Silver — kg	29,240	56,090
Gold — kg	150	350
Copper — t	1,680	3,180
INVENTORY:		
Silver — kg	13,810	40,720
Gold — kg	110	300
Copper — t	850	2,840
AVERAGE METAL PRICES — US$:		
Silver (Handy & Harman) — g	0.19	0.29
Gold (London) — g	9.71	12.34
Copper (London Metal Exchange) — kg	1.38	1.44

Conversion factors from metric to imperial
Tonnes (t) x 1.1023 = tons
Kilograms (kg) x 2.205 = pounds
Grams (g) x .032151 = troy ounces

EQUITY
SILVER MINES
LIMITED

First Interim Report

March 31, 1985

TO THE SHAREHOLDERS
EQUITY SILVER MINES LIMITED:

A loss of $1,165,000 or $0.05 per common share was recorded on revenues of $9,747,000 for the three months ended March 31, 1985. This compares to net earnings of $3,044,000 or $0.12 per common share on revenues of $28,005,000 in the same period of 1984.

The 1985 results are not readily comparable to those of the previous year when sales from inventory were unusually high, the last Southern Tail ore was processed and the leach plant was still in operation.

The main factor contributing to the loss was continued weakness in precious metal prices. During the period the prices of silver and gold fell to their lowest levels since operations commenced in 1980. The silver price averaged only US$0.19 per gram (US$6.06 per ounce), compared to US$0.29 (US$8.99) in the first quarter of 1984.

To offset the effect of lower mill recoveries the cut-off grade has been temporarily increased to raise the average grade of ore processed. This measure will not affect the long-term mining plan.

The first shipment of doré from the scavenger circuit was made on April 17. Tune-up of this plant is continuing, particularly with respect to improving unacceptably low recoveries of silver. Gold recoveries are meeting expectations.

On April 1, 1985, the first dividend was paid on the Company's Preferred Shares Series One.

The Company is continuing its efforts to reduce costs. As a result of the December 1984 financial restructuring, interest costs declined by $2,797,000. Placer Development Limited has waived recovery of the cost of its management services to the Company for 1985. An exploration programme will not be carried out in 1985.

C. Allen Born
President

Vancouver, B.C.
April 24, 1985

STATEMENT OF EARNINGS (Unaudited)

	First Quarter 1985	First Quarter 1984
	(in thousands)	
REVENUES:		
Sales	$ 9,716	$27,971
Interest and other income	31	34
	9,747	28,005
EXPENSES:		
Cost of sales	7,058	15,764
Depreciation and depletion	3,272	3,266
Interest	370	3,167
General and administrative	192	411
	10,892	22,608
EARNINGS (LOSS) BEFORE TAXES	(1,145)	5,397
Deferred income taxes	(599)	2,353
NET EARNINGS (LOSS)	(546)	3,044
Requirements for preferred share dividends	619	—
EARNINGS (LOSS) FOR COMMON SHAREHOLDERS	$ (1,165)	$ 3,044
EARNINGS (LOSS) PER COMMON SHARE	$ (0.05)	$ 0.12

STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

	First Quarter 1985	First Quarter 1984
	(in thousands)	
CASH PROVIDED:		
Operations —		
Net earnings (loss)	$ (546)	$ 3,044
Depreciation and depletion	3,272	3,266
Deferred income taxes	(599)	2,353
Other	—	1,764
	2,127	10,427
Net increase in receivables, inventories and payables	(2,999)	(4,921)
Other	34	66
	(838)	5,572
CASH USED:		
Property, plant and equipment	1,227	1,369
Long-term debt	—	6,598
	1,227	7,967
CASH DECREASE	(2,065)	(2,395)
CASH, BEGINNING OF PERIOD	(11,667)	(11,648)
CASH, END OF PERIOD	$(13,732)	$(14,043)

"Cash" comprises cash and time deposits less short-term debt.

STATISTICS

	Third Quarter 1985	Nine Months 1985	1984
ORE MILLED			
Tonnes	512,000	1,546,000	1,565,000
Average daily - t	5,600	5,700	5,700
Silver g/t	123	115	113
Gold g/t	1.0	1.0	1.2
Copper %	0.67	0.57	0.62
PRODUCTION			
Silver - kg	38,910	103,940	107,870
Gold - kg	240	720	580
Copper - t	2,690	6,480	7,170
SALES			
Silver - kg	35,050	95,380	136,520
Gold - kg	240	660	770
Copper - t	2,180	5,650	8,450
INVENTORY			
Silver - kg	20,480	20,480	20,010
Gold - kg	100	100	110
Copper - t	1,410	1,410	1,310
AVERAGE METAL PRICES — US$			
Silver (Handy & Harman) - g	0.20	0.20	0.27
Gold (London) - g	10.40	10.13	11.87
Copper (London Metal Exchange) - kg	1.42	1.43	1.40

Conversion factor from metric to imperial
Tonnes (t) x 1.1023 = tons
Kilograms (kg) x 2.205 = pounds
Grams (g) x .032151 = troy ounces

EQUITY
SILVER MINES
LIMITED

Third Interim Report

September 30, 1985

TO THE SHAREHOLDERS EQUITY SILVER MINES LIMITED:

Third quarter common share earnings were $615,000. For the nine months ended September 30, 1985 a loss of $713,000 or $0.03 per common share was recorded on revenues of $37,451,000. This compares to a loss of $2,286,000 or $0.09 per common share on revenues of $56,104,000 in the eame period of 1984.

Precious metals prices were at their lowest levels since the mine commenced operations. Silver averaged US$0.20 per gram compared to US$0.27 per gram in the 1984 period (US$6.17 and US$8.47 per ounce). Interest expense was reduced by $9,566,000 as a result of the December 1984 financial restructuring and a silver loan facility utilized in the third quarter at a current interest rate of less than 1% per annum. In the third quarter unit costs were reduced as a result of a higher grade of ore milled.

The 1985 results are not readily comparable to those of the previous year when sales from inventory were unusually high, the last Southern Tail ore was processed and the operation of the leach plant was suspended.

A $6,337,500 issue of 650,000 additional common shares with tax credit is scheduled to close on October 29. The proceeds will be used to help finance an increase in mill capacity presently under construction at the mine.

Mill throughput is being increased from 5,300 to 7,680 tonnes per day at an anticipated cost of $12,100,000, with completion of the project scheduled for July 1986.

Due to technical problems, the scavenger circuit is not operating at design capacity. To correct the technical problems, modifications are being made in conjunction with the increase in mill capacity.

It is expected that the overall effect of the scavenger circuit and the increase in mill capacity will be to maintain present unit costs of production, and increase and accelerate cash flow over the remaining life of the mine which, assuming no increase in ore reserves, will be reduced from approximately ten years to seven years.

The Company is taking a more active role in arranging, on a recurring basis, forward sales contracts.

John S. Walton, President and Chief Executive Officer of Placer Development Limited, was appointed a Director of the Company in August.

A.J. Petrina
President

Vancouver, B.C.
October 25, 1985

STATEMENT OF EARNINGS (Unaudited)

	Third Quarter 1985	Nine Months 1985	Nine Months 1984
	(in thousands)		
REVENUES			
Sales	$14,133	$36,947	$56,003
Interest and other income	321	504	101
	14,454	37,451	56,104
EXPENSES			
Cost of sales	8,469	24,573	40,640
Depreciation and depletion	3,454	10,171	10,021
Interest	161	896	10,462
General and administrative	207	578	1,192
	12,291	36,218	62,315
EARNINGS (LOSS) BEFORE TAXES	2,163	1,233	(6,211)
Deferred income taxes	929	88	(3,925)
NET EARNINGS (LOSS)	1,234	1,145	(2,286)
Requirements for preferred share dividends	619	1,858	—
EARNINGS (LOSS) FOR COMMON SHAREHOLDERS	$ 615	$ (713)	$ (2,286)
EARNINGS (LOSS) PER COMMON SHARE	$ 0.02	$ (0.03)	$ (0.09)

STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

	Nine Months 1985	Nine Months 1984
	(in thousands)	
CASH PROVIDED		
Operations—		
Net earnings (loss)	$ 1,145	$ (2,286)
Depreciation and depletion	10,171	10,021
Deferred income taxes	88	(3,925)
Interest on shareholder loan	—	5,483
Other	—	365
Cash from operations	11,404	9,658
Net decrease (increase) in receivables, inventories and payables	(4,724)	10,045
Other	296	288
Preferred share dividends	(1,933)	—
Net cash from operations	5,043	19,991
Long-term debt	15,099	—
Shareholder loan	—	4,000
	20,142	23,991
CASH USED		
Property, plant and equipment	1,307	6,731
Long-term debt repaid	—	13,820
	1,307	20,551
CASH INCREASE	18,835	3,440
CASH, BEGINNING OF PERIOD	(11,667)	(11,648)
CASH, END OF PERIOD	$ 7,168	$ (8,208)

"Cash" comprises cash and term deposits less short-term debt.

CONDENSED BALANCE SHEET (Unaudited)

	September 30 1985	December 31 1984
	(in thousands)	
ASSETS		
Current assets	$ 20,058	$ 9,754
Deposits and mortgages receivable	1,616	1,912
Property, plant and equipment	120,607	129,472
	$142,281	$141,138
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	$ 10,437	$ 23,694
Long-term debt	15,099	—
Deferred revenue	62,256	62,256
Deferred income taxes	12,243	12,155
Share capital	40,618	40,618
Earnings reinvested in the business	1,628	2,415
	$142,281	$141,138