

802166

WESTERN MINES LIMITED ANNUAL REPORT

R. V. KIRKHAM



1977

OFFICERS

A. William Farmilo, Chairman of the Board
Hugh R. Snyder, President and Chief Executive Officer
Douglas W. Miller, Vice-President
Arthur E. Soregaroli, Vice-President, Exploration
Raymond O. Hampton, Secretary-Treasurer

MINE MANAGEMENT

Gunnar I. Dziny, Manager of Operations
Edward Sader, Assistant Manager
Allyn J. Steward, Mine Superintendent
Albert G. Eccles, Mill Superintendent
Norman T. McGeachy, Chief Accountant
George J. Shiels, Plant Superintendent

EXPLORATION

Bruce E. Spencer, Exploration Manager,
Western Canada
Bruce K. McKnight, Exploration Manager,
Eastern Canada

SOLICITORS

Lawrence & Shaw

AUDITORS

Coopers & Lybrand

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust

BANKER

Bank of Montreal

SHARES LISTED

Vancouver Stock Exchange
Toronto Stock Exchange

Cover:

The precious metal contribution of the Lynx and Myra is symbolized by gold ingots which formed a part of The Official Gold Mine Ingots series produced by The Franklin Mint.

DIRECTORS

A. William Farmilo, Toronto †
Executive Vice-President, Brascan Limited
Edward C. Freeman-Attwood, Toronto
President, Brascan Limited
Roger T. Hager, Vancouver
Retired
John A. McLallen, Vancouver *
Director
Bethlehem Copper Corporation
Paul M. Marshall, Calgary †
President, Brascan Resources Limited
Douglas W. Miller, Calgary †*
Executive Vice-President
Brascan Resources Limited
Richard H. Ostrosser, Calgary †
Vice-President, Brascan Resources Limited
Hugh R. Snyder, Vancouver †
President and Chief Executive Officer
Harold M. Wright, Vancouver †*
Chairman, Wright Engineers Limited

†Executive Committee

*Audit Committee

COMPANY OFFICES

Head Office and Western Exploration Office
1103 Three Bentall Centre
595 Burrard Street
Vancouver, B.C.
V7X 1C4

Eastern Exploration Office
Suite 1414, 390 Bay Street
Toronto, Ontario
M5H 2Y2

Mine Office
P.O. Box 8000
Campbell River, B.C.
V9W 5E2

WESTERN MINES LIMITED and subsidiary companies

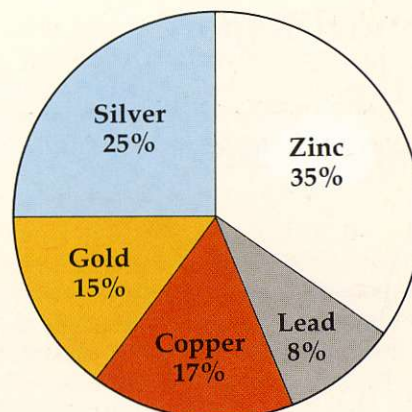
COMPARATIVE HIGHLIGHTS

	1977	1976
Net earnings	\$ 976,142	\$ 318,909
Net earnings per share	\$.18	\$.06
Dividends paid	\$ 535,479	\$ 532,894
Dividends per share	\$.10	\$.10
Shares outstanding at year end	5,354,788	5,328,938
Number of shareholders	3,646	3,828
Capital expenditures — net	\$ 526,110	\$ 579,283
Working capital	\$13,404,006	\$11,945,019

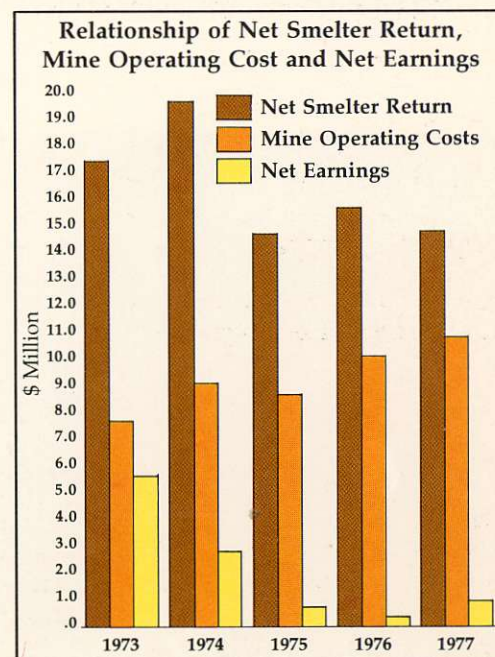
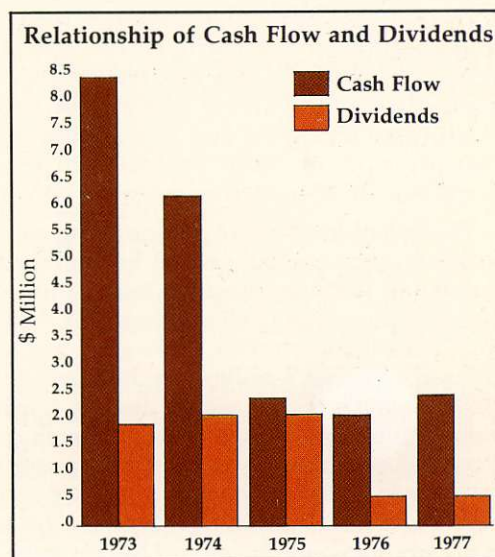
Tons milled	296,598	296,846
Average tons per operating day	948	933
Copper concentrate produced, tons ..	9,753	9,934
Zinc concentrate produced, tons ...	35,147	35,604
Lead concentrate produced, tons ...	7,249	7,981
Ore reserves, tons proven	1,459,900	1,704,000

Payable metal		
Copper - lbs	5,321,700	5,186,503
Zinc - lbs	33,317,639	32,009,734
Lead - lbs	5,362,597	5,947,569
Gold - oz.	16,343	17,832
Silver - oz.	913,778	1,068,315
Cadmium - lbs.	63,110	63,503

Average number of employees	327	325
Total company payroll	\$ 6,710,146	\$ 5,914,903



1977 Value of Metals in Net Smelter Return



ANNUAL GENERAL MEETING

The Annual General Meeting of Western Mines Limited will be held on Friday, April 28, 1978, at 10:30 a.m. in the Hyatt Regency Hotel, Vancouver, B.C.

Annual Report to the Shareholders

There was a marginal decrease in tons of ore milled and all metals produced at the Lynx and Myra Mines in 1977 compared to 1976. Although the level of mine exploration and development was once again significantly higher than in the previous year, proven reserves at year end declined to 1,459,900 tons as more remote, higher risk mine exploration targets were tested.

During 1977, 28 outside prospects were investigated in association with 10 partners and eight of these prospects were drilled. Lead-zinc reserves were increased somewhat at the Great Slave Reef project in the Northwest Territories and exploration results on the two principal uranium prospects in the Northwest Territories and Saskatchewan were encouraging.

The negative effects of deteriorating zinc and copper markets were partially offset by the weak Canadian dollar and stronger precious metal and lead markets. Net smelter return declined from \$15.7 million in 1976 to \$15.0 million in 1977. However, net earnings increased from \$0.3 million in 1976 to \$1.0 million in 1977, of which 66 per cent is directly attributed to the gain on foreign exchange resulting from conversion of most of the company's short term deposits held in U.S. funds into Canadian currency at year end. Tax exposure in 1977 was minimized both by the high level of exploration expenditures and the capital nature of the foreign exchange gains. Cash flow from operations in

1977 was \$2.4 million compared to \$2.1 million in 1976 and after payment of a dividend of 10¢ per share in 1977, working capital increased by \$1.5 million to \$13.4 million at year end.

Mine production for 1978 is scheduled at approximately the 1977 level but the mine exploration and development program will be reduced in scope since the Company has a strong developed reserve position at the present time. This action will also ensure a mine operating profit in the face of continuing depressed copper and zinc markets. Notwithstanding the prevailing poor base metal markets, the Company agrees with the forecasts that the mining industry will strengthen in the medium term. The Company intends, therefore, to continue its exploration program in Canada for base metals and uranium in association with its several partners. The current plan is to actively manage a \$2.750 million exploration program on 19 projects, with 10 partners. The Company's own contribution to this program will be \$1.0 million.

A special note of recognition goes to mine management and employees who are to be congratulated on restricting cost increases in 1977 to a level less than the Consumer Price Index and on winning the Hard Rock Section of the annual Canadian Mine Rescue Competition. The exploration group continued the active program for defining attractive exploration projects in Canada, notwithstanding limited funds, and in large measure is responsible for the high level of interest in the Company by the investment community.

At the Annual Meeting, Dr. G. M. Furnival and Messrs. L. B. Leeming and P. M. Reynolds did not stand for re-election. Dr. Furnival and Mr. Leeming served on the Board from November 26, 1975, when Brascan purchased the controlling block of shares. Mr. Reynolds was a member of the syndicate which sold

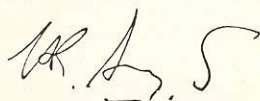


the Buttle Lake property to the Company in 1961 and he joined the Board in December 1966, and played a key role in guiding the Company through the early years of production.

On behalf of the Board



A. W. Farmilo
Chairman



H. R. Snyder
President and Chief
Executive Officer

March 14, 1978

OPERATIONS

Production

The percentage of ore mined from underground increased slightly from 91.4% in 1976 to 92.0% in 1977. Of the total tonnage processed, 8.0% was removed from the open pit stockpile. Tonnage milled during 1977 was 296,598 as compared to 296,849 in 1976. The number of concentrator operating days decreased from 318 in 1976 to 313 in 1977, resulting in an average daily mill throughput of 948 tons, a 15 ton per day increase over 1976. Mill recoveries were comparable to 1976 but ore grades were slightly lower for all metals. Concentrate tonnages produced were: copper — 9,753, lead — 7,249 and zinc — 35,147.

The rate of labour turnover and absenteeism improved during the year, contributing to favourable mine production efficiencies.

Company-Union relations proceeded amicably and a new two year contract was negotiated and signed in November.

Operating Costs

Increased diamond drilling and development expenditures, together with continued inflationary pressures were the principal causes of operating costs increasing from \$34.07 per ton in 1976 to \$36.97 in 1977. Other factors affecting higher operating costs were increased ore tonnage requirements from the distant "G" zone workings and increased electrical power costs. Abnormally dry weather conditions in 1977 resulted in water shortages and operation of the Hydro Plant at reduced capacity was necessary for extended periods. Hydro power was supplemented with a high proportion of relatively expensive diesel generated power, causing costs to increase from \$.008 per kilowatt hour in 1976 to \$.017 in 1977.

Mine Exploration and Development

The expanded exploration and development program, initiated in 1976, continued throughout 1977 at the Price, Myra and Lynx Mines. Record high advance footages were attained in all development categories during the year.

Diamond drilling at the Myra and Price Mines in the previously unexplored rhyolite dome area did not result in the discovery of any new ore bodies. Ore reserve tonnage was added at the Lynx Mine during 1977 but was of insufficient quantity to replace tonnage milled during the year.

The completion of open pit mining in 1976 resulted in increased tonnage requirements from underground



workings. Emphasis was therefore placed on the development of new mining blocks, particularly in the lower "G" and "S" ore zones. These areas were accountable for the major portion of development advance completed in 1977.

Ore Reserves

Proven ore reserves as of January 1, 1978, were:

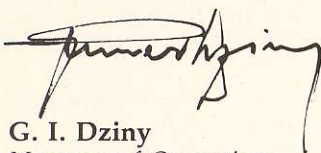
	Tons	Gold Oz/Ton	Silver Oz/Ton	Copper %	Lead %	Zinc %
Lynx	994,780	0.07	2.5	1.2	0.9	7.7
Myra Standard	377,600	0.08	5.3	0.8	1.4	7.0
Myra High Grade	62,600	0.17	13.7	0.6	3.0	8.8
Stockpile	24,920	0.05	1.1	0.5	0.6	5.4
	1,459,900	0.08	3.7	1.1	1.1	7.5

Proven ore reserves as of January 1, 1977, were:

	1,704,000	0.09	4.1	1.2	1.2	7.9
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Environmental Control

Monitoring by both the Company and the Pollution Control Branch indicate that effluent characteristics remain at satisfactory levels. Tests performed on both the lake water and fish confirm that the discharge of tailings into Buttle Lake continues to have no adverse effects on the environment.


G. I. Dziny
Manager of Operations

OUTSIDE EXPLORATION

Western Mines expended a total of \$2.1 million on outside exploration in 1977. In addition, the Company managed \$1.5 million contributed by joint venture partners, resulting in a total managed exploration exposure of \$3.6 million.

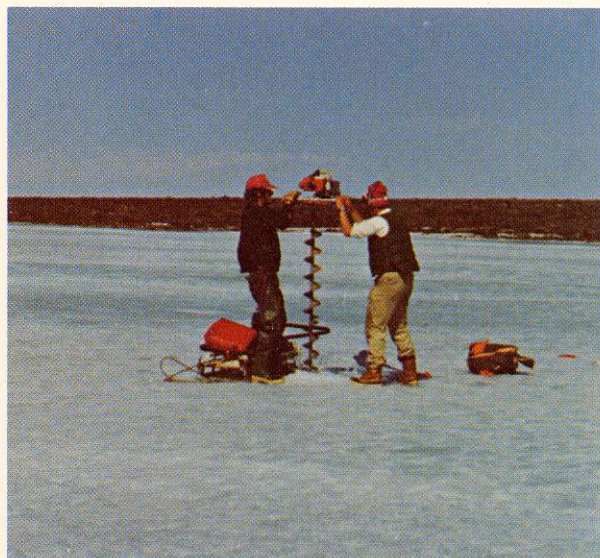
In the search for new deposits, major emphasis was placed on lead-zinc in carbonates (Great Slave Reef/West Reef), uranium, and volcanogenic massive sulphide deposits (Price Creek, Tenas Creek), with lesser emphasis on porphyry molybdenum-copper-gold deposits and silver-lead-zinc deposits.

GREAT SLAVE REEF/WEST REEF PROJECTS (Northwest Territories)

The Great Slave Reef and West Reef Projects, joint ventures between Western Mines Limited and DuPont of Canada Exploration Limited, continued as the most successful projects in 1977. Western Mines has entered into an agreement with Philipp Brothers (Canada) Ltd., whereby Philipp Brothers can earn a 10% working interest in the projects from Western by assuming 60% to 70% of Western's exploration costs beginning in 1977 and continuing until such time as they have spent \$1.5 million.

Diamond drilling, which totalled 56,912 feet in 1977, resulted in expansion of the reserves of the X-25 Zone and in the discovery of two additional mineralized zones which require additional drilling in 1978. Drill-indicated reserves of the X-25 Zone have been revised to 3.8 million tons grading 3.3%Pb and 9.1% Zn.

The 1978 program, which includes 60,000 feet of diamond drilling, I.P. survey, and a pump test on the X-25 Zone has been approved and diamond drilling is



under way. The pump test is designed to determine the cost of dewatering the X-25 Zone for mining purposes.

URANIUM PROJECT

Western Mines and Central Electricity Generating Board (C.E.G.B.) of the United Kingdom investigated 11 uranium properties in 1977 under terms of a joint venture agreement, execution of which was completed early in 1978. Three properties require additional comment:

Costigan, Saskatchewan

The Costigan property, which is immediately south of the Key Lake property, is underlain by an extension of the metasedimentary rock units of the Wollaston Fold Belt which host the Key Lake uranium deposits. The property is being explored under a joint venture agreement between Western Mines, C.E.G.B., Scurry-Rainbow Oil Limited (manager), and the Saskatchewan Mining Development Corporation.

Surface geochemical and geophysical surveys on the property led to a program of overburden drilling to evaluate areas of interest. Geochemical analyses of overburden, bedrock and water samples from the drill holes combined with radioactive probing of the holes defined three areas which will be tested by diamond drilling in 1978.

Bancroft, Ontario

The Bancroft property covers a five-mile long heterogeneous belt of metasedimentary (calc-silicate), paragneissic and intrusive rocks two miles northwest of the producing Madawaska (Faraday) Mine and one and one-half miles east of the Cam Mine being explored by Kerr Addison Mines Limited. An airborne

radiometric survey in early 1977 yielded several well-defined radioactive anomalous zones on the Bancroft property. Ground follow-up of these anomalies and surface trenching resulted in discovery of uranium mineralization in calc-silicate and pegmatitic zones. Additional surface trenching and diamond drilling are planned for 1978.

Dubawnt, Northwest Territories

Although several radioactive showings and geochemical anomalies were partially defined in the 1976 field season, the establishment by the Federal Government of a land freeze in the Baker Lake area resulted in a limited exploration program in 1977. Restricted access hampered evaluation of prospecting permit areas and claims. The 1978 programs will be determined by the status of the Land Freeze Area.

VOLCANOGENIC MASSIVE SULPHIDE DEPOSITS

Massive sulphide projects were conducted in British Columbia, Yukon Territory, Ontario, Northwest Territories and California during 1977.

Price Creek, British Columbia

Price Creek was one of the major exploration projects conducted by Western Mines during the year. The property covers an extension of the favourable geology which hosts the Lynx and Myra Mines at Buttle Lake on Vancouver Island. Geological studies combined with 13,548 feet of underground diamond drilling and development resulted in discovery of several minor massive sulphide intersections, none of which appear to be of commercial interest. Investigation of the property will continue in 1978.

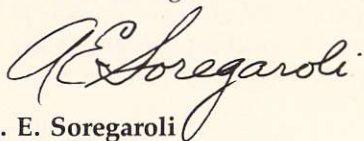


Tenas Creek, Yukon Territory

The Tenas Creek project, a 50-50 joint venture managed by DuPont of Canada Exploration Limited, covers a 28 mile extension of the metavolcanic and metasedimentary belt which hosts the Anvil-Grum-Vangorda massive sulphide deposits in the Ross River area.

Gravity surveys in 1977 defined four target areas. Three diamond drill holes in two of these gravity anomalies failed to encounter other than minor sulphides.

Additional gravity, soil and geological surveys are planned for 1978 and will be followed by additional diamond drilling.



A. E. Soregaroli
Vice-President, Exploration

1977 FINANCIAL REPORT

Consolidated net earnings in 1977 were \$976,142 or 18¢ per share compared to \$318,909 or 6¢ per share in 1976. The 1977 figures include an extraordinary income tax adjustment of \$230,000 or 4¢ per share. Cash flow from operations was \$2,437,831 or 45¢ per share compared to \$2,051,882 or 39¢ per share in 1976.

The working capital position of the Company at the beginning of the year was \$11,945,019. This was improved by the cash flow from operations and supplemented by \$26,300 proceeds of fixed assets, \$33,934 received on investments and \$48,811 as pro-

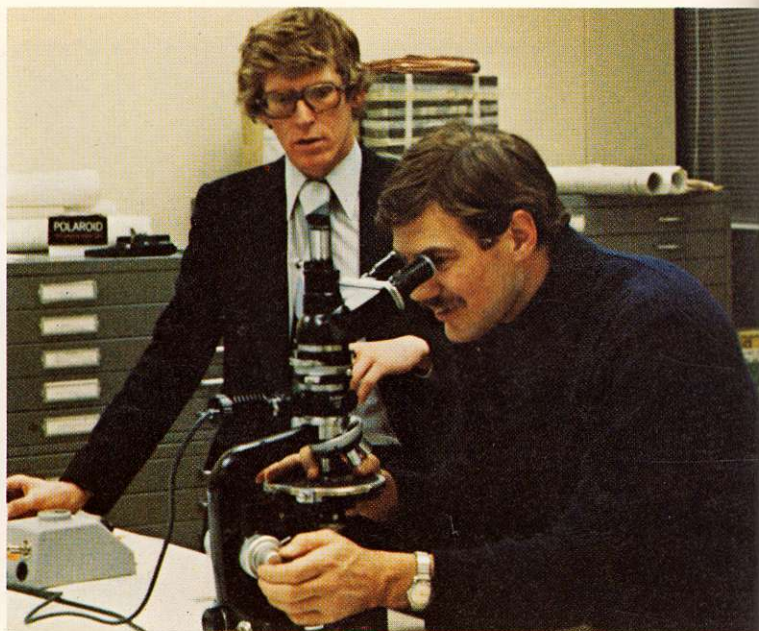
ceeds from stock option payments. Working capital was utilized for dividends of \$535,479 and fixed asset additions of \$552,410, resulting in a working capital balance of \$13,404,006 at year end.

Prior to the year end, the Company converted a significant portion of its U.S. dollar cash balances into Canadian funds, realizing a foreign exchange gain of some \$549,000 as a result of the depreciation of the Canadian dollar during 1977. A further \$93,000 represents the unrealized gain on translation of the remaining U.S. currency balances at December 31, 1977. Both gains have been included in net earnings for the year in accordance with the Company's accounting policies.

The 3% inventory allowance introduced by the Federal Government during 1977 and the high level of Canadian exploration expenditures has resulted in a significant drop in the Company's effective rate of tax for the year. Also the income tax expense for the year has been reduced by the application of prior years' losses of a subsidiary for which no tax benefit had been recorded in the years in which those losses arose. The current year's operations have resulted in profits against which the losses have been utilized and the resultant income tax recovery has been shown as an extraordinary item in the statement of earnings.



R. O. Hampton
Secretary-Treasurer



SAFETY & TRAINING

Safety

Western Mines' safety program is based on the Neil George safety system, combined with close personal contact with our employees by all Supervisors and the Safety Department.

During 1977 our Buttle Lake operations went five months without a lost time accident. Myra Mine set a new Western Mines' record by operating 223 days without a lost time accident. Western Mines' accident frequency for 1977 was 22, one of the lowest for an underground mine in British Columbia.

Training

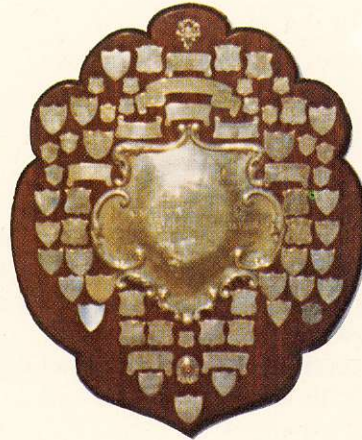
During 1977 we continued our training program of maintaining a surface fire team and underground mine rescue teams. Courses were given in St. John's First Aid and Industrial First Aid.

The Western Mines' Mine Rescue Competition Team were very successful. On June 11, 1977, they competed in the district competitions in Kamloops, B.C., where they placed first and retained the Vancouver Island Shield.

On June 18, 1977, they competed in the Provincial competitions in Kamloops, B.C., and again placed first and received the Provincial Mine Rescue Trophy and the B.C. Metal Mines Trophy.

On June 25, 1977, they competed in the Canadian competitions in Yellowknife, N.W.T., where they placed second overall and received the Canadian Metal Mines Trophy.

The Vancouver Island Safety and Industrial Association Shield



Our Mine Rescue Team members are employed at our Buttle Lake operations in the following occupations:

Captain — Hal Uhrig (U/G Shiftboss)
 No. 2 Man — Dennis Rodbom (Stope Miner)
 No. 3 Man — Ernst Binder (Chief Surveyor)
 No. 4 Man — Tom LeBarron (Stope Miner)
 Vice Captain — Peter Schultz (Sr. Mine Engineer)
 Coordinator

and Coach — Nelson Allan (Safety Supervisor)

Our overall goal is to make our mines as safe as possible and to have trained personnel available that could react to any emergency that might arise.

Nelson E. Allan
Safety Supervisor



June 11, 1977 — Kamloops, B.C.,
 Western Mines Team in Action



June 18, 1977, Winning Provincial Trophies
 Standing — Left to Right: Nelson Allan, Dennis Rodbom, Minister of Mines — Hon. James Chabot, Hal Uhrig, TROPHY — B.C. 1st Place.
 Kneeling — Left to Right: Ernst Binder, Peter Schultz, Tom LeBarron. TROPHY — B.C. Metal Mines 1st Place.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1977

ASSETS

	1977 \$	1976 \$
Current Assets		
Cash and short-term investments, at cost which approximates market value	8,051,634	8,521,541
Concentrate settlements and other accounts receivable	3,219,580	1,617,138
Inventories		
Concentrates, at estimated net realizable value	2,467,330	2,208,327
Materials and supplies, at cost	840,170	945,429
Prepaid expenses	111,041	47,138
	<u>14,689,755</u>	<u>13,339,573</u>
 Investments — at cost or written-down value	 390,133	 424,067
 Property, Plant and Equipment (note 2)	 6,009,811	 6,668,462
 Deferred Development — at cost less amortization (note 3)	 <u>64,883</u>	 <u>511,811</u>
 ON BEHALF OF THE BOARD		
 A. W. Farmilo, Director		
 H. R. Snyder, Director	 <u>21,154,582</u>	 <u>20,943,913</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977 \$	1976 \$
Current Liabilities		
Accounts payable and accrued liabilities	1,092,242	793,999
Income and mineral resource taxes payable	193,507	600,555
	<u>1,285,749</u>	<u>1,394,554</u>
 Deferred Income and Mineral Resource Taxes	 <u>1,436,442</u>	 <u>1,606,442</u>
	<u>2,722,191</u>	<u>3,000,996</u>
 Shareholders' Equity		
Share Capital (note 4)		
Authorized —		
12,000,000 common shares of no par value		
Issued and fully paid —		
5,354,788 shares (1976 — 5,328,938 shares)	9,165,638	9,116,827
 Earnings Reinvested in the Business	 <u>9,266,753</u>	 <u>8,826,090</u>
	<u>18,432,391</u>	<u>17,942,917</u>
	<u>21,154,582</u>	<u>20,943,913</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Mines Limited as at December 31, 1977 and the consolidated 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1977 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.

Vancouver, B.C.
February 10, 1978

Coopers & Lybrand
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1977

	1977 \$	1976 \$
Source of Working Capital		
Net earnings before extraordinary item	746,142	318,909
Add: Items not affecting working capital		
Depreciation and amortization	1,626,659	1,489,697
Loss on disposal of property, plant and equipment	5,030	39,559
Deferred income and mineral resource taxes	60,000	(381,000)
Write-down of investments		4,217
Property costs written off		580,500
From operations	2,437,831	2,051,882
Reclassification of current taxes payable to deferred		228,148
Proceeds on disposal of fixed assets	26,300	18,389
Repayment of investments	33,934	33,447
Share capital issued	48,811	48,969
	<u>2,546,876</u>	<u>2,380,835</u>
Use of Working Capital		
Dividends	535,479	532,894
Investments		64,500
Property, plant and equipment additions	552,410	597,672
Deferred development		101
	<u>1,087,889</u>	<u>1,195,167</u>
Increase in Working Capital	1,458,987	1,185,668
Working Capital — Beginning of Year	<u>11,945,019</u>	<u>10,759,351</u>
Working Capital — End of Year	<u>13,404,006</u>	<u>11,945,019</u>
 Working Capital is Represented by:		
Current assets	14,689,755	13,339,573
Current liabilities	<u>1,285,749</u>	<u>1,394,554</u>
	<u>13,404,006</u>	<u>11,945,019</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
	\$	\$
Revenue from Concentrates Produced	21,414,018	22,892,665
Less: Treatment and marketing charges	<u>6,454,321</u>	<u>7,236,986</u>
	14,959,697	15,655,679
Operating Costs		
Production	10,966,098	10,113,320
Administrative office	416,742	481,377
Depreciation and amortization	<u>1,626,659</u>	<u>1,489,697</u>
	13,009,499	12,084,394
Operating Earnings	1,950,198	3,571,285
Other Expense (Income)		
Exploration and property costs	2,129,081	3,034,990
Write-down of investments		4,217
Loss on disposal of property, plant and equipment	5,030	39,559
Interest earned on short-term investments	(509,946)	(456,452)
Currency translation adjustments	(641,760)	36,305
Other income	<u>(40,349)</u>	<u>(83,243)</u>
	942,056	2,575,376
Earnings Before Taxes and Extraordinary Item	1,008,142	995,909
Income and Mineral Resource Taxes		
Current	202,000	1,058,000
Deferred	<u>60,000</u>	<u>(381,000)</u>
	262,000	677,000
Net Earnings Before Extraordinary Item	746,142	318,909
Recovery of Deferred Income Taxes on Application of Prior Years' Losses (note 5)	230,000	
Net Earnings for the Year	976,142	318,909
Earnings Per Share		
Before extraordinary item	14¢	6¢
Net earnings for the year	<u>18¢</u>	<u>6¢</u>

CONSOLIDATED STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
	\$	\$
Beginning of Year	8,826,090	9,040,075
Net earnings for the year	<u>976,142</u>	<u>318,909</u>
	9,802,232	9,358,984
 Dividends — 10¢ per share in 1977 (10¢ in 1976)	 <u>535,479</u>	 <u>532,894</u>
 End of Year	 <u>9,266,753</u>	 <u>8,826,090</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1977

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These financial statements include the accounts of the company and its wholly-owned active subsidiaries, Western Mines Inc. and Western Coal Holdings Inc., which are engaged in mining exploration activities in the United States.

(b) Translation of foreign currencies

Current assets and current liabilities in foreign currencies are translated at year-end rates. Non-current assets, related depreciation, and non-current liabilities are translated at the rates applicable at the time of the relevant transactions. Revenues and expenses, other than depreciation, are at average rates of exchange for the year. Exchange adjustments are included in the determination of net earnings.

(c) Concentrate settlements receivable and concentrate inventories

Concentrate settlements receivable are valued at the metal prices prevailing at the time of shipment less provision for estimated market adjustments, treatment and marketing charges. In accordance with the terms of the sales contract, final settlements are made at prices prevailing at a future date and the amounts eventually received by the company may vary from the amounts shown as concentrate settlements receivable at December 31, 1977.

Concentrate inventories are valued at the metal prices at December 31, 1977, less provision for estimated market adjustments, treatment and marketing charges.

(d) Depreciation and amortization

Depreciation and amortization of mining properties, plant and equipment are calculated on a basis relating to production and ore reserves. Automotive equipment is depreciated on the same basis or at the rate of 20% of cost on a straight-line basis whichever is greater. Staff housing, located in the Campbell River area, is depreciated at the rate of 5% per annum on a straight-line basis.

(e) Deferred development

Exploration expenditures including property acquisition costs, contributions to joint ventures, and related administrative overhead are charged against earnings as incurred. Once economically recoverable reserves have been established, expenditures associated with that project are capitalized until production commences.

Deferred development represents the cost of development relating to areas where economically recoverable mineral, oil and gas reserves are established, less amortization. These costs are amortized over the life of the reserves from the time production commences or written off if the project is abandoned.

(f) Income and mineral resource taxes

The company follows the tax allocation basis of accounting for corporate income and mineral resource taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current operations and are recorded in the balance sheet as provision for deferred income and mineral resource taxes. The timing differences relate primarily to depreciation and deferred development costs.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation and amortization are:

	1977		1976	
	Cost	Accumulated depreciation and amortization	Net	Net
	\$	\$	\$	\$
Mining properties . . .	203,903	101,990	101,913	122,313
Plant, roads and equipment	12,854,251	7,219,096	5,635,155	6,217,476
Underground capital development	231,872	124,811	107,061	127,661
Staff housing	310,564	144,882	165,682	201,012
	<u>13,600,590</u>	<u>7,590,779</u>	<u>6,009,811</u>	<u>6,668,462</u>

3. DEFERRED DEVELOPMENT

	1977	1976
	\$	\$
Beginning of year	511,811	958,754
Expenditures during the year		101
	<u>511,811</u>	<u>958,855</u>
Amortization and write-offs during year	446,928	447,044
End of year	<u>64,883</u>	<u>511,811</u>

4. SHARE CAPITAL

(a) 25,850 shares were issued for cash of \$48,811 under terms of stock option plans available to employees and a consultant. As at December 31, 1977, 73,250 shares remain outstanding under existing stock options, exercisable at varying dates to 1981 at prices ranging from \$1.86 per share to \$2.98 per share.

(b) The company holds 30,100 shares which were purchased for \$67,603 which have been treated as a reduction of issued share capital pending resale or retirement.

5. EXTRAORDINARY ITEM

Income taxes otherwise exigible for the year have been reduced by the application of previously unrecorded deferred income tax debits relating to the company's United States subsidiary. This reduction has been reflected as an extraordinary item in the statement of earnings.

6. COMMITMENTS

Under the terms of various joint venture agreements the company has commitments for the expenditure of \$1,047,000 on drilling and exploration during 1978.

7. STATUTORY INFORMATION

During the year ended December 31, 1977, the directors and senior officers of the company were paid aggregate direct remuneration totalling \$323,676 (1976 — \$388,692).

8. ANTI-INFLATION ACT

The company is subject to restrictions on prices, profit margins, dividends and employee compensation under the terms of the Anti-Inflation Act and Regulations.



Lynx and Myra Mines



Abandoned 1977 properties



Oil producer



Projects

Projects

- | | | |
|-----------------------------------|--------------------|-------------------|
| 1. Keystone/Rover | 5. Yava | 11. Cup Lake |
| 2. Tenas Creek | 6. Dubawnt | 12. Tillex |
| 3. Ogilvie | 7. Camsell Portage | 13. Sam |
| 4. Great Slave Reef and West Reef | 8. Pine Channel | 14. Buskegau |
| | 9. Westgate | 15. Bancroft |
| | 10. Costigan | 16. Rushmere Lake |

SUMMARY OF OPERATIONS

	Years Ended December 31				
	1973	1974	1975	1976	1977
Net operating income before the following	\$9,225,673	\$10,381,453	\$5,329,213	\$5,060,982	\$3,576,857
Investment and other income	224,434	921,477	910,042	503,390	1,192,055
	9,450,107	11,302,930	6,239,255	5,564,372	4,768,912
Depreciation	1,197,131	1,660,182	1,609,445	1,489,697	1,626,659
Exploration	378,458	1,250,162	1,544,927	3,034,990	2,129,081
Interest on long term debt	5,880				
Loss on disposals and write-down of assets	654,712*	1,019,671	309,709	43,776	5,030
Taxes on income including deferred taxes .	1,680,000	4,550,000	2,111,000	677,000	32,000*
	3,916,181	8,480,015	5,575,081	5,245,463	3,792,770
Net earnings	\$5,533,926*	\$ 2,822,915	\$ 664,174	\$ 318,909	\$ 976,142*
Shares issued	5,210,616	5,181,516	5,213,566	5,328,938	5,354,788
Earnings per share	\$1.06*	54¢	13¢	6¢	18¢*
Dry tons milled	354,240	297,290	287,393	296,846	296,598
Copper concentrate produced	13,320	10,320	8,877	9,934	9,753
Zinc concentrate produced	43,838	37,346	34,416	35,604	35,147
Lead concentrate produced	8,830	8,648	7,613	7,981	7,249
Ore reserves proven	1,671,100	1,887,900	1,731,300	1,704,000	1,459,900

*after extraordinary item

Valuation Day

On December 22, 1971, established as Valuation Day by the Canadian Department of National Revenue, the price of the Company's shares was \$2.55 per share.

LYNX MINE & MYRA FALLS MINE SCHEMATIC PRESENTATION OF THE ORE ZONES

ORE TYPES



NORTH WALL



NORTH WALL
HIGH GRADE



SOUTH WALL

LYNX MINE

SECTION
55+00

OPEN
PIT

LOWER
PIT

2000' ELEV.

1000' ELEV.

0' ELEV.

Myra Creek

6 LEVEL

8 LEVEL

9 LEVEL

10 LEVEL

11 LEVEL

12 LEVEL

13 LEVEL

14 LEVEL

15 LEVEL

16 LEVEL

17 LEVEL

LONGITUDINAL SECTION

MYRA FALLS MINE

SECTION
124+00

130+00 E

160+00 E

180+00 E

2000' ELEV.

1000' ELEV.

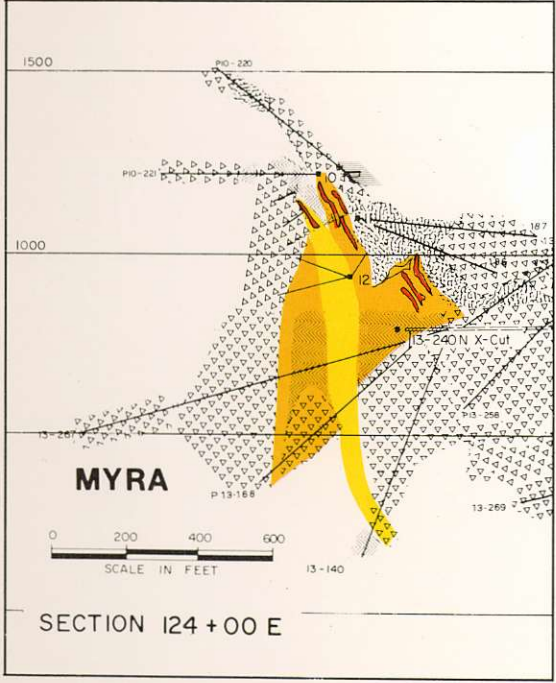
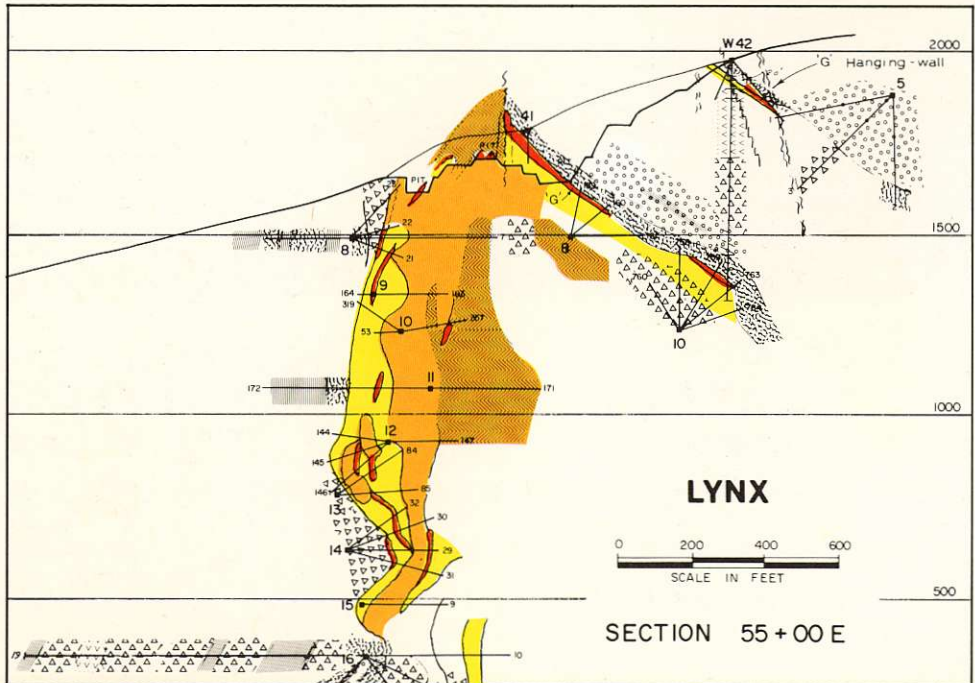
0' ELEV.

AREA OF CURRENT EXPLORATION

TO THELWOOD
VALLEY

DECLINE

MYRA PRICE
FAULT



LEGEND

- Lapilli
- Breccia (Multilithologic)
- Tuff (Sharp Banded)
- Argillite
- Chert
- Ore
- Rhyolite
- Dacite
- Andesite (G-Flow)
- Quartz Sericite Schist
- Quartz Chlorite Schist
- Chlorite Schist
- Diabase
- Felsic Dyke
- Diorite Dyke