

WESTERN MINES LIMITED

802168-

ANNUAL
REPORT
1979



CORPORATE INFORMATION

OFFICERS

A. William Farmilo,
Chairman of the Board
Paul M. Marshall,
Vice-Chairman of the Board
Dr. George M. Furnival, President
and Chief Executive Officer
Douglas W. Miller, Vice-President
Dr. Arthur E. Soregaroli,
Vice-President, Exploration
Gunnar I. Dziny, Vice-President, Mines
Raymond O. Hampton, Secretary and
Administrative Manager
Ross A. Mitchell, Treasurer

MANAGEMENT

Mine

Edward Sader,
Resident Mine Manager
Brian M. Bailey, Mine Superintendent
Albert G. Eccles, Mill Manager
Norman T. McGeachy,
Chief Accountant
George J. Shiels,
Plant Superintendent

Exploration

Bruce E. Spencer, Exploration
Manager, Western Canada
Patrick R. Heenan, Exploration
Manager, Eastern Canada
Dr. Ronald H. McMillan,
Chief Geologist
Allyn J. Steward, Mine Manager,
Great Slave Reef Project

Head Office

Bruce K. McKnight, Manager,
Corporate Planning and
Development
Neil S. Seldon, Manager, Marketing

ANNUAL GENERAL MEETING

The Annual General Meeting of
Western Mines Limited will be held
on Wednesday, June 4, 1980, at
10:00 a.m., in the Hotel Vancouver,
Vancouver, B.C.

DIRECTORS

J. Trevor Eyton, Toronto
President, Brascan Limited
A. William Farmilo, Toronto†
Executive Vice-President,
Brascan Limited
Dr. George M. Furnival, Vancouver†
President and
Chief Executive Officer
Roger T. Hager, Vancouver
Retired
Patrick J. Keenan, Toronto†*
President, Patino N.V.
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
Harold M. Wright, Vancouver†*
Chairman, Wright Engineers Limited

†Executive Committee

*Audit Committee

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

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

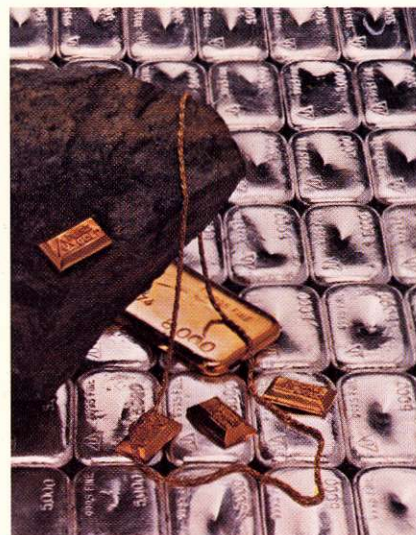
Mine Office
P.O.Box 8000
Campbell River, B.C.
V9W 5E2

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.

FRONT COVER

The cover picture depicts the
importance of gold and silver in the
earnings of the Company. These are
basically by-products but with the
spectacular price spiral in gold and
silver prices, 60% of revenue is now
attributed to these metals. The
Company does not refine its gold and
silver but ships them in the form of
concentrates.



COMPARATIVE HIGHLIGHTS

	1979	1978
Net earnings before extraordinary item	\$ 12,082,242	\$ 4,090,132
-per share.....	\$ 2.23	\$.76
Net earnings.....	\$ 12,510,242	\$ 4,244,132
-per share.....	\$ 2.31	\$.79
Dividends paid.....	\$ 1,079,707	\$ 538,664
-per share.....	\$.20	\$.10
Shares outstanding at year end.....	5,406,438	5,386,638
Number of shareholders.....	3,078	3,419
Capital expenditures-net.....	\$ 23,787,333	\$ 194,201
Working capital.....	\$ 10,861,254	\$ 18,056,458
Average number of employees.....	311	274
Total company payroll.....	\$ 7,916,309	\$ 6,600,051

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THE COMPANY

Western Mines Limited has operated a copper, lead, zinc, gold and silver mine since 1967. Underground production comes from the Lynx and Myra mines located at the southern end of Buttle Lake on Vancouver Island. The Company has an extensive exploration program in Canada for uranium, base and precious metals.

In 1979 a major diversification was made into petroleum exploration and the acquisition of producing oil and gas properties.



REPORT TO THE SHAREHOLDERS

The year 1979 has proven to be most important in the Company's 12-year producing history, encompassing a number of events which already have had a marked effect on the Company's future and its direction.

These events include, firstly, two important discoveries of new ore deposits at Buttle Lake. The H-W orebody has been indicated by subsequent drilling to be of major dimensions and will extend the life of the mine significantly. Secondly, the Company made an important diversification with the investment of \$23 million in petroleum properties in Alberta and Saskatchewan. Thirdly, all time highs were recorded for the amounts of net smelter return, cash flow, and net earnings per share. Fourthly, a proposal is being formulated to acquire all the shares of Brascan Resources Limited. This acquisition by Western Mines is to be placed before the shareholders at a June meeting, for a decision by the minority shareholders voting separately.

The above events have been the result of the implementation of management's previously stated philosophy to use its self-generated funds to finance programs leading to diversification and acquisitions as well as expanded exploration and development expenditures at Buttle Lake and elsewhere in Canada. In addition, funds have been preserved to permit an expanded capital program to place newly discovered reserves in production over the next several years.

The record net earnings for 1979 at \$12,510,242 were three times greater than 1978 at \$4,244,132 (or \$2.31 per share compared to \$0.79 per share in 1978). The greatly increased earnings on a throughput of 294,181 tons is a reflection of record net smelter returns of \$42,814,656, which in turn result from greatly increased metal prices and better return per ton of concentrate shipped, due to the renegotiated smelter contracts finalized in late 1978. The precious metals content of the concentrates shipped contri-

buted to 60% of the net smelter return compared to 46% in 1978. Income from petroleum was \$289,655, up from \$34,172 in 1978. Investment and other income was \$2,033,910, up from \$1,282,862 in 1978, for a total revenue of \$45,138,221. Operating costs, at \$14,946,228, were \$2,491,074 higher than in 1978. Underground development work accounted for an increase of \$620,722. Exploration expenditures were \$4,267,133 compared to \$1,575,967 in 1978. Currency translation adjustments increased by \$717,869 over 1978. Cash flow from operations for 1979 was a record \$17,255,436, more than three times 1978 at \$5,520,812. After the payment of dividends totalling \$1,079,707, the investment of \$22,776,162 for petroleum properties and \$1,122,837 for other investments, working capital, which stood at \$18,056,458 at the beginning of 1979, was reduced to \$10,861,254 at the end of 1979.

A total of 165,000 tons of new ore was discovered, chiefly in the 'S' zone of the Lynx mine. Proven ore reserves at Buttle Lake at the end of 1979 are now estimated at 1,144,000 tons, compared to 1,272,940 tons at the end of 1978.

For the 314 days that the concentrator operated in 1979, efficiency was maintained at the high rate of 98.9% on an average daily throughput of 937 tons.

In the past we mentioned that one of our most serious problems in Western Mines was the declining ore reserves at Buttle Lake. This year we are pleased to report that the exploration efforts of our special task force at the mine have resulted in two new and important mineral discoveries, the Upper Price and the H-W deposits.

The Upper Price zone, comprising two mineralized horizons in the area east of the Myra mine, has been traced a length of 1650 feet and is still open to the west. The occurrence is similar to the ore deposits in the Myra mine. A road has been constructed and a portal site cleared to permit driving an adit for underground development in 1980.

The H-W deposit was discovered in Myra Creek valley, north of the Lynx and Myra mines, in December 1979, when drill holes penetrated sections of massive copper-zinc rich sulphides at a stratigraphically deeper horizon than the Lynx and Myra orebodies. Subsequent drilling has disclosed the presence of two additional mineralized horizons, one above and one below the H-W deposit. Drilling has now indicated that this discovery will add significantly to the productive life of the Buttle Lake mine.

A decision has been made to sink a six compartment, 2000-foot shaft, to permit development and mining of the H-W orebody. Thirty months will be required to complete the shaft at an estimated cost of about \$19 million. An additional six months will be required for cross-cutting to the orebody and commencement of stope development.

Exploration on properties outside of the Buttle Lake mine was sharply expanded in 1979 over 1978 at a cost of \$2.3 million. Dr. A. E. Soregaroli, Vice-President, Exploration, has detailed in another part of this report, the more important results from this work.

Twenty-five mining properties in Canada and the U.S.A. were the subject of exploratory investigation in 1979. Six are of particular interest. Five drills are continuing to probe for additional reserves at Great Slave Reef in order to establish the minimum tonnage needed to justify commercial exploration. The Tournigan option on the former Big Missouri gold mine near Stewart, B.C. will be the subject to an extensive drilling program in 1980. A broad drilling program is planned for 1980 for uranium deposits on the extensive land holdings at Dubawnt Lake, N.W.T., following up the favourable results obtained from surveys conducted in 1979. Drilling for uranium at the Papaskwasati property in Northern Quebec and at the Westgate property in Saskatchewan was in both cases sufficiently encouraging to justify additional drilling programs in 1980. The Keystone molybdenum

prospect near Hope, B.C. remains sufficiently prospective to warrant further drilling in 1980.

As predicted in the annual report for 1978 and as discussed at the last shareholders' meeting, the large increase in working capital permitted the Company to take advantage of an opportunity expeditiously and successfully to conclude an attractive acquisition in petroleum. In November 1979 a bid of \$20,101,000 was successfully submitted to acquire the oil and gas interests held by Abacus Cities Ltd. Based on the latest evaluations, net proven reserves in south central Alberta and Saskatchewan are estimated to be 0.686 million stock tank barrels of oil and condensate and 11.5 billion cubic feet of natural gas. In addition, the Company acquired an estimated 24,607 net acres of undeveloped oil and gas rights, of which 99% is in Alberta. All estimates are after royalty.

Under a farmout agreement with Brascan Resources Limited, a further \$2.68 million was invested in drilling 20 exploratory wells on 20 sections in the Irish Creek (Lindbergh) area of east central Alberta. This expenditure earned the Company a 40% working

interest in the project. A success ratio of 85% yielded six potential heavy oil wells, two combined potential heavy oil and natural gas wells, nine potential natural gas wells and three holes dry and abandoned. An independent consultant estimates net proven and probable additional reserves of oil, after royalty, are 598,000 stock tank barrels and 2.160 billion cubic feet of natural gas as of January 1, 1980.

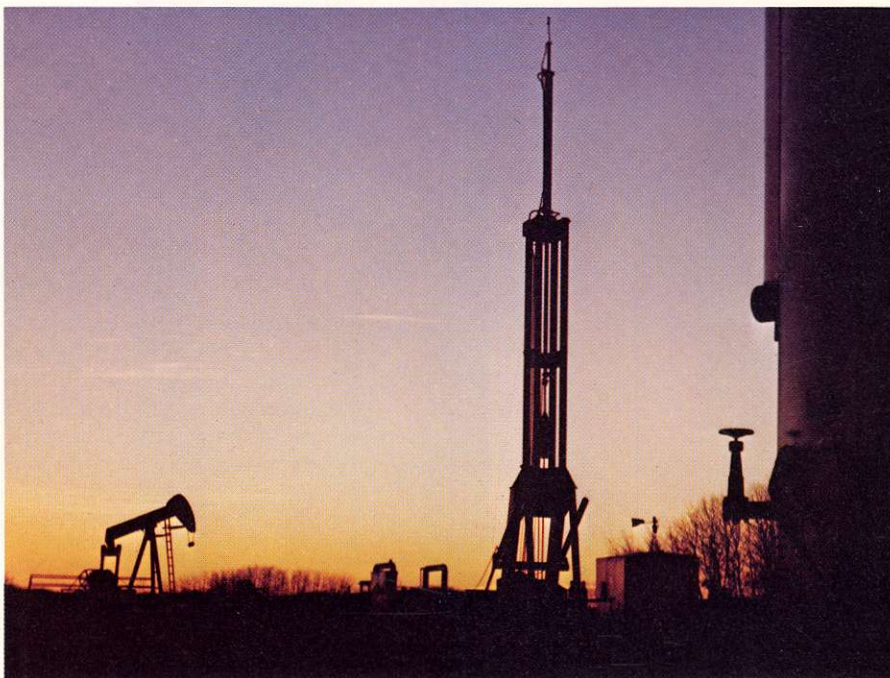
The above two projects combined, provide the Company with proven and probable net reserves that total, after royalty, 1,284,000 barrels of oil and 14.4 billion cubic feet of natural gas.

In recognition of fine performance, a number of staff changes were made in 1979 and are reported with pleasure. Effective June 1, 1979, Mr. Richard R. Walker was promoted to Manager Exploration, Vancouver Island, and Mr. Brian M. Bailey, formerly Mine Foreman at the Buttle Lake Mines, was promoted to Mine Superintendent. Effective September 1, 1979, Mr. Gunnar I. Dziny, formerly Operations Manager, was promoted to Vice-President, Mines; Mr. Ross A. Mitchell, formerly Comptroller, was promoted to Treasurer; Mr. Raymond

O. Hampton, formerly Secretary-Treasurer, was promoted to Secretary and Administrative Manager; Mr. Edward Sader, formerly Assistant Mine Manager, was promoted to Resident Mine Manager, Buttle Lake Mine; Mr. Albert G. Eccles, formerly Mill Superintendent, was promoted to Mill Manager and Mr. Allyn J. Steward, formerly Mine Superintendent, was promoted to Mine Manager, Great Slave Reef Project.

Our colleagues on the Board join with us in extending our thanks and gratitude to those mentioned above as well as to all employees for the record results achieved by the Company in 1979.

Mr. William R. Miller and Mr. Richard H. Ostrosser resigned from the Board in 1979. To these gentlemen we extend our sincere thanks for the invaluable contributions they have made towards the Company's improved outlook. They were replaced by Mr. J. Trevor Eyton, President and Chief Executive Officer of Brascan Limited, and Mr. Patrick J. Keenan, Director of Brascan Limited.



ON BEHALF OF THE BOARD

A. W. Farmilo
A. W. Farmilo

Chairman

G. M. Furnival
G. M. Furnival

President and Chief Executive Officer

Vancouver, B.C.
March 21, 1980

This is a Hydraulic Electronic Pneumatic pumping unit being used on the Irish Creek heavy oil production. The pump was especially designed and is manufactured in Alberta to provide more efficient pumping of heavy oil in the many wells being brought into production in East Central Alberta.

FINANCIAL REPORT

Earnings before extraordinary items were a record \$12.1 million or \$2.23 per share. After extraordinary items earnings were \$12.5 million (\$2.31). Higher metal prices, particularly gold and silver in the fourth quarter, were the main factors of this performance. Cash flow from operations was \$17.3 million (\$3.19). Dividends of \$1.1 million or 20c per share were paid. Year end working capital was \$10.9 million.

In the fourth quarter significant investments were made in two attractive opportunities in the Canadian petroleum industry. The cost of our investment was \$22.8 million and was financed in part by earnings and part by temporary bank borrowings. The bank borrowings relating to these investments have now been repaid.

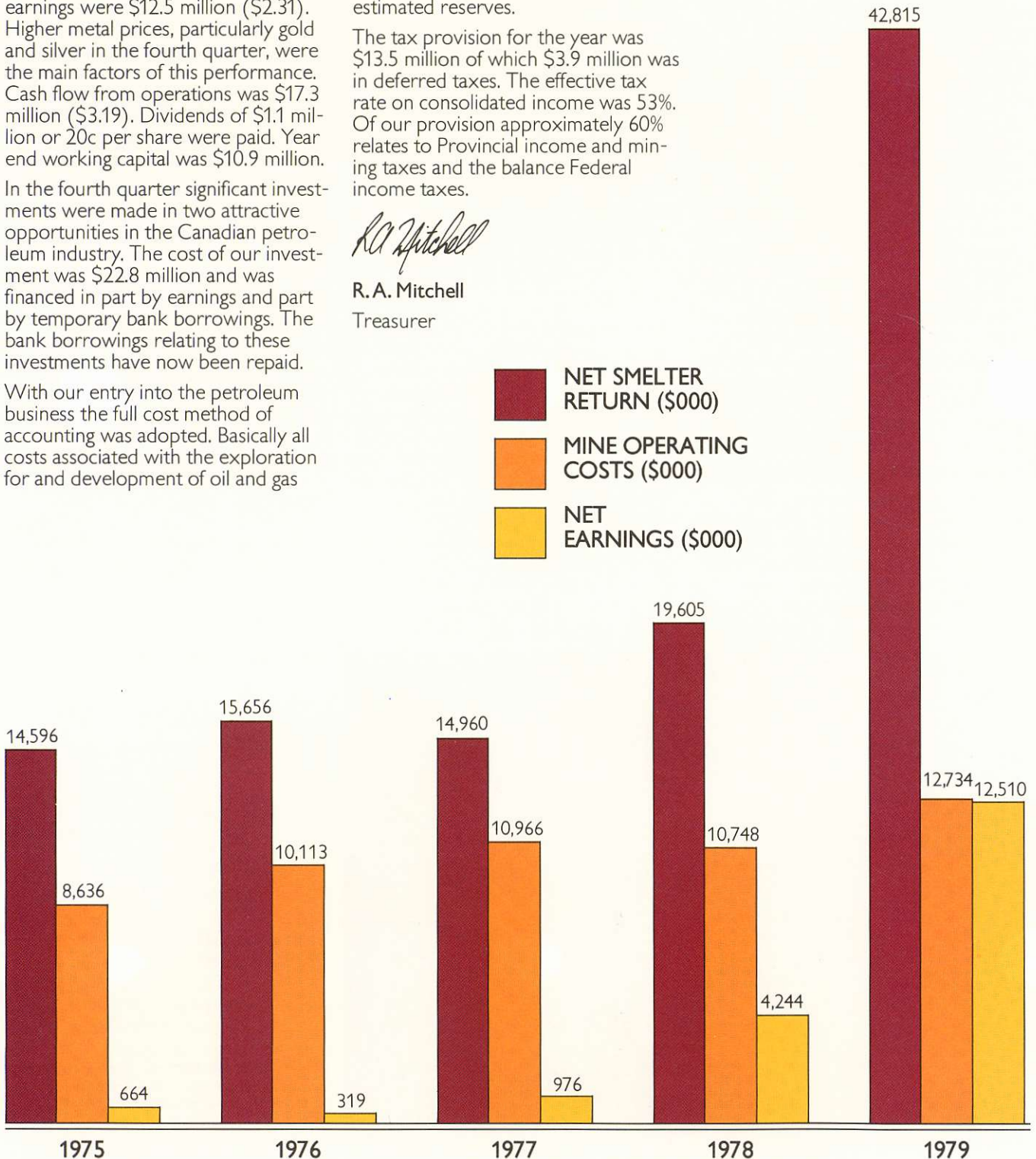
With our entry into the petroleum business the full cost method of accounting was adopted. Basically all costs associated with the exploration for and development of oil and gas

reserves are capitalized by area of interest. These costs will be written off on a unit-of-production basis on total estimated reserves.

The tax provision for the year was \$13.5 million of which \$3.9 million was in deferred taxes. The effective tax rate on consolidated income was 53%. Of our provision approximately 60% relates to Provincial income and mining taxes and the balance Federal income taxes.



R. A. Mitchell
Treasurer



OPERATIONS

PRODUCTION

Tonnage milled during 1979 was 294,181, approximately the same as the 1978 level of 296,560. The source of feed was 68% from the Lynx mine and 32% from the Myra workings as compared to the 1978 production of 64% and 36% respectively. The concentrator operated 314 days which was one more than the previous year. Mill recoveries were improved for copper and zinc while lead was a shade lower. The head grade for all metals was higher except silver which declined from 4.08 ounces per ton to 3.82 ounces. Concentrate tonnages produced were copper 11,525 (11,373), lead 7,462 (7,464) and zinc 40,307 (40,012).

As mentioned above, more production was achieved from the Lynx mine. At year end, there were 12 stopes operating in the "G" zone, an increase from nine a year ago. The initial production from the "S" zone commenced during the year and two stopes were operating with five more in an advanced development stage.

OPERATING COSTS

Operating costs increased to \$43.03 per ton compared to the 1978 level of \$36.24. Additional development work accounted for \$2.11 of this increase. Unusual expenses were incurred in connection with the Hydro plant as the penstock was damaged and required extensive repairs. Also rain and snowfall was below normal which necessitated the utilization of higher than expected diesel generated power. Other departments experienced normal inflationary increases.

A new two year collective bargaining agreement effective October 1, 1979, was signed with the Canadian Association of Industrial, Mechanical and Allied Workers union. At year end there were 272 employees at the Buttle Lake site.

ORE RESERVES

During 1979, 165,000 tons of new ore reserves were found, principally in the "S" zone of the Lynx mine. Proven ore reserves as at January 1, 1980 were:

	Tons	Gold oz/ton	Silver oz/ton	Copper %	Lead %	Zinc %
Lynx	866,000	0.07	2.5	1.2	0.9	8.5
Myra	278,000	0.10	6.1	0.8	1.5	6.4
	1,144,000	0.08	3.4	1.1	1.0	8.0
Proven ore reserves as of January 1, 1979 were:	1,272,940	0.09	3.8	1.2	1.2	8.0

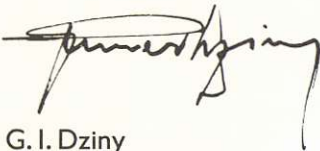
DEVELOPMENT

Underground horizontal and vertical development and diamond drilling were all substantially above the 1978 totals. Horizontal advance was 8,068 feet (3,981) plus an additional 1,440 feet in the Price mine, 9-level adit. Vertical advance was 4,125 feet (3,463). Underground diamond drilling was 60,873 feet (47,297).

A 1.5 mile access road to Price 9-level was completed in May. The adit was collared in May and the drift was advanced 1,440 feet by year end. A 1.8 mile extension of the road was put through to the Price 5-level portal site in the latter part of the year. Drifting will start when weather conditions permit.

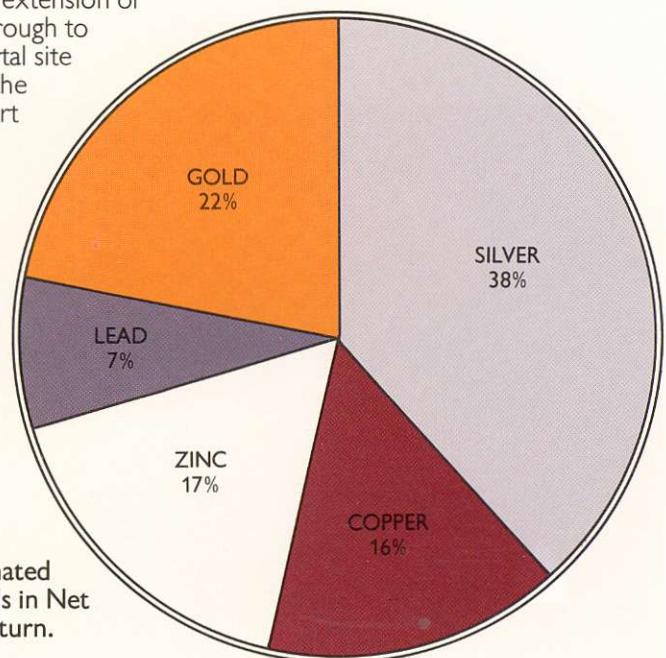
ENVIRONMENTAL CONTROL

Monitoring of tailings discharge, mine drainage, lake water and fish throughout the year indicated no detrimental effects on the water quality of Buttle Lake.



G. I. Dziny

Vice-President, Mines



1979 Estimated
Value of Metals in Net
Smelter Return.

METALS EXPLORATION

During 1979 Western Mines contributed \$4,267,000 towards the exploration of twenty-four mineral properties in Canada and one in southeastern Alaska. Joint venture partners contributed an additional \$2,792,000 giving Western a total exploration exposure of \$7,059,000. Emphasis continued on copper-zinc-gold-silver (massive sulphides), lead-zinc, uranium, precious metals, and molybdenum.

COPPER-ZINC-GOLD-SILVER (Massive Sulphides)

Western Mines continued its search for massive sulphide deposits in British Columbia, Yukon Territory, and Ontario, with most efforts directed towards exploration of the Buttle Lake Mine property on Vancouver Island.

BUTTLE LAKE OPERATIONS

Geological studies conducted under the supervision of R. Walker resulted in the recognition and redefinition of several exploration targets. Diamond drilling of five of these target areas resulted in the discovery of two important mineralized zones.

Creek Zone

The most significant discovery is under

the Myra Creek valley, where at least two, and perhaps three, mineralized horizons have been identified. A decision was made in January to proceed with development of these horizons through a new 2000-foot shaft. Three drills are continuing the evaluations of the Creek Zone.

H-W Orebody

The lower horizon, which has been designated the H-W Orebody, is a copper and zinc-bearing massive pyrite horizon with minor, but significant, precious metal content. The copper and zinc-bearing portions of the massive sulphide horizon have thickness ranging from 5 to 81.2 feet. The orebody has been indicated by 14 drill holes for a strike length of 1200 feet and a dip length of 500 feet and remains open in both directions along strike and down the dip.

Upper Horizon

The Upper Horizon occupying a higher stratigraphic horizon above the H-W Orebody, is a precious metal zone carrying significant base metals. This horizon has been penetrated by ten diamond drill holes over a 400-foot dip length and a strike length of 800 feet and remains open in three directions. Ore intercepts range from less than one foot to 17.2 feet, with

variable, but above average gold and silver content.

Upper Price Zone

Evaluation of this north-dipping mineralized zone by diamond drilling has established a massive sulphide zone which has been traced along strike for a distance of 1650 feet. The zone has not been drilled in detail, but will be further tested by underground development and drilling in 1980.

LEAD-ZINC

Great Slave Reef/West Reef, Northwest Territories

Western Mines, Du Pont of Canada Exploration Limited and Philipp Brothers (Canada) Ltd. continued exploration of the Great Slave Reef and West Reef Properties in 1979. Feasibility studies, conducted to determine the economic viability of mining the R-190 and X-25 Zones, revealed that the mineralized zones are not economically viable at present metal prices. Additional water pumping tests will be conducted in 1980 to determine the cost of dewatering potential mining areas. Five drills are continuing the search for additional reserves.

URANIUM

Western Mines in conjunction with their joint venture participant Central Electricity Generating Board Exploration (Canada) Limited participated in the exploration of 16 uranium properties in 1979, seven of which were diamond drilled.

Dubawnt, Northwest Territories

Detailed geological and geochemical studies combined with airborne radiometric, electromagnetic and magnetic surveys as well as considerable ground prospecting were conducted during the six-week period starting on August 1, 1979. The airborne radiometric, electromagnetic and magnetic



Exploration staff examining drill core from the H-W Orebody.

Drilling rig defining the H-W Orebody at 1200 feet below the surface.



surveys, which were extensions of 1978 airborne surveys, resulted in definition of several anomalies. Uranium-bearing boulders were later discovered during field checks of two airborne radiometric anomalies. Diamond drilling is scheduled for 1980.

Papaskwasati, Quebec

The Papaskwasati property was acquired by option in early 1979 based on a 1967 diamond drill hole that intercepted 6 feet grading 3 lb. U₃O₈ per ton. Evaluation of the area with 18 additional holes spaced at 25 to 50 foot centres defined uranium mineralization at a depth of 60 to 70 feet over an area of approximately 270 feet by 100 feet. Widths range from 2 to 9.8

feet and grade about 2 lb. U₃O₈ per ton. Additional drilling will be conducted early in 1980.

Westgate, Saskatchewan

The Westgate Property is being explored jointly by Western Mines, Central Electricity Generating Board Exploration (Canada) Limited, Denison Mines Limited and the Saskatchewan Mining Development Corporation. Diamond drilling late in 1978 encountered uranium and nickel which required additional follow-up diamond drilling, currently in progress.

PRECIOUS METALS

Big Missouri, British Columbia

Exploration of the Big Missouri

property, under option to Western Mines from Tournigan Mining Explorations Ltd., was largely confined to detailed geological studies accompanied by geochemical and geophysical surveys and by surface trenching and underground panel sampling. In addition, seven diamond drill holes were completed to test structural and stratigraphic models. Gold-silver and base metals were encountered in five holes. An expanded drilling program is planned for 1980.

Detour

Some 750 claims were staked in 1979 astride the Ontario-Quebec boundary northeast of Cochrane, Ontario, as a follow-up to the development results at the Detour Lake gold mining project. Airborne surveys will be conducted in 1980.

MOLYBDENUM

Keystone, British Columbia

The Keystone property near Hope, was acquired by Western Mines in 1978. Amax Minerals Exploration joined in the exploration of the property and a diamond drill hole was collared within breccia in an unsuccessful attempt to find the source of mineralized fragments. In 1979 a second hole, W-79-1, near the northern edge of the breccia, penetrated sporadic molybdenum from a depth of 518 metres to the bottom of the hole at 1357 metres. The best molybdenum mineralization is a 307 metre section from 1050 to 1357 metres which grades 0.044% Mo.

A third hole, W-79-2, drilled northeast of W-79-1 did not intersect the mineralized zone.

Additional drilling is scheduled for 1980.



A. E. Soregaroli

A. E. Soregaroli

Vice-President, Exploration

CONSOLIDATED BALANCE SHEET as at December 31, 1979

	1979 \$	1978 \$
ASSETS		
Current Assets		
Cash and short-term investments, at cost which approximates market value.....	15,432,725	13,204,892
Concentrate settlements receivable.....	9,267,841	2,418,803
Inventories		
Concentrates, at estimated net realizable value.....	9,139,268	5,559,252
Materials and supplies, at cost.....	1,094,039	931,533
Other accounts receivable, deposits and prepaids.....	4,445,009	576,229
	<u>39,378,882</u>	<u>22,690,709</u>
Investments, at cost or written-down value.....	427,869	366,167
Property, Plant and Equipment (note 2).....	27,578,618	5,077,479
	<u>67,385,369</u>	<u>28,134,355</u>
LIABILITIES		
Current Liabilities		
Bank advances.....	16,425,347	
Accounts payable and accrued liabilities.....	2,918,804	1,189,503
Income and mineral resource taxes payable.....	9,173,477	3,444,748
	<u>28,517,628</u>	<u>4,634,251</u>
Deferred Income and Mineral Resource Taxes	5,182,442	1,295,442
	<u>33,700,070</u>	<u>5,929,693</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 3)		
Authorized- 12,000,000 common shares of no par value		
Issued and fully paid- 5,406,438 shares (1978-5,386,638 shares).....	9,282,543	9,232,441
Earnings Reinvested in the Business	24,402,756	12,972,221
	<u>33,685,299</u>	<u>22,204,662</u>
	<u>67,385,369</u>	<u>28,134,355</u>

APPROVED BY THE DIRECTORS

A.W. Farmilo

G. M. Furnival

CONSOLIDATED STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

for the year ended December 31, 1979

	1979 \$	1978 \$
Beginning of Year	12,972,221	9,266,753
Net earnings for the year	<u>12,510,242</u>	<u>4,244,132</u>
	<u>25,482,463</u>	<u>13,510,885</u>
Dividends—20c per share in 1979 (10c in 1978)	<u>1,079,707</u>	<u>538,664</u>
End of Year	<u><u>24,402,756</u></u>	<u><u>12,972,221</u></u>

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended
December 31, 1979

	1979 \$	1978 \$
Revenues		
Concentrates, net of treatment and marketing	42,814,656	19,604,605
Petroleum, less royalties	289,655	34,172
Investment and other income	<u>2,033,910</u>	<u>1,282,862</u>
	<u>45,138,221</u>	<u>20,921,639</u>
Costs and Expenses		
Cost of concentrate production	12,734,109	10,747,791
Cost of petroleum production	77,508	
Administration and general	844,409	525,781
Depreciation, depletion and amortization	1,290,202	1,181,582
Exploration	4,267,133	1,575,967
Interest and other	79,197	9,834
Currency translation adjustments	215,421	(502,448)
	<u>19,507,979</u>	<u>13,538,507</u>
Earnings Before Taxes and Extraordinary Item	<u>25,630,242</u>	<u>7,383,132</u>
Income and Mineral Resource Taxes		
Current	9,661,000	3,434,000
Deferred	<u>3,887,000</u>	<u>(141,000)</u>
	<u>13,548,000</u>	<u>3,293,000</u>
Net Earnings Before Extraordinary Item	<u>12,082,242</u>	<u>4,090,132</u>
Recovery of Income Taxes on Application of Prior Years' Losses (note 4)	<u>428,000</u>	<u>154,000</u>
Net Earnings for the Year	<u><u>12,510,242</u></u>	<u><u>4,244,132</u></u>
Earnings Per Share		
Before extraordinary item	<u>2.23</u>	<u>0.76</u>
Net earnings for the year	<u>2.31</u>	<u>0.79</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1979

	1979 \$	1978 \$
Source of Working Capital		
Net earnings before extraordinary item	12,082,242	4,090,132
Add: Items not affecting working capital		
Depreciation, depletion and amortization	1,290,202	1,181,582
(Gain) loss on disposal of property, plant and equipment	(4,008)	9,834
Deferred income and mineral resource taxes	<u>3,887,000</u>	<u>(141,000)</u>
From operations	17,255,436	5,140,548
Extraordinary recovery of income taxes	428,000	154,000
Proceeds on disposal of property, plant and equipment	11,676	35,495
Repayment of investments	38,298	123,966
Share capital issued	<u>50,102</u>	<u>66,803</u>
	<u>17,783,512</u>	<u>5,520,812</u>
Use of Working Capital		
Dividends	1,079,707	538,664
Investments	100,000	100,000
Property, plant and equipment additions	<u>23,799,009</u>	<u>229,696</u>
	<u>24,978,716</u>	<u>868,360</u>
Increase (Decrease) in Working Capital		
	(7,195,204)	4,652,452
Working Capital—Beginning of Year	18,056,458	13,404,006
Working Capital—End of Year	<u>10,861,254</u>	<u>18,056,458</u>
Working Capital is Represented By:		
Current assets	39,378,882	22,690,709
Current liabilities	<u>28,517,628</u>	<u>4,634,251</u>
	<u>10,861,254</u>	<u>18,056,458</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Mines Limited as at December 31, 1979 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, 1979 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.

COOPERS & LYBRAND
Chartered Accountants

Vancouver, B.C.
February 1, 1980

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1979

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 which approximate the rates applicable at the date of the respective transactions. Exchange adjustments are included in the determination of net earnings.

(c) Concentrate settlements receivable and concentrate inventories

Concentrate settlements receivable are valued at the latest metal prices available 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, 1979.

Concentrate inventories are valued at the metal prices at December 31, 1979, less provision for estimated market adjustments, treatment and marketing charges.

From time to time the company establishes the prices it will receive for part of its production by selling forward on the metal and currency markets.

(d) Property, plant and equipment

(i) MINING PROPERTIES, DEFERRED COSTS AND RELATED PLANT AND EQUIPMENT

Mining properties and deferred costs are carried at cost less amortization and do not necessarily reflect present or future values. Exploration expenditures, including property acquisition costs, contributions to joint ventures and related administrative overhead are charged against earnings as incurred, except where these costs relate to specific areas having indicated economically recoverable reserves, in which case they are deferred until production commences. Mining properties and deferred costs are amortized over the life of the orebody upon commencement of production. Depreciation of plant and equipment is 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.

(ii) PETROLEUM PROPERTIES AND RELATED PLANT AND EQUIPMENT

The company follows the full cost method of accounting for oil and gas properties. All costs associated with the exploration for and development of oil and gas reserves are capitalized by area of

interest. Such costs include property acquisition, exploration, development, related overhead and tangible plant and equipment. Depletion is provided on a unit-of-production method based on total estimated reserves.

(e) Income and mineral resource taxes

The company follows the tax allocation method 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 deferred income and mineral resource taxes. Certain deferred taxes relate to current assets and are included with income and mineral resource taxes payable on the balance sheet. The timing differences relate primarily to depreciation, deferred development costs and the valuation of concentrate inventory.

2. PROPERTY, PLANT AND EQUIPMENT

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

	1979		1978	
	Cost \$	Accumulated depreciation, depletion and amortization \$	Net \$	Net \$
Mineral properties:				
Mining properties	203,903	142,790	61,113	81,513
Plant, roads and equipment	13,935,517	9,231,906	4,703,611	4,738,106
Underground capital development	231,872	165,046	66,826	86,826
Staff housing	310,564	175,823	134,741	150,154
	<u>14,681,856</u>	<u>9,715,565</u>	<u>4,966,291</u>	<u>5,056,599</u>
Petroleum properties	22,776,162	163,835	22,612,327	20,880
	<u>37,458,018</u>	<u>9,879,400</u>	<u>27,578,618</u>	<u>5,077,479</u>

Pursuant to an agreement dated December 10, 1979, the company acquired certain oil and gas properties and related well equipment in Alberta and Saskatchewan for a

cost of \$20,101,000 of which \$10,000,000 is currently being held in trust pending completion of title registration searches on certain of the properties.

3. SHARE CAPITAL

- (a) 19,800 shares were issued for cash of \$50,102 under terms of stock option plans available to employees. As at December 31, 1979, 46,600 shares remain outstanding under existing stock options, exercisable at varying dates to 1984 at prices ranging from \$1.91 per share to \$5.85 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.

4. INCOME TAXES

Income taxes otherwise exigible for the year have been reduced by the application of previously unrecorded 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. No significant losses remain for carry-forward.

5. COMMITMENTS

Under the terms of various joint venture agreements the company has commitments for the expenditure of \$2,334,000 on drilling and exploration during 1980.

6. STATUTORY INFORMATION

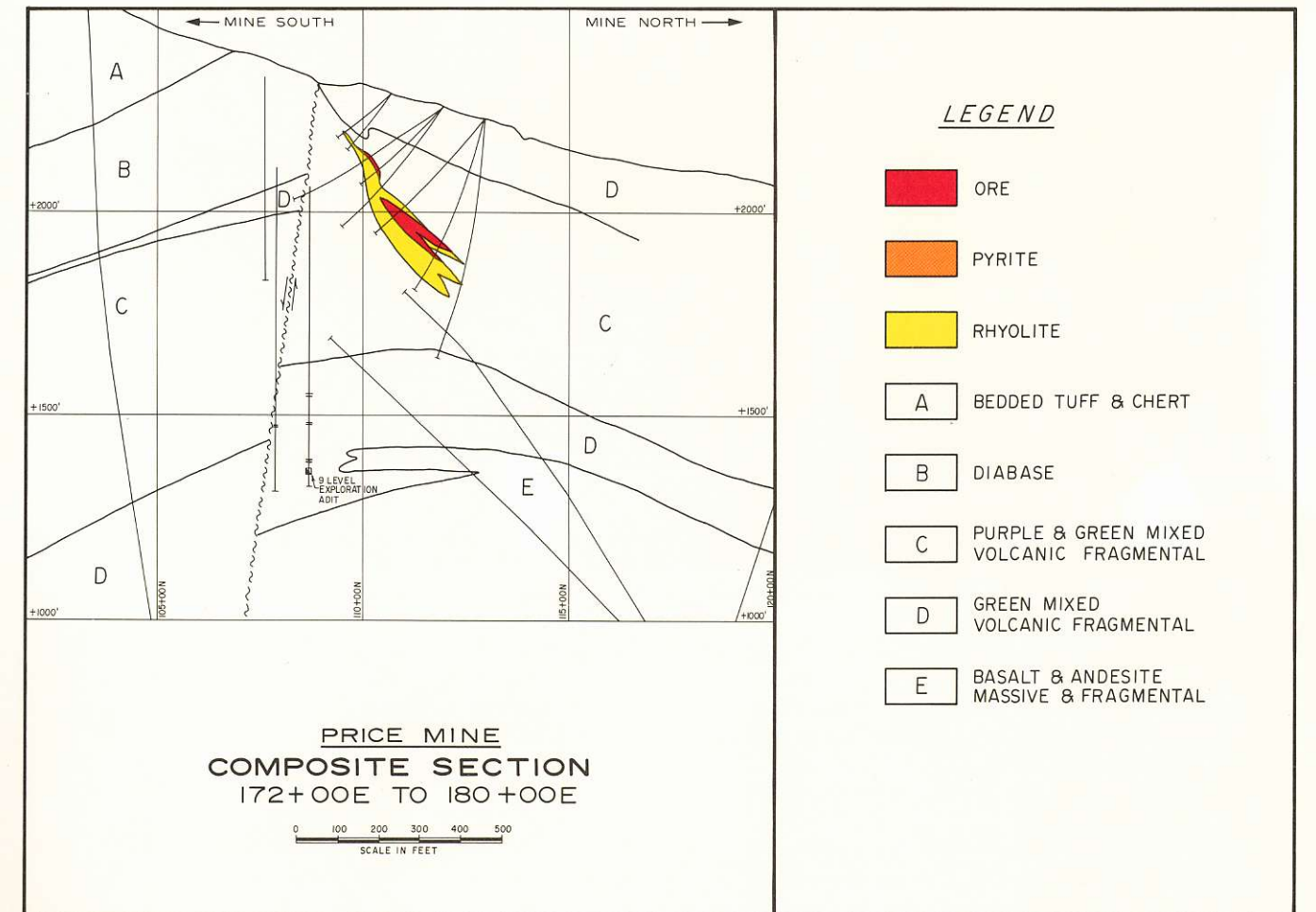
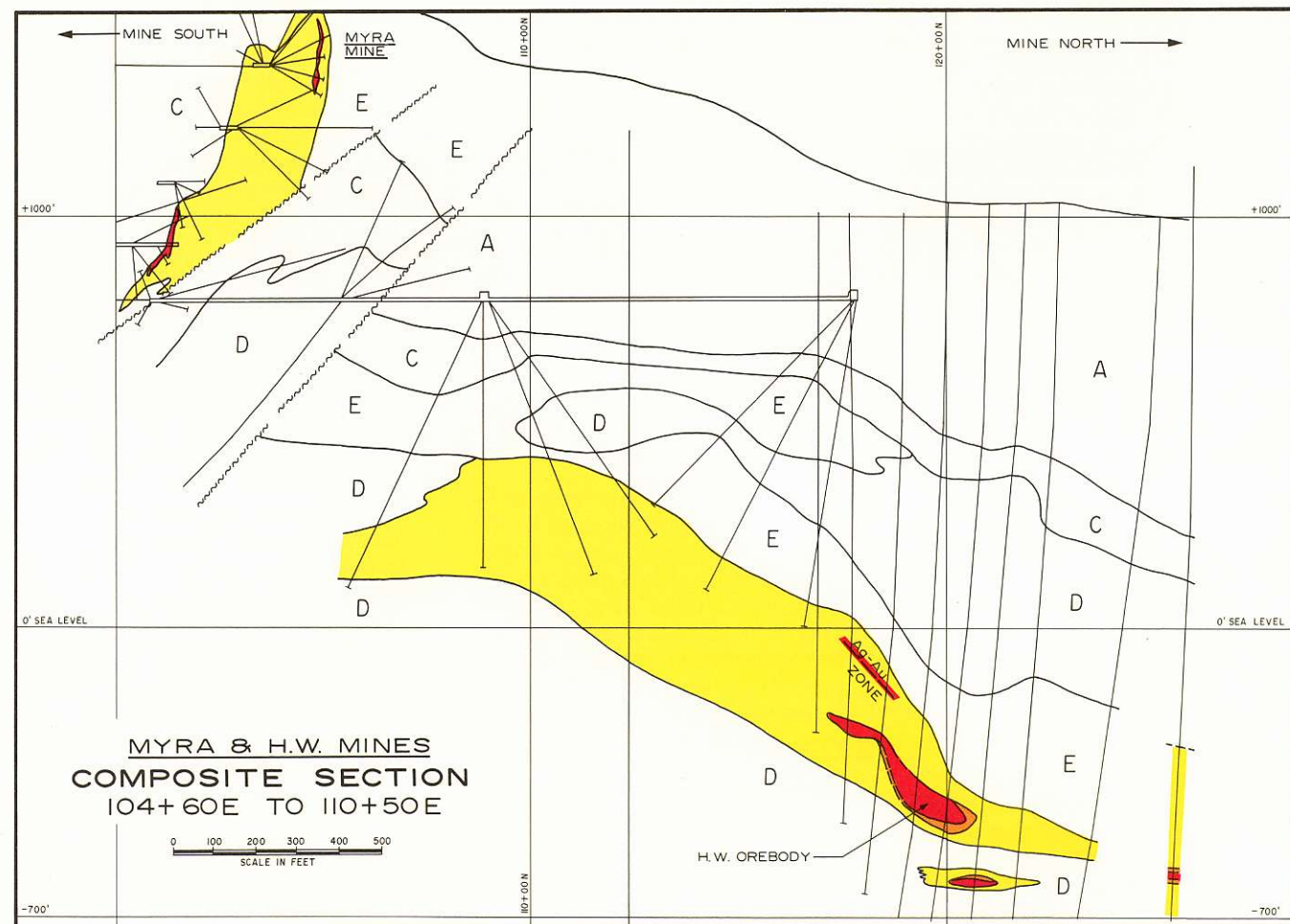
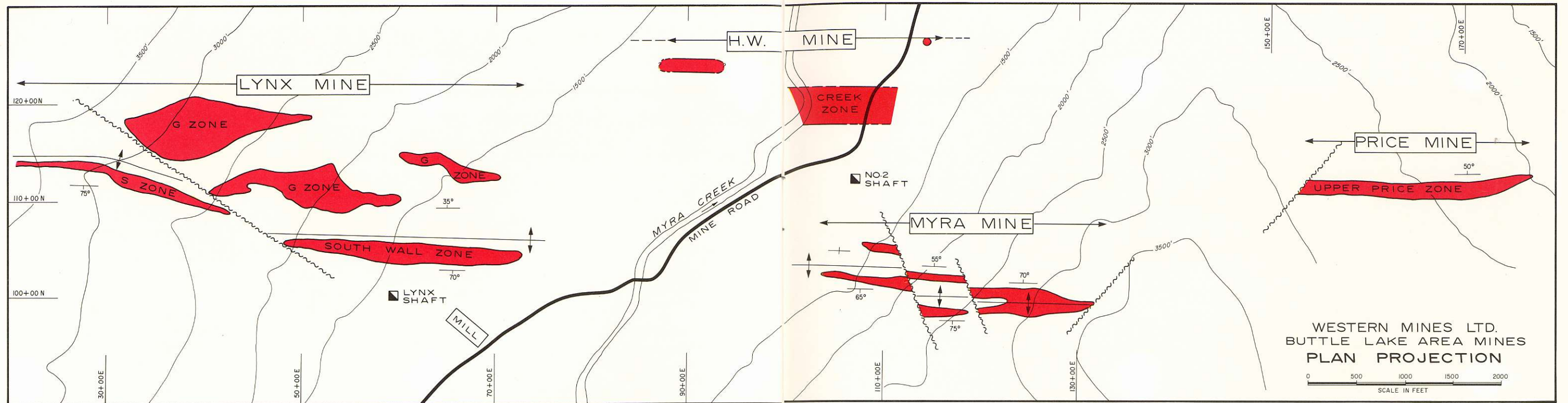
During the year ended December 31, 1979, the directors and senior officers of the company were paid aggregate direct remuneration totalling \$379,247 (1978-\$357,397).

7. MINERAL LAND TAX ACT

The provisions of the British Columbia Mineral Land Tax Act, as they relate to the assessment based on the value of the company's production, were rescinded effective January 1, 1976. The company, together with other mining companies, commenced an action challenging, among other things, the validity of assessments made pursuant to Regulations under the Act, in respect of which a total of \$1,370,319 was paid for the years ending December 31, 1975 and 1974. During 1978, the Supreme Court of British Columbia ruled that the assessments were invalid and that the taxes are to be refunded to the company. In June 1979 the government passed retroactive legislation correcting the deficiencies in the Regulations. The company, together with other mining companies, is proceeding with an appeal to have the claims considered without the effect of the retroactive legislation. Pending the final outcome, no recognition of the potential refund has been made in the accounts.

8. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation in the current year.



SUMMARY OF OPERATIONS

	YEARS ENDED DECEMBER 31				
	1975	1976	1977	1978	1979
Net smelter return.....	\$14,595,706	\$15,655,679	\$14,959,697	\$ 19,604,605	\$42,814,656
Net petroleum revenue.....	27,550	25,467	28,842	34,172	289,655
Investment and other income.....	882,492	477,923	521,453	1,282,862	2,033,910
	<u>15,505,748</u>	<u>16,159,069</u>	<u>15,509,992</u>	<u>20,921,639</u>	<u>45,138,221</u>
Operating costs.....	10,875,938	12,084,394	13,009,499	12,455,154	14,946,228
Exploration.....	1,544,927	3,034,990	2,129,081	1,575,967	4,267,133
Interest and other.....	309,709	43,776	5,030	9,834	79,197
Currency translation adjustments.....	-	-	(641,760)	(502,448)	215,421
Taxes.....	2,111,000	677,000	262,000	3,293,000	13,548,000
	<u>14,841,574</u>	<u>15,840,160</u>	<u>14,763,850</u>	<u>16,831,507</u>	<u>33,055,979</u>
Earnings before extra-ordinary items.....	664,174	318,909	746,142	4,090,132	12,082,242
Extraordinary items.....	-	-	230,000	154,000	428,000
Net earnings.....	<u>\$ 664,174</u>	<u>\$ 318,909</u>	<u>\$ 976,142</u>	<u>\$ 4,244,132</u>	<u>\$12,510,242</u>
Shares issued.....	5,213,566	5,328,938	5,354,788	5,386,638	5,406,438
Earnings per share.....	\$.13	\$.06	\$.18	\$.79	\$2.31
Cash flow per share.....	\$.44	\$.39	\$.41	\$.95	\$3.19
Dividends per share.....	\$.40	\$.10	\$.10	\$.10	\$.20
Mineral production					
-dry tons milled.....	287,393	296,846	296,598	296,560	294,181
-tons of concentrates					
-copper.....	8,877	9,934	9,753	11,373	11,525
-zinc.....	34,416	35,604	35,147	40,012	40,307
-lead.....	7,613	7,981	7,249	7,464	7,462
-payable metal					
-copper, lbs.....	4,918,669	5,186,503	5,321,700	5,952,850	6,295,731
-zinc, lbs.....	31,648,667	32,009,734	33,317,639	35,867,775	36,509,446
-lead, lbs.....	5,545,057	5,947,569	5,362,597	5,409,074	5,424,531
-gold, oz.....	16,521	17,832	16,343	17,603	19,922
-silver, oz.....	958,187	1,068,315	913,778	840,959	791,222
-cadmium, lbs.....	61,382	63,503	63,110	70,293	71,893
Ore reserves proven.....	1,731,300	1,704,000	1,459,900	1,272,940	1,144,000
Petroleum production					
-oil, barrels sold.....	7,652	5,536	5,324	5,206	14,103
-gas, billion cu. ft. sold.....	-	-	-	-	.114
Reserves, proven					
-oil, stock tank barrels.....	27,848	22,312	16,988	11,782	1,291,223
-gas, billion cu. ft.....	-	-	-	-	14.400
Share price range.....	\$1.45-3.25	\$2.60-6.75	\$3.10-4.65	\$3.15-5.62	\$4.90-14.00



LYNX AND MYRA MINES



GAS PRODUCER



OIL PRODUCER



URANIUM PROJECT



BASE METAL PROJECT

Projects

- | | | |
|-----------------------------------|---------------------|---------------------------|
| 1. Debbie | 8. Yava | 16. Tillex |
| 2. Keystone | 9. Dubawnt | 17. Buskegau |
| 3. Ainsworth | 10. Camsell Portage | 18. Sam |
| 4. Big Missouri | 11. Murmac/Milliken | 19. Detour |
| 5. Bokan | 12. Pine Channel | 20. Bancroft |
| 6. Tenas Creek | 13. Russell Lake | 21. Papaskwasati |
| 7. Great Slave Reef and West Reef | 14. Costigan | 22. New Brunswick Uranium |
| | 15. Westgate | |

