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WESTERN MINES LIMITED



ANNUAL REPORT for the year ended DECEMBER 31, 1972

FRONT COVER PHOTO

MINE WASTE RECLAMATION IS APPRECIATED BY LOCAL FAUNA

WESTERN MINES LIMITED

AUTHORIZED CAPITAL

7,500,000 Common Shares

Par Value \$2.00 each

ISSUED

5,207,816

D. E. GRIMM	New York	DIRECTORS
R. T. HAGER	Vancouver	
E. C. HAMMOND	Vancouver	
✓ W. G. JEWITT	Victoria	
H. R. LOGAN	New York	
I. E. McKEEVER	New York	
✓ J. A. McLALLEN	Vancouver	
J. B. MAGEE	Campbell River	
✓ P. M. REYNOLDS	Vancouver	
✓ J. E. R. WOOD	Vancouver	
✓ H. M. WRIGHT	Vancouver	

✓ W. G. JEWITT	President	OFFICERS
R. T. HAGER	Vice-President	
F. A. ROBERTSON	Secretary-Treasurer	

✓ J. B. MAGEE	GENERAL MANAGER
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LAWRENCE & SHAW	SOLICITORS
Vancouver	

CANADA PERMANENT TRUST COMPANY	REGISTRAR and
Vancouver	TRANSFER
Toronto	AGENT

COOPERS & LYBRAND	AUDITORS
Chartered Accountants	
Vancouver	

BANK OF MONTREAL	BANK
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870 ONE BENTALL CENTRE, 505 BURRARD STREET	HEAD OFFICE
Vancouver, B.C.	

Vancouver Stock Exchange	SHARES OF
Toronto Stock Exchange	THIS COMPANY
	ARE LISTED

ANNUAL GENERAL MEETING

The Annual General Meeting of Western Mines Limited will be held on Tuesday, May 8, 1973 at 11:00 a.m. in the Waddington Room of the Hotel Vancouver, Vancouver, B.C.

WESTERN MINES LIMITED

STATISTICAL SUMMARY

	1972	1971	1970
Net earnings	\$1,978,726	\$1,978,960	\$3,931,903
Net earnings per share	38¢	38¢	76¢
Dividends paid	\$1,041,403	\$1,040,604	\$ 780,092
Dividends per share	20¢	20¢	15¢
Shares outstanding at year end	5,207,816	5,203,016	5,201,816
Number of shareholders	5,065	5,350	5,261
Capital expenditures	\$ 799,627	\$ 400,392	\$1,278,858
Working capital	\$2,811,668	\$2,834,387	\$2,399,734
Tons milled	379,405	386,541	386,976
Average tons per day	1,093	1,059	1,060
Copper concentrate produced	24,436	26,080	27,943
Zinc concentrate produced	33,630	38,003	35,580
Lead concentrate produced	3,422	2,001	931
Lead/silver concentrate produced	408	—	—
Ore reserves, tons	1,746,000	1,870,900	1,830,500
Average number of employees	261	199	198
Total Company payroll	\$2,790,947	\$2,345,392	\$2,133,585

WESTERN MINES LIMITED

To the Shareholders:

**annual
report of
the board**

PRODUCTION

During the year ended December 31, 1972 a slightly lower tonnage was milled totalling 379,405 tons, including for the first time 5,383 tons from the Myra mine. Ore grades from the Lynx averaged .04 oz. gold, 1.7 oz. silver, 1.8% copper, .7% lead, 6.1% zinc, slightly lower than in 1971. The Myra ore averaged .24 oz. gold, 22.8 ozs. silver, 1.0% copper, 3.4% lead, 13.2% zinc, all from the high grade zone, this ore being treated separately in the modified pilot plant circuit at a rate of about 85 tons per day. The high grade ore reserves at year end totalled about 105,000 tons, over three years supply at the present rate of treatment.

Copper concentrate produced totalled 24,408 tons from the Lynx; 28.4 tons from Myra. Zinc concentrate totalled 32,760 from the Lynx; 870 tons from Myra. Lead concentrate totalled 3,418 tons from Lynx; 3.8 tons from Myra but in addition Myra produced 408.5 tons of lead-silver concentrate assaying 2 ozs. gold, 197 ozs. silver, 39.9% lead plus 5.6% copper, 21.5% zinc.

Compared to 1971 results, copper and lead recoveries were improved; zinc recovery was down slightly. Research continued on improving metal recoveries and concentrate grades.

The open pit produced 49.8% of the mill feed, 48.9% coming from Lynx underground and 1.3% from Myra.

MINE EXPLORATION AND DEVELOPMENT

Lynx

The rate of development was increased, lateral work plus raising totalling 10,472 feet. Diamond drilling was similarly intensified on both surface and underground, the total footage for the year being 53,121 feet.

Myra

Development and stope preparation were stepped up substantially in preparation for production, which started on October 16. Lateral advance plus raising totalled 10,081 feet. Surface and underground diamond drilling totalled 48,560 feet.

Price

Two diamond drill holes, totalling 666 feet, were drilled for geological information. The scale of work will be intensified in 1973.

OUTSIDE EXPLORATION

Cream Silver

Diamond drilling the anomaly reported last year failed to develop ore. Two holes were drilled, totalling 1,536 feet. Work on this property has been temporarily suspended. Western holds 50,000 common shares of Cream Silver Mines.

Leemac

An option on a 45% interest in Leemac Mines Ltd. was taken in March. When a check of records failed to substantiate certain reported drilling results and further diamond drilling failed to develop ore, the option was terminated. Western holds 100,000 shares of Leemac Mines at a net cost of \$176,608.

Summit Resources

Two test holes drilled on favourable structures in Saskatchewan failed to show any oil or gas and the work was terminated.

J. R. and Syd Prospects

These copper prospects on the west coast of Vancouver Island were optioned late in the season. Preliminary surveys indicated areas of interest. Further work is planned for 1973.

Ruttan Lake Prospects

Western holds a small interest in a large group of claims favourably located in relation to the Sherritt Gordon property. The claims were optioned in 1972 to the Phelps Dodge Corporation.

Cosala, Mexico

An examination showed what appeared to be a promising prospect, where a silver-copper-lead-zinc ore body already is being mined on a small scale. Negotiations for an option were commenced.

ORE RESERVES

	Tons	Gold oz./ton	Silver oz./ton	Copper %	Lead %	Zinc %
Lynx (including stock piles)	1,114,400	.06	2.2	1.4	0.9	7.3
Myra Standard	527,000	.10	5.8	0.9	1.7	8.8
Myra High Grade	104,800	.23	23.7	0.9	4.1	13.0
Property Total	1,746,200	.08	4.6	1.2	1.3	8.1

At year end the open pit reserves, included above, were estimated at 121,200 tons.

Total ore reserves decreased by 125,000 tons during the year. However, 100,000 of this decrease is accounted for by 100,000 tons written off in two pillars below the open pit. Since part of this ore may be recovered in the future, the development during the year may be considered as coming close to replacing the ore extracted.

The Myra mine continues to have the best potential for future ore development but other possibilities are under examination.

EARNINGS AND COSTS

Net earnings for the year were \$1,978,726 or 38 cents per share as compared with an almost identical amount of \$1,978,960 for the previous year. These amounts were after all charges including depreciation and provision for Provincial mining taxes, but before an extraordinary write-off of \$367,545 in 1971.

Operating costs before depreciation and write-offs averaged \$15.41 per ton as compared to \$14.11 in 1971 and \$15.67 in 1970. In addition, expenditures on "outside" properties totalled \$164,268 or 43 cents per ton. The continued inflation in the costs of labour and supplies made effective cost control extremely difficult.

CASH FLOW

Cash flow in 1972 was \$2,822,793 or 54 cents per share. Of this \$1,041,402 was paid out in dividends, \$799,627 for plant additions and replacements, \$826,193 for development of the new Myra Falls mine and the balance of \$155,571 for investments and other sundry uses.

WORKING CAPITAL AND DEBT

Working capital at the close of the year 1972 amounted to \$2,811,668. Subsequent to the close of the year the staff housing mortgages amounting to \$154,485 were paid off, leaving the Company entirely free of long term debt.

It is interesting to note that since the Company commenced its development programme in 1962 followed by production in 1967, it has paid off long term debt totalling \$13,883,000 together with \$2,319,871 interest.

These debt repayments include \$2,200,000 principal and \$166,250 interest paid as a contribution to the Province of British Columbia for the Provincial highway through Strathcona Provincial Park. The Company paved this road at a cost of \$375,158, which is in addition to the above amounts. It also maintains the road at its own cost.

TAXES

Various statements quoted in the press and other media indicate the British Columbia mining industry makes little or no contribution to Provincial revenue. In view of this the following statement of British Columbia taxes paid by Western Mines in 1972 should be of interest.:

Industrial Assessment and Property Taxes	\$111,773
Social Services Tax	109,000
Free Miners Certificates and Recording Fees	8,000
Diesel and Gasoline Tax	21,000
British Columbia Mining Tax	282,675
Total	<u>\$532,448</u>

GENERAL

The metal content of the water in Buttle Lake continues to be well below the maximum acceptable level set by the Provincial Government. Although the new standards for mine effluents being set by the Pollution Control Board appear to require some modification, it appears that Western Mines will be able to meet Level "B" in the latest release without difficulty.

Labour relations continued to be satisfactory. The present agreement terminates in September, 1973.

Mr. D. B. Armstrong tendered his resignation as Director on July 5, 1972. Mr. Ira E. McKeever was appointed by the Board in his place. Mr. Armstrong had made notable contributions to the Company's success since his election in 1965.

ON BEHALF OF THE BOARD

Vancouver, B.C.
April 9, 1973

"W. G. Jewitt"
President

WESTERN MINES LIMITED

balance sheet

as at

December 31, 1972

ASSETS

CURRENT ASSETS

	1972 \$	1971 \$
Cash and short-term investments	1,571,942	1,651,815
Accounts receivable	8,802	8,076
Concentrate settlements receivable — at estimated net realizable value (note 1)	549,253	710,509
Concentrate inventories — at estimated net realizable value (note 1)	867,247	699,924
Mine materials and supplies — at cost	295,222	219,903
Prepaid expenses	150,950	
	<u>3,443,416</u>	<u>3,290,227</u>

INVESTMENTS — at cost, market value — \$82,500;

1971 — \$24,000	199,930	29,930
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FIXED ASSETS (notes 1 and 2)

Plant and equipment	8,820,161	8,663,821
Mining properties — at cost	883,283	883,283
	<u>9,703,444</u>	<u>9,547,104</u>

DEFERRED DEVELOPMENT COSTS — at cost less

amortization (note 1)	2,371,534	1,619,341
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SIGNED ON BEHALF OF THE BOARD

"W. G. JEWITT", Director

"P. M. REYNOLDS", Director

15,718,324

14,486,602

auditors' report to the shareholders

We have examined the balance sheet of Western Mines Limited as at December 31, 1972 and the statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence 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, 1972 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

Vancouver, B.C.
February 5, 1973

WESTERN MINES LIMITED

LIABILITIES

balance sheet

as at
December 31, 1972

CURRENT LIABILITIES

	1972 \$	1971 \$
Accounts payable	251,306	223,095
Accrued payroll	206,521	160,745
Income and mining taxes payable	165,921	64,000
Long-term debt maturing within one year	8,000	8,000
	<u>631,748</u>	<u>455,840</u>

LONG-TERM DEBT — net of portion maturing within one year (note 3)

	<u>154,485</u>	<u>162,775</u>
	<u>786,233</u>	<u>618,615</u>

PROVISION FOR FUTURE MINING TAX (note 1)

	<u>435,294</u>	<u>321,294</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4)

Authorized —

7,500,000 shares with a nominal or par
value of \$2 each

Issued and fully paid —

5,207,816 shares (1971 — 5,203,016 shares)

8,483,949	8,471,169
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RETAINED EARNINGS

6,012,848	5,075,524
<u>14,496,797</u>	<u>13,546,693</u>
<u>15,718,324</u>	<u>14,486,602</u>

WESTERN MINES LIMITED

statement of earnings

for the year ended
December 31, 1972

	1972 \$	1971 \$
REVENUE FROM CONCENTRATES PRODUCED	12,369,589	11,198,388
Less: Treatment and marketing costs	3,492,206	2,993,842
	<u>8,877,383</u>	<u>8,204,546</u>
OPERATING COSTS		
Concentrate production	5,335,037	5,056,331
Administration (note 5)	498,149	330,035
	<u>5,833,186</u>	<u>5,386,366</u>
OPERATING INCOME	<u>3,044,197</u>	<u>2,818,180</u>
OTHER EXPENSE (INCOME)		
Depreciation and amortization (note 1)	744,579	591,752
Outside exploration	164,268	156,862
Interest on long-term debt	13,052	13,566
Interest earned on short-term investments	(111,811)	(74,199)
Gain on disposal of fixed assets	(27,292)	(6,261)
	<u>782,796</u>	<u>681,720</u>
	<u>2,261,401</u>	<u>2,136,460</u>
PROVISION FOR MINING TAX (note 1)		
Current	168,675	64,000
Future	114,000	93,500
	<u>282,675</u>	<u>157,500</u>
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	1,978,726	1,978,960
EXTRAORDINARY ITEM		
Write-down of Ainsworth idle plant and equipment		367,545
NET EARNINGS FOR THE YEAR	<u>1,978,726</u>	<u>1,611,415</u>
EARNINGS PER SHARE		
Net earnings before extraordinary item	<u>38¢</u>	<u>38¢</u>
Net earnings for the year	<u>38¢</u>	<u>31¢</u>

WESTERN MINES LIMITED

	1972 \$	1971 \$
RETAINED EARNINGS —		
BEGINNING OF YEAR	5,075,524	4,504,713
Net earnings for the year	1,978,726	1,611,415
	<u>7,054,250</u>	<u>6,116,128</u>
Dividends	1,041,402	1,040,604
RETAINED EARNINGS — END OF YEAR	<u>6,012,848</u>	<u>5,075,524</u>

statement of retained earnings

SOURCE

Operations		
Net earnings for the year	1,978,726	1,611,415
Add: Items not requiring the use of working capital		
Depreciation and amortization	744,579	591,752
(Gain) loss on disposal of fixed assets ..	(27,292)	361,284
Provision for future mining tax	114,000	93,500
Option payments written off	15,600	15,600
	<u>2,810,013</u>	<u>2,673,551</u>
Capital stock issued	12,780	2,400
	<u>2,822,793</u>	<u>2,675,951</u>

statement of source and use of working capital

for the year ended
December 31, 1972

USE

Dividends	1,041,402	1,040,604
Investments	170,000	25,000
Mining properties	14,286	14,286
Fixed asset additions — net	799,627	386,106
Deferred development	826,193	803,405
Mortgages repaid	8,290	21,191
	<u>2,845,512</u>	<u>2,290,592</u>

(DECREASE) INCREASE IN WORKING CAPITAL	(22,719)	385,359
WORKING CAPITAL — BEGINNING OF YEAR	2,834,387	2,449,028
WORKING CAPITAL — END OF YEAR	<u>2,811,668</u>	<u>2,834,387</u>

REPRESENTED BY:

Current assets	3,443,416	3,290,227
Current liabilities	631,748	455,840

WORKING CAPITAL — END OF YEAR	<u>2,811,668</u>	<u>2,834,387</u>
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WESTERN MINES LIMITED

notes to financial statements

for the year ended
December 31, 1972

1. ACCOUNTING POLICIES

(a) Subsidiary Companies

Subsidiary companies (Western Mines Holdings Limited, Discovery Terminals Ltd. and Myra Falls Management Ltd.) are wholly-owned, inactive, without assets and are carried at nominal cost. Accordingly consolidated financial statements have not been prepared.

(b) Concentrate Settlements Receivable and Concentrate Inventories

Concentrate settlements receivable are valued at the metal prices prevailing at the time of shipment less estimated treatment and marketing costs. In accordance with the terms of the sales contract, final settlements are made at prices prevailing at a future date and the amounts which will be received by the company may vary from those amounts shown as concentrate settlements receivable at December 31, 1972. Concentrate inventories are valued at the metal prices at December 31, 1972 less provision for estimated market adjustments, treatment and marketing costs.

(c) Depreciation

Depreciation of plant and equipment is at the rate of 5% per annum and automotive equipment at the rate of 20% per annum, both computed on a straight-line basis.

(d) Deferred Development Costs

Deferred development costs have been incurred primarily with respect to the company's new mine at Myra Falls. All such preproduction costs were capitalized until the mine commenced production on October 16, 1972. It is the company's policy to amortize these costs on a five-year, straight-line basis. The charge for the period from October 16, 1972 to December 31, 1972 is \$74,000.

(e) Provision for Future Mining and Income Taxes

Federal income taxes payable in respect of the year have been eliminated by claiming depreciation and preproduction costs in excess of that recorded in the accounts. In prior years, preproduction and depreciation written off in the accounts exceeded the total claimed for tax purposes. Federal income taxes will not be recorded until such time as the total amounts claimed for tax purposes exceed the total amounts recorded in the accounts. As at December 31, 1972, the excess net timing differences booked amounted to approximately \$3,350,000.

Mining taxes payable in respect of the year have also been reduced by claiming depreciation for mining tax purposes in excess of that recorded in the accounts. This reduction in mining tax, together with similar amounts arising in prior years, is included in the balance sheet as "Provision For Future Mining Tax".

2. FIXED ASSETS

(a) Fixed assets and related accumulated depreciation are as follows:

	1972			1971
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Vancouver Island and head office				
— plant, roads and equipment	11,004,331	2,783,387	8,220,944	8,026,788
— underground capital development	216,414		216,414	231,872
— staff housing	468,166	110,363	357,803	380,161
Ainsworth buildings	25,000		25,000	25,000
	<u>11,713,911</u>	<u>2,893,750</u>	<u>8,820,161</u>	<u>8,663,821</u>

(b) The cost of mining properties as at December 31, 1972 represents costs to date and does not necessarily reflect present or future values:

	1972 \$	1971 \$
Vancouver Island	203,902	203,902
Ainsworth	659,750	659,750
Other	19,631	19,631
	<u>883,283</u>	<u>883,283</u>

3. LONG-TERM DEBT

Long-term debt consists of mortgages which are secured by charges on land and houses for company employees, bear interest at rates varying from 6¼% to 8½% per annum and are repayable \$1,767 per month including interest.

4. CAPITAL STOCK

(a) As at December 31, 1972, shares issued, discounts and premiums related thereto were as follows:

	1972			1971
	Shares	Par value \$	Discounts less premiums \$	Net \$
For cash	4,287,776	8,575,552	1,211,683	7,363,869
For properties	575,000	1,150,000	450,000	700,000
For services	345,040	690,080	270,000	420,080
	<u>5,207,816</u>	<u>10,415,632</u>	<u>1,931,683</u>	<u>8,483,949</u>
				<u>8,471,169</u>

(b) During the year ended December 31, 1972, the company issued 4,800 shares for cash totalling \$12,780 under the terms of stock options outstanding.

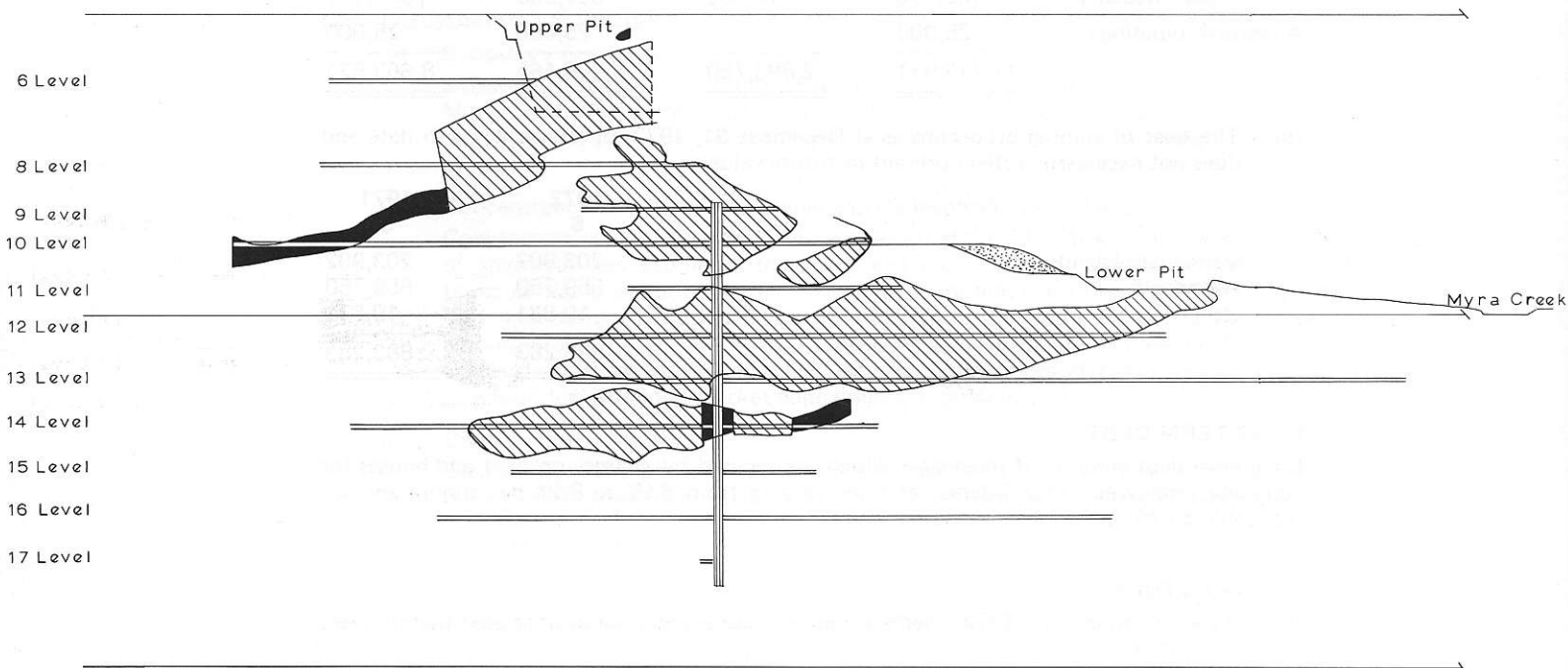
(c) The company has outstanding stock options to employees and officers for 4,000 shares at prices ranging from \$2.00 to \$2.80 per share exercisable on varying dates to 1974.

5. STATUTORY INFORMATION

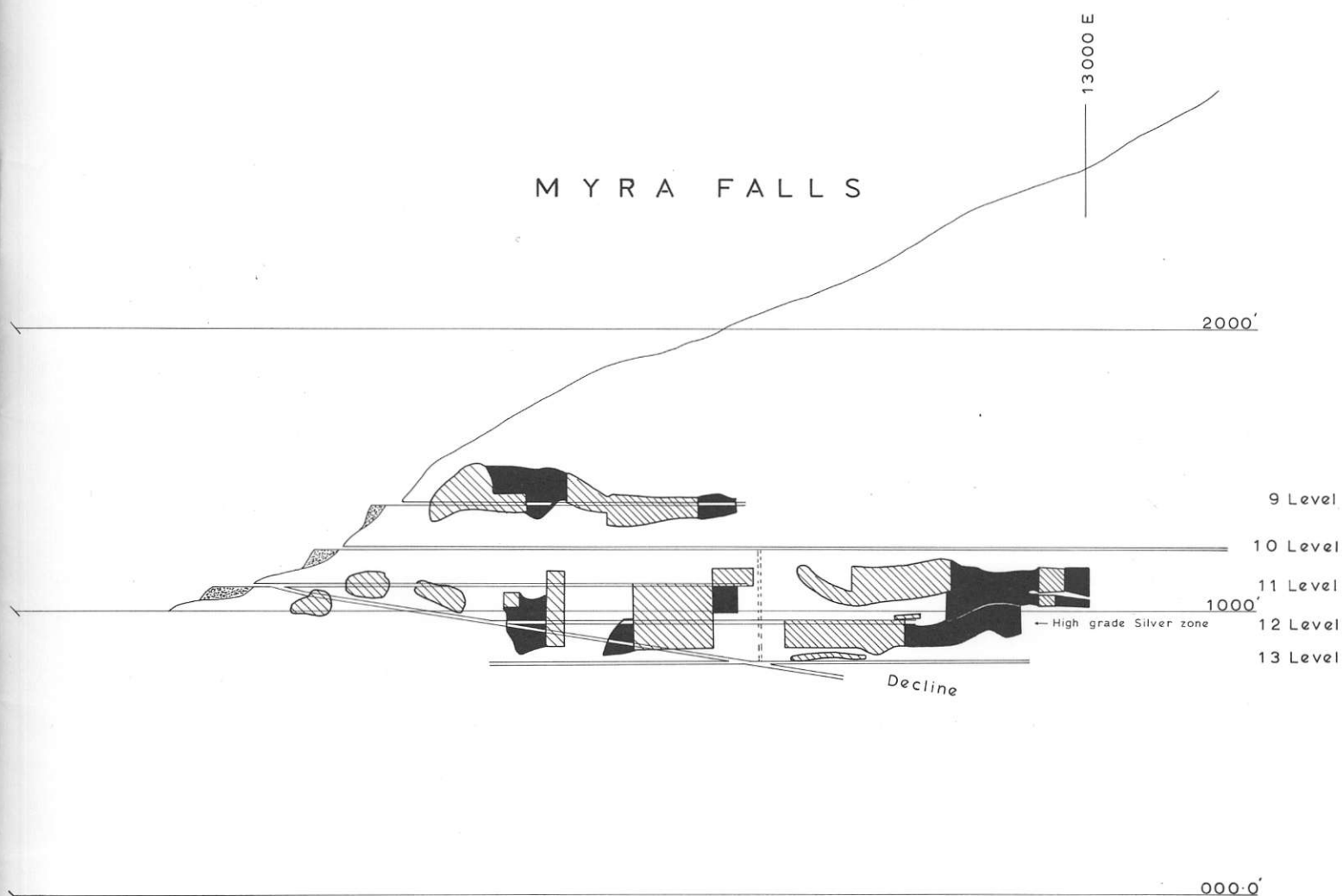
During the year ended December 31, 1972, the directors and senior officers of the company, as defined by the British Columbia Securities Act, 1967, were paid aggregate remuneration totalling \$172,825. Included in this amount are directors' fees of \$42,468 and pension plan contributions of \$4,746.

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MYRA FALLS



WESTERN MINES LIMITED Composite Longitudinal Section



■ New Ore Added to Reserves, 1972