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Western Mines

attach to

W.S.R.
K.C.G.
R.D.S.
B.C.B.
P.M.K. ✓
G.W.M.
H.A.P.
C.K.W.
J.B.S.
G.P.R.
E.L.D.
H.B.
E.C.J.
D.V.B.

CONCLUSION — SELL. These shares are overpriced. Ore reserves must be greatly enlarged to provide adequate returns to justify present premium share prices. There will be little, if any, chance to add materially to the ore picture until the start of production - probably June, 1965.

During this quiescent period, enthusiasm for the stock may wane, and will only be reactivated by better than anticipated mill operation or upon exploration and development news.

1. Good grade ore but limited proven reserves at present. Allowing for 75% extraction reserves are only sufficient for 4.4 years.
2. Ore is in lenses making for heavy development and exploration costs.
3. Topography and location will increase capital costs above normal and present problems in construction, operation, and exploration.
4. Metallurgical difficulties will decrease recovery and bulk portion of concentrate will give lower return and higher treatment charges.
5. Property is a large one with only small section as yet explored. There is the possibility of adding substantially to reported reserves.
6. While operation will generate a healthy cash flow and good earnings on the known ore, the property does not appear to be destined to be a big mine.
7. Capital costs will be returned very quickly - probably 2 years.
8. On ore now indicated, the net indicated profit after taxes, and after repaying all capital costs, is approximately $7,750,000 or $1.86 per now issued share. This excludes ore in the Paramount Zone.

PROPERTY - Located at Buttle Lake on Vancouver Island. Rough topography, lack of roads, and location within a provincial park - make for unusual problems.

ORE RESERVES - The difficulties of exploration can be judged by a relatively slight increase in ore reserves since September, 1962. The potential area to be explored is large but the cost will be heavy.

Lynx Zone -- 1,500,000 tons.
Paramount Zone -- 100,000 tons (not included in this assessment).
We estimate 75% of the ore will be recovered.

PLANT & OPERATION - The plant will be designed for a capacity of 750 tons per day. Company engineers have used a dilution factor of 15% and are planning on cut and fill stoping. This would indicate the ground is not the best. While no factor has been given on recoverable ore, it is evident that a considerable tonnage will be tied up in pillars and some probably lost due to bad ground.

No results of test work have been released, but the nature of the ore, and the fact the company is planning to ship a bulk concentrate of the lead and part of the copper, indicates separation presents a few problems.

Estimated Capital Cost		Estimated Source of Funds	
Mine, Mill & Plant ...	$2,950,000	Debentures - 6½% (perhaps bonused by shares)	$5,000,000
Surface Equipment	350,000	At $94 company nets	4,700,000
Housing & Accomodation ...	300,000	Pre-production interest	325,000
Inventories	400,000		
Working Capital	375,000	Net available for capital cost and working capital	$ 4,375,000
	$4,375,000		

(Cont'd. on page 1018)

(Cont'd. from page 1017)

Transportation from the mine site to tidewater will be relatively costly. We have assumed a 5:1 concentrating ratio with transport costs of $2.00 and loading, trimming and storage costs of 30¢ per ton of concentrates -- <u>or 46¢ per ton of ore</u>. This is allowed for under "general" costs.

PROFIT POTENTIAL

Estimated Operating Income/Ton

Metal	Grade	Recovery*	Price*	Mine Net/Ton
Zinc	11.10%	85%	11¢/lb.	9.35
Copper	2.52%	80%	31¢/lb.	7.17
Lead	1.50%	75%	10¢/lb.	1.48
Silver	3.13%	60%	$1.30/oz.	2.64
Gold	0.06%	60%	$35/oz.	1.58
				$22.22

* assumptions

Est. Operating Costs/Ton	
Mining -	5.50
Milling -	2.00
General -	1.50
Develop.	.75
D.D.& Expl.	.40
	$10.15

Operating profit per ton --- $22.15 - 10.15 = $12.07
Annual operating profit -- $12.07 x 750 (tons/day) x 350 (days) = $3,168,375
Annual operating profit per share (on 4,157,816 outstanding) = $0.76/share

Company will be tax free for 3 years, then will commence depreciating capital costs and pre-production expense. Debentures (representing all capital costs) could be retired in less than 2 years. Due to high annual profit in the 4th year, which will exceed depreciation, taxes will be applicable.

It is quite apparent that a great deal more ore must be discovered to justify the present market price of $6.15.

OUTLOOK - The operation, once the capital cost is recaptured, will be a good money maker, with an estimated annual operating profit of $0.76 per share on the present issue.

The question mark is the ability of the operation to perpetuate itself for a reasonable time by the finding of additional ore. While the potential is great, exploration will be costly and difficult. If the search is successful, the present price may be warranted. However, until there is some basis in fact, the stock must be considered to be overvalued.

NORTHERN ONTARIO NATURAL GAS $22¾ Buy

Rather than the $1.02 per share reported earnings, we would use a base figure of $1.17 per share which would have been the reported earnings <u>under normal winter temperatures.</u> This figure will be increased by the following;

1. In spite of anticipated "substantial" revenue increase, overhead costs will remain relatively constant.

2. A continued build-up in domestic, commercial and industrial customers. (The Timmins strike will not affect earnings this year but the expected new smelter will greatly increase longer term natural gas consumption.)

3. Greater revenue per customer due to usage other than space heating.

4. The new gas scrubbing plant in Alberta takes out the previous "bonus" heat units. This reduced energy content will require consumers to buy more gas to achieve the same heating results.

We believe earnings will climb to at least $1.35 per share this year, and over $1.50 next year. A conservative capitalization of 20 times earnings would see a $27-$30 share price.

$96 PER YEAR PRINTED IN CANADA