

# Pemberton Securities

LIMITED

826575 92F **INVESTMENT REVIEW**

July 21, 1970

WESTERN MINES LIMITED

Current market price:	\$4.25 - \$4.35
1970 price range:	\$4.95 - \$3.10
1969 earnings per share (12 mo. Dec 31):	\$1.19
1970 earnings per share est.:	\$0.92
Price times est. 1970 earnings per share:	4.7
Dividend:	nil

CAPITALIZATION: As at June 30, 1970

	<u>Authorized</u>	<u>Outstanding</u>
Common shares - par value \$2 each	7,500,000 shs.	5,180,016 shs.

Note: The company will complete the redemption of its \$7 million, 6½% income debenture issue around July 31, 1970. The balance of Western Mines outstanding debt (which involves some \$700,000 owing to the Province of British Columbia) will be repaid by December 31, 1970.

Of the common shares outstanding, Northgate Exploration Ltd. currently holds 1,156,711 or 22.4%.

LISTED: WMI - Toronto, Canadian and Vancouver Stock Exchanges.

THE COMPANY: Western Mines Ltd. is a producer of copper and zinc ore concentrates with by-product recoveries of silver, gold and lead. The mining properties, totalling 168 claims and consisting of three groups, Paramount, Lynx and Price, are located in Strathcona Provincial Park (at Buttle Lake) Central Vancouver Island, B.C.

LYNX: The Lynx Property, the sole source of mill feed at present, and brought into production late in 1966, is developed by an open pit, three adits and an internal shaft which provides access to several levels. The mill is currently operating at a 1,050 tpd capacity. About 60% of the feed is being mined by the open pit method while 40% involves underground mining. At December 31, 1969, ore reserves at the Lynx property totalled 1,215,750 tons (sufficient to keep the mine operating for about three years at its present production rate), grading 1.9% copper, 0.7% lead, 8.1% zinc, .06 oz./ton gold and 1.8 oz./ton silver. The open-pit operation is expected to run for at least another year before the volume of overburden makes it uneconomical. In the meantime, underground development work and ore production is being stepped-up to offset declining open-pit output. It is interesting to note that each year, since production commenced at the Lynx, a comparatively small amount of exploration work has sufficed to maintain ore reserves at around their present level. Apparently, a very strong ore structure exists through the Western Mines area and conceivably the company's existing mine will operate for some years to come.

PARAMOUNT: (Myra Falls Mines Ltd.) The Paramount property (some 4,500 feet from the Lynx) is developed so far, by two adits. Ore reserves at December 31, 1969, totalled 34,000 tons grading 0.8% copper 1.7% lead, 9.2% zinc, .06 oz./ton gold and 3.6 oz./ton silver. Recent diamond drilling, about 1,700 feet from the portal has indicated a possible new high-grade ore body. Of seven down holes, three were blank but four intersected ore, notably silver. Details of the three most significant intersections are as follows:

<u>Hole</u>	<u>True Width</u>	<u>Gold oz/ton</u>	<u>Silver oz/ton</u>	<u>Copper %</u>	<u>Lead %</u>	<u>Zinc %</u>
P10-21	14 feet	0.29	35.2	1.0	2.9	14.2
P10-22	23 "	0.33	41.3	0.8	2.6	13.2
P10-23	5 "	0.04	82.0	1.3	6.7	16.4

An aggressive work program at the Paramount property has now commenced on a "drive" which will extend some 2,000 feet, on a decline, to get underneath this new ore find. Work will also include an extensive underground drilling program. The overall potential here is definitely quite large. This discovery should at least prove to be a narrow high-grade ore deposit and serve as a profitable supplement to the Lynx operation.

OUTSIDE EXPLORATION: Western Mines recently acquired 202 claims on Quadra Island (near Campbell River). Previous work on the property has indicated approximately 100,000 tons of ore averaging 2.5% copper. Work on these claims is in the very preliminary stage.

FINANCIAL:

12 month period	December 31/70(est.)	December 31/69	September 30/69	September 30/68
Concentrate revenue less treatment & marketing charges	10,281	12,236	9,972	9,354
Operating costs and administration	n.a.	5,134	4,764	4,031
Depreciation	n.a.	n.a.	493	448
Net income	4,781	6,132	4,213	4,040
Earnings per share	\$0.92	\$1.19	\$0.82	\$0.84
Ore milled (tons)	384,000	383,931	373,850	330,223

NOTE: Western Mines recently changed its year-end from September 30, to December 31.

CONCLUSION: For the current fiscal year ending December 31, 1970, (considering the adverse affects from the floating Canadian dollar and the current trend towards weaker metal prices etc.) net earnings should approximate \$4.8 million or 92¢ a share compared with \$6.1 million or \$1.19 a share for the 12 month period ended December 31, 1969. Although Western Mines tax free period expired January 31, 1970, it currently has some \$9.6 million in preproduction expense write-offs. Therefore, the company will continue to operate tax free until around late 1971 at which time it will then take advantage of depletion and capital cost allowances.

The adverse publicity, government and public pressures relating to Western Mines use of Strathcona Park property and the alleged pollution of Buttle Lake, is largely overcome. The company is now virtually debt free and has an impressive yearly cash flow of some \$6 million. It is therefore in an excellent position to spend on further mine exploration and development and consider a dividend policy. The Paramount prospect, in view of strengthening silver prices, adds substantially to the company's earnings potential. The common shares at 4.7 times estimated 1970 earnings of \$.92 per share are attractive for purchase.

J. DAY