

B7 Mines & Metal

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62 - 20

June 14th, 1962

In this issue:

Western Mines Ltd. - Buy

WESTERN MINES LIMITED - (\$2.20)

Under present uncertain market conditions, special situations should be able to act better than the market. We believe that as a developing mining situation, Western Mines should be of considerable interest to the speculator in natural resources.

Capitalization:

	<u>Authorized</u>	<u>Issued</u>
Common shares \$2.00 par value	5,000,000 shs	2,948,043 shs
Options - 125,000 shs @ \$2.50 due Sept. 26/62		
125,000 shs @ \$3.00 due Dec. 26/62		
125,000 shs @ \$3.50 due Mar. 26/63		

Property:

The company's main interest is three groups which form one large block of claims approximately 7 miles long, on Buttle Lake in the interior of Vancouver Island. The three groups are known as the Lynx, Paramount and Price. Major but not controlling stockholders are Cominco (628,790 shs) and Noranda (180,000 shs). Cominco retains a right to participate in any future financing, currently to the extent of 23%.

Exploration and Development:

The bulk of the work has been done on the Lynx group where drilling has indicated the existence of a medium sized economic orebody. Other mineralized zones are known on the Paramount and Price groups. The mineralized zones are confined to a major shear zone which has been traced intermittently over the three groups for a length of about 25,000 feet, with widths of up to 600 feet. Much of the area is covered by heavy overburden and dense bush and timber.

Recent estimates by H.C. Gunning, an independent Consultant give the following tonnage and grade:-

	<u>Before Dilution</u>	<u>After 10% Dilution</u>
Tonnage	448,875 tons	493,672 tons
Grade - oz gold/ton	0.06	0.056
oz silver/ton	4.09	3.7
Copper %	1.56	1.4
Lead %	1.34	1.2
Zinc %	10.02	9.1

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In addition, the company reports an indicated 100,000 tons of ore on the Paramount group of a somewhat higher grade. The tonnage potential at the Lynx was estimated at 1200 tons/vertical foot over a strike length of 1,000 feet and over an average depth of 400 feet with the zone open at both ends and to depth. Recent drilling at the south end of the zone has extended the potential by 300 feet of strike length and to depth, suggesting a tonnage potential of 1,660 tons/vertical foot. The ore lenses are still open on strike and to depth. It should also be pointed out, that the ore calculations are believed to be very conservative and if continuity between holes is proven, then the ore potential could be doubled. A summary of the latest 3 holes which were all drilled from one set-up are given below:-

<u>Hole #</u>	<u>Angle</u>	<u>Interval</u> feet	<u>Core</u> <u>Length</u>	<u>Gold</u> oz	<u>Silver</u> oz	<u>Copper</u> %	<u>Lead</u> %	<u>Zinc</u> %
21	-30°	356-391	35'	0.05	1.13	3.09	1.28	7.13
22	-45°	385-406	21'	0.043	0.61	3.33	0.11	14.09
23	-60°	187-210	23'	0.099	7.40	1.97	1.90	10.98
		241-255	14'	0.20	5.11	3.98	3.10	30.01

The significance of these holes is that width and grade of ore are the best yet encountered and in view of the major size of the shear zone, i.e. - 600 foot width and possibly over 25,000 feet long, there appears to be an excellent chance that this could blossom out into a major tonnage situation. These holes have also returned the deepest intersections yet obtained, with values now obtained over a vertical range of 750 feet. At the present time, a 75° hole is being drilled under #23 to cut the mineralized zone at a deeper horizon.

Development Programme:

An underground development programme is currently underway, which involves over 3,000 feet of lateral work and over 30,000 feet of diamond drilling. Drilling is also planned for the Paramount and Price groups. The programme is estimated to cost \$707,000 with completion in late 1962 or early 1963.

Sufficient funds are available. At February 26, 1962 the company had working capital of \$344,000 and since then has received a further \$460,000. If all remaining options are exercised, the treasury would net \$1,125,000 additional.

Evaluation:

It is always difficult to evaluate a property at this stage of development in terms of share price values. Results to date suggest a tonnage potential of 1,660 tons per vertical foot and values have now been obtained over a vertical range of 750 feet. This suggests that a tonnage potential of 1,250,000 tons is possible. In addition, there is the exploration potential at the Paramount where 100,000 tons has been so far indicated approximately 1 mile to the southeast and the Price group which is almost 4 miles to the southeast, with favourable geology intervening. It is not

unreasonable to make the following projection:-

Ore potential	1,250,000 tons
Mill rate	500 tpd or 180,000 tpy
Life	6.85 years
Gross value/ton	\$29.12
Treatment costs	\$12.20
Operating costs	\$8.50/ton
Operating profit	\$8.42/ton
	\$1,515,000/year
Capital costs	\$3,860,000
Total Cash Flow	\$9,425,000
Cash Flow/sh	\$2.84
Cash Flow/sh/yr	\$0.415
Present Value	\$1.80/sh
	(assumes safe rate of 4%
	and risk rate of 10%)

Conclusion:

It is reasonable to assume a salvage value of \$1.80/share based on the above evaluation. With the stock currently trading around \$2.20, the purchaser is paying only about 40¢ for the speculative possibilities of adding further to the ore potential with considerable upside potential. This is definitely one of the more interesting developing mining situations currently available. Management is excellent in our opinion.

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RESEARCH DEPARTMENT