883491 → Gibraltar

GIBRALTAR
MINES LIMITED

193 Gibraltar Mines Ann. Rpt.

HIGHLIGHTS

	1993	1992
OPERATIONS (in thousands, except grade)		
Millfeed (tons)	**11,170**	13,969
Grade (% copper)	**0.30**	0.34
Production		
Copper in concentrate (lbs.)	**50,522**	70,861
Cathode copper (lbs.)	**5,996**	6,889
Molybdenum (lbs.)	**-**	376
FINANCIAL (in thousands)		
Revenues	**$ 47,800**	$ 67,338
Net earnings (loss)	**(11,298)**	3,107
Dividends	-	602
Investing activities excluding short-term investments	**11,934**	14,487
PER SHARE		
Net earnings (loss)	**$ (0.82)**	$ 0.26
Dividends	-	0.05
Book value	**4.59**	5.60
AVERAGE METAL PRICES (US$/lb.)		
Copper Grade A (London Metal Exchange)	**0.87**	1.04
Molybdenum contained in molybdic oxide (Metals Week)	**2.33**	2.18

Note: All amounts are for the years ended December 31, except for book value per share which is as at December 31, and grade and metals prices which are the average for each of the years.

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DIRECTORS' REPORT TO SHAREHOLDERS

The year 1993 will be remembered as a notable period in your Company's history. The significant drop in the price of copper along with the subsequent decisions to reduce and ultimately cease milling operations at the McLeese Lake mine resulted in a significant loss for the year. In this same year your Company embarked on an exciting new strategy of growth and development that includes an international focus for exploration and acquisition.

McLeese Lake Operation

The slide in the copper price which started at the end of the first quarter made it necessary to review alternatives for the McLeese Lake mine. The first ever vacation shutdown of operations occurred over a three-week period in July/August. This was followed by a decision to reduce production to 50% of capacity on September 24. Even though this resulted in higher unit costs, it was felt that the reduced operation, along with the core workforce, could be sustained for some time. However, the copper price continued to decline and the need to preserve shareholders' equity made it necessary to suspend mining and milling operations on December 1. A decision to restart operations will require a substantial and sustainable increase in the copper price.

Due to the shutdown of operations it was necessary to declare economic force majeure on concentrate contracts for 1994. Discussions were held with the Company's traditional concentrate customers, and while they were disappointed that the mine was unable to continue operating under current circumstances, they were cognizant of economic conditions and expressed hope that operations could resume as soon as possible.

In addition to lower copper concentrate production, cathode production was down due to falling solution grades; however, these are expected to improve with the operation of the No. 4 Dump heap leach project in 1994. The cathode circuit has not been affected by the mill closure. The molybdenum circuit did not operate during the year.

A feasibility study of an expansion of the mill from 38,000 tpd to 57,000 tpd has been completed. The study included an 18-hole exploration program to further detail pit designs, a detailed review of capital costs, further study of alternate milling options and consideration of environmental permitting requirements. The study has confirmed that previous estimates of Cdn$35 million in capital costs and operating savings of US$0.08/lb are achievable with the expanded mill. No decision has been made to proceed with the mill expansion at this time in veiw of continuing low copper prices and the Company's ongoing review of available alternatives.

Capital expenditures for the year included further stripping costs for the Gibraltar East Stage 3 pit, the purchase of five used 170-ton trucks and the development of the No. 4 Dump heap leach pad.

On September 24 the Company signed a new Collective Agreement with Local 3018 of the Canadian Auto Workers which covered terms and conditions of employment for the hourly paid employees at the McLeese Lake mine. The agreement is for the period April 1, 1993 to March 31, 1996 and provides for a 0%, 1%, and 2 % increase in wages over the contract period as well as changes to the pension plan and benefits package.

New Growth Strategy

On July 29 your Board announced a new strategy of growth for the Company. Key elements of this new focus included the appointment of an independent management team and an equity offering. The issue of 10,840,109 shares raised approximately $48 million. With Placer Dome's interest in the Company now reduced to 44.4%, extensive efforts are underway to actively pursue new opportunities as an independent mining company. A wholly owned subsidiary company, Gibraltar Mines Exploration Ltd., has been incorporated in the United States and an exploration office opened in Reno, Nevada. Mr. Tom Shrake was appointed to the position of Manager, Exploration and is actively seeking copper properties throughout North America and most recently, in Chile.

Environmental

Conscientious environmental stewardship is an integral part of your Company's business plan. As part of an ongoing process of technological review it was determined that the previously estimated environmental bond of $10 million was not sufficient to meet reclamation costs and bonding needs for post-operation water treatment at the McLeese Lake mine. Based on current forecasts, $35 million was deemed necessary. The final figure is targeted to be determined after the completion of scheduled testwork over the next few years. In the interim the Company has agreed to increase it's yearly contribution to the environmental bond from $1 million to $2.7 million starting in June,1994.

Board and Executive Changes

The Board expresses its appreciation to Mr. Henry Brehaut and to Mr. Eliseo Gonzales-Urien who resigned as Directors during the year. Mr. Art Brown resigned as a Director on February 8, 1994 and was replaced on the Board by Mr. Doug Fraser, President and Chief Executive Officer of Placer Dome Canada Limited. Mr. Brown's significant contributions as

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Summary

The decline in the price of copper from an average of U.S.$1.02 in January to U.S.$0.78 in December was the single largest factor impacting the Company during 1993. In order to conserve cash through the period of low copper prices, the Company ceased operations for a 24-day vacation shutdown in July/August and reduced the mill's throughput rate by 50% effective September 24, 1993. With the continuing decline in prices, mining and milling operations were suspended indefinitely on December 1, 1993. The closure will last until a sustainable increase in copper price occurs. Production of approximately 6.5 million pounds of copper cathode per year will continue during the shutdown period.

During 1993 the Company adopted a long-term strategy to increase its copper production through the possible expansion of existing operations and through a program of exploration and acquisitions. The Company is pursuing exploration and acquisition opportunities in the region around the mine and elsewhere in Canada, and in the United States, Mexico and Chile. A wholly-owned subsidiary, Gibraltar Mines Exploration Ltd. has been incorporated in Reno, Nevada as the exploration arm of the Company.

In order to provide the cash to finance the mill expansion and implement the growth strategy, the Company issued 10,840,109 shares for net proceeds of approximately $48 million during 1993. As at December 31, 1993 the Company has $44.5 million on hand to fund the mill expansion, to sustain the Company during this period of low metal prices and to proceed with an aggressive exploration program.

Mill Expansion

A feasibility study on the economic benefits of a mill expansion was carried out in 1993. The results indicate that a 50% expansion would cost approximately $35 million for fixed plant and would result in a reduction in cash operating costs of approximately U.S.$0.08 per pound of copper from that which otherwise would have been incurred over the remaining life of the mine. In addition, a further $10 million will be required in the first year of expanded operations for mining equipment needed to handle higher stripping levels.

A 50% expansion was selected following a review of ore reserves and an evaluation of the equipment requirements within the mill. The major element of the mill expansion will be an increase in crushing and grinding capacity using conventional ball milling and waterflush crushing technology. Flotation and dewatering capacity will also be increased. The existing haulage truck fleet will be expanded over a five year period commencing in the first year of expanded operation, as will the drill fleet. Shovel capacity is adequate. The mobile equipment maintenance facility will be expanded to accommodate the enlarged truck fleet. Construction, which will take approximately one year to complete, would not interfere with milling operations. The expanded milling capacity will reduce the mine life to 10 years.

No decision on the mill expansion has been made at this time in view of continuing low copper prices and the Company's ongoing review of available alternatives.

Review of Operating Results

1993 Compared to 1992

The Company's net loss for the year ended December 31, 1993 was $11.3 million or $0.82 per share on revenues of $47.8 million compared to net earnings of $3.1 million or $0.26 per share on revenues of $67.3 million in 1992.

Significantly lower copper prices combined with lower copper concentrate and cathode sales volumes were the major factors influencing the decline in revenues from the 1992 level. The molybdenum circuit did not operate during 1993 due to the low grade of molybdenum in the ore and low molybdenum prices. Cost of sales increased in 1993 despite the lower sales volumes due to the increased cost associated with mining lower grade ore, the cutback in production to the 50% level and the 24-day vacation shutdown. All identified costs associated with temporarily shutting down the mining and milling operations have been provided against earnings in 1993. These costs totalling $3.1 million relate mainly to severance and mothballing expenses. Development of Stage 3 of the Gibraltar East pit continued through the year. Stripping costs of $7.4 million were capitalized in 1993. The total capital cost of the development is estimated at $27.8 million.

Depletion expense was higher in 1993 reflecting the increased mining of ore from the Gibraltar East pit. At the time of suspending mine operations all ore being processed in the mill came from the Gibraltar East pit.

The provision for reclamation costs was adjusted in the second quarter of 1993 to reflect an estimated expenditure of $35 million over the mine life, up from the previous estimate of $10 million. The annual provision has been increased to $2.7 million. As at December 31, 1993 approximately $5.2 million has been provided to date through charges against earnings.

Exploration expense was lower in 1993 than in 1992 due to the extensive drilling programme at the Gibraltar North copper zone during 1992. Only nominal funds were spent on exploration during 1993 although exploration expenditures are expected to increase in 1994 due to the change in focus of the Company and the stated objective of increasing ore reserves.

1992 Compared to 1991

The Company's net earnings for the year ended December 31, 1992, were $3.1 million or $0.26 per share on revenues of $67.3 million compared to net earnings of $3.2 million or $0.27 per share on revenues of $69.1 million in 1991.

Sales volume for copper concentrate was higher in 1992 but higher smelter charges caused net sales revenues to decrease from the 1991 level. Cathode copper and molybdenum sales declined in 1992 because of lower production. Copper grade was higher in 1992 but recovery was unfavourable due to the presence of oxidized ore. Molybdenum production was substantially down from 1991 due to lower than expected recovery and grades. Cost of sales decreased in 1992 due to a better strip ratio and higher productivity. Development of Stage 3 of the Gibraltar East pit continued through 1992. Stripping costs of $8.2 million were capitalized in 1992.

Depreciation and depletion expenses were higher in 1992, reflecting the purchase in 1991 of new mining equipment and increased mining of ore from the Gibraltar East pit.

Exploration expense was higher in 1992 due to the drilling program at the Gibraltar North zone during the year.

Income tax expense increased in 1992, caused by the non-deductibility, for B.C. mining tax purposes, of forward sales losses and reclamation expense provisions.

Financial Condition and Liquidity

During 1993 the Company raised approximately $48 million from the sale of 10,840,109 special warrants which were subsequently converted into 10,840,109 common shares. The proceeds from the issue have been added to the Company's cash reserves and are being used to fund current cash requirements during this period of low metal prices and, should the proposed mill expansion proceed, fund the cost of additions to fixed plant.

Cash flow from operations declined to $(1.5) million in 1993 from $13.5 million in 1992 due to the net loss incurred during the year. Capital expenditures in 1993 totalled $10.9 million, including $7.4 million spent on development of Stage 3 of the Gibraltar East pit. A further $3.5 million was spent on equipment. For the corresponding period in 1992, capital expenditures were $13.6 million, of which $8.2 million was for deferred development and $5.4 million for equipment.

Cash and short-term investment balances at December 31, 1993 stood at $44.5 million compared to $10 million at the end of 1992. The Company's bank lines of credit which were $10 million at December 31, 1992 were not renewed by the banks during 1993. The Company will attempt to replace these lines of credit during 1994.

No dividends have been paid by the Company since a $0.05 per share dividend was paid in the first quarter of 1992. Future dividend payments will be dependent on the financial position of the Company, which is strongly influenced by copper prices.

Reclamation

Under the Mines Act (British Columbia), the Company is obligated to provide security for reclamation costs. The purpose of the security is to provide for both site reclamation costs at the time of mine closure and thereafter the ongoing funding of treatment facilities and related operating costs. The Company presently holds a mine reclamation permit pursuant to which it is required to provide security in the form of a reclamation bond for the performance of its reclamation obligations. The Company has provided the required security under its permit in the form of a letter of credit of $9 million as at December 31, 1993 and, under the permit, is required to make one additional payment of $1 million in 1994 for a total of $10 million.

As part of an ongoing process of technical and legislative review, the amount of the estimated reclamation and ongoing treatment costs was recently re-evaluated by the Company to be approximately $35 million. A significant amount of testwork is required over the next three to four years in order to confirm the assumptions and parameters used to determine a final reclamation amount. The Company has agreed with the Ministry of Energy, Mines and Petroleum Resources to continue adding to the current bond of $9 million but at an increased rate of $2.7 million per year starting in mid-1994. The ultimate amount of the bond will be determined by negotiation with the Ministry after completion of the testing program currently underway, but is not currently expected to be in excess of $35 million.

Expenditures relating to ongoing environmental and mine closure reclamation requirements are charged against earnings as incurred. The estimated reclamation costs are being accrued by annual charges to earnings over the estimated life of the mine. The revised estimate of reclamation costs has necessitated an increase in the provision against earnings to $2.7

ANNUAL INFORMATION FORM AS AT FEBRUARY 8, 1994

NAME AND INCORPORATION OF ISSUER

Gibraltar Mines Limited (the "Company") was incorporated under the British Columbia Company Act on July 5. 1962. Through a series of amendments to the documents by which it was established, the authorized share capital of the Company was increased to present levels. The Company's principal and head office is located at the minesite and its mailing address is P.O. Box 130. McLeese Lake, British Columbia, V0L 1P0. The Company's registered and records office is located at 600, Bentall IV, 1055 Dunsmuir Street, Vancouver, British Columbia, with mailing address P.O. Box 49305, Bentall Postal Station, Vancouver, British Columbia, V7X 1L3.

GENERAL DEVELOPMENT OF BUSINESS

The Company is 44.4% owned by Placer Dome Canada Limited ("Placer Dome Canada") a wholly-owned subsidiary of Placer Dome Inc. ("Placer Dome"), an international mining company with its head office in Vancouver, British Columbia. Placer Dome Canada provides, at the Company's request, some on-going administrative, marketing and technical services for a fee equal to Placer Dome Canada's costs. Two of the Company's five directors and one of its officers are officers of Placer Dome or Placer Dome Canada. Exploration is conducted through Gibraltar Mines Exploration Ltd., a wholly-owned subsidiary of the Company. The Company's exploration office is located in Reno, Nevada.

The Company owns and operates an open pit mine and related facilities (the "Mine") 37 miles north of Williams Lake, British Columbia which produces copper concentrate and cathode copper and, as a by-product, molybdenum disulphide concentrate. Williams Lake is approximately 350 miles north of Vancouver. The Mine commenced production of copper concentrate in March 1972. Access to the Mine is by an all-weather road which joins Highway 97 at the Village of McLeese Lake. A siding for the shipment of concentrate has been established on the British Columbia Railway's main line to Vancouver, four miles north of the junction of the Highway and the Mine road.

The Mine is located on a 4,435 acre site at an elevation of 3,675 feet and consists of 124 mineral claims held under leases and 150 mineral claims which are located claims under the British Columbia mining law. Major facilities are primary and secondary crushers, a 38,000 tons-per-day concentrator, a cathode copper plant and an office, warehouse and repair facility. Mining and milling operations were temporarily suspended on December 1, 1993. The operation will remain suspended until a sustainable increase in copper prices occurs. Production of cathode copper is continuing.

History

Placer Dome and one of its predecessors, has been a significant shareholder of the Company since 1970. The cost of developing and equipping the property for production was $63.6 million. Production commenced in 1972. Mine development was financed by term loans from two Canadian chartered banks which were repaid in 1973 from operating cash flow. A cathode copper plant, designed to produce 10 million pounds annually of market-ready copper metal, began operating in October 1986.

DESCRIPTION OF BUSINESS

Business Segments

All of the Company's operations are within the mining sector. The major products produced are copper concentrate, cathode copper and, when economic, molybdenum disulphide concentrate.

During 1993, sales of copper to one non-affiliated customer totalled 54% (1992 - one customer 45%) of total sales revenues for the year, comprising most of the 61% of the total sales to Japan (1992 sales to Japan - 46%).

Geology and Ore Reserves

The mine consists of four separate copper-molybdenum mineralized zones, namely Gibraltar East, Gibraltar West, Pollyanna and Granite Lake. All are contained within an area about 2.5 miles west to east and one mile north to south.

The Company's mineralized zones have been extensively explored by diamond drilling. As at December 31, 1993, the combination of proven and probable reserves were as follows:

Zone	Tons (000s)	% Copper	% Mo	Cut-off Grade (% Cu)
Gibraltar East				
- Proven	64,659	0.279	0.0072	0.18
- Probable	6,328	0.213	0.0067	0.18
- Combined	70,987	0.273	0.0072	0.18
Granite Lake				
- Proven	75,150	0.311	0.0100	0.20
- Probable	6,572	0.239	0.0067	0.20
- Combined	81,722	0.305	0.0097	0.20
Pollyanna				
-Proven	32,845	0.294	0.0091	0.20
- Probable	1,894	0.218	0.0066	0.20
- Combined	34,739	0.290	0.0090	0.20
TOTAL	187,448	0.301	0.0095	

These ore reserves are based on mineral inventories that were re-interpolated and on pit designs that were re-optimized and smoothed in 1993. The average strip ratio for the above reserves is 1.14:1. Pit optimizations were based on zero minimum profit pit shells, assuming 1993 economic parameters, average copper prices of about US$1.10 per pound and an exchange rate of $0.80 US/Cdn. There are 4.2 million tons of Cuisson Lake Mines Ltd. ore included in the revised Granite Lake Stage 3 pit design. Material contained in the dumps which is being treated to recover cathode copper is excluded from the above reserves.

Ore reserves are adjusted annually by the amount extracted, added and deleted resulting from new geological information, ore interpolations and pit designs. The following is a reconciliation of ore reserves for 1993.

Opening balance, January 1	162,600,000
Additions	36,119,318
Deletions	(101,000)
Tons Milled	(11,170,193)
Closing Balance, December 31	187,448,125

Exploration

Until 1992, Gibraltar spent limited funds on exploration. Exploration expenditures over the four years ending December 31, 1991, averaged $223,000 per year.

In 1992, exploration expenditures totalled $772,000, primarily associated with a program to further evaluate a mineralized copper zone lying northwest of the existing producing property. Most of the area, named Gibraltar North, is subject to a royalty agreement signed in 1971 and amended in 1992 in favour of Newcoast Silver Mines Ltd. ("Newcoast"). The royalty agreement as amended provides for a 30% net proceeds interest to Newcoast from the claims in the Gibraltar North zone covered by the agreement after recovery by the Company of capital and financing costs.

Assay results from 60 holes drilled for definition purposes on the Gibraltar North zone returned intersections which confirmed strike extensions and core zone grade distribution targeted by the drilling program. The evaluation undertaken by the Company of the drilling program in 1992 indicates that, because the mineralized zone lies at significant depth, high stripping costs would be incurred, which, together with current market prices for copper, makes development of the zone uneconomic. Accordingly, the Company has decided not to proceed with development of the deposit as part of its mining plan. The Company does not include the Gibraltar North deposit in its ore reserves. The Company will, however, continue to study the deposit for possible development in the future.

Exploration in 1993 was limited to mineral claim assessment work and an 18 hole definition diamond drilling program in the Pollyanna and Granite Lake pit areas. The drilling results form part of the mill expansion feasibility study. The proposed mill expansion would allow re-examination of areas within the property which contain mineralization below the current cut-off grade.

The Company intends to carry out exploration activities in Canada, the United States, Mexico and Chile and will be seeking properties of merit in these areas so that it can expand the scope of its operations generally. The Company is targetting those properties with known mineralization that are considered to be in the late stage of exploration. A senior exploration manager, located in Reno, Nevada, has been recruited to develop and oversee the Company's exploration activities.

Mining and Milling

Mining is by the open pit method. Mining commenced in the Gibraltar East zone in 1971 and has since occurred sequentially through two stages of each of the Gibraltar East, Granite Lake and Pollyanna zones, and in a single stage of the Gibraltar West zone. Mining in 1993 and 1992 was from Stage 3 of the Pollyanna pit and Stage 3 of the Gibraltar East pit, in accordance with the long-term mining plan. Completion of mining from the Pollyanna pit occurred in 1993, and plans call for the Gibraltar East pit to supply all the millfeed over the next few years. Development costs were $7.4 million at during 1993 and are estimated to total $27.8 million at completion. A total of $21.3 million has been incurred to December 31, 1993.

During 1993, a total of 11.3 million tons of ore were mined (1992 - 14.7 million) at a strip ratio of 1.24:1 (1992 - 1.24:1).

Average mining production in 1993 was 76,400 tons per day (1992 - 90,000) at a mining cost of $0.50 per ton mined (1992 - $0.46). The mining rate for the first half of 1993 was 95,000 tons per day, but was reduced to 50,000 tons per day for a portion of the fourth quarter as a result of the production cutbacks described below.

During 1993 the mill treated a nominal 42,900 tons per operating day, with actual throughput varying from 35,000 to 56,000 tons per day depending on hardness of the ore. The concentration circuit is conventional with primary and secondary crushing followed by rod mill/ball mill grinding and a conventional flotation and dewatering circuit. Equipment is included for the recovery of by-product molybdenum concentrate from the copper concentrate. A cycloned-tailing constructed dam is used to impound the tailing. The proposed mill expansion would increase nominal milling capacity from 38,000 tons per day to 57,000 tons per day.

During 1993, the mill processed 11.2 million tons of ore at an average grade of 0.30% copper (1992 - 14.0 million tons, 0.34%). The average daily throughput was 42,900 tons (1992 - 38,000). Recovery of copper was 75.1% (1992 - 73.8%). Production of copper in concentrate totalled 50,522,000 pounds during 1993 (1992 - 70,861,000).

The presence of oxidized ore in the Gibraltar East pit kept recoveries low in 1992 and this trend continued in 1993, although the degree of oxidation is decreasing with depth. The ore is relatively soft in the Gibraltar East pit, allowing a greater mill throughput, offsetting the poorer recovery. Molybdenum production was terminated in late 1992 due to low head grades and poor prices. The low head grades are expected to persist but short-term operation of the circuit may occur if higher grade pockets are encountered.

In order to conserve cash through the current period of low copper prices, the Company ceased operations during a 24-day vacation shutdown in the summer of 1993 and reduced concentrator production by 50% of the annual throughput rate by operating the mill for 3.5 consecutive days each week, effective September 24, 1993. On December 1, 1993 all mining and milling operations were temporarily suspended. The operation will remain closed until a sustainable increase in copper prices occurs. The production cutback will not affect cathode copper production.

Cathode Copper

Copper is leached from three of the four major mine waste dumps using sulphuric acid and natural bacterial leaching. It is recovered from solution in a conventional solvent extraction/electrowinning plant, which produces a 99.99% cathode copper. The Company receives a better realization per pound of copper in cathode than from copper contained in concentrate, which incurs smelting and refining charges.

Cathode copper production began in 1986. Production in 1993 was 6.0 million pounds (1992 - 6.9 million pounds). The 13% drop was caused by a drop in solution grades from the leach dumps, a continuing trend as the more accessible copper has been leached out. For the three existing dumps this trend is expected to continue.

A heap leach pad was constructed in 1993 to process higher grade oxide material selectively remined from the No. 4 waste dump. The current quantity of leachable material for this project was derived from drill results which only tested approximately half the dump volume.

A third-quarter, 1993 review of current recovery rates has led to a significant down-grading of the previous leachable copper estimate. The original estimates were based on laboratory column testwork. Actual operation of the dumps has caused channelling, weathering and iron precipitation within the dumps limiting the accessability of the leach solution to the copper minerals.

Marketing

(a) Copper

The major end-user markets for copper are the telecommunications, automobile and construction industries and consumer durable goods manufacturers. Activity in these areas influences the demand for and price of copper.

The product of principal value produced by the Company is copper in concentrate having a copper content of 27%-30%, plus minor payable amounts of silver. Most of the concentrate is sold under annual contracts to copper smelters in Japan and to merchants who may deliver to any market. The Company receives payments for an agreed percentage of the copper and silver contained in the concentrate, after deduction of smelting and refining costs.

In October 1986, the Company commenced the production and delivery of solvent extraction, electrowon cathode copper. The product is sold under annual contracts in Far Eastern markets.

The Company's copper concentrate and cathode copper are of good quality and are highly marketable. The Company does not experience difficulty in securing contracts for its copper concentrate and cathode copper.

The Company sells copper in concentrate and cathode forms on the basis of settlement prices quoted on the London Metal Exchange ("LME"). The LME quoted average price per pound for Grade A cathode, or previous equivalent, for each of the five years 1989 to 1993 was as follows:

	US$/lb.
1989	1.29
1990	1.21
1991	1.06
1992	1.04
1993	0.87