

# RSD Mines & Metals

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## WESTERN MINES LIMITED

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Western Mines Limited, directly and through subsidiaries, holds base metal properties at Myra Falls in the Buttle Lake area on Vancouver Island, B.C. This area includes the Lynx Mine which went into production in early 1967. The concentrator at the Lynx Mine can handle more than 1,000 tons per day and currently is operating at 1,100 tons per day. After many start-up problems the mine now appears to be settling down to efficient operating levels and, with the current zinc and copper prices, earnings are quite exceptional.

Effective control of Western was acquired in mid-1969 by Northgate Explorations Ltd. The latter company purchased 350,000 treasury shares and acquired an additional 721,000 shares from Cominco Limited. Northgate now holds 1,157,000 shares of Western Mines, an approximate 22 1/2% interest.

### FINANCIAL

Consolidated net income for the year ended September 30th 1969 was \$4,212,000 (82¢ per share), compared with \$4,390,000 a year earlier. For the first quarter ended December 31st, 1969 the company was able to report net earnings of \$2,398,000 or 46¢ per share versus \$479,000 or 9¢ a share for the similar period a year earlier. This 400% increase was due to a 10% increase in tons milled, a 30% increase in copper grades, a 25% increase in zinc grades and a 7% improvement in copper recoveries. It should also be noted that for the three-month period ended December 31st, 1969 copper prices were some 40% higher than in the similar period a year earlier.

### OPERATIONS

The mill is currently treating about 1,100 tons per day grading 1.9% copper and 8.5% zinc. Fairly important values are also recovered in gold and silver.

Total operating costs have been approaching \$13.00 per ton of which approximately \$8.50 per ton is attributable to direct mining (which includes diamond drilling and exploration). It is to be noted that the waste-to-ore ratio now averages 12:1.

Approximately 100,000 tons of mill feed exist in the stockpile of which 50,000 tons are in the form of oxides. These oxides could be treated in the plant without too much reduction in overall recovery but the stockpile is used essentially when open pit mining becomes too difficult during the winter.

Approximately 70% of mill feed now comes from the open pit with the remainder coming from underground. Of the total ore reserves some 400,000 tons make up the open-pit reserves. At present the company is attempting to extend the 'G' Zone which is a new zone coming in at the south end of the open pit. To date, the 'G' Zone (as part of the overall pit reserves) is estimated to contain approximately 150,000 tons. However, there appears to be a downward extension of this zone which could be extended to some depth in



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which case it would be mined from underground.

Currently there are 12 underground stopes in operation and six development headings underway. The main haulage level is on the 10th level from which an internal shaft has been sunk connecting with an additional six levels beneath. Recently, below the 14th level, a high grade zone was intersected which revealed grades approaching 5% - 6% copper over 30 foot thicknesses. Further work is now being done to evaluate the potential size of this new zone. The mine method employed is a cut-and-fill method with sand back-fill being used. It is felt that the optimum underground mining rate will be about 600 tons per day. At the current rate of open pit mining the present pit reserves could last for at least another two years at which time full phase-in of the underground workings would have taken place. If exploration work on the adjacent Price and Paramount zones proves successful then approximately 100 - 200 tons a day of additional underground ore could be fed to the mill by that time.

As of September 30th, 1969 the company reports ore reserves of 1.3 million tons grading 1.9% copper, 8% zinc, 0.7% lead, 0.06 ounces gold and 1.8 ounces of silver per ton. It should be noted that during the past three years of operation the company has been able to maintain this ore reserve total. It appears quite likely that the company will be able for some time to discover sufficient new ore to replace the tonnage mined each year.

### EXPLORATION

The Paramount Zone, which lies south of the present mine (Lynx Zone) has seen only preliminary underground exploration work. At present a lower adit is being driven and is in approximately 1700 feet. Diamond drilling from this adit has just started and it is hoped that this area will provide additional ore zones. From the original work done on the Paramount, one zone was discovered which is estimated to contain approximately 60,000 tons.

The Price Zone, located south of the Paramount Zone, is now undergoing preliminary exploration work. To date a geophysical survey has been completed and diamond drilling has just started.

Just recently Western Mines acquired a copper prospect located on Quadra Island. This particular property had been originally worked by a senior company and at that time detailed drilling had outlined some 100,000 tons grading 2.8% copper. Other zones could exist in the area and the company has just commenced a diamond drilling programme.

### RECOMMENDATION

Western Mines is now in a strong financial position and earnings should be maintained at high levels for some time yet. In April, 1970 the company will make its first installment towards repaying its outstanding debt of \$6.3 million of 6 1/2% income debentures. This Sinking Fund installment should amount to \$5-5 1/2 million. Thus by year end there is a strong possibility that the company could declare its initial dividend. The current working capital position is estimated to be approximately \$8,000,000. Ore reserves remain at a four year supply and there is a good chance that gradual expansion will take place in time either through addition to the 'G' Zone or discovery of new ore zones in either the Price or Paramount Zones. The company's exploration work on its copper prospect adds a degree of speculative intrigue and news could result from this venture. The company intends to change its year to December 31st and thus for the full year 1970 we are estimating net earnings of about \$1.40 - \$1.50 a share. These earnings will still be tax-free and our estimate allows for some decrease in both copper and zinc prices towards year end.

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The stock continues to act well technically, with apparently good support in around the \$3.90 area and a medium term chart objective of \$5.50.

With an extremely low earnings multiple and assurance of good earnings for 1970 this stock can be considered as a medium term purchase at this price and on any dips. The possibility of exploration news coupled with the possibility of a dividend declaration by year end gives this junior situation added appeal.

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