

NO. 207 (1998)  
OCTOBER 28, 1998

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#### PRIME RESOURCES GROUP INC.

[PRU-T, V, AMEX] 76,073,913 SHS.

THREE MONTHS ENDED SEPTEMBER 30, 1998	1998	1997
REVENUE	\$55,982,000	\$55,291,000
COSTS & EXPENSES	40,849,000	42,326,000
NET INCOME	4,944,000	5,343,000
EARNINGS PER SHARE	7¢	7¢
WEIGHTED AVER. SHARES OUT.	76,074,000	76,074,000

NINE MONTHS ENDED SEPTEMBER 30, 1998	1998	1997
REVENUE	\$170,513,000	\$157,390,000
COSTS & EXPENSES	109,891,000	104,540,000
NET INCOME	24,743,000	21,945,000
EARNINGS PER SHARE	33¢	29¢
WEIGHTED AVER. SHARES OUT.	76,074,000	76,074,000

THIRD QUARTER PROFIT POSTED - Walter Segsworth, president, Prime Resources Group Inc., reports financial and production results for the three and nine month periods ended 30Sept98. Prime owns the Eskay Creek and Snip gold mines located north of Stewart in northwestern BC. Total production of gold and gold equivalent contained in ore, doré and concentrates increased by 10% to 150,263 ounces in the third quarter of 1998 compared with 136,543 ounces reported in the third quarter of 1997. Total cash costs, which include third party smelter costs, decreased 17% to US \$144 per gold equivalent ounce compared with US \$174 per gold equivalent ounce in the third quarter of 1997.

Revenues from gold, concentrate and ore sales in the third quarter of 1998 were down slightly from 1997. Increased gold production and improved silver prices helped offset the decline in the gold price. Prime's average realized gold price in the quarter decreased US \$35/oz to US \$289 and the average realized silver price increased US 69¢ to US \$5.22/oz compared to third quarter 1997.

About 34% of sales revenue in the third quarter of 1998 was attributable to Eskay Creek silver production. The mine produced 2,800,000 ounces of silver during the quarter compared to 3,000,000 ounces in 1997.

Production costs and exploration expenditures decreased by a combined amount of \$6,500,000, reflecting reduced exploration activity and the extra charges incurred in 1997 to reduce the Snip mine's concentrate inventory. Offsetting these declines were the recognition of a foreign exchange loss of \$3,700,000 on the company's currency protection program, and the \$1,200,000 write-down to market value of investments in mining securities.

The combined effective rate of income and mining taxes increased to 67% for the quarter just ended compared with 59% in 1997. The higher rate in the current quarter was caused by an adjustment of \$1,000,000 relating to the completion of a Revenue Canada audit for prior years.

Cash flow from operations, before working capital adjustment, was \$21,800,000 in the third quarter of 1998 compared to \$16,400,000 in the prior year's quarter. For the nine months ended

September 30, 1998 cash flow from operations increased \$8,900,000 to \$57,700,000 compared to the same period in 1997. The increases in both the current quarter and year-to-date cash flows were a result of increased production, higher realized silver prices and lower production costs, offset by lower gold prices. At 30Sept98 Prime had \$218,000,000 in current working capital, including cash and short term investments of \$200,900,000.

The Eskay Creek mine produced 70,887 payable ounces of gold and 2,820,000 payable ounces of silver in the third quarter, equivalent to 121,965 ounces of gold, compared to 105,414 gold equivalent ounces in 1997. Production from the new gravity/flotation mill, a lower silver to gold equivalency conversion ratio and 5% higher gold grades in direct shipped ore accounted for the improvement in gold equivalent production. These were partially offset by a planned 18% reduction in direct ore sale tonnage.

Total cash costs for the quarter, including third-party smelter costs, decreased 16% to US \$138 per gold equivalent ounce at Eskay Creek compared to 1997. Increased gold equivalent production, the improved economics of using the new gravity/flotation mill and a decrease in the Cdn. dollar to U.S. dollar exchange rate were the primary reasons for the decline in cash costs.

Prime has pledged \$500,000 and engineering services to assist the local First Nations community of Telegraph Creek in building a recreation/meeting centre.

Gold production at the Snip mine was 28,298 ounces in the third quarter of 1998 as compared to 31,129 ounces in 1997. This production decline was due primarily to a 4% decrease in tons milled and a negative smelter adjustment relating to concentrate sales in the first six months of 1998. Total cash costs per ounce were 18% lower at US \$173 in 1998 compared to US \$210 in 1997. Extra costs incurred in 1997 to draw down a prior build-up of concentrate inventory and a more favourable exchange rate in 1998 contributed to the reduction in cash costs.

Based on 1Jan98 proven and probable reserves, calculated assuming a US \$325 gold price, the Snip mine is scheduled to cease production near the end of April 1999. Gold prices continued to be below US \$325 during the quarter and if prices do not improve, some of the remaining reserves may not be economic. As a result, the amortization and depreciation of the remaining capital costs continued at an accelerated rate.

Exploration expenditures were \$2,800,000 during the third quarter of 1998 compared to \$4,200,000 in 1997. Reduced exploration expenditures resulted from the curtailment of exploration drilling at the Snip mine and decreased activity by the Homestake Canada Inc./Prime exploration joint venture. Eskay Creek and the surrounding area continued to be the primary focus of exploration activity. During the summer field season 72,000 feet of diamond drilling was completed in 90 holes. Targets included the 21C zone to the west of the main Eskay ore zones, the 21R zone to the south and the Pumphouse zone to the east. Preliminary results, particularly around the 21C zone were viewed as encouraging. Data compilation and interpretation is expected by year end.

On 11Sept98 Prime reported that subject to requisite approvals by Prime and Homestake shareholders, the board of directors had agreed with Homestake on a revised exchange ratio for the proposed acquisition of the 49.4% of Prime not already owned by Homestake. Under the terms of the revised proposal, for each Prime share owned, Prime shareholders (other than Homestake) would have the choice of receiving 0.74 of a Homestake share or 0.74 of a Homestake Canada exchangeable share. The Homestake proposal made on 25May98 provided for an exchange ratio of 0.675.

A Special Committee of independent directors of Prime was

104B 8 ✓

p. 1 of 3

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104B 8

p. 2 of 3

appointed to review, consider and report to the full Board of Directors of Prime on the terms of the proposed arrangement. Based upon an independent valuation and fairness opinion, the reports of the independent geological consultants and certain other considerations, the Special Committee recommended to Prime's board that it recommend to the minority shareholders of Prime that they accept Homestake's offer.

An extraordinary meeting of Prime shareholders has been called for 1Dec98 to consider and vote on the arrangement. To proceed, the arrangement will require approval by not less than 75% of the Prime shares voted (including the shares owned by Homestake) and by not less than two-thirds of the Prime shares held by the minority shareholders voted at the EGM.

Prime is completing a review of its computer based information and financial systems and has developed a plan designed to ensure that all of these systems will be Year 2000 compliant.

As a result of the positive results in the first nine months of 1998, Prime expects to meet its increased production target for 1998 of 360,000 ounces of gold and 11,500,000 ounces of silver at an average total cash cost of US \$150 per gold equivalent ounce.

Homestake Canada Inc., a wholly owned subsidiary of HOMESTAKE MINING COMPANY (HM-NY), owns 50.6% of Prime's shares. (SEE GCNL NO.199, 16Oct98, P.1 FOR PREVIOUS HOMESTAKE TAKEOVER OFFER INFORMATION)

104B 8

p. 3 of 3