Clouds over mining.

Can we weather the storm?

A report on the state of the British Columbia mining industry

MINING ASSOCIATION OF BRITISH COLUMBIA

If we can compete, we'll survive

The British Columbia mining industry suffered severely in 1982 from the world-wide recession.

Depressed world demand for most metals produced sharp drops in metal prices and industry revenues. Some operating costs, meanwhile, continued to increase, reducing profits or producing red ink. Fourteen mines were forced to suspend or cut back operations — and some may not re-open.

Many employees of mining companies, in the front office, the mine, and the mill, were laid off or forced by a mine closure to look for work elsewhere. Uncertainty about markets, uncertainty about jobs worried all of us.

The economic situation of the industry, in fact, has been the worst in living memory.

Our future in mining as companies and individuals is now directly linked to a further recovery in metal prices, the improvement of coal prices, and our ability to produce product at competitive cost in a very competitive world market.

The industry will have to manage better and take every opportunity to improve productivity. Governments will have to take less, and all of us working in the industry will have to look carefully at our income expectations.

We're all affected by our industry's ability to compete in markets. Competitiveness is the key to our job stability and future prosperity.

The competition is tough. Our competitors have richer ore bodies, shorter transportation requirements, pay lower wages and in many cases lower taxes, receive government help, and often don't have to worry about meeting the high health, safety and environmental standards that we demand in Canada.

Government taxes of various kinds are a heavy burden to the B.C. mining industry, as this report shows. They impose a real barrier to competitive pricing. So do labour costs which have risen to 43.7 per cent of 1982 net mining revenues, compared with 26.1 per cent in 1980.

These burdensome taxes and high wages can price B.C. mineral products out of world markets.

It is time that each of us reduced our individual expectations. If we can expect less in terms of future wage and salary increases and produce more for less cost, we can ensure a future for our industry, our company — and ourselves.

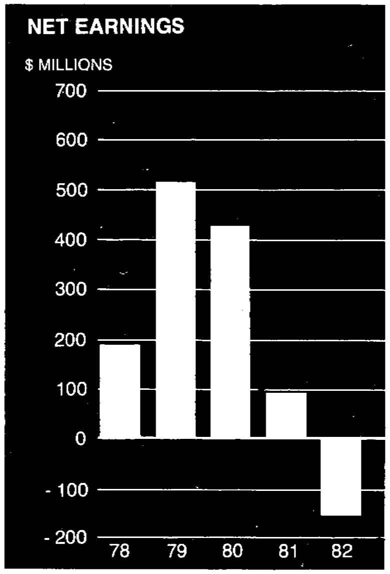
What was the state of the mining industry in 1982?

It was 15 years ago - in 1968 - that the chartered accountant firm of Price Waterhouse produced its first independent report on the B.C. mining industry for the year 1967.

In its 1982 report, Price Waterhouse said the industry lost $151 million in total - its first loss since 1967. Of the 29 operating mines, 19 lost a total of $239 million. More than half of the net earnings recorded by 10 mining companies reporting profits came from just one company. Price Waterhouse also found:

- Working capital declined 44 per cent in 1982 from 1980. Shareholders had a negative return of minus 6.2 per cent on investment.
- Dividends paid to outside shareholders amounted to only 18 per cent of the average of the last four years.
- Nine of the 29 mines operated at less than 50 per cent capacity during the year, while the average throughput was 80 per cent of capacity.

It was the industry's worst-ever financial picture.



Why were results so bad?

1. SALES REVENUES WERE DOWN

One reason profits were down was that sales were down. Industry revenues in 1982 dropped 11 per cent from the year before to $1,636 million as world demand for our products slumped.

Copper, molybdenum, zinc, gold, lead and asbestos sales were all lower with copper showing the greatest slide. Revenues from coal increased.

NET MINING REVENUES
$MILLIONS

	1980	1981	1982
Copper	$ 518	$ 433	$ 320
Coal	406	514	550
Molybdenum	298	183	162
Silver	253	158	177
Zinc	190	225	198
Gold	143	120	76
Lead	132	114	65
Asbestos	74	68	66
Iron	14	14	18
Other	13	6	14
	$2,041	$1,835	$1,636

2. SOME MINING COSTS CONTINUED TO CLIMB

Even though 14 mines suspended operations or cut back, total mining expenditures were about the same in 1982 as the year before — $3,095 million against $3,276 million.

Some expenditures declined — such as contract work, machinery and equipment construction costs. Taxes, interest and dividend payments also dropped.

On the other hand, expenditures on production materials and supplies, salaries and benefits went up.

Total wages, salaries and benefits increased by three per cent over 1981 to $716 million, even though 3,000 fewer miners were employed. Average salary per employee rose 17 per cent to $34,200.

Some of the increase resulted from retention during lay-off of employees with longer seniority and higher skills. But most of the increase reflected the impact of wage settlements made in 1980 and 1981, before the severe recession struck.

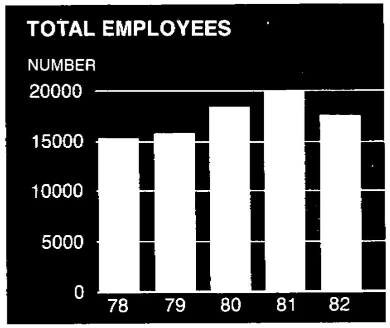
Average benefits rose 10 per cent to $5,700. Thus total salaries and benefits averaged $39,900 in 1982, an increase of 16 per cent over 1981.

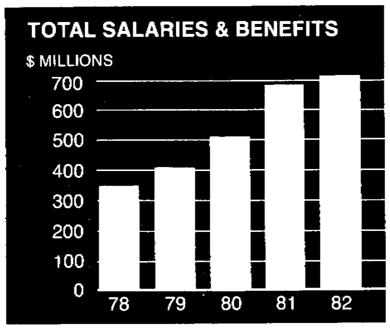
Because revenues declined and salaries increased, total salaries and benefits during 1982 represented 43.7 per cent of net mining revenues, up from 26.1 per cent in 1980 and 37.9 per cent in 1981.

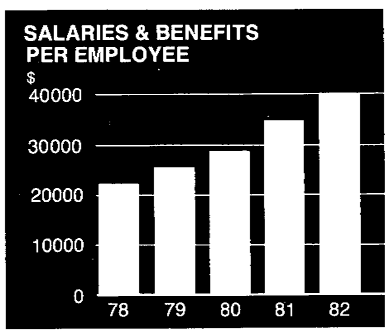
In sum, in 1982:

Fewer employees received a total $19 million more in wages and benefits.

Investors took home $55 million less than they did in 1981.







- Modernization of Cominco's smelting and refining facilities at Trail.
- Development of Cominco's Valley Copper mine in the Highland Valley.
- Completion of financing for Amax's new molybdenum mine at Kitsault (now closed) and the new Line Creek Coal mine near Sparwood.

In addition, other companies had to borrow money to continue operations and to pay salaries because they weren't generating enough cash.

Total industry debt more than doubled - as did interest payments, which shot up to $92 million from $46 million in 1981.

The industry will have this debt to contend with as it seeks to bring costs into line and maintain production and employment.

OTHER FACTS ABOUT THE B.C. MINING INDUSTRY

	1980	1981	1982
Gross mining revenues ($ millions)	$ 2,490	$ 2,402	$ 2,166
Net mining revenues ($ millions)	$ 2,040	$ 1,835	$ 1,636
Earnings (loss) after taxes ($ millions)	$ 418	$ 98	$ (151)
After-tax cash flows ($ millions)	$ 637	$ 263	$ 109
Total assets of operating companies at year-end ($ millions)	$ 2,321	$ 2,908	$ 3,934
After-tax return on shareholders' investment	24.8%	4.8%	(6.2%)
New capital invested — net ($ millions)	$ 369	$ 609	$ 864
Industry spending ($ millions)	$ 2,914	$ 3,276	$ 3,095
Payments to governments ($ millions)	$ 418	$ 374	$ 282
Direct employment	18,497	20,240	17,902
Average salaries and benefits per employee	$28,800	$34,400	$39,900
Shipments ('000 metric tonnes)	11,260	13,343	12,939
Exploration and development expenditure ($ millions)	$ 132	$ 228	$ 177
Capital expenditure ($ millions)	$ 682	$ 668	$ 687
Effective Canadian ownership	64%	67%	62%

For a complete report on the British Columbia Mining industry in 1982, write:

THE MINING ASSOCIATION OF BRITISH COLUMBIA
P.O. Box 12540
1066 West Hastings Street
Vancouver, B.C. V6E 3X1
PHONE: (604) 681-4321
TELEX: 04-507784

Shareholders experienced a negative return on investment - minus 6.2 per cent.

This was the second straight year shareholders fared poorly on their investment in B.C. mining. In 1981, the return on investment was 4.8 per cent.

The high return was 1979, when it reached 35.2 per cent. Over the last 10 years, however, the return on investment has averaged only 12.7 per cent.

3. ENERGY COSTS ROSE SIGNIFICANTLY

The mining industry uses a lot of energy. Recent increases in the costs of all types of energy have had a significant impact on mining.

Total payments made by the industry for energy increased by 45 per cent in 1981 and a further 26 per cent in 1982.

Since 1980, the cost of electricity has increased 78 per cent, natural gas 77 per cent, and diesel fuel 115 per cent.

The energy bill was 13 per cent of industry net mining revenues in 1982, further restricting the industry's ability to meet costs in other area of necessary expenditure.

Some expenditures dropped

The reduction in mining activity, uncertainty about the future, and the need to conserve cash all combined to reduce the amount spent on exploration and development in 1982. However, grim as things were, companies declared their faith in the future by continuing to spend on necessary development.

Total exploration and development expenditures were 22 per cent less than 1981 at $177 million.

Spending dropped on primary exploration and on development of properties already in production. But expenditures continued at about the same level on properties where development was committed before the recession.

EXPLORATION AND DEVELOPMENT ($MILLIONS)

	1980	1981	1982	Ten Year Total 1973-82
Primary exploration	$ 48	$ 57	$ 37	$303
Development on new properties	35	105	107	287
Development on properties already in production	49	66	33	326
	$132	$228	$177	$916

Capital expenditures on new mines continued at about the same pace as in 1981. Again, much of the money spent in 1982 was committed before the recession. A total of $687 million was spent in 1982 to construct surface facilities, purchase equipment, and build local infrastructure.

CAPITAL EXPENDITURES ($MILLIONS)

	1980	1981	1982	Ten Year Total 1973-82
Surface construction	$332	$388	$380	$1,392
Machinery and equipment	266	273	275	1,253
Other capital costs, including unallocated	84	7	32	288
	$682	$668	$687	$2,933

Total taxes paid were down sharply; they were only 75 per cent of what was paid to B.C., Canada and municipalities the year before.

In fact, the earnings picture was so bad that the industry as a whole did not pay any corporate income taxes to the federal government for 1982.

In B.C., the story was almost the same. Taxes and mineral royalties based on earnings went down 83 per cent, reducing the total taxes paid to B.C. by 27 per cent.

Over the last two years, all governments significantly increased taxes and levies not related to earnings and therefore independent of the industry's ability to pay. There was a 400 per cent increase in water taxes levied by the provincial government. Taxes based on the use of goods and services (for example, sales taxes) went up 30 per cent in two years to $60 million; Workers' Compensation, Unemployment Insurance, and Canada Pension payments rose 56 per cent to $42 million; while school and property taxes increased 100 per cent to $54 million.

Capital fund requirements grow

In 1982, the industry's requirements for capital funds exceeded those of any previous year.

Companies raised $991 million in debt and equity capital in 1982 - 45 per cent more than in 1981 - to help fund such developments as:

- Two northeast coal mines (Quintette Coal and Teck Corporation) and two southeast coal mines, Line Creek and B.C. Coal (Greenhills).

"The mining industry is going to have to work together - management, miners and support staff alike - as it has never done before - to weather the present economic storm. Productivity and competitive costs are our solution - not another wave of inflationary price increases - and to that end we must all be dedicated."

Tex Enemark
President
The Mining Association of British Columbia

The Mining Association of British Columbia was established in 1921 to promote and foster the mining and metallurgical and associated industries in British Columbia and the Yukon. Its members are:

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