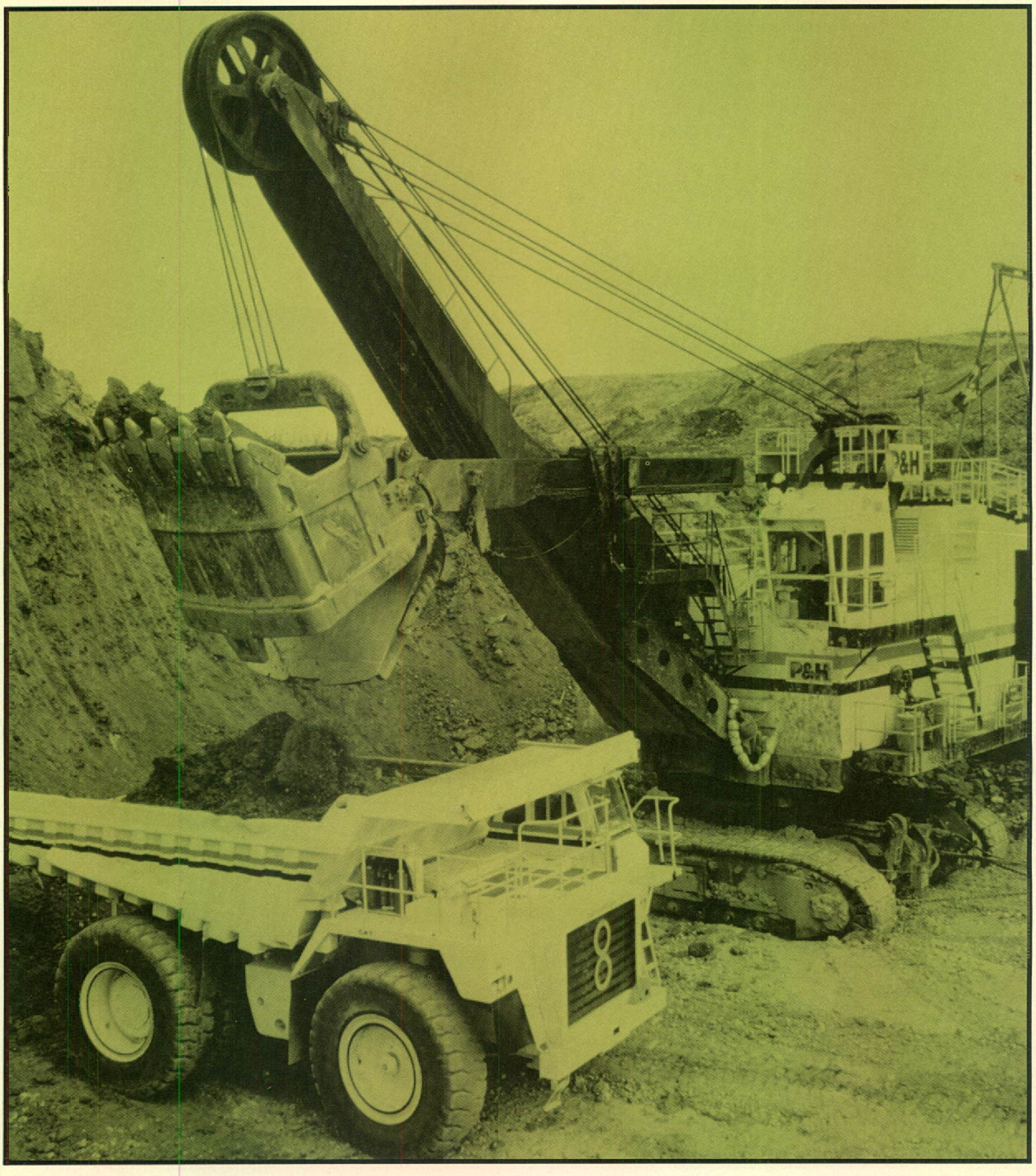
Pine Point Mines Limited

1986 Annual Report



Pine Point Mines Limited

Highlights - 5 Year

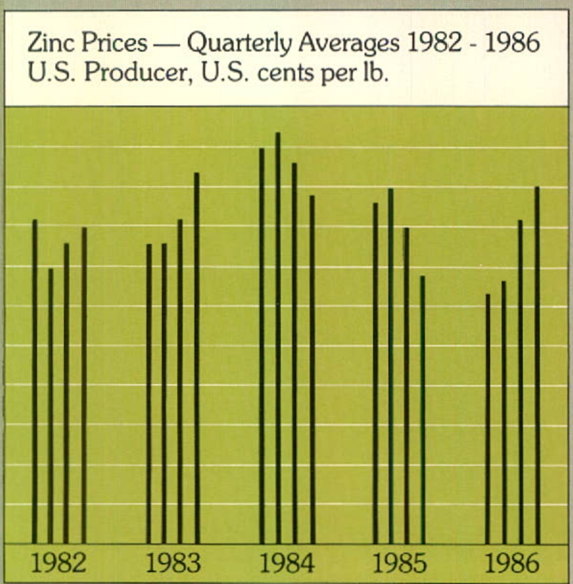
(All Dollar Amounts in Millions Except per Share Amounts)
1982 to 1985 figures restated. See Note 9 to Financial Statements

Operations	**1986**	1985	1984	1983	1982
Ore Milled (millions of tons)	**3.3**	2.4	2.5	1.0	2.4
Feed Grade — % Zinc	**8.7**	8.2	7.6	8.1	7.3
— % Lead	**4.1**	3.0	2.3	2.7	3.0
Sales of products	**$ 96.7**	$110.1	$119.9	$ 51.7	$ 87.9
Net earnings (loss)	**2.0**	(44.8)	15.5	(9.6)	(8.4)
— per common share	**0.45**	(9.91)	3.44	(2.12)	(1.86)
Cash from operations	**(8.8)**	(9.8)	18.3	—	(14.5)
— per common share	**(1.94)**	(2.15)	4.05	—	(3.21)
Dividends on common shares	**Nil**	Nil	Nil	Nil	Nil
— per common share	**Nil**	Nil	Nil	Nil	Nil
Capital expenditures	**2.1**	2.0	9.1	0.7	8.2
Pit preparation costs	**—**	24.5	13.7	3.8	14.9
Number of employees	**439**	492	588	545	591

Financial Position					
Assets:					
— Working capital	**$ 49.4**	$ 6.4	$ 11.3	$ 7.0	$ 10.2
— Fixed assets (net)	**20.6**	26.7	56.7	55.8	59.9
— Other assets	**3.6**	26.0	26.2	18.8	20.7
	$ 73.6	$ 59.1	$ 94.2	$ 81.6	$ 90.8
Represented By:					
— Long term debt	**$ 29.7**	$ 15.1	$ 8.2	$ 15.1	$ 13.8
— Deferred liabilities	**11.8**	15.0	—	—	—
— Income taxes not currently payable	**—**	—	12.2	8.3	9.2
— Shareholders' equity	**32.1**	29.0	73.8	58.2	67.8
	$ 73.6	$ 59.1	$ 94.2	$ 81.6	$ 90.8
Return on assets — %	**3.1**	Nil	17.7	Nil	Nil
Return on shareholders' equity — %	**6.7**	Nil	23.5	Nil	Nil

Sales					
Lead concentrate (tons)	**156,000**	77,000	62,000	55,000	72,000
Zinc concentrate (tons)	**262,000**	285,000	285,000	136,000	279,000

Share Price (Toronto Stock Exchange)					
— high	**$19⅛**	$31	$38	$35	$45⅝
— low	**$ 6**	$19	$20½	$25⅝	$20



PRESIDENT'S MESSAGE

Pine Point Mines Limited had a successful year in 1986. The revised production plan, announced in December 1985 and followed through the year, resulted in the Company making a modest profit of $2.0 million and regaining a solid financial footing. This plan has accelerated production from currently economic ore sources, resulting in reduced stripping costs, higher ore grades, maximum milling rates and reduced unit concentrate production costs.

Implementation of the plan has resulted in rapid growth of ore and zinc concentrate inventories, which are being financed through internally generated cash, early sales of concentrates and increased bank debt. These inventories will be part of the basis for continuing concentrate sales into 1990, following the completion of mining and milling operations planned to occur in 1987.

New records for concentrate production
New records for concentrate production were set in 1986 with 458,000 tons of zinc concentrate and 164,000 tons of lead concentrate produced. High concentrate production rates are anticipated to continue for 1987 and by year-end a zinc concentrate inventory of 400,000 tons will be one of the Company's most significant assets.

A net profit of $2.0 million was realized in 1986 as a result of the reduced concentrate production costs and improved operating margin.

The original 1986 exploration program, which was suspended to conserve cash, was replaced by a $2 million program largely financed by a flow-through share issue. The program revealed a mineralized structure in an environment previously thought to be below the productive ore horizon. This was encouraging, although only a small quantity of economic mineralization was found.

The ore reserve basis was adjusted in late 1986 to include only those currently economic sources of ore likely to be milled in 1987. These adjustments, together with 1986 production, reduced the reserve by 12.1 million tons to 3.7 million tons containing 3.5 per cent lead and 9.6 per cent zinc. Since the probability of operation beyond 1987 is seen as slight, it is necessary to recognize that reserves should now be based on current metal prices.

Accelerated production plan
The accelerated production plan has been a significant success resulting in both positive earnings and the build-up of a large, low-cost stockpile of concentrates in 1986. The direct operations cost for each ton of concentrate produced in 1986 was $111 a ton compared with $201 a ton in 1985. At the end of 1987, your Company will be left with the majority of its assets in the form of concentrates, which will be gradually sold. The ultimate financial return to the Company will of course be governed by metal prices between now and when sales end in 1990. An important decision facing the Directors of Pine Point is that of determining the future business direction of your Company following completion of mining operations at Pine Point.

Plans announced on January 15, 1987 call for the extension of the accelerated production plan through 1987, followed by an operations shutdown. Mining will be completed by July and milling by year-end. Concentrate sales are planned to continue until 1990. Included in the plan is a $2 million exploration program which holds the only opportunity for extension of the operation.

It is an unsettling period for employees at the mine and for other residents of Pine Point as they face the loss of their jobs and relocation. It is the intention of the Company to assist employees to cope with this difficult change.

On behalf of the Board of Directors, I would like to thank Mr. R.P. Douglas, who resigned from the Board in May 1986 and Mr. W.G. Wilson, who resigned from the Board in December 1986, for their contributions to the Company over the many years of their involvement. Mr. Lyle F. Beaudoin, who replaced Ms. Catherine A. Floe as Corporate Secretary in June 1986, resigned in early 1987 and Mr. Michael J. Hardin now holds that office.

I wish to thank the employees at Pine Point for their constructive response to the challenges placed before them in 1986.

D.L. Johnston
President and Chief
Executive Officer

Pine Point Mines Limited

36th REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

(1985 Comparative figures in parentheses)

The Year in Review
Net earnings for the year were $2.0 million, or $0.45 a share. This compares with a $2.2 million loss from operations in 1985, or $0.49 a share after restatement to reflect a prior period income tax adjustment of $0.2 million and before a writedown of assets and provision for termination costs amounting to $42.6 million. The 1986 profit resulted from the accelerated production plan, adopted in December 1985, which led to record productivity, new concentrate production records, and hence, lower unit costs in 1986.

Financial
The build-up of inventories of ore and zinc concentrate, which was provided for in the accelerated production plan, resulted in a cash deficit from operations of $8.8 million. This deficit was financed by increased borrowings from the Company's bankers, who extended their lines of credit from $15 million to $40 million while being granted security over all of the assets of the Company. In 1985, the cash deficit from operations was $9.8 million.

Zinc and lead concentrate sales, which in 1986 included 107,900 tons of concentrates recorded net of distribution cost, were $96.7 million compared with $110.1 million in 1985. Zinc concentrate sales volumes were 262,000 tons (285,000), a decrease from 1985. Lead concentrate sales volumes were 156,000 tons in 1986 compared with 77,000 in 1985. This significant increase was due to the purchase of all Pine Point's production by the Company's major lead concentrate customer.

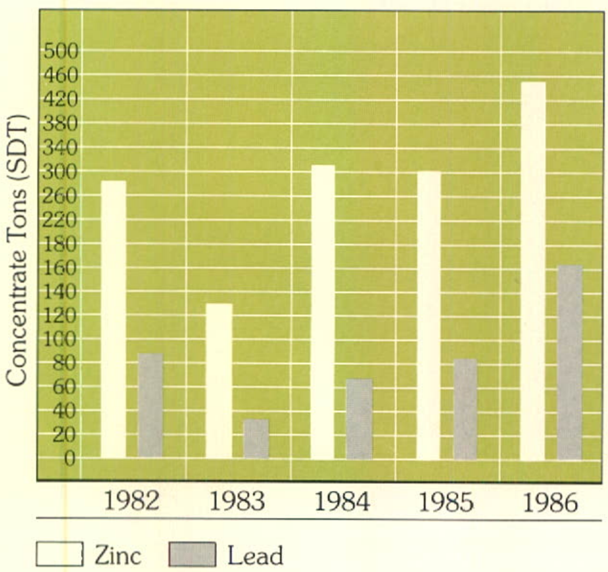
Dividends
The Company's continuing cash requirements precluded declaring any dividends. The payment of dividends will be considered after the debt obligations have been satisfied and future business directions have been determined.

Capital Projects
Capital expenditures in 1986 totalled $2.1 million, including $1.6 million for the purchase of dewatering equipment for the N-81 pit.

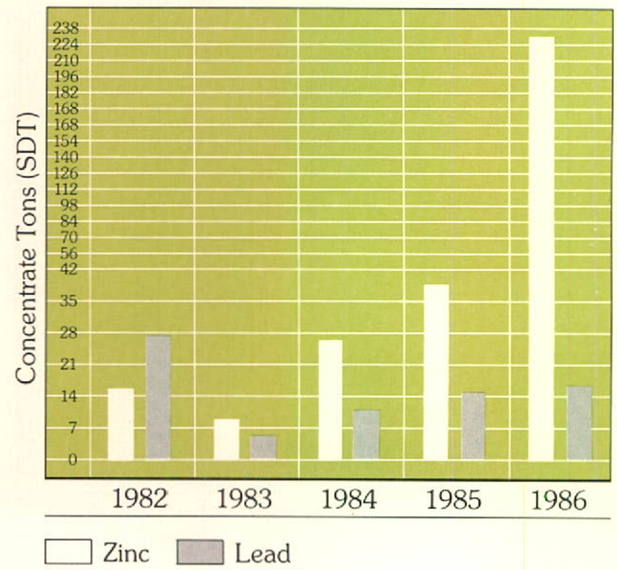
The Company continued legal proceedings to recover damages arising from the failure of the contractor to complete the N-81 pit grouting project. Experts have been retained to assist the Company in substantiating its claim. Preparations are under way for the trial of this matter, which is scheduled to commence in late 1987.

Marketing
During the first quarter of the year, the markets for both zinc metal and concentrate were oversupplied and zinc prices remained low. From May to October, zinc metal supply tightened due to labour problems and voluntary cutbacks in the zinc industry, and prices gradually strengthened. During the last quarter, zinc prices softened as producers returned to full production. Realized zinc prices for 1986 averaged 1.9 cents Canadian a pound lower than the average zinc prices realized in 1985.

Annual Concentrate Production



Year-End Concentrate Inventories



Lead prices averaged below 18 cents U.S. a pound on the London Metal Exchange during the first three quarters of the year, as the market for metal remained oversupplied. During the last quarter, lead prices firmed to average 21.6 cents U.S. a pound, as demand for battery production peaked. Lead prices realized for 1986 averaged 1.2 cents Canadian a pound greater than the average lead prices realized in 1985.

Average quarterly zinc and lead prices for the last five years are shown in charts on page 2.

New sales agreements were negotiated during the year for the sale of lead concentrate to the Mitsubishi Cominco smelter in Japan, and for the sale of zinc concentrate to Cominco's Trail smelter. Both of the agreements include provisions for the sales of some of the concentrates produced under the accelerated production plan in advance of customers' normal requirements.

Operations

In 1986, mining returned to full capacity and milling, which had been on a reduced schedule in 1985, was returned to a continuous operation by the end of the first quarter.

Mine production came from six operating pits with a small addition of high grade ore from the underground mine. The truck/shovel fleet moved a total of 19.1 (23.7) million tons of material. The amount of material moved was reduced considerably from 1985 as stripping was cut back to conserve cash. The dragline, which is for sale, did not operate during the year. Mining of the N-81 pit progressed ahead of schedule in spite of the extensive dewatering required and the pit was completed during the first quarter of 1987.

The underground test mining operation, which started at Pine Point in 1985, experienced lower productivity than expected, but achieved higher than forecast grades. The narrow ore structure and poor ground conditions made mining difficult, and resulted in a high cost operation. During the fourth quarter, a decision was made to close the operation and free electrical power to help satisfy increasing demand for pumping at the N-81 pit. The underground equipment is being sold.

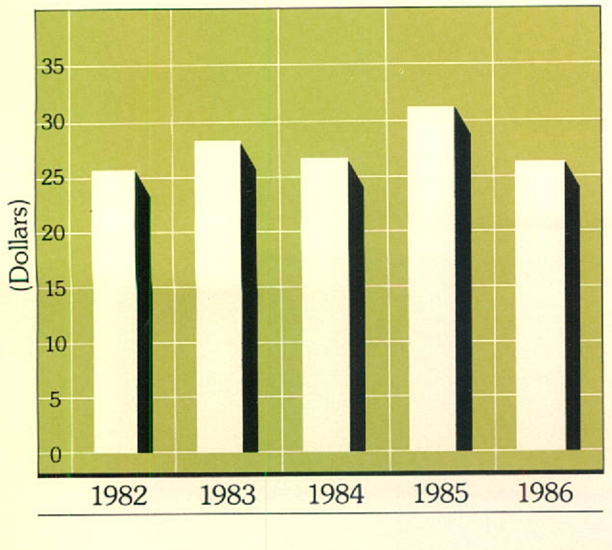
Dewatering continued to be a major undertaking at N-81 with a total of 60 pumps in place at year-end. The pumping rate peaked at 85,000 U.S. gallons a minute, requiring a maximum of 14,000 horsepower. The total dewatering cost at the property for 1986 was $9.7 million, compared with $6.1 million in 1985.

Concentrate production started at reduced levels early in the year, but increased as the mill returned to a continuous operating schedule by the end of the first quarter. Zinc grades of ore remained similar to those in 1985, but lead grades and total tons milled increased significantly, resulting in greater zinc and lead concentrate production than in 1985.

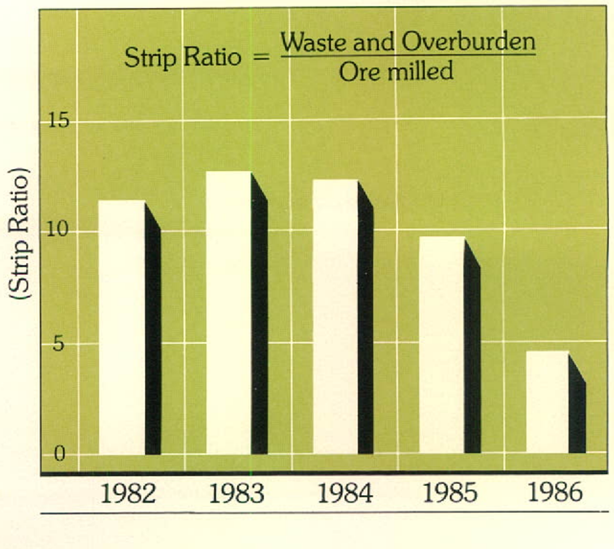
Zinc concentrate sales volumes were below production volumes and resulted in inventories of 228,000 (39,000) tons of zinc concentrate at year-end. Lead concentrate inventories at year-end amounted to 17,000 (15,000) tons.

Operating statistics for 1986 are summarized in the chart on the next page.

Cost per ton milled 1982 - 1986



Strip Ratio by Year 1982 - 1986



	1986	1985
Ore milled (tons)	**3,271,000**	2,356,000
Zinc		
Average grade	**8.7%**	8.2%
Concentrate (tons)	**458,000**	300,000
Concentrate grade	**57.5%**	59.2%
Lead		
Average grade	**4.1%**	3.0%
Concentrate (tons)	**164,000**	83,000
Concentrate grade	**73.9%**	74.7%

Exploration, Development and Ore Reserves
Exploration expenditures in 1986 totalled $2.2 million compared with $4.3 million in 1985. An internally funded program budgeted at $2 million was replaced in May with a $2 million exploration program, which was largely funded by a flow-through share issue. This program continued until February 1987.

The exploration program was largely made up of geophysical and diamond drilling activities concentrated in the eastern portion of the property where any ore deposits were more likely to have low strip ratios and low dewatering costs. The program located a large, low-grade mineralized structure containing a small ore-grade deposit. The structure lies below the normal ore-bearing horizon and is therefore geologically interesting. It will be further tested in 1987.

Re-drilling an area of known mineralization near the mill led to the definition of additional ore at the P-41 deposit. A small prismatic ore body of 155,000 tons with grades of 8.0 per cent zinc and 2.2 per cent lead has been outlined.

A decision was reached in late 1986 to remove from reserves ore that was not economic at metal prices at the end of 1986. Ore reserves at year-end were calculated using 1987 forecast prices and amounted to 3.7 million tons with average grades of 9.6 per cent zinc and 3.5 per cent lead, compared with 15.8 million tons having average grades of 6.7 per cent zinc and 2.7 per cent lead at the end of 1985.

Personnel
A cost reduction program implemented early in the year resulted in a decrease in the workforce from 492 at the end of 1985 to 439 at the end of 1986.

The frequency of lost-time accidents was similar to that in 1985, but the severity of accidents increased significantly as a result of eight long-term back and hand injuries.

Environment
The Company is required by its water licences and surface leases to return the mine property to a stable environmental condition before final abandonment. Abandonment proposals pursuant to both water licences were submitted during the year.

Plans have been formulated for completion of reclamation work on all waste dumps, and for restoration of natural drainage on the property.

Pine Point Ore Reserves

	OPEN PIT			UNDERGROUND			TOTAL		
	Tons (x1000)	%Pb	%Zn	Tons (x1000)	%Pb	%Zn	Tons (x1000)	%Pb	%Zn
Ore Reserves December 31, 1985	15,039	2.5	6.3	728	7.0	12.7	15,767	2.7	6.7
Production during 1986	3,138	3.9	8.5	133	7.2	13.4	3,271	4.1	8.7
Deletions from Ore Reserves	8,336	1.5	4.2	595	7.0	12.6	8,931	1.9	4.7
New Ore Located During 1986	174	2.5	9.6	—	—	—	174	2.5	9.6
Ore Reserves December 31, 1986	3,739	3.5	9.6	—	—	—	3,739	3.5	9.6

Management's Statement on Financial Reporting

The accompanying financial statements of Pine Point Mines Limited have been prepared in accordance with generally accepted accounting principles considered to be appropriate in the circumstances. The statements and all of the information contained in the Annual Report are the responsibility of management and are approved by the Board of Directors of the Corporation. Financial and operating information appearing in the body of the Annual Report is consistent with that contained in the financial statements.

The financial statements of Pine Point Mines Limited are examined by the Corporation's external auditors, Thorne Ernst & Whinney, and their report is included herein.

Auditors' Report

To the Shareholders of Pine Point Mines Limited

We have examined the balance sheet of Pine Point Mines Limited as at December 31, 1986 and the statements of earnings, earnings reinvested in the business (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, except for the accounting changes described in Note 3, on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Vancouver, Canada
January 20, 1987

Chartered Accountants

Pine Point Mines Limited

Statement of Earnings Year Ended December 31, 1986

	1986	1985 Restated
	(thousands)	
Revenue (Note 10)		
Domestic sales	**$ 75,453**	$ 93,852
Export sales	**21,230**	16,280
	96,683	110,132
Interest Income	**203**	706
	96,886	110,838
Costs and Expenses		
Cost of product sold	**51,438**	69,209
Distribution	**27,456**	31,325
General, administrative and selling	**2,444**	2,514
Exploration	**2,184**	4,269
Debt interest and expense	**2,821**	817
Depreciation and depletion (Note 3)	**8,086**	7,516
Northwest Territories Royalties (Note 3)	**893**	—
	95,322	115,650
Earnings (Loss) Before the Following	**1,564**	(4,812)
Income taxes (Note 11)		
Not currently payable	**—**	(2,612)
Sale of tax benefits	**(475)**	—
	(475)	(2,612)
Earnings (Loss) from Operations	**2,039**	(2,200)
Writedown of assets and provision for closure costs (Note 7)	**—**	(42,555)
Net Earnings (Loss) for the Year	**$ 2,039**	$(44,755)
Earnings (Loss) Per Share		
From operations	**$ 0.45**	$ (0.49)
Net earnings (Loss) for the year	**$ 0.45**	$ (9.91)

Pine Point Mines Limited

(Incorporated under the laws of Canada)

Balance Sheet at December 31, 1986

Assets	1986	1985 Restated
	(thousands)	
Current Assets		
Trade accounts receivable	**$ 10,814**	$ 4,952
Inventories (Notes 3 and 4)	**51,155**	14,748
Prepaid expenses (Note 5)	**4,001**	1,024
	65,970	20,724
Fixed Assets		
Land, buildings and equipment	**113,177**	113,889
Less accumulated depreciation	**92,530**	87,188
	20,647	26,701
Deferred Pit Preparation Costs	**3,648**	26,049
	$ 90,265	$ 73,474
Liabilities		
Current Liabilities		
Bank loans	**$ —**	$ 4,873
Accounts payable and accrued liabilities	**16,601**	9,484
Long-term debt due within one year	**13**	12
	16,614	14,369
Long-Term Debt (Note 6)	**29,707**	15,072
Deferred Liabilities (Note 7)	**11,803**	15,000
Shareholders' Equity		
Capital (Note 8)	**30,230**	29,161
Earnings Reinvested in the Business (Deficit)	**1,911**	(128)
	32,141	29,033
	$ 90,265	$ 73,474

Approved by the Board

Director

Director

Pine Point Mines Limited

Statement of Changes in Financial Position Year Ended December 31, 1986

	1986	1985
	(thousands)	
Cash from Operations		
Earnings (Loss) from Operations	**$ 2,039**	$ (2,200)
Add (deduct) items not requiring an outlay of cash:		
Depreciation and depletion	**8,086**	7,516
Deferred income taxes	—	(2,612)
Amortization of pit preparation costs	**22,402**	13,574
Writedown of stores inventory	—	(1,580)
Deferred pit preparation costs	—	(24,528)
(Increase) decrease in non-cash working capital and reduction in deferred liabilities:		
Concentrates and ore stockpile	**(38,120)**	(305)
Other	**(3,206)**	366
Cash (deficit) from operations	**(8,799)**	(9,769)
Cash from Financing Activities		
Issue of flow-through common shares (Note 8)	**1,069**	—
Cash Used in Investing Activities		
Land, buildings and equipment	**2,116**	2,045
Proceeds from sales of fixed assets	**(84)**	(54)
Repayment of 7% housing mortgages	**13**	13
	2,045	2,004
Additions to Bank Loans	**9,775**	11,773
Bank Loans at Beginning of Year	**19,873**	8,100
Bank Loans at End of Year	**$ 29,648**	$ 19,873

Pine Point Mines Limited

Statement of Earnings Reinvested in the Business (Deficit) Year Ended December 31, 1986

	1986	1985
	(thousands)	
Amount at Beginning of Year		
As previously reported	**$ (2,612)**	$ 42,357
Refund of income taxes (Note 9)	**2,484**	2,270
As restated	**(128)**	44,627
Net earnings (Loss) for the year	**2,039**	(44,755)
Amount at End of Year	**$ 1,911**	$ (128)

Notes to Financial Statements Year Ended December 31, 1986

1. Operations

On December 20, 1985, the Corporation announced revised production plans to respond to the depressed prices for lead and zinc concentrates at that time. The revised plans called for mining of the economic ore reserves by mid-1987, with sales of concentrates continuing into 1988. With minor modifications, the Corporation has followed these plans throughout 1986.

On January 15, 1987, the Corporation announced that production would extend to the end of 1987, after which the operation would shut down. Sales of the 1986 inventories and 1987 production are expected to continue into 1990.

The primary factors that will determine the eventual financial situation of the Corporation are the zinc and lead prices which will be realized on the sales of the concentrates stockpiled at December 31, 1986 (Note 4) and of those to be produced during 1987, together with any variations in sale prices pertaining to those sales made in 1986 whose pricing remains to be finalized (Note 10).

2. Summary of significant accounting policies

The accounts of the Corporation are prepared using accounting principles generally accepted in Canada, applied on a consistent basis except for the changes detailed in Note 3.

Inventories — Inventories of concentrates are valued at the lower of cost (determined on the monthly average method) and net realizable value. Stores and operating supplies are valued at average cost less appropriate allowances for obsolescence.

Land, buildings and equipment — Land, buildings and equipment are recorded at cost and include the cost of renewals and betterments. Repairs and maintenance costs are charged against earnings as incurred. Depreciation is calculated on a straight-line basis related to the lesser of the economic life of the asset or the estimated remaining life of the mine. Depreciation is not provided on major additions until commencement of commercial production.

Mining properties and development — Expenditures on general exploration and development are charged against earnings as incurred. Expenditures on the development of new mining properties are capitalized and amortized against earnings by charges for depletion based on the estimated life of ore reserves. Mining properties and development were fully amortized in 1985.

Deferred pit preparation costs — The costs of preparing individual pits for ore extraction are deferred and amortized on the basis of units of production.

Income taxes — Income tax laws in Canada permit the deduction of depreciation and other items from income to determine taxable income at times which do not coincide with those used for regular financial reporting purposes. These differences in timing of deductions result in taxes being provided but not currently payable. The balance of taxes provided, but not currently payable, was fully drawn down in 1985.

Foreign currency translation — Current assets and current liabilities denominated in foreign currencies are translated at year-end rates of exchange. The resulting exchange adjustments are included in the determination of earnings.

Revenue recognition — Revenues are recorded in the accounts when title passes to the buyer. Revenues are estimated at the time of sale and may be subject to adjustment on final settlement to reflect changes in metal price, weights and assays.

Earnings (Loss) per share — Earnings (Loss) per common share are calculated by dividing net earnings by the weighted average number of shares outstanding during the year.

3. Accounting changes

As a result of the revised mining plans announced on December 20, 1985, stockpiles of ore and concentrates have increased substantially. In order to properly match costs with revenues, the Corporation changed its accounting practices on January 1, 1986, by commencing to inventory the increase in the ore stockpiles at the mill and by including depreciation in the value of concentrate inventory. On July 1, 1986, the method of allocating costs of production to zinc and lead concentrate was changed to recognize the market values of the payable metals in concentrates produced. Previously, the Corporation allocated costs based only on the quantities produced of payable metal contained in concentrate. Northwest Territories Royalties, which are an impost based on production, are deferred until the related production is sold.

The effect of these changes on the results of the year was to defer $14.1 million of costs, which will be charged to earnings when the related concentrates are sold. Because these changes have been made in response to the particular circumstances occasioned by the revised mining plans, they have been applied prospectively. Accordingly, the results of prior periods have not been restated.

4. Inventories

	1986	1985
	(thousands)	
Concentrates	**$35,073**	$ 9,264
Ore stockpile	**12,311**	—
Stores and operating supplies	**3,771**	5,484
	$51,155	$14,748

Concentrate inventories, which comprise 228,000 tons of zinc concentrate and 17,000 tons of lead concentrate, are at abnormally high levels because of the revised mining plans. The Corporation's major customers have agreed to purchase these concentrates over the period 1987 to 1989. Effective January 1, 1986, the Corporation commenced to inventory the increase in the ore stockpile, which amounted to 925,000 tons at December 31, 1986.

5. Prepaid expenses

Included in the prepaid expenses are the Northwest Territories Royalties deferred as a result of the accounting change detailed in Note 3, amounting to $2,370,700.

6. Long-term debt

	1986	1985
	(thousands)	
Bank loans due June 30, 1988, with interest related to bank prime rates	**$29,648**	$ —
Bank loans with an initial three year revolving term convertible before 1989 into five-year term loans with interest related to bank prime rates	**—**	15,000
7% housing mortgages	**59**	72
	$29,707	$15,072

During the year, agreement was reached with the Corporation's bankers to extend the lines of credit available after January 1, 1987, from $15.0 million to $40.0 million, while granting to the bankers security over all of the assets of the Corporation.

Payments required on long term debt are: 1987 — $13,000; 1988 — $29,662,000; 1989 — $15,000; 1990 — $16,000.

7. Deferred liabilities

	1986	1985
	(thousands)	
Provision for estimated costs to be incurred on termination of operations	**$10,550**	$15,000
Deferred profit on sales yet to be finalized (Note 10)	**1,253**	—
	$11,803	$15,000

In 1985, the Corporation made provisions aggregating $42,555,000 which included $27,555,000 for the writedown of assets to estimated recoverable values, net of tax, and $15,000,000 for the estimated costs to be incurred on termination of operations. Of this provision for termination costs, $10,550,000 is expected to be expended after 1987; the remainder has been either realized during 1986 or included in current liabilities.

8. Capital

The Corporation is authorized to issue an unlimited number of preferred and common shares.

Issued and fully paid:	**1986**	1985
	(thousands)	
Common shares without par value		
At start of year — 4,516,363 shares	**$29,161**	$29,161
Issued for cash 118,744 shares	**1,069**	—
At end of year — 4,635,107 shares	**$30,230**	$29,161

During the year, an agreement was entered into with CMP 1986 (Quebec) Resource Partnership and Company Limited to sell 153,846 flow-through shares in order to finance the Corporation's exploration program. Of the $1,544,000 proceeds received to the end of 1986, $1,069,000 has been added to the paid in capital of the Corporation while the balance of $475,000, which relates to the sale of tax benefits, has been shown as a current income tax recovery.

9. Prior period adjustment

During the year, certain issues were resolved with Revenue Canada resulting in a refund of taxes for the years 1978 to 1980, together with interest. The retained earnings previously reported have been restated by $2,484,000, of which $214,000 is applicable to 1985 and the remaining $2,270,000 to previous years.

10. Revenue

Agreement was reached with the Corporation's major customers to accelerate purchases of concentrates beyond their current requirements. Included in revenue are sales of 25,194 tons of zinc concentrate and 82,672 tons of lead concentrate on which title has passed and payment has been received, but in respect of which the prices have not been finalized. Since the price at the date of finalization is uncertain, a provision has been made to defer the profit on these sales and so record them at cost. Any variance from cost in final settlement values will be taken into revenue at the time of finalization.

These sales have been recorded net of distribution cost.

11. Income taxes

The following summary is presented to explain the difference between the effective tax rate on the earnings (loss) from operations before income taxes which is derived from the accounts, and the statutory tax rate applicable to companies operating in the Northwest Territories:

	1986		1985	
	(dollars in thousands)			
Income tax (tax benefits) at statutory tax rates	**$ 748**	**47.8%**	$ (2,257)	(46.9)%
Tax effect (benefit) of: Resource allowance and earned depletion net of resource taxes	**(1,486)**	**(95.0)**	(178)	(3.7)
Renounced exploration expenses net of related tax benefits	**263**	**16.8**	—	—
Other	**—**	**—**	(177)	(3.7)
Income tax credited to earnings	**$ (475)**	**(30.4)%**	$ (2,612)	(54.3)%

As at December 31, 1986, the Corporation had tax losses and other tax write-offs available for deduction against future income amounting to approximately $28 million. The potential future tax benefits have not been recorded in the accounts.

12. Related party transactions

Cominco Ltd., the Corporation's majority shareholder, manages the Corporation's operations and is reimbursed for all costs incurred.

In both 1985 and 1986, Cominco Ltd. and associated companies of Cominco purchased at fair market value substantially all of the concentrates sold by the Corporation.

Accounts receivable include $7,486,000 from related parties.

13. Industry segment

The Corporation operates solely in the mining industry, producing zinc concentrate and lead concentrate.

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2600–200 Granville Street
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R.A. MacKimmie, Q.C.*

* Members of the Audit Committee

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President and Chief Executive Officer
M.J. Hardin,
Corporate Secretary
C.M. Edworthy,
Controller and Assistant Corporate Secretary

Transfer Agent and Registrar
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Auditors
Thorne Ernst & Whinney
Vancouver, B.C.

Annual Meeting
April 21, 1987, 10:00 a.m.
Shuswap Room, Four Seasons Hotel
791 West Georgia Street, Vancouver, B.C.

For Canadian capital gains tax purposes the valuation day value of Pine Point Mines Limited shares on December 22, 1971 as established by the Department of National Revenue was $24.00.

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