



**ADVANCE MAILING TO SHAREHOLDERS  
OF PAMOUR INC.**

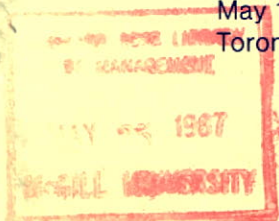
***Consolidated Financial Statements***  
***Fiscal Year 1986***

**PAMOUR INC.**

P.O. Box 158  
Royal Trust Tower  
Toronto-Dominion Centre  
Toronto, Ontario, Canada M5K 1H1

The Corporation's Consolidated Financial Statements for Fiscal Year 1986 are furnished to shareholders in advance of a separate mailing in respect of Notice of Annual General Meeting of Shareholders, the Annual Report, Information Circular and Instrument of Proxy.

May 14, 1987  
Toronto, Canada

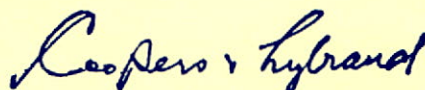




## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pamour Inc. as at December 31, 1986 and the consolidated statements of earnings, retained earnings and cash flow 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of determining depreciation and amortization and the change in the method of accounting for exploration expenditures, as described in note 2, on a basis consistent with that of the preceding year.



Chartered Accountants

Toronto, Canada

March 10, 1987

# Consolidated Balance Sheet

as at December 31, 1986

<b>Assets</b>	(in thousands)	
	<b>1986</b>	<b>1985</b>
	<b>\$</b>	<b>\$</b>
<b>Current Assets</b>		
Cash and term deposits	2,524	—
Cash in trust (note 11(b))	1,102	—
Accounts and settlements receivable (note 8)	2,740	1,438
Bullion and concentrates (notes 4 and 8)	2,457	2,973
Stores and prepaids (note 8)	4,725	4,194
	<b>13,548</b>	<b>8,605</b>
<b>Investments</b> (notes 5 and 8)	<b>24,683</b>	<b>302</b>
<b>Fixed Assets</b> (notes 2, 6, 8 and 12)		
Plant, buildings, equipment and townsite — at cost	33,768	31,008
Accumulated depreciation	17,695	17,271
	<b>16,073</b>	<b>13,737</b>
Mine properties and deferred development — at cost less accumulated amortization of \$5,964 (1985 — \$5,924)	7,730	5,888
	<b>23,803</b>	<b>19,625</b>
<b>Resource Properties, Deferred Exploration and Pre-production Costs</b> (note 7)	<b>21,293</b>	<b>285</b>
	<b>83,327</b>	<b>28,817</b>

Signed on behalf of the board



Director



Director



**Liabilities**

(in thousands)

	1986 \$	1985 \$
<b>Current Liabilities</b>		
Bank loans (note 8)	20,100	—
Secured loan from associated company	—	1,515
Accounts payable	11,166	9,100
Income and production taxes	1,785	1,785
Cash in trust (note 11(b))	1,102	—
Due to joint venture	851	—
Convertible note from related company (note 9)	5,200	—
Current portion of long-term debt (note 10)	298	141
	40,502	12,541
<b>Long-term debt</b> (note 10)	688	506
<b>Taxes provided not currently payable</b>	324	347
<b>Minority Interest</b> (note 3)	7,891	—
	49,405	13,394

**Shareholders' Equity**

<b>Capital Stock</b> (note 11)		
Authorized —		
Unlimited number of common shares		
Issued and fully paid —		
8,276,810 common shares (1985 — 7,006,424)	23,585	8,492
To be issued —		
88,778 common shares	1,598	—
	25,183	8,492
<b>Retained Earnings</b>	8,739	6,931
	33,922	15,423
	83,327	28,817

# Consolidated Statement of Retained Earnings

as at December 31, 1986

	(in thousands)	
	1986	1985
	\$	\$
<b>Balance — Beginning of Year</b>		
As previously reported	8,666	(3,899)
Adjustment of prior years' mining taxes (note 13)	(1,735)	(1,735)
As restated	6,931	(5,634)
Net earnings for the year	1,808	12,565
<b>Balance — End of Year</b>	8,739	6,931

## Consolidated Statement of Earnings

(in thousands; except per share data)

	Year ended December 31,	
	1986	1985
	\$	\$
<b>Revenue</b>	<b>56,695</b>	<b>50,741</b>
<b>Expenses</b>		
Cost of production	49,968	45,587
Royalties	894	738
Administration	1,222	584
Depreciation and amortization	467	1,501
Exploration and development	1,933	1,568
	<b>54,484</b>	<b>49,978</b>
<b>Earnings from Operations</b>	<b>2,211</b>	<b>763</b>
<b>Investment and Other Income (Expense)</b>		
Dividends from associated companies	—	341
Interest	(771)	(1,034)
Gain on sale of investments	—	9,093
Share of earnings of associated company	32	—
Gain on sale of fixed assets	142	734
Reversal of provision for severances	—	1,080
Gain on sale of mineral rights lease	—	1,000
Other	171	—
	<b>(426)</b>	<b>11,214</b>
<b>Earnings Before The Following</b>	<b>1,785</b>	<b>11,977</b>
Taxes (provided) recoverable		
Income (note 15(b))	(102)	(2,023)
Production	23	571
<b>Earnings Before Extraordinary Item</b>	<b>1,706</b>	<b>10,525</b>
<b>Extraordinary Item — Recovery of Income Taxes</b>	<b>102</b>	<b>2,040</b>
<b>Net Earnings For The Year</b>	<b>1,808</b>	<b>12,565</b>
<b>Earnings Per Share</b>		
— Before Extraordinary Item	<b>\$0.23</b>	<b>\$1.50</b>
<b>Earnings Per Share</b>		
— For The Year	<b>\$0.25</b>	<b>\$1.79</b>



**Consolidated Statement of  
Changes in Financial Position**  
for the year ended December 31, 1986

	(in thousands)	
	1986 \$	1985 \$
<b>Operating Activities</b>		
Earnings before extraordinary item	1,706	10,525
Charges not affecting cash — Depreciation and amortization	467	1,501
Taxes provided not currently payable	79	2,008
Gain on sale of fixed assets and mineral rights lease	(142)	(1,734)
Share of earnings of associated company	(32)	—
Gain on sale of investments	—	(9,093)
Reversal of provision for severance	—	(1,080)
Other	—	52
	2,078	2,179
Change in working capital items, excluding cash equivalents	6,273	(830)
Cash provided from operating activities	8,351	1,349
<b>Investing Activities</b>		
Deferred exploration expenditures	(3,081)	(196)
Purchase of investments	(24,349)	—
Proceeds on sale of investments	—	13,852
Additions to fixed assets	(5,605)	(3,867)
Proceeds on sale of fixed assets and mineral rights lease	152	1,851
Acquisition of subsidiary company (note 3)	(9,352)	—
Cash provided from (used for) investing activities	(42,235)	11,640
<b>Financing Activities</b>		
Shares issued and to be issued	16,691	—
Government assistance	950	—
Long-term debt	182	506
Cash provided from financing activities	17,823	506
<b>Increase (Decrease) in Cash</b>	<b>(16,061)</b>	<b>13,495</b>
<b>Cash Equivalents — Beginning of Year</b>	<b>(1,515)</b>	<b>(15,010)</b>
<b>Cash Equivalents — End of Year</b>	<b>(17,576)</b>	<b>(1,515)</b>
<b>Cash Equivalents Defined:</b>		
Cash and term deposits	2,524	—
Bank loans	(20,100)	—
Secured loan	—	(1,515)
	(17,576)	(1,515)



# Notes to Consolidated Financial Statements

For the year ended December 31, 1986

## 1. Summary of Significant Reporting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied, except for the change in the method of determining depreciation and amortization and the change in the method of accounting for exploration expenditures, as described in note 2. The significant reporting policies are as follows:

### Basis of Consolidation

The consolidated financial statements include the accounts of the company and its 51.9% owned subsidiary, Consolidated CSA Minerals Inc. (note 3).

### Bullion and Concentrates

The company records as revenue the estimated net realizable value of bullion and concentrates awaiting sale.

### Stores Inventory

Stores inventory is valued at the lower of average cost and replacement cost.

### Investments

Investments in companies in which the company has significant influence are accounted for by the equity method. All other investments are carried at cost.

### Fixed assets

Fixed assets are accounted for as follows:

- Plant, buildings, equipment and townsite are recorded at cost. Government grants are recognized as a reduction of the government approved expenditures on plants and equipment.
- Development expenditures are written-off as incurred, except where they represent significant costs of major projects which are expected to benefit future periods. These development expenditures, together with costs of acquiring mining claims, are capitalized until the properties or mine areas are brought into production, at which time they are amortized, or until the properties are abandoned, at which time they are written-off.
- Depreciation and amortization of producing assets are provided on the unit of production basis (see note 2).

### Exploration

Exploration costs related to the extension of existing producing mining properties are expensed as incurred. Costs relating to the acquisition, exploration and development of non-producing mining properties which are held by the company or through its participation in joint ventures are capitalized until such time as either economically recoverable reserves are established, or the properties are sold or abandoned.

The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the mineral rights. The amounts shown for deferred exploration and pre-production costs do not necessarily reflect present or future values.

### Taxes

The company provides for income and production taxes by the deferral method on a tax allocation basis. Under this method, timing differences between reported and taxable income (related principally to claiming capital cost allowances and deferred development expenditures for tax purposes in excess of amounts written-off in the accounts) result in the provision for taxes which are not currently payable.

## 2. Changes in Accounting Policies

- (a) The company uses the unit of production method of determining depreciation and amortization. Up until December 31, 1985, the company used only proven and probable reserves for purposes of these calculations. Effective January 1, 1986, the company commenced including possible and potential reserves in its calculations and is now amortizing its fixed assets over the total estimated life of each mine as, in the opinion of management, the inclusion of these reserves more realistically reflects the expected life of the mines.

Because the information with respect to prior years is not reasonably determinable, this change has been accounted for prospectively. The effect of this change during the year ended December 31, 1986, is to increase net earnings before taxes by approximately \$2,178,000 and increase the provision for income taxes by \$102,000 and decrease the recovery of production taxes by \$191,000.

- (b) Prior to 1986, exploration expenditures were charged against current earnings unless they related to properties from which a productive result was reasonably certain or on which work was in process. Commencing in 1986, with the acquisition of Consolidated CSA Minerals Inc., (note 3) the company has substantially expanded its exploration activities and accordingly management deemed it appropriate to change to the accounting policy described in note 1 above. The effect of this change, which has been applied prospectively, is not significant to the results of operations for 1986.

## 3. Acquisition of Subsidiary Company

On November 14, 1986, the company acquired 51.9% of the outstanding common shares of Consolidated CSA Minerals Inc., a Canadian mining exploration company, for a total consideration of \$9,285,000. Additional acquisition costs incurred amounted to \$244,000. On February 25, 1987 this company changed its name to Pamorex Minerals Inc. ("Pamorex"). The acquisition has been accounted for by the purchase method, as follows:

	(in thousands) \$
Net assets —	
Cash	177
Accounts receivable	214
Exploration properties	17,927
Current liabilities	(898)
	17,420
Less minority interest share of assets	(7,891)
Total cost of acquisition	9,529
The consideration at fair value, consisted of:	
Cash	2,000,000
520,386 common treasury shares	7,285,000
Acquisition costs	244,000
	9,529,000

## 4. Bullion and Concentrates

At December 31, 1986, bullion and concentrates includes approximately 4,873 troy ounces of gold (1985—7,126). The estimated net realizable value of bullion and concentrates has been determined using an average value for gold of Cdn. \$540 per ounce (1985—Cdn. \$465), reduced by treatment and marketing costs.



## 5. Investments

(a) Investments comprise the following:

	(in thousands)	
	1986	1985
	\$	\$
Shares in Giant Yellowknife Mines Limited — at cost (note (b)) (quoted market value — \$14,943,000)	16,557	—
Share of earnings of Giant since acquisition	32	—
	16,589	—
Shares in Akaitcho Yellowknife Gold Mines Limited — at cost (quoted market value — \$1,198,000)	1,234	—
Shares in ERG Resources Inc. at cost (note (c)) (quoted market value — \$6,618,000)	5,104	—
Joint venture with ERG Resources Inc. — at cost (note (c))	732	—
Long-term deposits — at cost	570	—
Other	454	302
	24,683	302

(b) In August, 1986, the company acquired 824,413 (19.2%) of the outstanding common shares of Giant Yellowknife Mines Limited ("Giant") for cash of \$15,714,000. Additional acquisition costs incurred amount to \$843,000. The excess of the cost of the net assets acquired over the underlying book values in the accounts of Giant has been allocated to fixed assets and mining properties and is amortized against the company's share of Giant's earnings on a unit of production basis. As at December 31, 1986, the unamortized balance amounted to \$9,840,000.

- (c) (i) On September 12, 1986, the company entered into a joint venture with ERG Resources Inc. ("ERG") for the exploitation of gold tailing interests held by both companies. Pamour contributed approximately 80 million tonnes of tailings in 13 dams to the joint venture for which it is entitled to receive from the joint venture up to \$3,078,050 (\$0.03834 per tonne) in 10 equal yearly payments commencing August 15, 1987. (Refer to note 5(c)(iv)).
- (ii) When commercial production commences on each dam, the portion of the \$3,078,050 relating to that dam that is owing will become payable within six months and the company will become entitled to receive a 4% net smelter return royalty based on production. Beyond these payments, the parties have an equal participation in the joint venture.
- (iii) In October and November 1986, the company acquired 1,407,988 (25.5%) of the outstanding common shares of ERG Resources Inc., ("ERG") for cash of \$4,928,000. Additional acquisition costs incurred amounted to \$176,000. The excess of the cost of the net assets acquired over the underlying book values in the accounts of ERG (\$4,445,000) has been allocated to resource interests of ERG and will be capitalized until such time as their economic viability is determined.

(iv) By an agreement dated October 29, 1986, the company has agreed to exchange its interest in the joint venture with ERG for 4,516,791 common shares of ERG valued at \$3.50 per share. Those shares will be carried at the same value as the investment in the joint venture, \$732,000, which represents the company's share of the cost of the feasibility study. The company will retain the 4% net smelter return royalty on production and the entitlement to receive \$3,078,050. This transaction is subject to approval by the shareholders of ERG which was received on March 5, 1987 and has not been accounted for in these financial statements. Following completion of this transaction, together with the acquisition of shares referred to in note 19(b), the company will own approximately 66% of the outstanding common shares of ERG.

## 6. Suspended Mining Operations

Included in fixed assets are buildings, equipment and deferred development costs having a net book value of \$11,191,000 which represent the unrecovered investment in the Timmins Underground Mine. Operations at this mine were suspended during the fourth quarter of 1984 because they were not profitable at prices then prevailing. The mine is being maintained in good condition but the recovery of this investment is dependent upon a sustained increase in the market price for gold.

## 7. Resource Properties, Deferred Exploration and Pre-production Costs

Deferred exploration and pre-production costs include costs of acquiring and exploring mining properties together with development costs, including buildings and equipment, on properties which are in the pre-production stage. These costs will be depreciated once commercial production on the related properties commences or will be written off at such time as the related properties are abandoned.

The following projects are included:

	(in thousands)	
	1986	1985
	\$	\$
Bell Creek	14,086	—
Mikwam	2,124	—
Other exploration interests	5,084	285
	21,293	285

## 8. Bank Loans

Receivables, bullion and inventory and the shares of Giant, Akaitcho Yellowknife Gold Mines Limited, and Pamorex have been pledged as security on the company's bank loans. The company has also provided an assignment of its mining properties and forward sales contracts plus a first fixed and floating charge on all of its assets as security on these loans (refer to note 19(c)).

## 9. Convertible Note from Related Company

On November 21, 1986, the company borrowed \$5,200,000 from a related company and issued a 12 month convertible note in that amount. The principal amount of the note may be converted during the term into a maximum of 400,000 common shares of the company on the basis of \$13 per share. The note bears interest at the Australian prime rate plus 1.5% (refer to note 19(e)).



## 10. Long-Term Debt

	(in thousands)	
	1986	1985
	\$	\$
Obligations under capital lease	625	647
Mortgages payable through 1989 with interest at prime plus .5%	361	—
	986	647
Less: Current portion	(298)	(141)
	688	506

Equipment with net book values of \$506,000 and \$589,000 has been pledged as security for the mortgages and obligations under capital lease, respectively. The aggregate amount of payments required in each of the next four years to retire the long-term debt is as follows:

	(in thousands)
	\$
1987	298
1988	342
1989	308
1990	38

Interest on long-term debt for the year amounted to \$73,000.

## 11. Capital Stock

- (a) During the nine months ended September 30, 1986, the company issued 750,000 common shares for cash consideration of \$8,250,000 by way of private placement. Share issue expenses of \$442,000 have been charged against issued capital.
- (b) On September 30, 1986, the company completed a private placement of 150 units of 1,000 common shares at \$18 per share for a total consideration of \$2,700,000. The company must spend these funds on certain qualified expenditures before March 2, 1987, at which time, if insufficient expenditures have been made, the remaining proceeds become refundable to the unit holders. Under terms of the placement agreement, the company will transfer the tax benefit of these expenditures to the purchasers of these shares.

At December 31, 1986, the company had spent \$1,598,000 on qualified exploration and had been reimbursed an equal amount from the trust. Under terms of the placement agreement, the company must issue the shares for these expenditures before September 30, 1987.

- (c) On October 14, 1986, the company issued 520,386 common shares valued at \$14 per share in connection with the acquisition of Pamorex (note 3).
- (d) During 1986, certain directors of the company were granted options to purchase an aggregate of 330,000 common shares, exercisable from June 5, 1986 until June 13, 1989 at an exercise price of \$13 per share. Options to acquire an additional 2,500 shares at the same price and terms were also granted to an officer. No options had been exercised as at December 31, 1986.

In addition, the company has reserved 100,000 common shares to be allocated to employees as incentive stock options at the discretion of management. As at December 31, 1986, stock options in respect of an aggregate of 78,000 common shares have been allocated to employees. These options are exercisable over three year periods at an exercise price of \$13 per share.

- (e) The company has agreed to purchase an additional 1,136,125 shares of ERG Resources Inc. (see note 5 and 19(b)) from an associated company and has agreed to issue 300,108 shares from treasury at an issue price of \$13.25 per share to the associated company, subject to approval of the company's shareholders.

## 12. Government Assistance

During the year, the company received a forgivable interest free loan of \$950,000 from the government of Ontario towards the capital cost of a custom gold milling facility. This amount has been accounted for as a reduction in the cost of the mill. Under terms of the agreement, these funds have been placed in an interest bearing term deposit to be withdrawn in equal amounts over five years in accordance with terms of the agreement. As at December 31, 1986, \$190,000 of the loan has been forgiven.

## 13. Prior Period Adjustment

At December 31, 1985, the company had received notification of proposed reassessments under the Mining Tax Act of approximately \$1,735,000, including interest, with respect to years 1979 through 1981. Formal reassessment notices had not been received pending resolution of a similar matter which was before the courts. The company believed that its position was justified and, accordingly, no provision had been made in its financial statements.

During 1986, the court ruled on this matter and the company received formal notices of reassessment and a requirement to pay the tax before April 30, 1987. Accordingly, this amount has been accounted for as a retroactive charge to retained earnings. However, the result of this legal action has been appealed and if the appeal is successful, the company has been advised that the notices of reassessment will be amended.

## 14. Related Party Transactions

- (a) The company received \$70,000 for administration services provided to an associated company and paid \$37,000 for interest charges on the convertible note to a related company. Additionally, the company paid \$140,000 for rent and \$260,000 for corporate and consulting fees to a company of which two of Pamour's directors are also directors.
- (b) The company purchased its interest in ERG Resources Inc. from certain officers and directors and from companies of which certain of Pamour's officers or directors are also officers and/or directors for total proceeds of \$4,928,000.

Certain of the directors and officers of the company are directors and officers of ERG. See note 5 for details of transactions involving ERG.

## 15. Income Taxes

- (a) Losses available for carry-forward
- At December 31, 1986, the company has available for carry-forward tax losses amounting to approximately \$10,600,000 which may be applied against taxable incomes in the years 1987 to 1991, and capital losses of \$5,300,000 which may be applied against capital gains in any year. The future tax benefits arising from \$5,400,000 of the tax losses and all the capital losses have not been recognized in the financial statements.



- (b) Explanation of variations from the basic income tax rate  
The company's provision for income taxes is made up as follows:

	(in thousands)	
	1986	1985
	\$	\$
Provision based on combined Federal and Ontario rates of 52.3% (1985 – 50.9%)	934	6,096
Increase (decrease) in taxes resulting from:		
Capital gains	(37)	(3,327)
Resource allowance and earned depletion	(777)	(540)
Non-taxable dividends	–	(174)
Other	(18)	(32)
Income tax provision	102	2,023

#### 16. Segmented Information

The company operates in what is considered to be a single industry, principally mineral extraction and exploration. Its products are sold mainly in Canada.

#### 17. Commitments

- (a) Forward Gold Sales  
At December 31, 1986, the company had committed to sell 97,500 ounces of gold at prices averaging Cdn. \$548 per ounce for delivery up to January 29, 1988. Gains and losses are recorded on these contracts when the contracts are closed.
- (b) Guarantees  
Included in minority interest at December 31, 1986, is \$2,000,000 of preferred shares of Pamorex for which the company has guaranteed the dividend payments and redemption obligations. The preferred shares are redeemable at the option of the preferred shareholder in the amount of \$400,000 per annum for a five year period commencing January 1, 1987 (see note 19(a)).
- (c) The Company's subsidiary has an agreement with a joint venturer with respect to the Bell Creek Property which includes a commitment of costs of construction and startup costs of an on-site mill of approximately \$2,920,000 and exploration and development costs of approximately \$980,000.
- (d) The company's subsidiary has a commitment to contribute approximately \$640,000 during 1987 for its share of the exploration program of the joint venture it has with respect to the Mikwam resource property.

#### 18. Pension Plans

The company maintains two separate non-contributory pension plans for its salaried and hourly paid employees. These plans are subject to an annual actuarial valuation, the last valuation being at January 1, 1986.

The plans provide for past service pension benefits which were fully funded at January 1, 1986, with surplus positions of \$1,318,000 in the salaried plan, and \$697,000 for the hourly plan. As a result of the surpluses in these plans, no company contributions have been required in 1986 or in 1985.

#### 19. Subsequent Events

- (a) On January 1, 1987, the company acquired \$400,000 of preferred shares of Pamorex held by third parties.
- (b) On February 10, 1987, the shareholders approved the issue of up to 300,108 common shares to an associated company in exchange for up to 1,136,125 shares of ERG Resources Inc.
- (c) Subsequent to year end, the company issued 2,600,000 common shares to an associated company for cash of \$33,800,000, less a commission of \$1,014,000 paid to the associated company. Proceeds of \$15,100,000 were applied to reduce the company's current bank loans.
- (d) On November 18, 1986, the company entered into an agreement with Giant pursuant to which the company will sell substantially all of its mining operations and certain other assets to Giant in return for \$17.5 million cash, 2,683,567 treasury shares of Giant plus the assumption by Giant of certain liabilities relating to the mining operations of Pamour. As a result of this transaction, Pamour will increase its equity ownership of Giant from 19.2% to 50.2%. On March 10, 1987 this transaction was approved by the shareholders of both companies.
- (e) Subsequent to year end, the convertible note payable in the amount of \$5,200,000 was converted into 400,000 common shares of the company.









