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ANVIL RANGE MINING CORPORATION

DRAFT

New Profits from an Old Operation

Recommendation:	Buy
ARO	\$6.40
12-Month Target Price	\$xxxx

Introduction

Anvil Range Mining Corporation has breathed new life into the town of Faro, Yukon and returned one of world's largest zinc and lead mines to operational status. In August, the company marked its first anniversary of production from the Grun open pit. The mine is operating at full capacity and producing zinc at a rate of 340 million pounds per year and lead at a rate of 200 million pounds per year. For investors wishing to maximize their leverage to zinc prices, Anvil Range offers good value in a market of rising zinc prices. In addition, the company can offer reasonable growth potential through reserve expansion on the mine property as well as in exploration of the surrounding region.

Formation of Anvil Range

Production from the Faro open pit started in 1969 and deposit was exhausted 1991 after mining 60 million tonnes of ore. In 1994, the property was put up for sale by the creditors of the former owner, Curragh Resources Inc., and was purchased for \$28 million by the newly formed company Anvil Range Mining Corporation. Management for Anvil Range consist of some of those who worked for Curragh including Kent Forgaard who was President of Curragh and is President and CEO of Anvil Range. Work started almost immediately on refurbishing the mill and pre-stripping overburden from the Grun deposit. By mid-1995, over 23 million tonnes of material had been removed by Anvil Range (plus 20 million tonnes that had previously been removed by Curragh) and production began.

The Open Pits

The Grun open pit has a reserve of 24.8 million tonnes grading 4.54% zinc and 2.74% lead while the Vangorda open pit has a reserve of 1 million tonnes of similar grade material. Production totaling almost 12,000 tonnes per day (TPD) is currently coming from both pits, however, the Vangorda pit will be mined out before the end of this year. The Grun operation will be able to maintain production near the 12,000 TPD level since modifications to the pit are currently ongoing that will reduce the haulage time for waste material significantly. An slot opening in the east wall of the pit will allow trucks to avoid the haul up and down ramp roads. Ore from the pit is hauled to a loading station where it is transferred to high-speed (60 kilometers per hour), 150-tonne trucks which carry material approximately 12 kilometres to the mill (see Figure 1). The overall stripping ratio for the mine is 5:1 waste to ore. The company has adopted a defurred stripping

When mining started

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in Nov. 94

too high -
REVISE
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date

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upside potential. The cutoff of 9% may be too high since bulk mining methods will likely be used to mine this type of deposit. Using a cutoff of 6% combined lead + zinc would increase the probable reserve at this deposit significantly. As well, more tonnes are likely to be found when exploration begins from underground since very little drilling has taken place to date.

The discovery of the Grizzly Deposit was made in the late 1970's and was based on a thorough understanding of the geological characteristics of the property. The deposit has no surface expression but may have a geophysical signature. The company has just completed a regional airborne survey over the property and is using the data interpret new structural features where hidden targets might exist. Three deposits exceeding 20 million tonnes have been found to date on the mine property and the potential for others is considered good. Armed with more sophisticated data such as the magnetics and electromagnetics from the airborne survey, we are optimistic the company will have similar success in finding new buried deposits along the mountain range front.

its
Faro
property

Other Exploration Activity

In addition to the exploration planned for the property, Anvil Range are conducting exploration for massive sulphides in other properties near the mine site. This area has heated up with the discovery of Western's Wolverine deposit and Cominco's Kriz Ze Kayah deposit, both located about 150 kilometers to the east of Faro. Although the geological environment is slightly different for these deposits, the high grade values of zinc are attractive to Anvil Range.

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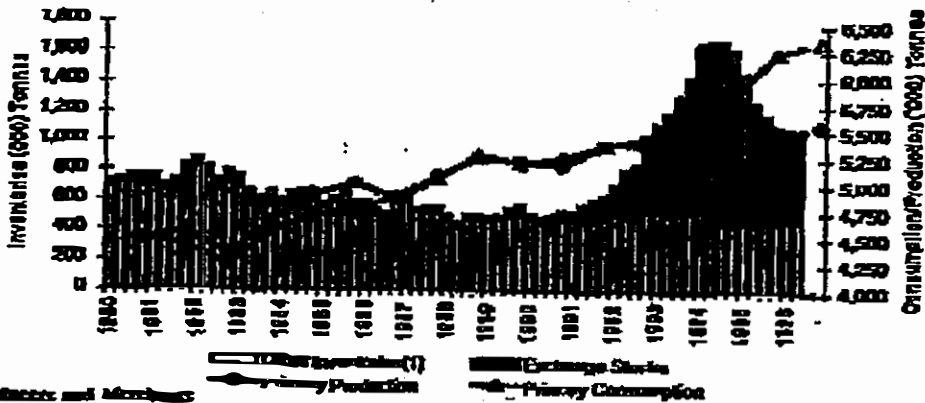
on these extensive lead holdings in the Yukon S.E.

SE

Zinc Prices Moving Up

Zinc prices in our view should increase above current levels based on expected draw-downs on inventories due to higher demand (see Figure 2). This demand will be led by the United States and Japan as their economies strengthen. In addition, we see stagnant production levels for the next 18 months due to decreased sales from Russia and China. Also, new production from Australia will not be coming on stream as planned at RTZ-CRA's Century project due to environmental delays.

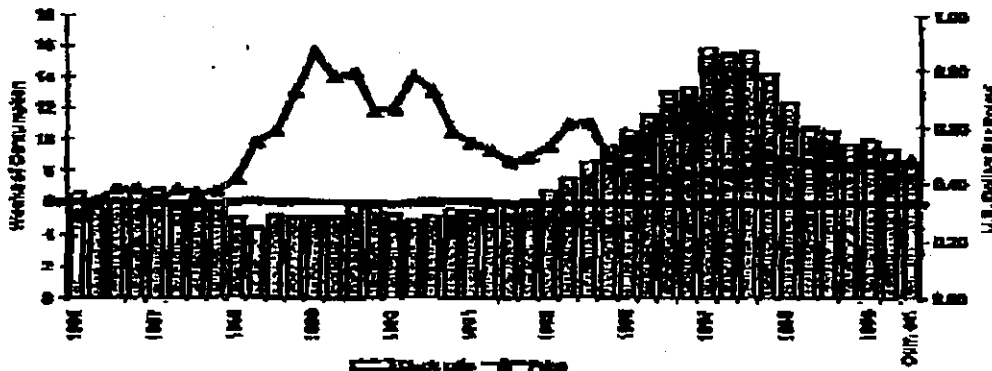
Figure 2 Zinc - Western World Production, Consumption and Inventories



(1) Includes Production and Inventory
Source: CRC World Commodity Data

The expected draw-downs in inventories should provide the fundamentals for stronger zinc prices in 1997, as it did four to eight years ago when prices were over US\$0.60 per pound (see Figure 3).

Figure 3 Zinc — DME Cash Price Versus Stock Consumption Ratio



Source: CRC Wood Group, CRU

One of the underlying concerns however, is the effect the Sumitomo copper scandal will have on zinc prices. This debacle has been blamed for suppressed prices in other commodities such as gold, and clearly zinc has a much greater correlation with copper than gold. The magnitude of the confidence that has been lost in trading base metals is difficult to quantify but eventually will be discounted. For 1997, we are trying an average zinc price of US\$0.52 per pound.

Valuation

Earnings: Anvil Range reported net earnings of \$7.1 million (\$0.43 per share) for their third quarter ending July 31, 1996 with 9 month earnings of \$9.6 million or \$0.59 per share. The company is changing its year end to December 31 beginning this year and so 1996 will have a 14 month reporting period. We are estimating 1996 earnings at about \$1 per share and 1997 earnings at \$1.30 share (\$0.75 and \$0.95 fully diluted). This analysis assumes higher zinc prices, current prices for gold, silver and lead, better recoveries for both lead and zinc, but lower average grades than have been mined in 1996. For 1997, The shares are currently trading at an earnings multiple of 5 times, compared to peer group averages of 10 times earnings multiples. This discounting may be attributed to the short life expectancy of the Gram Fir (five years) or the higher costs associated with

mining in this northern community. We feel an appropriate discount for these factors would be in the order of 30% rather than the current 50% that the market is assigning. This would imply a share value of \$9.10. Based on this analysis, purchases of Anvil Range shares could be justified on the Grum mining operation alone.

Cash Flow: The company is carrying approximately \$150 million in banked tax credits to be used against future income. This will allow cash flows to be strong over the next few years until these credits are exhausted. For 1997, we are estimating cash flows of \$2.30 per share (\$1.65 fully diluted). The Anvil shares are currently trading at a multiple of 2.75 times cash flow whereas comparable base metal producers trade at multiples of 5 to 6 times cash flow. The rationale for the discounting is similar to that given for earnings multiples but if we use a discount of 30% for these factors, a share price of \$2.90 is derived. Higher share prices for Anvil Range based on cash flow are therefore warranted from the Grum operation as a stand alone entity.

Grizzly: In addition to the Grum pit, there is considerable value in the advanced stage Grizzly deposit. We have completed a valuation on this zone with a long term zinc price of US\$0.52 per pound and the project has a value of approximately \$2.00 per share at a 10% discount rate. This assumes the deposit will be shown to have a mineable reserve of 20 million tonnes at grades comparable to the current resource.

Recommendation

Anvil Range is very much leveraged to the zinc price. A one cent per pound change in this metal will vary net profits by \$3 million. Without an increase in zinc prices, Anvil Range shares will not outperform the market. If, as predicted, zinc breaks out of the narrow trading range and moves to our projected average, Anvil Range will be in one of the best leveraged positions to enjoy this benefit (See Table 1). For every penny zinc prices rise extra profits of almost \$0.20 cents per share are created. With our estimate of US\$0.52 per pound for zinc in 1997, Anvil Range has a 12 month target price of \$22. We recommend the purchase of Anvil Range shares to those who want maximum leverage to rising zinc prices.

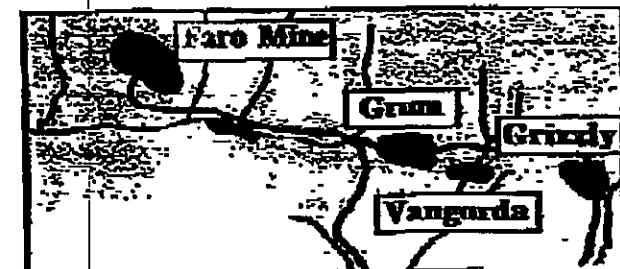
Table 1

Symbol	Change in EPS
WMP	\$0.08
FL	0.05
NOR	0.15
CLT	0.55

* Assuming 4% dilution due to GRUM acquisition.

charge for accounting purposes when the ratio exceeds the average for the life of mine. The deferred charges will be absorbed when the stripping ratio falls below the average of 5.7. This practice is common in the mining industry as it tends to eliminate erratic changes to operating costs over the short term.

Insert Figure 1 Map



Concentrate Production - Improving Recoveries

Recoveries from the milling operation have improved from 68% to 74% for zinc, and 73% to 77% for lead since start-up. Several new additions to the mill including a new regrinding circuit and a second set of flotation cells for lead recovery will assist management in moving towards their goal of 78% recovery for zinc and 80% for lead. Recoveries for silver are about 60% but gold recoveries are only 40%. Both of these precious metals report in the lead concentrate.

Concentrate from the mine is trucked to the seaport of Skagway, Alaska and then to smelters in Europe and Asia. Anvil has a marketing arrangement with Cominco that allows them to "piggy back" on the negotiating strength of this firm in Europe. In Asia, Hyundai is the sales agent for Anvil Range's product.

Growth Potential - The High-Grade Grizzly Deposit

Located about 7 kilometres east of the Grum open pit lies the Grizzly deposit. The deposit occurs as ~~two~~ stacked lenses at depths of 700 metres and 850 metres from surface.

Geological reserves in the probable category for the ~~two lenses~~ total 9.4 million tonnes grading 6.62% zinc, 5.5% lead, 80.3 g/t Ag and 0.82 g/t Au with a cutoff of 9% combined lead-zinc. When Curragh had the property, a resource of over 20 million tonnes was carried on the books. In quoting a probable reserve however, Anvil reduced the tonnage because of the wide spaced drilling. The potential for this deposit to contain over 20 million tonnes will be tested by underground development starting next year. Based on the initial success of the wide spaced drilling already completed, we view the potential to increase the resources into a reserve as high. We also think this zone has considerable

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*more ability of the deposit
increase*

*considerably
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deposit