

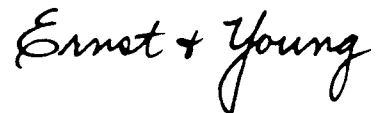
REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Plexus Resources Corporation

We have audited the consolidated balance sheets of Plexus Resources Corporation as at December 31, 1991 and 1990, respectively and the consolidated statements of operations, shareholders' equity and cash flows for the year ended and the six-month period ended December 31, 1991 and 1990, and for each of the years in the two-year period ended June 30, 1990. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 1991 and 1990, and the results of its operations and the changes in its financial position for the year ended and the six-month period ended December 31, 1991 and 1990, respectively and for each of the years in the two-year period ended June 30, 1990 in accordance with accounting principles generally accepted in Canada.



ERNST & YOUNG
Chartered Accountants

Toronto, Canada
March 4, 1992

1/15/92

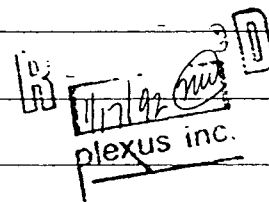
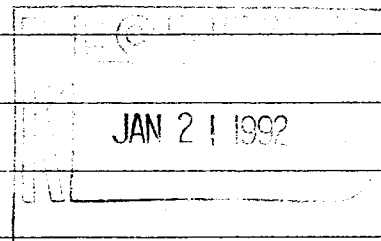
Dear Norma;

Thank you for the generous donation that was made to the Food Basket Program by Plexus Inc.

We were able to make 277 Christmas baskets this year.

Thank you for Caring!

Norann Bassett
Treasurer



Received

12/11/91

plexus inc.

SRP

STAYTON ROCK PRODUCTS

P. O. BOX "A" STAYTON OR 97383 • (503) 769-6465

December 9, 1991

Plexus Resource Corporation
P.O. Box 409
Mill City, Oregon 97360

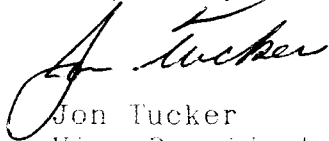
Attn: Bart Stone

Dear Bart:

On behalf of the Stayton Area Rotary Club, I would like to thank you for taking the time to talk to our club about the Bornite Project. We found the talk to be very interesting and informative. It is obvious from the information presented and the answers to individual questions that the proposed mining operation will have a positive impact on the areas depressed economy without any significant detrimental environmental consequences. Your answers to the questions regarding the handling of process water and the method of mineral extraction to be used went a long way towards alleviating any concerns that those of us who live downstream had concerning our water supply.

We look forward to having you and the Plexus company as part of our Santiam Canyon community. If we can be of any help to you in the future, please don't hesitate to call on us.

Very Truly Yours,



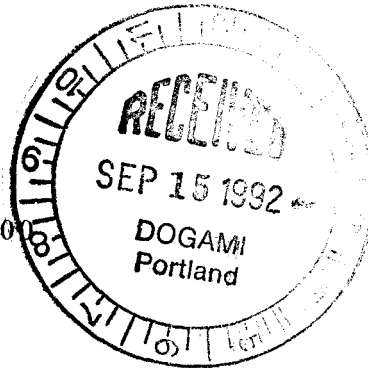
Jon Tucker
Vice President
Stayton Area Rotary Club

September 11, 1992

DEPARTMENT OF
GEOLOGY AND
MINERAL
INDUSTRIES

MINED LAND
RECLAMATION

Allen Gordon
Plexus, Inc.
185 South State Street, Suite 400
Salt Lake City, UT 84111



RE: ID No. 24-0076

Dear Allen,

This letter summarizes the state permitting process for the Bornite Project as we discussed during our August 27 meeting. It seems everyone was in agreement that a status report regarding the status of state requirements, is appropriate.

This document includes a chronology of events pertaining to the Plexus project, baseline data status, and pertinent project correspondence. Correspondence is not always complete simply in the interest of keeping the size of the document manageable, however content is not compromised. Soon to follow this document will be a permit time table.

Beyond establishing the status in terms of state requirements, in my opinion, the correspondence helps quantify DOGAMI's coordination role on the project. We are very concerned that the applicant and the public get a "fair shake."

Again, in my opinion, the record indicates that this has occurred but we always appreciate input that allows us to improve in this area.

The chronology shows that all state agencies involved in the permitting of the Plexus site have been working together since at least the third quarter of 1990. We believe the coordination has worked well to this point. Perceived problems with the coordination are most likely problems of resolving complex technical issues to meet stringent regulatory demands rather than

GWL/dm:24-00761



Allen Gordon
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September 11, 1992

poor inter-agency cooperation. If the cooperation between the federal and state agencies had not started in 1990, many issues which were resolved during the baseline data collection phase for the EIS would only now start to be recognized as we move into the permitting phase of the project.

The major substantive issue to be resolved is adequate characterization of the groundwater quality and quantity. On this issue, the Forest Service may decide that they have adequate information to proceed with the EIS while DEQ, DOGAMI and WRD feel that more information is needed before the state permits can be issued.

COORDINATION HISTORY

Coordination on this site began roughly six years ago when Plexus first came to DOGAMI and told us that they controlled the Bornite property and were thinking of developing it.

Coordination began in a serious way in October 1990 when Plexus and DOGAMI arranged an informational meeting and site visit for the state permitting agencies and Marion County personnel.

In August 1991, the Forest Service began to assemble their IDT and TRT. It appears the state, Forest Service, and Plexus agreed that coordination was important and therefore state resource experts and permitting specialists were included on the Federal TRT. When the IDT was announced, Allen Throop was included as the liaison between the state and Forest Service; approximately ten state employees were included on the TRT. Since then there have been some changes in membership due to retirements, job reassignments, etc. It is anticipated the state staff on the federal TRT will make up the majority of the state review team. Continuity is a concern here because of the change of personnel. DOGAMI, I believe, has a role in providing that continuity.

A review of correspondence since state participation in the permitting process began, shows that some agencies quickly saw that their concerns had been addressed or that the Forest Service resource specialists were adequately addressing their concerns.

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Allen Gordon
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September 11, 1992

Those agencies have subsequently not played an active role but will continue to be kept in the information loop as the draft EIS becomes available. In addition, these agencies are advisory to DOGAMI and will review and comment on our draft permit.

Most of the subsequent meetings have included DEQ, DOGAMI, and WRD. Since the major item of concern for the state agencies has been adequate definition of the water resource and ARD potential at the site, concentration of time and energy on these items has been beneficial to all parties because it has improved agencies' understanding of these issues. Had the time not been spent when it was, it would be spent somewhere because the issues have to be addressed. In my experience, the permit process is improved by doing this now rather than at the "11th" hour.

CURRENT STATUS

The following comments are, to the best of our current knowledge, the current status of baseline data acceptance from the perspective of the state agencies:

Soils - The only major issue outstanding is the percentage of large boulders in the topsoil that will be stripped. This item and a few others were addressed in a recent letter from Allen to Doug.

Fish and Wildlife - The ODFW biologists have turned the lead over to their Forest Service counterparts. If the Forest Service followed the recommendations made earlier by ODFW, the baseline data should be adequate. They will review the DEIS when it becomes available.

Surface and Ground Water Quality and Quantity - Barbara Sellars from DEQ and Marc Norton from WRD have had consistent problems with the information submitted about water quality and quantity. This issue must be reconciled at this time.

Acid Rock Drainage - DOGAMI will accept the review and recommendations of SRK, reviewer of the EIS for the Forest Service, in this field. Since the characterization has not met the

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September 11, 1992

requirements of SRK, close cooperation with DOGAMI and DEQ to require productions monitoring to test for the presence of ARD potential material and mitigation measures to handle all such material encountered can be expected.

Geology - The basic geological information is adequate. More information may be required in conjunction with ground water characterization.

Seismicity - A recent review of the "Conceptual Design of the Fine Tailings Storage Facility of the Bornite Project, Oregon" discovered that the seismic data used in the report is not the most current available for the area. The current references were given to Plexus as part of the comments on the original baseline data review. A separate memo on this subject is being prepared.

Air Quality - DEQ has said that, based on the information submitted to them to date, no air quality monitoring will be required.

Vegetation - The Department of Agriculture has stated that, if carried out as approved, the baseline vegetation studies would be acceptable. They are deferring to Forest Service expertise.

Stream and Wetlands - The Division of State Lands is satisfied with the wetlands mapping. Assuming that the additional baseline data requested last year has been collected, characterization of the streams that are to be moved should be adequate.

SUMMARY

As Plexus moves from the baseline data collection phase to the permitting phase, all the earlier discussions should start to payoff. We still expect that some contentious issues may exist and that is to be expected. Are those issues becoming fewer? Yes. The "necking down" of such issues is typical with the more difficult issues taking the most time. However, in my opinion, if Plexus were only now starting to bring the state agencies into the

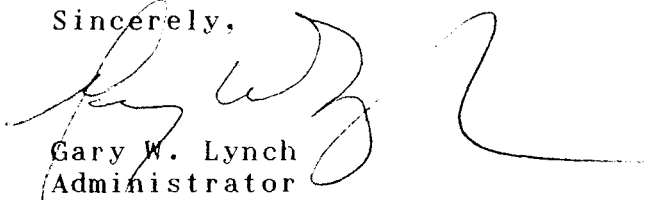
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Allen Gordon
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September 11, 1992

process, much more friction would be developed as questions were brought up that have now already been considered and resolved or headed in the correct direction and state permit decisions would be extended beyond current predicted time frames.

After reviewing this information, please call me so that we can discuss any outstanding issues. I hope you enjoyed your well deserved vacation in Costa Rica, and I look forward to continued "easy going" meetings like that of the 27th.

Sincerely,



Gary W. Lynch
Administrator
Mine Land Reclamation

GWL:dm/24-00761

Enclosures: Meeting List
Correspondence

cc: D. Hull - DOGAMI
J. Beaulieu - DOGAMI
V. Puleo - USFS - Detroit
J. Clayton - USFS - Corvallis
L. Taylor - DEQ - Portland
F. Lissner - WRD - Salem
Earle Johnson - DSL - Salem
John Mellott - Natural Resource Div. - Salem
Gail McEwen - ODFW - Portland
Margaret Kirkpatrick

Don H.
Oregon

September 22, 1992

FAXED
Only - DM
9-22

Allen Gordon
Plexus
185 South State Street, No. 400
Salt Lake City, UT 84111

DEPARTMENT OF
GEOLOGY AND
MINERAL
INDUSTRIES

MINED LAND
RECLAMATION

RE: ID No. 24-0076

Dear Allen,

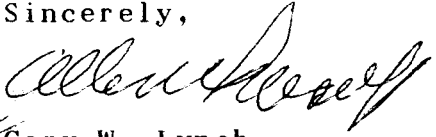
As you are aware, the Review Draft EIS (RDEIS) will be out soon. I would suggest that we convene the state technical review team to identify gaps between the RDEIS and information needed to satisfy state permit requirements. (Reimbursement of at least DOGAMI and WRD personnel would be required. Other agencies may or may not expect reimbursement.)

Identification of those gaps would improve everyone's understanding of what was needed next and potentially speed up the application process since the earlier any gaps or conflicting requirements are identified the earlier they may be resolved.

The meeting would occur after individuals had an opportunity to review the RDEIS. The applicant as well as a USFS representative would be welcome participants.

DOGAMI recommends such a meeting and believes an integrated state response would be valuable to the application process. There are alternatives. For example, since there is no statutory requirement for the state agencies to review the RDEIS, no review is mandatory. Please let me know if you agree to the state review of the RDEIS by September 28, if possible. A meeting of the state TRT will be scheduled only after receiving approval from Plexus; prompt scheduling is needed.

Sincerely,

Don


Gary W. Lynch
Supervisor
Mined Land Reclamation

GWL:dm/gordonl

cc: Don Hull
John Beaulieu
Allen Throop



1536 Queen Avenue SE
Albany, OR 97321
(503) 967-2039



185 South State Street, Suite 400
Salt Lake City, UT 84111

(801) 363-9152
Fax No.: (801) 363-8747

TO: Don Hull
FROM: Allen S. Gordon
DATE: August 25, 1992
RE: Status of Major Technical Issues

Supplementary work requested by Mariah, Oregon State agencies, and the Forest Service is essentially complete. Extra ARD testing is progressing. Additional aquatic biology surveys are complete. A Water Management Plan, including a detailed water balance calculation, has been submitted for agency review. An improved tailings impoundment design has been completed by an outside engineering consultant. Wetlands delineation is complete and has been verified by the Army Corps of Engineers and the Oregon Department of State Lands. An application to the Oregon Department of Environmental Quality for a water pollution control permit has been submitted with considerable backup information. Discussions with the Oregon Department of Water Resources regarding water rights issues are in progress. In house mining and metallurgical engineering studies are progressing based on issues identified in the EIS process to date.

Crown Pillar Recovery. A more detailed plan for crown pillar recovery activity was completed. The surface excavation will require the removal of 65,000 cubic yards of material. The resultant excavation will be only 10 feet deep in the north, and 40 feet deep in the south. Scheduling for the removal is still being considered. Through removal of a limited amount of surface material, ore can be safely drilled from above and removed from preexisting underground workings. Approximately 113,000 tons of ore will be removed during a four to six month period. Access for ore removal will be from underground. The excavation will be backfilled upon completion.

Tailings Impoundment Design. A detailed design has been recently completed by Klohn Leonoff. Important design requirements that presented difficulties in early designs were thoroughly addressed. The completion was delayed due to requests for supplemental considerations during the design process. A detailed water balance estimate was incorporated into the design. The design of the impoundment allows for operational flexibility, staged construction, improved long term safety, and some water storage capacity. Capacity of the impoundment will allow for 1.5 times the currently

estimated tailings storage requirements. The Plan of Operation was amended with the revised design. The area covered by the impoundment is nominally larger due to requirements of the site topography. Environmental studies such as wetland delineation, were updated to reflect additional site disturbance. No critical environmental concerns were identified.

Geohydrological Evaluation. Baseline data gathering continues for surface and ground water studies. The baseline data gathering will continue into the mine construction and production period. A significant amount of information is available on the geohydrological characteristics of the mine site area. This information clearly suggests that the shallow colluvial system is the dominant ground water system in the project area. Basic recharge and discharge characteristics, ground water gradient, hydraulic conductivity, water quality, and surface water relationships of both the bedrock and the colluvial systems are understood and predictable. Information generated to date suggests that the two ground water systems are hydraulically connected, but for all practical purposes, the degree of interconnection is minimal or non existent.

Water Balance. The Project water balance calculations indicate that generally, if conditions are as anticipated, there will be a small net surplus of water that will require treatment and discharge. The project as a whole is close to being in balance during anticipated normal operating conditions. If inflow to the underground workings is controlled or nonexistent, the water balance can be maintained near a level of balance. Only in wet periods, cases of sudden or excessive underground inflows, or other upset conditions will discharges be routinely required. All effluent will be treated to applicable DEQ standards before discharge. In dry periods process makeup water requirements will dictate withdrawal from supplemental sources of water. Discussions with the Oregon Water Resources Department are in process to define water rights.

Power Line Route. A significant effort has been expended to find the most technically correct and environmentally suitable line route. Approximately 50 percent of the planned line route is on existing power line corridors, with the remainder either along roads or along the bottom of a canyon where there is an existing road. Only a one mile stretch is being considered for line burial, and only where severe conditions exist that would preclude conventional maintenance activities or present a high risk to overhead lines.

Geochemical Testing. 131 rock geochemistry tests have been completed or are still ongoing. Random samples of ore, and development rocks have been analyzed. Samples of tailings materials produced during metallurgical testing were also submitted for EPA testing. The bulk of the test results shows that there is no potential for acid rock drainage associated with development rock that is planned to be excavated. The average ANP/AGP ratio for all development rock, even that portion that contains recoverable copper values is 12.0. For test on samples obtained from within the breccia pipe including ore the average ratio is 34.4. The average ANP/AGP ratio for tailings materials is 27.1. The minimum ratio required by DEQ standards to be classified as non-acid generating is 3.0. Long term humidity cell testing on samples that had marginal or low

ANP/AGP ratios, indicate no significant drop in effluent pH after eight to twelve weeks (the tests are still in progress). Extra tests requested by DEQ to document the aquatic toxicity of reagents and tailings fluids indicated the nontoxic characteristics of reagents and solutions.

Baseline Data Status. All critical baseline resource evaluations have been completed but for the following exceptions: a white footed vole trapping program will be conducted in the fall; the final report detailing results of a woody debris survey is being completed; results of long term humidity cell testing and recent acid base accounting tests are being evaluated before release; and Forest Service owl calling and cultural resource studies are planned or progressing. All other resource studies defined by the Baseline Study Plan have been completed and submitted to Mariah. No major, unacceptable environmental impacts have been identified to date.

plexus

June 7, 1991

Mr. William F. Funk
District Ranger
USDA Forest Service
Willamette National Forest
Detroit Ranger District
HC 73 box 320
Mill City, OR 97360

Dear Mr. Funk:

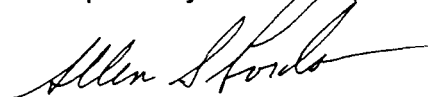
Enclosed are ten copies of the Plan of Operation (Plan) for the Bornite Project; a copper mining project being proposed on public lands under your administration in accordance with the provision of the General Mining Law of 1872. The document contained herein should be considered both the Notice of Intent and the Plan as required under 36 CFR Part 228.

Incorporated with the Plan is a completed copy of the application form provided by the Willamette National Forest. In completing the form, reference to the Plan has been made wherever detailed information is requested. It is Plexus' belief that all information requested on the form and in 36 CFR part 228.4 is addressed in the Plan.

We will be in contact with Mr. Mike Hernandez of your office within the next two weeks to arrange for a meeting to discuss the Plan and the work that submittal of the Plan will precipitate. For your information, ten copies of the Plan are also being provided to the Willamette National Forest Supervisor's Office in Eugene. Please let us know if additional copies or information is required.

Plexus, Inc. looks forward to working with you, the Willamette National Forest, and the State of Oregon in developing the Bornite Project. Do Not hesitate to call if I can be of service.

Respectfully submitted,



Allen S. Gordon
Vice President
Technical Services

ASG:jb

...

August 12, 1992

Mr. Allen S. Gordon, Vice President
Plexus, Inc.
185 State St., Suite 400
Salt Lake City, Utah 84111

Dear Allen,

I look forward to our meeting here at 9 a.m. on Thursday, August 27. We feel that it is important to review in depth our work to date on the BORNITE project and the cost and staffing implications for future work. We have enclosed a copy of the budget for our regulatory activities on this project as developed earlier. Let's plan to review this when we get together.

Sincerely,



Donald A. Hull
State Geologist

Attachment

cc: Gary Lynch

DAH:ns/Gordon.let/1




MEMORANDUM

August 6, 1992

TO: Gary Lynch
FROM: Don H.
SUBJECT: Meeting with Plexus

I have scheduled a meeting with Allen Gordon of Plexus for 9:00 a.m. here on Thursday, August 27th to review the concerns raised in his letter of July 31st, 1992 about DOGAMI's role and activities in the permitting of the bornite mine project in Marion County. Please join me at that time.

Allen has indicated that Plexus has submitted an application for permits to DEQ and I asked that he send a copy of the DEQ application to you. It might be interesting to review this material before we meet. In a brief phone conversation to arrange the meeting, Allen indicates that he would be interested in pursuing an MOU with DOGAMI to clarify the permitting process. I reminded him that we had discussed that option with him earlier.



DAH:rjb/dah8692.doc/4

8/6/92

cc: John B.

MEMORANDUM

August 3, 1992

TO: John B.
FROM: Don H.
SUBJECT: Plexus Letter of 7/31/92

The attached letter raises concerns about our billing process for regulatory activities related to the Bornite projects. Please review this situation and let me have your thoughts. I assume we are operating with a budget for the project that has been reviewed with Plexus.

cc: Gary Lynch



DAH:rjb/dah8392.doc/1

8/3/92



**Facsimile
Cover Sheet**

185 South State Street, Suite 400
Salt Lake City, UT 84111

(801) 363-9152
Fax No.: (801) 363-8747

TO: Mr. Donald A. Hull
FROM: Allen Gordon
DATE: July 31, 1992
RE: The Bornite Project
PAGES: 29

RECEIVED - PTLD

JUL 31 1992

**DEPT. OF GEOLOGY
MINERAL INDUS**



July 31, 1992

Mr. Donald A. Hull
State Geologist
Department of Geology and Mineral Industries
800 NE Oregon Street, #28
Portland, OR 97232

Re: The Bornite Project

Dear Don,

During a review of project accounting records, I noted that during the past year DOGAMI has charged Plexus \$15,215.87 for services relating to the Bornite Project. Included are direct project charges and nonspecific administrative fees. An analysis of these charges has been prepared and is attached for your information.

Recently, on July 27, 1992, Plexus received a letter from Allen Throop alerting us to expect a bill for \$5,000. The bill is for additional services provided by Oregon Water Resources Department to DOGAMI, apparently related to hydrogeologic evaluation of the project site. The scope of work, bill out rates, and total cost of OWRD's involvement at the request of DOGAMI is unknown to Plexus. The bill was not expected, since we have no evidence of work complete. Plexus was not adequately consulted prior to DOGAMI's apparent authorization of this activity. It is surprising that these charges even exist, because the Company has paid directly to OWRD a water rights application fee.

Our concern is magnified because there is no tangible results of DOGAMI's effort with respect to the \$15,000 (plus) already paid. State permits have not been issued, nor has the federal EIS been completed in a more efficient manner. The only apparent results of DOGAMI's involvement to date include controversy concerning water rights, disseminated misinformation speculating incorrectly about potential acid rock drainage, and confusion with other state agencies regarding permit requirements and their responsibilities with Bornite. The Oregon Department of Environmental Quality has even given Plexus specific instruction to not include DOGAMI in dealings with them. And now Allen Throop has been recently removed from the EIS Interdisciplinary Team for "administrative" reasons.

Mr. Donald A. Hull
July 31, 1992
Page 2

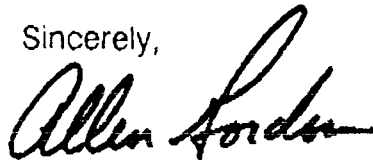
Plexus has submitted permit applications with separate application fees to OWRD and ODEQ. Including the amount already paid to DOGAMI, this totals more than \$38,000 paid to Oregon State agencies to date, and does not include the \$5,000 unexpected charge from OWRD. At present there is no way for Plexus to estimate the remaining DOGAMI charges in excess of the \$575 permit application fee allowed by statute.

It is only prudent for a company to be aware of all project costs, including state permitting fees and nonspecific charges. DOGAMI's fees and charges are undefined. The potential for significant cost overruns has been demonstrated. No cost controls or accountability exist. The situation presents a business environment in which it is difficult to successfully advance any project.

I request that we meet and review DOGAMI's role and mandate in the Bornite permitting process. I suggest that we discuss specific responsibilities, accountability, and authority that your agency has relative to Bornite permits. We need to come to a fundamental agreement defining DOGAMI's involvement and associated cost to the project. Plexus is unprepared to allow the latitude to DOGAMI to spend the Company's funds without a complete understanding and written authorization for proposed charges.

I look forward to discussing this with you at your earliest convenience.

Sincerely,

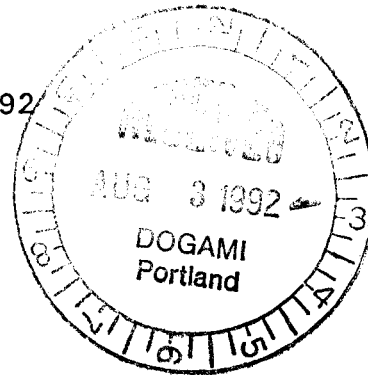


Allen S. Gordon
Vice President
Technical Services

ASG:jb



July 31, 1992



Mr. Allen H. Throop
Department of Geology and Mineral Industries
1536 Queen Avenue SE
Albany, OR 97321

Dear Allen,

I have received a copy of your memo dated July 17, 1992, regarding the review copy of the Bornite Draft Environmental Impact Statement. The memo was obtained from the USDA Forest Service in Detroit.

Several inaccuracies contained in the memo have been noted and should be corrected:

1. The original action as contained in the Plexus Plan of Operations has been modified only twice, and definitely not to the extent implied in your memo. The first change was to reflect the location of the powerline route in the French Creek drainage being moved from next to the paved Forest Service Road to preexisting PG&E and BPA rights-of-way. This was done after talks with power authorities indicated that this was a workable arrangement. In effect, the potential impact of the powerline route was mitigated by the relocation to preexisting disturbed and cleared rights-of-way.

The second modification was to the basic design concept of the tailings impoundment structure. As you have suggested, Plexus and Klohn Leonoff have developed an impoundment design that will allow significant water storage capacity, that if required will help meet process demands. The modified design concept allows for greater safety and operational flexibility. The location of the impoundment is the same as presented in the POO. The size is nominally larger.

2. Assessment of the No Action Alternative is mandated by NEPA requirements. While this is not a practical solution from a development viewpoint, it should be fully considered. The impacts of the No Action Alternative need to be studied the same as impacts of all alternatives. To characterize Plexus' position as a champion of one alternative or another is inappropriate. It goes without saying that if the Company did not consider the project worthwhile, no proposal would have been made. It is in the public's interest to define the best alternatives based on a wide range of considerations.
3. As now understood, the Forest Service has not made a decision as to the most likely action to be approved. Questions still exist concerning all alternatives, and they need to be analyzed before a preferred alternative can be precisely defined. It is premature to say any alternative is likely to be approved. Through public participation in the continuing NEPA process, suggested alternatives can be considered that have yet to be recognized.