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D & Co. investors report

Canada's largest molybdenum producer
Controlled by Placer Development

ENDAKO MINES LIMITED (N.P.L.)

ENM, listed Toronto and Vancouver Stock Exchanges.
Recent Price $11 1/4; Price Range : 1967 to date $13.25 - $10 3/8; 1966, $17.25 - $9.50.

Capitalization (as at December 31, 1966)

	Authorized	Outstanding
Bank loans, including term bank loans, due within one year, of $4,288,242		$ 8,063,242
6% Cumulative redeemable preferred shs. ($1 par)	$ 5,000,000	$ 5,000,000*
Common shares, n.p.v.	10,000,000 shs.	7,750,007 shs.**

* On which accumulated and unpaid dividends amounted to $726,848 at December, 31, 1966.
** Of which 6,235,005 shares, or 80.45%, are owned by Placer Development Limited.

The Company

The Endako open-pit molybdenum mine and mill were brought into production with an initial rated capacity of 10,000 tons per day in mid-May, 1965, on a tune-up basis with commercial production commencing on August 1, 1965, at a cost of approximately $22,000,000 financed through purchase of $5,000,000 of preferred shares by Placer Development and by a term loan from Canadian and U.S. banks providing for maximum borrowings of U.S. $16,200,000 which the Company plans to repay in full in June, 1967.

The effective capacity of the mill was raised to 15,000 tons per day with minimum additional capital expenditures and is now operating at 17,000 tons per day. The Company is spending approximately $7,000,000 to expand the productive capacity of the mine and mill to 22,000 tons per calendar day for completion when additional power is available from the Peace River power project, expected early next year.

Location

The property, comprising 204 claims, is connected by a 5-mile road to Endako Village, B.C., on the main east-west highway 115 miles west of Prince George and on the Canadian National Railway to Prince Rupert.

Orebody

The Endako orebody is some 5,000 ft. long by 2,000 ft. wide at a surface elevation of 3,200 ft. to 3,500 ft. above sea level. The molybdenite (MoS_2) deposit is located in a fractured area within a northwesterly trending upthrust of complex igneous rocks, the Topley Granite, a large batholith 15 miles long by 10 miles wide. The Company's large spread of claims give title to the huge orebody and offers a large area for further exploration in the favourable granite.

Since production commenced, mining has been confined to the higher grade western section of the orebody and for this reason millheads to date have been consistently higher than the calculated average grade of the ore reserves. The lower grade eastern section of the orebody has been, or is being stripped and prepared for open-pit mining.

In the meantime, all ore mined over a cut-off grade above 0.12% MoS_2 is being milled and all material grading between a cut-off grade of 0.08% and under 0.12% has been stockpiled. When the milling rate has been stepped up to 22,000 tons per day all ore above a cut-off grade of 0.08% will be milled. It is obvious then that, unless ore reserve grade calculations understate the actual average grade, the grade of millfeed must eventually decline to the average grade of ore reserves based on a cut-off grade of 0.08% MoS_2 and this is reflected in the accompanying estimate of annual earnings based on milling 22,000 tons per day. The declining grade is expected to be partially, if not wholly, offset by an increase in recovery of about 5 percentage points from 81% to 86% due to finer grinding equipment in the enlarged mill, lower mining costs per ton of ore milled due to milling of ore formerly stockpiled which will now provide additional millfeed at no additional cost for mining and the higher price of 7¢ U.S. per pound of molybdenum established in 1967.

The increased mill capacity, while it does not appear that it will result in higher average annual profits, should enable the Company to maintain minimum production of 12,000,000 pounds of molybdenum annually and extend the life of known ore reserves by over 5 years.

Reserves (as at December 31, 1966)

Cut off grade	0.12% MoS_2	0.08% MoS_2
Tonnage	83,408,000 tons	153,628,000 tons
Average grade - %MoS_2	0.202% MoS_2	0.155% MoS_2
- % Mo	0.1212% Mo	0.093% Mo

Ore Supply - number of years production		
At 17,000 tons/calendar day	13 1/2 yrs.	
At 22,000 tons/calendar day		19 yrs.

Production Data
(on which undernoted estimate of earnings based)

		8 mos. ended Dec. 31/66 (as reported)	1966 (ratable projection of 8 mos. ended 31/12)	Estimated Annual Rate based on cut off grade of 0.012% MoS_2	0.08% MoS_2
Tons milled		3,913,000	5,870,000	6,200,000	8,000,000
Per day		15,950	15,950	17,000	22,000
Millheads - % MoS_2		0.237%	0.237%	0.202%	0.155%
Recovery		81.50%	81.50%	81.5%	86%
Price Mo conc.	(U.S. funds)	\$1.55/lb.	\$1.55/lb.	\$1.62/lb.	\$1.62/lb.
oxide	(U.S. funds)	\$1.75/lb.	\$1.75/lb.	\$1.82/lb.	\$1.82/lb.
Production Mo ('000 lbs.)					
Concentrates		6,615	9,922	9,000	9,400
Oxide		2,377	3,566	3,250	3,400
Total		8,992	13,488	12,250	12,800
Mining & milling Cost/ton milled		\$1.40/ton	\$1.40/ton	\$1.40/ton	\$1.25/ton

Estimated Earnings

($000)

	8 mos. ended Dec. 31/66 (as reported)	1966 (ratable projection of 8 mos. ended 31/12)	Estimated Annual Rate based on cut off grade of 0.012% MoS_2	0.08% MoS_2
Value of production (Cdn. $)	$ 15,995	$ 23,992	$ 22,135	$ 23,131
Mining & Milling cost	5,466	8,199	8,680	10,000
Administration and Selling	599	898	950	1,000
Profit before interest and w/o	9,930	14,895	12,505	12,131
Interest on term loan (net)	378	567	-	-
Profit before w/o (cash flow)	9,552	14,328	12,505	12,131
Depreciation	1,305	1,957	2,000	2,350
Preproduction, exploration and develop. exp. w/o	795	1,193	1,200	1,200
Net profit before income tax	7,452	11,178	9,305	8,581
Cash flow per share on 7,750,007 common shares o/s before preferred dividends	$1.23/sh.	$1.85/sh.	$1.61/sh.	$1.57/sh.
Earnings per common share after preferred dividends	$0.94/sh.	$1.40/sh.	$1.16/sh.	$1.11/sh.
Ratio of price of shares ($11 1/4) to estimated Annual cash flow		6.1:1	7.0:1	7.2:1
Annual earnings		8.0:1	9.7:1	10.1:1

In the first quarter ended March 31, 1967, the mill operated at an average rate of 17,033 tons per calendar day, millheads were 0.233% MoS_2, recovery was 82.27%, production was 3,509,347 lbs. of saleable molybdenum (annual rate over 14,000,000 lbs.) and the Company reported an estimated net profit, after write-offs, of $3,100,000 which, after allowing for accumulated preferred dividends for the period of $75,000, is equivalent to earnings of 39¢ per common share, or at an annual rate of $1.56 per share.

Financial Position

As at December 31, 1966, current assets amounted to $6,049,122 against current liabilities of $8,890,476, leaving a working capital deficiency of $2,841,354. Current liabilities included bank loans totalling $8,063,242 of which $4,288,242 was the balance of term bank loans due during 1967. On March 15th payment of $2,626,000 was made on the term loans and the balance of $1,662,000 is scheduled for payment in June thus completing payment of the original $16,200,000 U.S. of term loans out of earnings in less than two years from commencement of commercial production.

The Company now has to pay off arrears of dividends and redeem the $5,000,000 of preferred shares, provide $7,000,000 for expansion of mill capacity and build up working capital before initiating dividends. For these reasons, the Company does not expect to be able to consider dividend payments before the last quarter of 1968. Based on the above forecast of earnings, we are of the opinion that the Company could maintain an annual dividend rate of at least 75¢ per share and, assuming the present price-cost relationship is maintained, would be warranted in paying much more liberal dividends because of the high cash flow since it will be exempt from income taxes until August 1, 1968 and should not be subject to income tax for at least another 2 years, or until late 1970, by reason of charging pre-production expenses to taxable profits. Such dividends would provide an attractive yield for the shares at current prices of 6 2/3% based on our estimates of a minimum 75¢ dividend especially having regard to the 20% depletion allowance and 20% tax credit permitted on the dividend in calculating personal income tax.

Conclusion

With a long life assured from known ore reserves, prospects of making further discoveries of ore on the large property covering an extensive area of favourable geological conditions and with a steadily increasing demand for molybdenum because of expanding uses as an alloying metal, we are of the opinion, based on this study of the Company's affairs, that Endako shares at current levels are an attractive mining stock investment with promise of capital appreciation and, before long, an attractive income return.

April 26, 1967.

Davidson & Company
By: J. F. Clark.