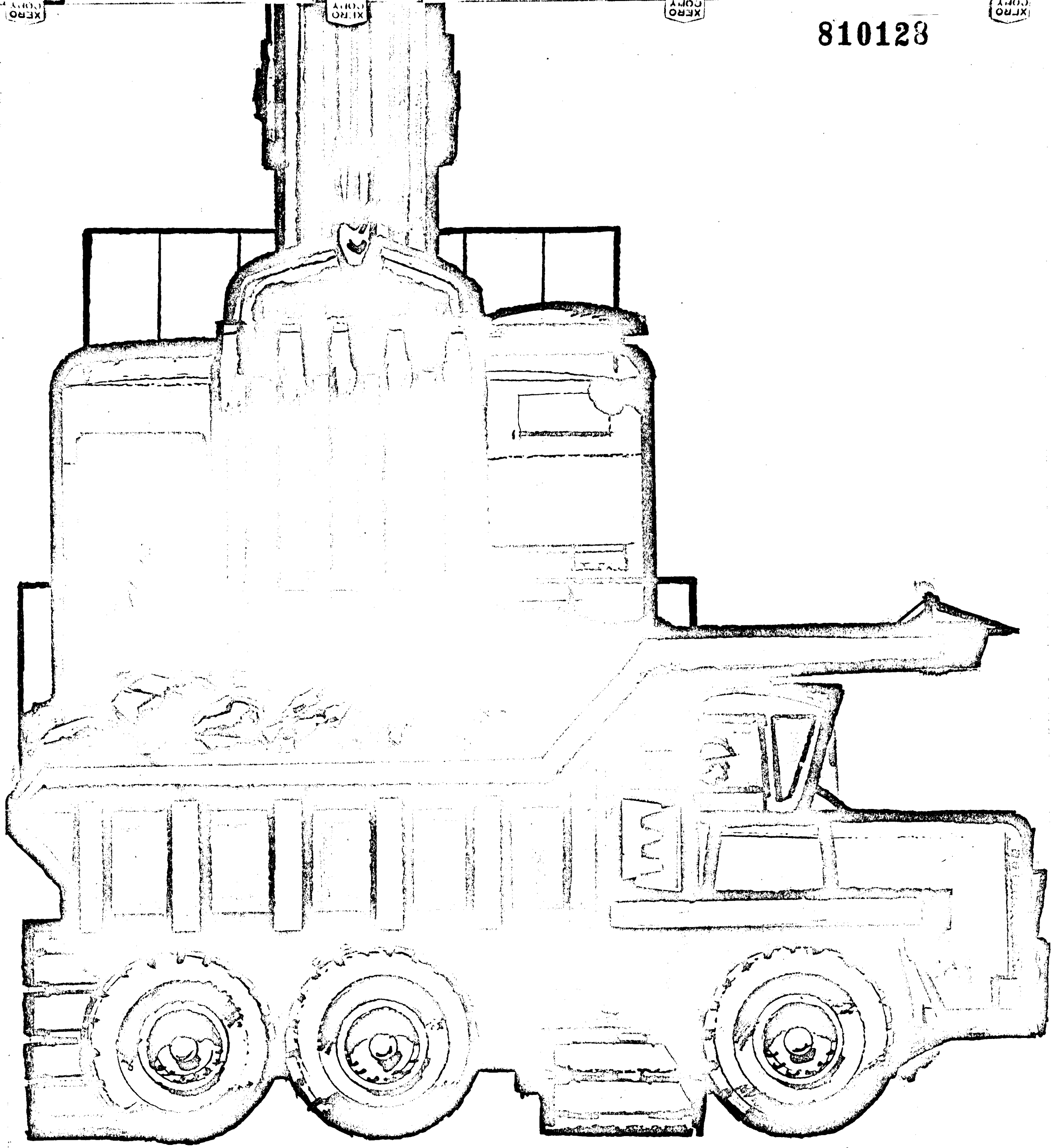

ENDAKO MINES LTD. (N.P.L.) FOURTH ANNUAL REPORT 1966

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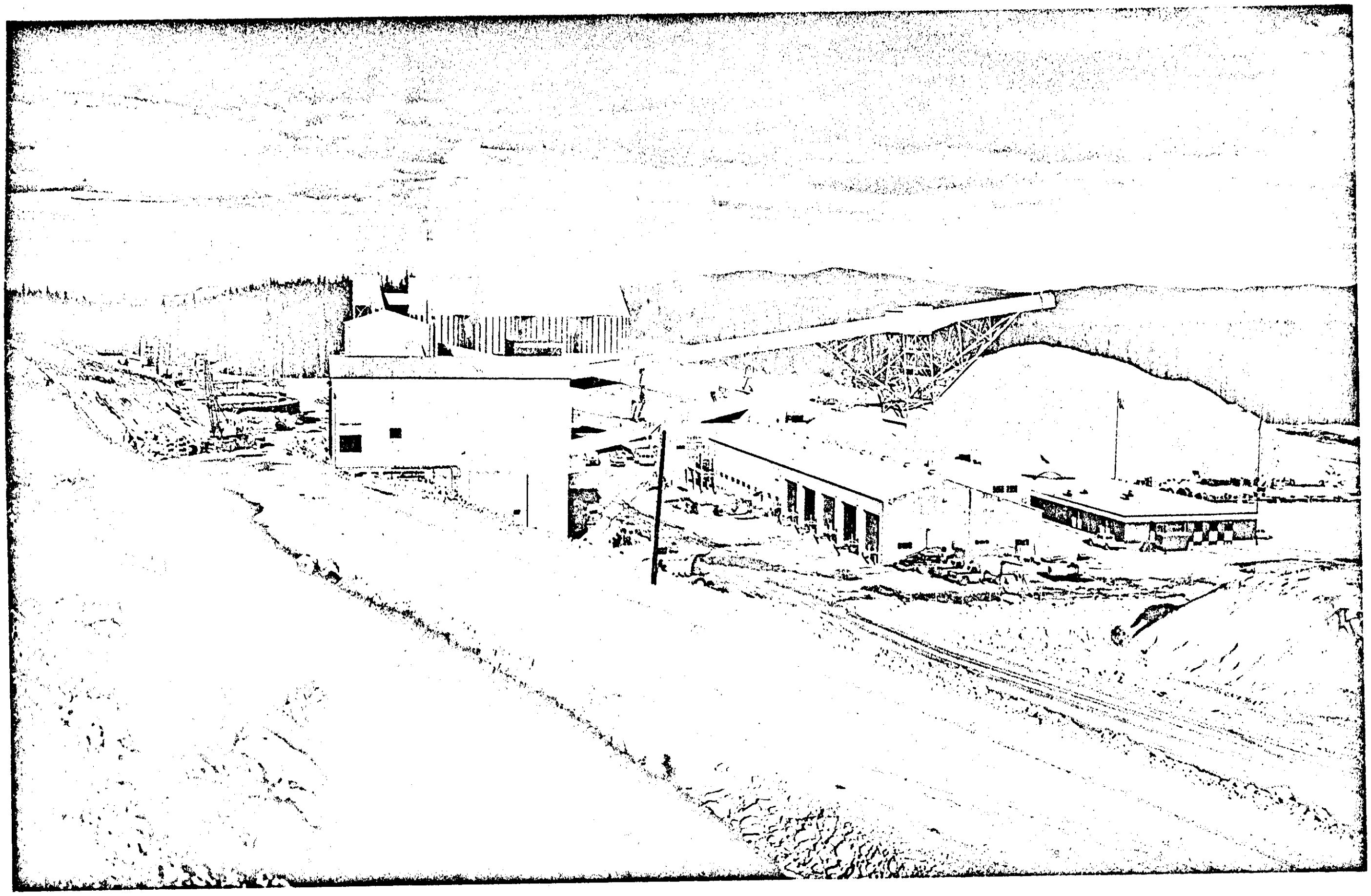
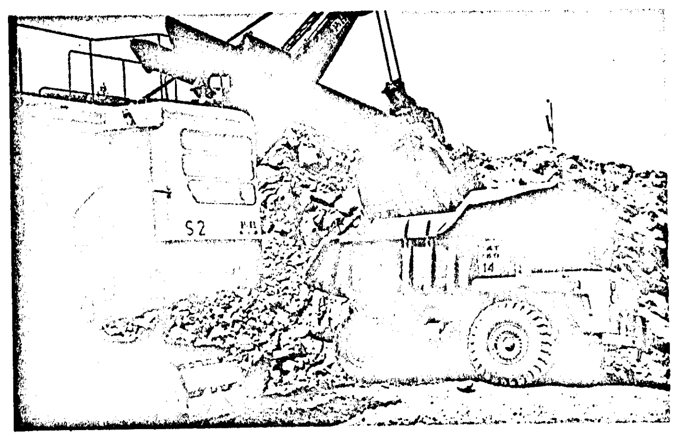
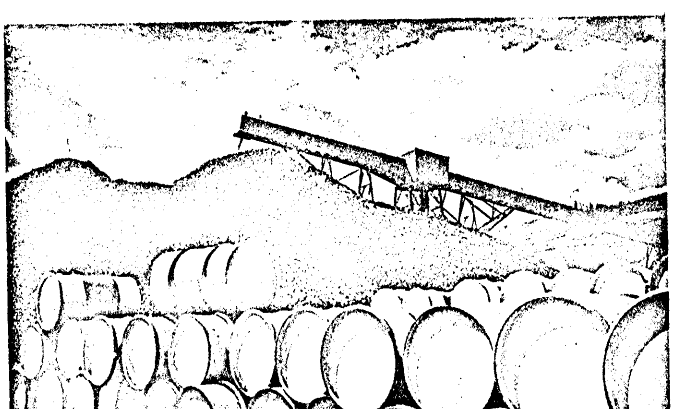


View of Endako Plant site.

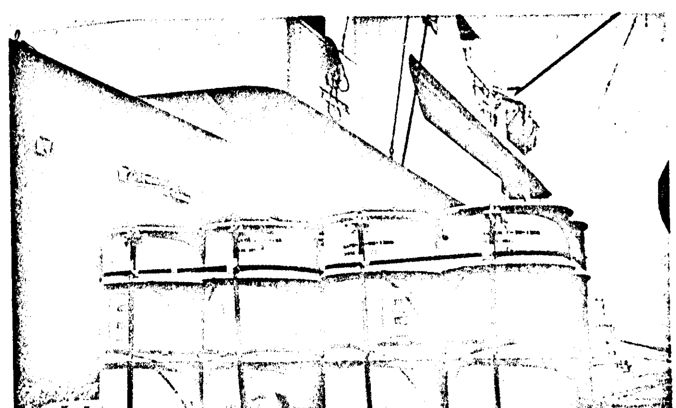
Start of new Bench in Pit.



5-yard shovel loading 35-ton truck.



Coarse ore stockpile with concentrate drums in foreground.



Concentrate being loaded in Vancouver for Overseas buyers.

DIRECTORS:

Ross G. Duthie, Vancouver, B.C.
J. Douglas Little, Vancouver, B.C.
Thomas H. McClelland, Vancouver, B.C.
Andrew Robertson, West Vancouver, B.C.
Edgar A. Scholz, Vancouver, B.C.
Isaac Shulman, Vancouver, B.C.

OFFICERS:

Thomas H. McClelland, *President*
J. Douglas Little, *Vice-President*
James C. Tarbuck, *Comptroller*
James L. McPherson, *Secretary*
John R. Croll, *Treasurer*
John M. McConville, *Assistant Secretary*
Garth S. Jones, *Assistant Treasurer*

REGISTRAR AND TRANSFER AGENT:

Guaranty Trust Company of Canada
Vancouver, B.C.

AUDITORS:

Price Waterhouse & Co.
Vancouver, B.C.

BANKERS:

Canadian Imperial Bank of Commerce, Vancouver, B.C.
Brown Brothers Harriman & Co., New York, U.S.A.

ENDAKO

Annual Meeting
Board Room
Hotel Vancouver
Thursday, July 7, 1966
at 11:00 a.m.

REPORT OF THE DIRECTORS

Your Directors are pleased to submit this Fourth Annual Report of your Company, together with the financial statements for the fiscal year ended April 30, 1966, the Auditors' Report and the Mine Manager's Report.

The past year has been an important one for your Company. During this period, operations commenced on a tune-up basis, metallurgical and milling problems were overcome and production in excess of the nominal capacity of the concentrator was achieved and maintained. Your Company's production, in both the concentrate and the oxide forms, meets the specifications of our customers and is recognized as an excellent product. As announced recently, your Company is making plans to increase the capacity of the concentrator and this expansion will permit an increase in sales commitments.

FINANCIAL

The preproduction and development stage of Endako Mines Ltd. (N.P.L.) continued from the previous fiscal year until July 31, 1965, at which date the Company commenced its operating period.
During the preproduction period of the year under review, the balance of the term loans, $3,360,041 (U.S. $3,160,000), with the Canadian Imperial Bank of Commerce and Brown Brothers Harriman & Co., was taken down. These funds were required for capital expenditures of $1,115,877 and working capital.

Operations for the nine months ended April 30, 1966 resulted in a net profit of $7,670,777 equivalent to 99¢ per common share after providing $1,293,003 for depreciation and $896,639 for amortization of preproduction and development expenses. The Company is in its three year tax-free period and, therefore, no provision has been made for Federal income tax or Provincial mining tax.

Additional capital expenditures of $2,556,441 were incurred during the nine months from August 1, 1965 to April 30, 1966 for additions and improvements to the mill and pit equipment. An expenditure of $724,446 for overburden removal in the east pit has been treated as a deferred charge until full scale mining operations commence in that area, which will be in approximately two years.

During the operating period, bank indebtedness amounting to $5,235,444 (U.S. $4,864,000) was repaid. In accordance with the provisions of the term bank loan agreements further payments will be made quarterly based on the cash flow from the operation of the mine.

In accordance with the terms of the Operating Agreement with Canadian Exploration Limited dated as of September 1, 1962, 5,350,005 common shares were issued to Canadian Exploration Limited on June 4, 1965 bringing the total number of common shares issued to 7,750,007. Accrued dividends on the 6% cumulative redeemable preference shares amounted to $525,479 at April 30, 1966.

OPERATIONS

Mine Open pit mining proceeded satisfactorily throughout the year. Pit development consisted of the removal of 1,329,680 cubic yards of overburden to permit the extension of mining from the west pit into the east pit. During 1966, 300,000 cubic yards of overburden will be removed to complete this stage of development and to permit normal open pit mining without further stripping until late 1968 or 1969. At that time it is estimated that an additional 4.7 million cubic yards of overburden will have to be removed to permit mining to the ultimate pit limits.

Mill The concentrator, designed for a nominal capacity of 10,000 tons per day, commenced operation during the week of May 17, 1965. Operations proceeded on a tune-up basis, until the beginning of August, 1965.

At that time, the concentrator throughput was increased to the rated capacity, although modifications of plant and improvements to the concentration process were being continued. Satisfactory concentrator operation was realized by October, 1965. With further improvements to the concentration process together with plant changes, the concentrator throughput was gradually increased to approximately 15,000 tons per day by the end of the fiscal year. Because of the variations in the types of ore being treated, process test work is being carried out constantly to determine the correct throughput consistent with an acceptable recovery.

NEW CONSTRUCTION

Planning is underway to expand the capacity of the concentrator to an average throughput of 22,000 tons per day. The expansion will consist of the addition of one secondary crusher and the speeding up of conveyor belts and feeders. The capacity of the grinding circuits will be increased by the addition of two rod mills and two ball mills, two fine ore bins and additions and modifications to the flotation circuits.

The expansion will cost approximately $5,000,000 and will be financed by internally generated funds although some short-term loans may be required. The additional facilities should be on stream in the Spring of 1968 when increased power is scheduled to be available from the British Columbia Hydro and Power Authority. It is not anticipated that additional employees or open pit equipment will be required.

The increased capacity will permit a reduction in the cut-off grade of the ore treated from 0.12% MoS_2 to 0.08% MoS_2, thereby increasing estimated ore reserves to 157,485,000 tons as reported below.

The nature of the ore occurrence in the west pit, where mining is currently being carried out, has permitted mining to a 0.12% MoS_2 cut-off and stockpiling the lower grade material. As mining progresses into the east pit this selectivity will not be practical and all material grading in excess of 0.08% MoS_2 will go to the mill, thereby attaining a lower waste to ore ratio.

ENDAKO

ORE RESERVES

Mineable reserves at April 30, 1966, using a cutoff grade of 0.12% MoS_2, have been computed at 87,187,000 tons at 0.203% MoS_2. This estimate may be compared with the estimate in the 1965 Annual Report of 91 million tons of 0.199% MoS_2 at the same cutoff. A comparison of these estimates indicates that after allowing for tons mined during the year the ore reserves remain unchanged. With the Company's announced intention to increase mill capacity to 22,000 tons per day it will be possible to lower the cutoff grade to 0.08% MoS_2 which will result in a considerable increase in ore reserves. Using the 0.08% cutoff grade revised ore reserves have been computed at 157,485,000 tons grading 0.157% MoS_2.

MARKETING

Demand for molybdenum as molybdenite concentrate and molybdic oxide continues to exceed supply by a wide margin. The selling prices for primary producers normally are based on the E & M J quoted Climax prices f.o.b. Climax, Colorado. These prices are currently U.S. $1.55 ($1.67 Canadian) per pound of contained molybdenum in molybdenite concentrate and U.S. $1.75 ($1.88 Canadian) per pound of contained molybdenum in molybdic oxide.

Your Company produces approximately 12% of the present free world supply and as such is one of the world's major producers of molybdenum. All production, both for contract and spot sales, has been sold at the E & M J published prices in U.S. funds f.o.b. Endako. Since October, 1965, all except a small portion of material produced has met the specifications of sales contracts and has, accordingly, been sold under those contracts. The portion not of contract specifications, because of the strong demand for molybdenum, has been sold on a spot basis at the published prices.

Currently, Endako is committed to deliver a minimum of 9,000,000 pounds of molybdenum per year under long term contract arrangements. All production in excess of this amount has been sold on a spot basis either to the Canadian market which is growing rapidly or to markets already established under our contracts. Expansion of the concentrator capacity to 22,000 tons per day will permit an increase in long term sales commitments to 12,000,000 pounds per year. This increased commitment will be primarily in the form of oxide.

Indications are that the current critical molybdenum shortage is easing slightly with new production in the United States having become available early in 1966 and with the release of 14,000,000 pounds of molybdenum from the United States stockpile.

This shortage is expected to continue for some months to come. Prices are expected to remain stable at current levels. Free world molybdenum supplies are expected to increase dramatically from a 75,000,000 pound level in 1964 to over 140,000,000 pounds in 1969.

ACKNOWLEDGMENTS

The Board takes pleasure in acknowledging and recording its appreciation for the efforts, loyalty, and co-operation of the staff and employees which have contributed so much to the rapid and successful development of the mine in this first year of operation.

On July 8, 1965 Mr. R. G. Weber, Mine Manager, was killed in the C.P.A. air tragedy over Central British Columbia. Mr. Weber had been Mine Manager during the construction stage and saw the Company into production. The success of the subsequent operations speaks well for the excellent work done by Mr. Weber. Mr. H. J. Matheson was appointed Mine Manager July 16, 1965 to succeed Mr. Weber.

On Behalf of the Board,
T. H. McCLELLAND,
President.

June 10, 1966, Vancouver, B.C.

The President and Directors
Endako Mines Ltd. (N.P.L.)
700 Burrard Building
Vancouver 5, B.C.

Dear Sirs:
Operations at the property for the year ended April 30, 1966 are reviewed in the following report.

The official opening of the Mine occurred on June 8, 1965. The average daily mill rate since start-up has been 12,000 tons per day. For the last sixty days of the fiscal year the average throughput was 14,750 tons per day. The strip ratio since start-up has averaged 0.75:1.

The following operating statistics cover the period since start-up, including the preproduction period:

OPERATING STATISTICS

Concentrator

Total tons ore milled – 3,935,000
Average grade of mill feed – 0.267% MoS_2
Recovery – 81.3%
Concentrate produced – 19,894,740 lbs.
Concentrate grade – 86.0% MoS_2 (51.6% Mo)
Mo produced – 10,260,507 lbs.

Open Pit

Tons of ore to crusher – 4,132,001
Grade of ore – 0.257% MoS_2
Tons of low-grade to stockpile – 1,827,358
Tons of waste removed – 1,304,681
Total tons mined – 7,287,600

OPERATIONS

Concentrator The mill operated 91.3% of the available time during the year. For the last four months in the period this figure increased to 96.1%.

No serious problems were encountered in the crushing and milling operations. Specification grade concentrate has been produced consistently since October, 1965. Major modifications to the mill circuit included the installation of a 125 foot thickener, a 9½ foot x 13 foot regrind mill and major modification of the concentrate packaging section. Minor modifications to the drying and roasting sections continued throughout the year.

Open Pit Mining was confined to the west pit portion of the orebody and continued without difficulty throughout the period. Two 5-yard shovels and thirteen 35-ton trucks were utilized in the operation until early April. At that time two additional trucks and an 8-cubic yard shovel were added to the pit equipment.

Removal of the overburden from the east pit portion of the orebody was commenced during the year and 1,329,680 cubic yards were removed.

Ore Reserves During the year 25,816 feet of diamond drilling were completed to further define the orebody. At April 30, 1966 the ore within the limits of the current pit design and grading above 0.12% MoS_2 totalled 87,187,000 tons at an average grade of 0.203% MoS_2. Within the same pit design the ore above 0.08% MoS_2 totalled 157,485,000 tons at an average grade of 0.157% MoS_2.

Personnel At year end 362 employees were on the payroll. The operating efficiency, including staff personnel, was 49 tons milled per man day. A shortage of skilled workmen continues in British Columbia with the result that there is some turnover of these employees. Every effort is being made to attract a stable nucleus of reliable and competent employees.

The collective agreement with the Hazelton & District Mine and Mill Workers Union, Local 898, was amended during the year with some changes in wording and an upward revision in wage rates.

The safety record for the year included only six lost-time accidents of which five were compensable. The compensable loss rate of 10.4 hours per million man-hours worked was the lowest of any mine in the British Columbia Mining Association.

Townsite The townsite subdivision built as part of the existing community of Fraser Lake had 81 homes and accommodation for 96 single men at the beginning of the year. During the year, a garden apartment complex of 36 units was completed and construction commenced on 42 additional 3-bedroom units. Private interests constructed a modern shopping center and a 32-room hotel in the community. The school board is planning a substantial addition to the school facilities. Plans are underway for incorporation of the village in the near future and it is rapidly becoming one of the most attractive and pleasant communities in central British Columbia.

Respectfully submitted,

H. J. MATHESON,
Mine Manager.

ENDAKO MINES LTD. (N.P.L.) BALANCE SHEET

ASSETS	1966	1965
CURRENT ASSETS		
Cash	$ 30,907	$ 53,281
Accounts receivable –		
Trade	2,706,277	–
Other	53,852	27,939
Molybdenum concentrate and oxide inventories, at net realizable value	842,080	–
Inventories of materials and supplies, at the lower cost or replacement cost	880,448	507,604
Prepaid expenses	79,099	9,170
	4,592,663	597,994
FIXED ASSETS:		
Mining and other properties, buildings and equipment, at cost	20,828,561	17,185,796
Less –		
Accumulated depreciation	1,293,003	–
	19,535,558	17,185,796
PREPRODUCTION, EXPLORATION AND DEVELOPMENT EXPENSES, at cost less preproduction credits and amounts written off	3,414,364	3,410,703
	$27,542,585	$21,194,493

APPROVED ON BEHALF OF THE BOARD:

T. H. McClelland, *Director.*

J. D. Little, *Director.*

AS AT APRIL 30 1966
(with comparative figures as at April 30 1965)

LIABILITIES AND SHAREHOLDERS' EQUITY	1966	1965
CURRENT LIABILITIES:		
Demand bank loan and minimum annual repayment on term bank loans	$ 5,780,064	$ —
Accounts payable and accrued liabilities	857,813	1,797,405
Amounts owing to affiliated companies	17,309	—
	6,655,186	1,797,405
TERM BANK LOANS (Note 2)	12,201,685	14,077,087
Less: Minimum payment due within one year	4,305,064	—
	7,896,621	14,077,087
SHAREHOLDERS' EQUITY:		
Share capital (Notes 3 and 4) –		
Authorized:		
5,000,000 6% cumulative redeemable preference shares with a par value of $1 each		
10,000,000 common shares without nominal or par value		
Issued and fully paid:		
5,000,000 6% preference shares	5,000,000	5,000,000
7,750,007 common shares (2,400,002 in 1965)	320,001	320,001
	5,320,001	5,320,001
Earned surplus –		
Profit for year ended April 30 1966, per statement attached	7,670,777	—
	12,990,778	5,320,001
CONTINGENT LIABILITIES (Note 5)		
	$27,542,585	$21,194,493

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED APRIL 30, 1966

REVENUE:	
Molybdenum concentrate and oxide production at realizable value	$15,942,402
Interest income	6,652
	15,949,054
EXPENSE:	
Cost of molybdenum concentrate and oxide production	4,922,462
Administration, selling and general expenses	515,360
Interest on term bank loans	650,813
Depreciation	1,293,003
Preproduction, exploration and development expenses written off	896,639
	8,278,277
Profit for the year (Note 6)	$ 7,670,777
	9,000,000

7670.777
2189 642
$ 9,860,419*

AUDITORS' REPORT

To the Shareholders, Endako Mines Ltd. (N.P.L.):

We have examined the balance sheet of Endako Mines Ltd. (N.P.L.) as at April 30 1966 and the statement of profit and loss for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of profit and loss present fairly the financial position of the company as at April 30 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
Chartered Accountants.
June 10, 1966, Vancouver, B.C.

NOTES TO FINANCIAL STATEMENTS AS AT APRIL 30 1966

Note 1 For purposes of inclusion in the financial statements, amounts in foreign currencies have been restated in Canadian dollars. Current assets and current liabilities have been converted at the rates prevailing on April 30 1966, other assets and liabilities substantially at the rates at the date of the relevant transactions and amounts appearing in the statement of profit and loss at average rates.

Note 2 The term bank loans (which bear interest at ¾ of 1% above the New York prime rate), which are secured by a fixed and floating charge against the assets of the company, amounted to $12,201,685 (U.S. $11,336,000) as at April 30 1966. The loan agreements call for 80% of the cash flow from the operations of the mine to be applied to repayment commencing January 1 1966 with a minimum annual repayment of $4,305,064 (U.S. $4,000,000) and the full amount of the loan is to be repaid within four years of such date.

Note 3 Under an agreement dated September 1 1962 as amended January 18 1963, Canadian Exploration Limited ("Canex") undertook to equip the company's property for production. On June 4 1965 the property was recognized as having been equipped for production. The total monies expended or procured to be advanced by Canex for the equipping of the property exceeded $20,000,000, accordingly as required under the agreement, the company issued to Canex on June 4 1965, 5,350,005 common shares.

Note 4 Dividends accrued on the 6% cumulative redeemable preference shares as at April 30 1966 amounted to $525,479. After retirement of the bank loans described in Note 2, monies available out of 80% of the cash flow from the operations of the mine are to be applied in payment of the accrued dividends and in redemption of the preference shares.

Note 5 Under an agreement with British Columbia Hydro and Power Authority the company is committed to minimum payments for power services estimated not to exceed $650,000. In addition, the company has undertaken commitments for capital expenditures in the amount of approximately $600,000.

Note 6 The preproduction period ended July 31 1965; accordingly the operating period in the fiscal year ended April 30 1966 covers only nine months. Under the special provisions of the Income Tax Act applicable to mining corporations, the company had no income as computed for income tax purposes for the year ended April 30 1966. The company has, therefore, no income tax liability in respect of the year.

ENDAKO MINES LTD. (N.P.L.)
Endako, B.C.

DEPARTMENT HEADS

H. J. Matheson, *Mine Manager*
A. M. Laird, *Open Pit Superintendent*
J. W. Wright, *Mill Superintendent*
F. C. Loring, *Plant Superintendent*
F. V. Hendershot, *Chief Engineer*
C. B. Freeman, *Chief Accountant*