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**BRITISH
COLUMBIA
MOLYBDENUM
LIMITED**

ANNUAL REPORT 1970

PRESIDENT'S REPORT

British Columbia Molybdenum Limited had revenue of \$9,205,000 from sales of 5,351,000 pounds of contained molybdenum. Cost of sales amounted to \$8,428,000 showing a gross profit of \$777,000. Depreciation, interest expense, cost of debenture retirement and miscellaneous other items totalled \$4,314,000, resulting in a net loss of \$3,537,000 for the year.

Production of over 6.1 million pounds of contained molybdenum was achieved. Improved mining and milling techniques and increased equipment availability resulted in processing approximately 2.7 million tons of ore — more than 330,000 tons above our 1969 rate. Production costs, while higher than expected, were greatly improved during the second half of the year. Unit costs of concentrate inventory at year end were significantly lower than in the previous year and were indicative of the improved efficiencies of the operation.

Capital expenditures amounting to \$737,000 for the year, included the completion of a recreation centre and a new mobile home facility on the north side of Lime Creek. Space for 45 employee-owned mobile homes was made available. To date, 21 have been filled.

A new two-year labour contract effective December 1, 1970 was consummated between the Company and the International Union of Operating Engineers and the Tunnel and Rock Workers Union. Wage rates comparable with other mines in the area were agreed to. Increased operating efficiencies are expected to offset higher hourly rates and to maintain unit production costs at the improved levels attained during the latter half of 1970.

As a result of production exceeding our contracted sales in 1970, inventories ex-

ceeded 1.3 million pounds at year end. A similar inventory build-up existed throughout the molybdenum industry as free world production increased by 15 percent and consumption decreased by 1½ percent. Established mines operated close to capacity, and two additional primary sources were brought into operation during the year. Consumption was adversely affected primarily by the weak market for molybdenum steels in the United States. Molybdenum consumption in Europe and Japan increased in 1970, but was not adequate to offset the weak United States market.

On December 28, 1970, the 5¾ percent debentures issued by British Columbia Molybdenum Limited in 1966 and due April 1, 1976, were called. The principal amount of the debentures plus accrued interest and redemption premium was paid to the holders of the debentures on February 1, 1971, with funds borrowed from the parent company, Kennecott Copper Corporation.

The outlook for 1971 is for slightly lower operating costs resulting from improved operating efficiencies and for production to meet contracted sales at approximately the same level as attained in 1970.

On behalf of the Board of Directors



C. D. MICHAELSON,
President.

Toronto, Ontario,
March 10, 1971.

BRITISH COLUMBIA MOLYBDENUM LIMITED

BALANCE SHEET — December 31, 1970 and 1969

ASSETS		1970	1969
		\$	\$
Current Assets			
Cash		247,443	480,370
Accounts receivable			
Trade		2,108,588	1,530,079
Affiliated companies		6,903	11,408
Other		79,355	179,379
Concentrates on hand (note 1)		1,672,910	871,002
Material and supplies inventory — at cost		1,313,393	1,468,223
Prepaid expense		42,673	39,429
		<u>5,471,265</u>	<u>4,579,890</u>
Long Term Investment — at cost		25,025	—
Fixed Assets — at cost			
Buildings, machinery and equipment		21,273,626	19,962,765
Accumulated depreciation (note 2)		4,497,705	3,067,085
		16,775,921	16,895,680
Construction in progress		254,966	983,774
Land		308,423	308,423
Mining properties (note 3)		14,175	14,175
		<u>17,353,485</u>	<u>18,202,052</u>
Deferred Expenditures (note 3)			
Office, general and development expenses		7,725,064	8,344,113
Financing expense		10,338	289,773
		<u>7,735,402</u>	<u>8,633,886</u>
		<u>30,585,177</u>	<u>31,415,828</u>

LIABILITIES

Current Liabilities			
Notes payable (note 4) —			
Chartered banks		—	7,800,000
Parent company		8,100,000	400,000
Affiliated company		2,650,000	—
Accounts payable and accrued liabilities		1,344,452	1,175,554
Payable to affiliated companies		17,052	29,664
5¾% debentures, series A (note 5)		17,000,000	17,000,000
		<u>29,111,504</u>	<u>26,405,218</u>

SHAREHOLDERS' EQUITY

Capital Stock			
Authorized —			
2,500,000 shares of a par value of \$1 each			
Issued and fully paid —			
1,600,002 shares		1,600,002	1,600,002
Contributed surplus, arising from the issue of shares at a premium		6,426,000	6,426,000
		8,026,002	8,026,002
Deficit		6,552,329	3,015,392
		1,473,673	5,010,610
		<u>30,585,177</u>	<u>31,415,828</u>

Signed on behalf of the Board:

C. D. MICHAELSON, Director.

G. B. RUSSELL, Director.

BRITISH COLUMBIA MOLYBDENUM LIMITED

STATEMENT OF EARNINGS AND DEFICIT

For the Years Ended December 31, 1970 and 1969

	1970 \$	1969 \$
Sales		
Molybdenite sales	9,205,108	9,698,131
Cost of Sales		
Cost of sales — molybdenite (including amortization of deferred develop- ment expenses \$619,049; 1969 — \$561,902)	8,428,258	8,129,516
Gross Profit	776,850	1,568,615
Expenses		
Sales expense	206,812	242,348
General expense	18,220	15,683
	225,032	258,031
	551,818	1,310,584
Other Income		
Interest earned	1,446	—
Profit on disposal of fixed assets	36,387	—
	589,651	1,310,584
Other Expenses		
Uninsured losses	1,537	48,768
Interest expense on long-term debt	977,500	977,500
Interest expense — other	750,103	583,928
Amortization of financing expenses	279,435	46,363
Depreciation	1,585,716	1,517,245
Loss on disposal of fixed assets	19,855	—
	3,614,146	3,173,804
Loss for the Year Before Extraordinary Item	3,024,495	1,863,220
Extraordinary Item		
Loss on retirement of debentures	512,442	—
Loss for the Year	3,536,937	1,863,220
Deficit at Beginning of Year	3,015,392	1,152,172
Deficit at End of Year	6,552,329	3,015,392

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1970.

1. Inventories

Inventories of molybdenite concentrates are carried at the lower of cost or net realizable value.

2. Depreciation

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The maximum life of certain assets is restricted to nineteen years based on the estimated life of the known ore reserves.

3. Mining Properties and Deferred Expenditures

The amounts shown for mining properties and deferred expenditures represent costs to date, less amortization, and are not intended to reflect present or future values.

4. Notes Payable

Revolving credits, amounting to \$8,500,000 have been arranged with chartered banks at preferred commercial interest rates. During December 1970, notes amounting to \$8,100,000 held by chartered banks were purchased by Kennecott Copper Corporation, the parent company.

Loans bearing interest at 7% have been arranged with an affiliated company, Kennecott Canada Limited. At December 31, 1970, \$2,650,000 had been obtained.

5. Debentures

5¾% debentures, Series A, maturing April 1, 1976, have been called for redemption on February 1, 1971, at the then applicable redemption price of 103.15%, together with interest accrued to the date fixed for redemption.

When originally issued each \$1,000 debenture carried 25 warrants entitling the holder to purchase, at the following prices, 25 shares of the company's capital stock originally issued to Kennecott Canada Limited (note 6):

\$10 per share if purchased on or after April 1, 1968 and prior to the close of business on March 31, 1970;

\$13 per share if purchased thereafter at any time up to the close of business on March 31, 1973.

At December 31, 1970, 1,125 shares had been purchased through the exercise of warrants.

6. Capital Stock

During December 1970, Kennecott Copper Corporation purchased all of the outstanding shares in the capital stock of the company previously owned by Kennecott Canada Limited.

7. Commercial Production

The Department of National Revenue has ruled that income from the mining operation is exempt under Section 83(5) of the Income Tax Act during the period January 1, 1968 to December 31, 1970.

8. Contractual Obligations

The company has entered into the following long-term agreements:

- (a) A ten year agreement with the British Columbia Hydro & Power Authority on October 1, 1967 for the supply of electricity. Should the company terminate this agreement prior to the normal termination date, it would be liable to pay \$1,200,000 less a credit of \$150,000 for each year during which electricity is supplied, the credit not to exceed \$1,200,000;
- (b) A ten year agreement with British Columbia Telephone Company on April 17, 1970 for the installation of microwave communication facilities with voice grade and telegraph capability at an annual cost of \$55,600; and
- (c) An agreement with Island Tug & Barge Limited effective until December 31, 1972, for transport of supplies and molybdenum concentrates between Vancouver and Kitsault, British Columbia, at an estimated annual cost of \$185,000.

BRITISH COLUMBIA MOLYBDENUM LIMITED

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

For the Years Ended December 31, 1970 and 1969

	1970	1969
	\$	\$
Funds Provided By:		
Operations —		
Loss for the year	(3,536,937)	(1,863,220)
Depreciation	1,585,716	1,524,539
Amortization —		
Deferred development expense	619,049	561,902
Deferred financing expense	279,435	46,363
Increase in notes payable	2,550,000	1,550,000
Increase (decrease) in accounts payable and accrued liabilities	156,286	(330,925)
Total funds provided	<u>1,653,549</u>	<u>1,488,659</u>
Funds Expended For:		
Property, plant and equipment	737,148	1,370,215
Mine development expenditures	—	134,972
Increase (decrease) in accounts receivable	473,981	(577,758)
Increase in inventories	647,078	215,287
Increase (decrease) in prepaid expenses	3,244	(11,157)
Total funds expended	<u>1,861,451</u>	<u>1,131,559</u>
Net (Decrease) Increase in Cash and Investments	<u>(207,902)</u>	<u>357,100</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of British Columbia Molybdenum Limited as of December 31, 1970 and the related statements of earnings and deficit, deferred office, general and development expenses and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination for the year ended December 31, 1969.

Current and presently foreseeable results of operations are such that we are unable to satisfy ourselves as to the likelihood of complete recovery, in the course of future operations, of the net book values shown for fixed assets and deferred expenditures. Because the eventual unrecovered amounts may be material we are unable to form an opinion on the financial statements taken as a whole.

In our opinion, however, current assets, liabilities, capital stock and contributed surplus of the company as at December 31, 1970 are presented fairly on the balance sheet, the revenue and expenses (other than depreciation and amortization) for the year then ended are presented fairly in the statement of earnings and the items comprising source of funds and the disposition of funds are presented fairly in the statement of source and disposition of funds, all in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario,
January 22, 1971.

COOPERS & LYBRAND,
Chartered Accountants.

BRITISH COLUMBIA MOLYBDENUM LIMITED

STATEMENT OF DEFERRED OFFICE, GENERAL AND DEVELOPMENT EXPENSES

For the Years Ended December 31, 1970 and 1969

	1970	1969
	\$	\$
Balance — Beginning of Year	8,344,113	8,771,043
Expenditures	—	134,972
	<u>8,344,113</u>	<u>8,906,015</u>
Less: Amounts amortized	619,049	561,902
Balance — End of Year	<u>7,725,064</u>	<u>8,344,113</u>

**BRITISH
COLUMBIA
MOLYBDENUM
LIMITED**

P.O. Box 20
Toronto-Dominion Centre
Toronto 1, Ontario

Mine office
Kitsault, British Columbia

OFFICERS

C. D. MICHAELSON, President
JOHN C. KINNEAR, JR., Vice-President
CHARLES T. PENNEY, General Manager
GORDON B. RUSSELL, Treasurer
HUGO MONNIG, JR., Secretary
OWEN D. MILLER, Comptroller
FRANCIS LOW-BEER, Assistant Secretary
F. A. EGNER, Assistant Treasurer
W. R. KIMSEY, Assistant Comptroller
MARVIN LYDING, Assistant Comptroller
ROBERT L. WARD, Assistant Comptroller

DIRECTORS

C. HARRY BURGESS, Vice-President (Exploration), Kennecott
Copper Corporation, New York
JOHN C. KINNEAR, JR., Vice-President, Operations, Metal Mining
Division, Kennecott Copper Corporation, New York
ARTHUR FERDINAND MAYNE, President, A. F. Mayne & Associates
Limited, Montreal
C. D. MICHAELSON, President, Metal Mining Division, Kennecott
Copper Corporation, New York
GORDON B. RUSSELL, Vice-President—Finance, Kennecott Copper
Corporation, New York
REGINALD H. TUPPER, Solicitor, Partner in Bull, Housser & Tupper,
Vancouver
CHARLES N. W. WOODWARD, Chairman, Chief Executive Officer
and Director, Woodward Stores Limited, Vancouver

Trustee for 5¾% Debentures, Series A:

Montreal Trust Company: Vancouver, Toronto, Montreal and Halifax

Transfer Agent and Registrar:

Montreal Trust Company: Vancouver, Toronto, Montreal and Halifax

Auditors:

Coopers & Lybrand, Toronto

Annual Meeting — April 7, 1971

11 A.M. (Vancouver time)
Hotel Vancouver, Vancouver, B.C.