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annual report 1970

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BRENDA MINES LTD.

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BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

Bernard O. Brynelsen	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Mervin E. Davis	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
John A. Hall	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Hidemasa Kubo	-	-	-	-	-	-	-	-	-	Tokyo, Japan
Morris M. Menzies	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Shusuke Mima	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Richard V. Porritt	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Alfred Powis	-	-	-	-	-	-	-	-	-	Toronto, Ont.
William S. Row	-	-	-	-	-	-	-	-	-	Toronto, Ont.

OFFICERS

President	-	-	-	-	-	-	-	-	-	Bernard O. Brynelsen
Executive Vice-President	-	-	-	-	-	-	-	-	-	Richard V. Porritt
Vice-President	-	-	-	-	-	-	-	-	-	Mervin E. Davis
General Manager	-	-	-	-	-	-	-	-	-	John A. Hall
Secretary	-	-	-	-	-	-	-	-	-	B. H. Grose
Treasurer	-	-	-	-	-	-	-	-	-	E. K. Cork
Comptroller	-	-	-	-	-	-	-	-	-	A. H. Zimmerman

MINE OFFICE: P.O. Box 420, Peachland, B.C., G. H. Montgomery, Manager.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., 900 West Hastings Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
1901 Yonge Street, Toronto.

ANNUAL MEETING: May 3, 1971, 2.30 p.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

I am pleased to submit the Annual Report of your Company for the year ended December 31, 1970.

The net earnings for nine months of operations amounted to \$2,745,000, or \$0.65 per share. Cash earnings were \$10,608,000 or \$2.48 per share.

At year end the \$4,000,000 working capital loan had been retired and \$563,000 of accrued interest paid, leaving the outstanding debt of \$58.3 million.

The company's long-term debt includes \$28,500,000 repayable in U.S. dollars which is reflected in the statements at exchange rates prevailing prior to the freeing of the Canadian dollar.

The milling rate average of 24,273 tons per day during the last six months indicates an excellent operating performance. Earnings, however, were adversely affected by lower copper prices and by over \$900,000 due to the lower premium received on U.S. dollars.

The London Metal Exchange price declined from 80 cents per pound in April to 47 cents at the year end. The U.S. producers' stocks of copper rose 100,000 tons in the fourth quarter and the London Metal Exchange stocks increased to the current 80,000 tons. The price of molybdenum in concentrate is unchanged at \$1.72 U.S. per pound. Free world production of molybdenum increased 21 million pounds to 165 million pounds. A sharp downturn in demand developed in September and is continuing into 1971, while consumers use their excess inventories.

Your directors wish to express appreciation to the staff and employees for their loyalty and competent service rendered during the year.

On behalf of the Board,



President.

February 3, 1971.

GENERAL MANAGER'S REPORT

To the President and Directors:

I submit herewith my report on operations for the twelve-month period ending December 31, 1970.

OPERATIONS

	Pre-Production 3 Months to March 31, 1970	Production 9 Months to December 31, 1970	Total 12 Months to December 31, 1970
Waste Stripped — tons	672,000	2,937,000	3,609,000
Low Grade Stockpiled — tons	631,400	1,459,500	2,090,900
Ore Milled — tons	879,695	6,446,864	7,326,559
Copper Grade %	0.178	0.221	0.216
Copper Recovery %	89.870	90.530	90.460
Molybdenum Grade %	0.054	0.065	0.064
Molybdenum Recovery %	80.010	87.250	86.530
Copper Concentrate — tons	6,782	60,798	67,580
Copper Concentrate Grade %	20.770	21.220	21.180
Molybdenum Concentrate — tons	667	6,503	7,170
Molybdenum Concentrate Grade %	56.610	56.460	56.470
Tons Milled Per Day	9,778	23,443	20,073

OPEN PIT

During the year operating efficiency in the open pit improved to 918 tons per manshift. Continuous operations were initiated in October to fulfill the scheduled tonnages for waste rock removal during the early years of production.

Ore reserves were calculated at the year end to be 165,128,000 tons grading 0.182% copper and 0.049% molybdenum. After allowing for the tonnage of ore milled and stockpiled, there is an apparent decrease in reserves of 4,545,000 tons. This arose from highly oxidized material in the upper benches, which was originally classified as low grade stockpile in computerized ore reserves, but could not be processed as ore. The assay data available from the 12¼ inch drill hole cuttings indicates that copper and molybdenum grades may be slightly higher than the original predictions.

CONCENTRATOR

The milling rate was brought up to capacity by the end of March and averaged 23,443 tons per day during the last nine months. Although metallurgical results and overall operating costs were

at expected levels, research continued to seek improvements in metal recoveries and grade of copper concentrate.

The molybdenum concentrate leaching plant proved a successful metallurgical operation in spite of mechanical problems encountered due to the highly corrosive leach liquor. The circuit was shut down in October for repairs to equipment and, although the repairs were completed in December, remained down due to lack of orders for leached molybdenum.

Copper concentrate inventories increased to 13,500 tons at December 31, 1970 as a result of higher production and delays in the shipping schedules. Stocks of molybdenum concentrate were somewhat high at 2,300 tons.

The fresh water system and the closed circuit reclaim water system operated satisfactorily. In the tailings system, single stage cycloning as originally designed, did not produce sands with the required percolation rate for dam building. Therefore, a secondary cyclone plant is under construction and an additional 15-foot lift of glacial till is being placed on the upper dam.

GENERAL

The United Steelworkers were certified by the Labour Relations Board on December 15, 1970. The work force consisted of 310 hourly rated employees and 81 staff members.

I wish to express my appreciation to Mr. G. H. Montgomery, Mine Manager, and his staff for their loyal and efficient services throughout the year.

Respectfully submitted,

JOHN A. HALL,
General Manager.

February 1, 1971.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1970

(Commercial production commenced April 1, 1970)

Gross value of metal produced		\$25,325,139
Less smelter and transportation charges		<u>1,689,876</u>
		23,635,263
Cost of metal production		9,196,649
Administration, selling and general expense		636,935
Municipal and sundry taxes		355,651
Depreciation and depletion (Note 2)		2,564,018
Preproduction expenditure written off (Note 2)		<u>4,315,779</u>
		17,069,035
Net operating income		6,566,228
Interest on long-term debt (Note 9)	\$3,144,820	
Financing expense — written off (Note 2)	<u>498,194</u>	3,643,014
Deduct other income		<u>166,041</u>
		3,476,973
Earnings for the year before deferred mining taxes		3,089,255
Deferred mining taxes (Note 4)		<u>344,516</u>
Net earnings and retained earnings for the year (Note 4)		<u>\$ 2,744,739</u>
Earnings per share from nine months operations		<u>\$0.65</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

	1970	1969
Working capital (deficiency) beginning of year	\$ (553,857)	\$ (5,870,110)
SOURCE OF FUNDS:		
Operations:		
Net earnings for the year	2,744,739	—
Depreciation, depletion and amortization	7,377,991	—
Deferred taxes	344,516	—
Other	<u>25,442</u>	<u>—</u>
	10,492,688	—
Mortgage and income bonds	2,300,000	31,032,912
Other	<u>256,582</u>	<u>292,000</u>
	13,049,270	31,324,912
APPLICATION OF FUNDS:		
Property, buildings, equipment and preproduction expenditures	4,591,626	25,319,988
Reduction in long-term debt	464,800	688,671
Deposits	80,000	—
Other	<u>87,880</u>	<u>—</u>
	5,224,306	26,008,659
Increase	<u>7,824,964</u>	<u>5,316,253</u>
Working capital (deficiency) end of year	<u>\$ 7,271,107</u>	<u>\$ (553,857)</u>

(See accompanying notes to financial statements.)

BRENDA MINES LTD.

BALANCE SHEET — December 31, 1970 (With comparative figures for 1969)

ASSETS

	<u>1970</u>	<u>1969</u>
CURRENT ASSETS:		
Cash and short-term commercial notes	\$ 3,248,469	\$ 2,975,887
Accounts receivable	3,317,227	804,780
Inventories in metals and stores—metals at estimated realizable value, other inventories at lower of cost or market	7,743,030	—
Total current assets	<u>14,308,726</u>	<u>3,780,667</u>
FIXED ASSETS (Notes 1 and 2)	43,213,704	48,011,625
OTHER:		
Preproduction (\$12,947,339) and other expenditures (Notes 1 and 2)	13,035,219	10,469,614
Financing expense less amortization (Notes 2 and 6)	4,649,806	4,895,000
Refundable power deposit (Note 3)	1,500,000	1,750,000
Other deposits	80,000	—
	<u>19,265,025</u>	<u>17,114,614</u>
	<u>\$76,787,455</u>	<u>\$68,906,906</u>

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1970 and the statements of earnings and retained earnings and source and application of funds for the year then ended. 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, these financial statements present fairly the financial position of the company at December 31, 1970 and the results of its operations and the source and application of its funds for the

Vancouver, British Columbia,
January 22, 1971

See accompanying notes

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
CURRENT LIABILITIES:		
Accounts payable (\$4,761,843 due to an associate)	\$ 7,037,619	\$ 4,334,524
Deferred taxes (Note 4)	344,516	—
Long-term debt (Notes 5 and 6)	58,442,583	56,607,384
 SHAREHOLDERS' EQUITY:		
Capital stock (Note 7)		
Authorized 5,000,000 shares without nominal par value; issued		
4,282,000 shares (1969) — 4,190,000 shares)	8,217,998	7,964,998
Retained earnings, per accompanying statement	2,744,739	—
Total shareholders' equity	10,962,737	7,964,998
 On behalf of the Board:		
B. BRYNELSEN, Director.		
R. V. PORRITT, Director.		
	\$76,787,455	\$68,906,906

TO THE SHAREHOLDERS

year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1969 figures used for comparative purposes were reported upon by us on January 30, 1970, when we stated that no provision had been made at December 31, 1969, for accrued interest of \$2,699,068 on the 7.2% secured income bonds. The provision for 1969 would have amounted to \$1,970,817, the remainder relating to the prior year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1970

1. THE DETAILS OF FIXED ASSETS ARE AS FOLLOWS:

	<u>1970</u>	<u>1969</u>
Buildings, equipment and related facilities	\$38,837,055	\$41,420,819
Mobile equipment	6,353,116	6,036,177
Residential land and buildings	253,164	220,242
	<u>45,443,335</u>	<u>47,677,238</u>
Less accumulated depreciation	2,547,299	—
	<u>42,896,036</u>	<u>47,677,238</u>
Mineral claims and leases, at cost less depletion	317,668	334,387
	<u>\$43,213,704</u>	<u>\$48,011,625</u>

On completion of the construction programme a re-allocation of certain expenditures was made from buildings and equipment to preproduction expenditure.

2. DEPRECIATION AND AMORTIZATION:

- (i) Depreciation is provided on depreciable assets at rates ranging from 6% to 12½% per annum.
- (ii) Mineral claims and leases are being depleted over fifteen years.
- (iii) Preproduction expenditure is being amortized in equal monthly instalments over the three years ending March 31, 1973.
- (iv) Financing expense is being amortized over the expected term of the related long-term debt.

3. REFUNDABLE POWER DEPOSIT:

Under an agreement with the British Columbia Hydro and Power Authority for the supply of electricity the company made deposits of \$2,000,000, which bear interest at 5%. The balance at December 31, 1970 of \$1,750,000 (of which \$250,000 is currently due) will be refunded in seven equal annual instalments ending on August 1, 1977. The company is committed to pay at least \$500,000 for electricity in each of the seven years ending December 31, 1977.

4. INCOME AND MINING TAXES:

The company intends to apply for exemption from Federal income tax for the three year period which will end March 31, 1973.

The company has provided depreciation and written off preproduction expenditure in its accounts. The estimated future income tax benefit which will accrue to the company when these items are charged for tax purposes has not been recorded, but at December 31, 1970 amounted to \$2,688,000. Mining taxes applicable to 1970 which will have to be paid in future years have been deferred in the amount of \$344,516.

5. FOREIGN CURRENCY:

Current assets in U.S. dollars have been converted at the exchange rate in effect at December 31, 1970. Long-term debt payable in U.S. dollars has been converted at the rates in effect on the dates of the transactions.

6. LONG-TERM DEBT:

Bonds, repayable out of cash flow as defined:

	<u>1970</u>	<u>1969</u>
7.5% first mortgage bonds, due June 30, 1973 (\$19,466,406 U.S. funds)	\$21,000,000	\$21,000,000
7.3% second mortgage bonds, due March 31, 1975 (\$6,971,475 U.S. funds)	7,497,912	7,497,912
Accrued interest — thereon	—	422,562
7.2% secured income bonds, due December 31, 1977	<u>29,800,000</u>	<u>27,500,000</u>
	58,297,912	56,420,474
Liability payable when the secured income bonds have been retired ..	50,000	50,000
Secured notes and mortgage payable	94,671	136,910
	<u>\$58,442,583</u>	<u>\$56,607,384</u>

During the year 7% Series C first mortgage bonds amounting to \$4,000,000 were issued and redeemed.

The bonds outstanding are secured respectively by first, second and third fixed and floating charges on the assets of the company.

Among other things, the trust deeds securing the bonds prohibit the payment of dividends until the bonds and accrued interest thereon have been paid in full.

As part consideration for the loans the company issued 1,872,000 fully paid non-assessable common shares (Note 7) at an ascribed value of \$5,148,000. This amount, less amortization of \$498,194 is shown on the balance sheet as financing expense.

7. CAPITAL STOCK:

Shares issued:

	<u>Shares</u>	<u>Amount</u>
At December 31, 1969:		
For mining properties	750,000	\$ 149,998
For cash	1,660,000	2,920,000
For provision of finance (Note 6)	<u>1,780,000</u>	<u>4,895,000</u>
	4,190,000	7,964,998
During 1970:		
For provision of finance (Note 6)	92,000	253,000
	<u>4,282,000</u>	<u>\$8,217,998</u>

8. ADMINISTRATION:

Salary paid to an officer who was also a director amounted to \$4,000 (1969 \$24,000).

9. SECURED INCOME BOND INTEREST:

No provision was made in the 1969 accounts for accrued interest on the 7.2% secured income bonds amounting to \$2,699,068 at December 31, 1969. This amount, together with the interest for the period from January 1, 1970 to March 31, 1970 of \$488,218 has been charged to preproduction expenditure in the current year, and interest from April 1 to December 31, 1970 has been charged to earnings.