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RSD Mines & Metals

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For Internal Use Only 70 - 1 January 9, 1970.

See envelope Oct '65

B.C. EDITION

Update

In this issue: Brenda Mines Limited
Granduc Mines Limited

BRENDA MINES LIMITED ($15.50)

This large low-grade British Columbia copper-moly producer recently came into production and is currently operating at approximately 25,000 tons per day. It is expected that January, 1970 will be the first month of optimum output. The original feasibility study estimated that mill heads would average 0.212% copper and 0.063% molybdenum during the first three years of production. The plant was scheduled to start at an initial rate of 24,000 tons per day, but it could be increased to 30,000 tons per day shortly after a succesful break-in period.

It is now understood that ore grades could be some 10% higher than what was calculated in the original feasibility study. It is to be noted however that the metallurgy is somewhat more complex than the conventional copper-moly circuit. For this reason, we have tended to be conservative towards earnings estimates.

Assuming an average mill rate of 27,000 tons per day, copper recoveries of 88%, moly recoveries of 82%, total operating costs of $1.75 per ton, copper prices of 60¢ (Cdn.) per pound for 1970 and molybdenum prices of $1.50 (U.S.) per pound; we estimate total operating profit for 1970 to be $19.5 million. Due to a possible 5%-10% capital over-run, it is now estimated that the total outstanding capitalization could approach 4.4 million shares. Thus the estimated annual operating profit is calculated at $4.50 per share. Assuming annual interest charges of $4.4 million and annual write-offs of $4.5 million, Brenda Mines could then report a net profit of $10.6 million or approximately $2.40 per share.

On the assumption that operating profits will approach $4.50 per share, we feel that this stock could trade at an eventual $22-$24 price range. Technically the stock is displaying a constructive pattern and appears to show a potential break-out at the $16 level, having established fairly good support at the $13 level.

Recommendation

At the current price level, we consider this stock to be an attractive purchase for the medium -term account who is willing to speculate on better than expected earnings during the initial year of operations. The Company enjoys sound technical management provided for by Noranda Mines, which currently holds effective control of the issued stock.

GRANDUC MINES LIMITED ($11.50)

Major construction work on this large copper mine is virtually nearing completion with one of the major projects being the building of concentrate-handling facilities and employee-housing facilities at Stewart, B.C. Although nothing has been stated officially, it is felt that production start-up could commence by May - June, 1970. This entire project could eventually cost $110-$130 million. Access to this orebody has made Granduc one of the most difficult ventures undertaken in mining today. The venture is being managed and financed by

Newmont Mining Corp. and American Smelting and Refining Company, which, jointly lease the property from Granduc Mines Limited.

Granduc will receive royalties to the extent of 22 1/2% of operating profits on the first 32.5 million tons of ore milled and 25% on any additional tonnages. The royalty payable to Granduc will be based on operating profits before taxes, before interest charges, before debt repayment, and before charges for depreciation and depletion. The only allowable deductions are normal operating costs but not including management fees. However, Granduc will have to repay out of its royalty income advances totalling about $4,950,000 and 1,050,000 5 1/2% cumulative redeemable preferred $5 par shares. These two items total $10.2 million but royalty income will be tax-free for the first three years.

Brief Description

Access to the property was completed in two phases. First, a 35-mile road was built from Stewart to Tide Lake. Secondly, a 12-mile tunnel was driven from Tide Lake into the heart of the orebody.

This mine will employ trackless loading and haulage methods with the ore being crushed in large underground crushing facilities. The material will then proceed through the tunnel to the concentrator (at Tide Lake) via high speed railway equipment.

The concentrator is rated at a capacity of 7,500 tons per day and at last report, ore reserves were listed at 43,343,000 tons grading 1.73% copper (before dilution). Additional ore reserves appear assured at depth. It is understood that the metallurgy is quite simple and recoveries should be good. It is also understood that half of the concentrate output will be sold by Newmont to Japanese markets, with the remaining half going to ASARCO smelters in the U.S.A.

At this point, very little data is available on development costs or operating costs (mining). However, in our projections, we have tried to be conservative.

Initial Earnings Projections

Assuming initial mill grades of 1.70% copper (i.e. 2.00% less 15% dilution); 60¢ (Cdn.) per pound for copper; total operating costs of $6.50 per ton and recoveries of 95%; this orebody could generate an estimated operating profit of $27.8 MM for the first year ended July, 1971. This would mean that Granduc Mines Limited could, in effect, report an estimated net profit of $1.70-$1.75 per share. (It is to be noted that these earnings would be tax-free initially. Also the assumption is that Granduc Mines, by that early stage, will not be incorporating any more than $250,000 annually in expenses).

If the initial mill grades are not higher than the overall average, and in fact are 1.47% copper (i.e. 1.73% less 15% dilution) then net earnings for Granduc Mines would be reduced to approximately $1.40 per share.

In these above projections, we have only attempted to arrive at an estimate of earnings for the first full year of operations. Any longer term estimates should employ a more conservative copper price (i.e. 50¢ (Cdn.) per pound).

Recommendation

With improved copper prices, the initial year of earnings for Granduc Mines could approach $1.70 to $1.75 per share. With the stock currently trading in the $11 area, it is felt that fair growth potential is still available for the medium term investor. Technically, the stock appears quite constructive and could have fair support at the $10 mark. Clients are advised to continue to hold their positions with additional purchases recommended on any dips.

BB:meg