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DOLLY VARDEN MINES LTD.

and

The Province of British Columbia

Proposal re Operation of Dolly Varden's Mines

- an arrangement whereby Dolly Varden's mines will be brought into production so that the Provincial Government will receive 60% of the profits remaining after payment of Federal taxes, and Dolly Varden Mines Ltd. will receive 40%.

March 12, 1973

The Proposal

The B.C. Government will establish a Crown Corporation with \$3,000,000 of equity, all of which would be owned by the Government. The Crown Corporation, "C.C.", will then buy Dolly Varden's property for \$1. C.C. will borrow \$3,000,000 from a Canadian bank, and put the property into production at 1,000 tons per day, at a total cost of \$6,000,000. (Note: the sole reason for suggesting a Crown corporation is to save the Government from paying income tax.)

After returning the Bank loan, C.C. will pay to Dolly Varden 60% of profits. The Government would agree that no mining taxes, royalties, or income taxes would be applied to the C.C. (Dolly Varden will be subject to normal income taxes, and will lose approximately \$8,000,000 of capital cost allowance.) Dolly Varden would name the manager of C.C. (Aaltonen), and three members out of five on the Board of Directors.

Application of the above (all tax figures are approximate)

Projected profit at \$2.50 silver	\$5,000,000	
60% payable to Dolly Varden	\$3,000,000	
Income Tax, Federal and Provincial	1,500,000	
Net to Dolly Varden (still subject to personal tax)	<u>\$1,500,000</u>	
B.C. Gov't.'s portion of Inc. Tax 12% of 3,000,000	\$ 360,000	
" " " " profit - 40%	<u>2,000,000</u>	
Net to B.C. Government	\$2,360,000	= 61%
Net to Dolly Varden (from 4th line above)	<u>1,500,000</u>	= 39%
Total profits after Federal Income Tax	<u>\$3,860,000</u>	= 100%

Thus the B.C. Government will receive \$2,360,000 per year for its \$3,000,000 investment. The bank loan will be easily paid-off in the first year of production. If silver goes to \$3.50, the Government's annual profit will be \$3,800,000; and if further high-grade ore is found, or if the Copper Belt proves viable, profits will increase substantially.

It may be of interest to note that under this Proposal, Dolly Varden will become merely a vehicle representing the 2,300 shareholders, and when individual income taxes are paid, those shareholders will net about \$1,000,000 from Dolly Varden's \$1,500,000, or approximately 20% of the \$5,000,000 profits. Close to 80% will go to the Federal and Provincial Governments.

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- Ore Reserves - 1,702,000 tons 9.50 oz. per ton silver, plus zinc, lead, cadmium and barite.
- Proposed Operation - Milling rate of 1,000 tons per day producing approximately 22 tons per day of lead concentrate with a high silver content, and 50 tons per day of bagged, drilling mud grade barite.
- Operating Costs - Estimated at \$9.07 per ton.
- Capital Costs - A new plant is estimated at \$6,000,000. There is a possible saving of \$1,000,000 if we can lease the B.C. Moly Townsite and if good used equipment is available for purchase when required.
- Operating Profit - Before taxes, estimated at \$4,592,000 at \$2.25 silver.
- Procedures - Mechanized mining; A simple flotation extraction in the mill; The mill will be built underground; Should be no trouble in installing proper pollution controls.
- Future Prospects - Good. Numerous indications of additional silver, lead, zinc ore and a large unexplored area with numerous copper showings on it.

Jobs -	Direct	130
	Indirect	<u>455</u>
	Total	585

Annual direct expenditure for Labour - Wages and Benefits
= \$1,805,546
for an average of \$13,889 per employee or \$5.16 per ton mined.

Annual direct expenditure for supplies
= \$1,256,400
or \$3.58 per ton mined.

Annual direct expenditure for outside services
= \$ 114,316
or 33¢ per ton mined.

Annual smelter returns at \$2.00 silver
= \$7,028,315
will be added to the flow of cash in B.C.

Annual before-tax profits at \$2.00 silver = \$3,853,815
at \$2.25 silver = \$4,592,000

B.C. will become a major world supplier of barite.

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