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BUSINESS & ECONOMICS

Annual Report

OF THE

PACIFIC

Pend Oreille Mines & Metals Co.

FOR THE YEAR ENDED

December 31, 1966



Offices: Old National Bank Building

Spokane, Washington

PEND OREILLE MINES & METALS COMPANY

Main Office, 923 Old National Bank Bldg., Spokane, Washington 99201

Mine Office, Metaline Falls, Washington

Directors

ROBERT E. BROWN.....	Kellogg, Idaho
HENRY L. DAY.....	Wallace, Idaho
WRAY D. FARMIN.....	Spokane, Washington
JENS JENSEN.....	Spokane, Washington
CHARLES E. SCHWAB.....	Kellogg, Idaho
W. W. WITHERSPOON.....	Spokane, Washington
W. L. ZEIGLER.....	Coeur d'Alene, Idaho

Officers

JENS JENSEN, <i>President</i>	Spokane, Washington
CHARLES E. SCHWAB, <i>Executive Vice President</i>	Kellogg, Idaho
W. W. WITHERSPOON, <i>Vice President</i>	Spokane, Washington
A. C. WIMBERLY, <i>Secretary and Treasurer</i>	Spokane, Washington
D. D. WILSON, <i>Asst. Secretary and Asst. Treasurer</i>	Spokane, Washington

Transfer Agents

The Old National Bank of Washington.....	Spokane, Washington
The Royal Trust Company.....	Toronto, Ontario
The Royal Trust Company.....	Vancouver, B.C.

PEND OREILLE MINES & METALS COMPANY

Spokane, Washington
March 29, 1967

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1966, including balance sheet, statement of income and retained earnings, statement of operating costs, and audit report by LeMaster & Daniels, Certified Public Accountants.

COMPARATIVE OPERATING STATISTICS

	<u>1966</u>	<u>1965</u>
Tons Ore Milled	594,654	640,604
Pounds lead in concentrates.....	7,992,615	9,055,012
Pounds zinc in concentrates.....	24,822,194	27,425,714
Receipts from sale of concentrates.....	\$2,868,485	\$3,258,486
Other Income	132,872	175,181
Dividend from Reeves MacDonald Co.....	327,167	326,564
Costs	2,531,618	2,717,934
Production Sale Expense	-----	100,559
Income before charges	796,906	941,738
Depletion and Depreciation	377,532	378,393
Provision for Income Tax	87,066	-----
Credit for Income Tax Adjustment.....	-----	105,398
Net Income	332,308	668,743
E. & M. J. average metal quotations:		
Lead per pound, New York.....	15.115¢	16.00¢
Zinc per pound, E. St. Louis.....	14.500¢	14.50¢

Your property was operated without interruption during 1966, but at less than 68% of rated capacity, due to the continued shortage of experienced miners and other skilled labor, that has prevailed since the construction of the Boundary Hydro-Electric Project began some three years ago. This again seriously affected both production and development work.

We mined and milled 594,654 tons ore, compared with 640,604 tons the previous year, and the property has now processed 12,088,084 tons ore.

Operating costs per ton were \$3.886 and total costs \$4.258 compared with, \$3.906 and \$4.243 respectively for 1965.

The decreased tonnage mined as well as the reduction in the lead price resulted in receipts from concentrate sales declining to \$2,868,485 from \$3,258,486 in 1965.

Underground development expenditures amounted to \$365,916 and consisted of 4,754 feet drifts and raises, 16,300 cubic feet station work and 58,677 feet diamond and long hole percussion drilling.

Expenditures for plant and equipment amounted to:

Surface	\$ 22,982.15
Underground	181,110.64
	<hr/>
Total	\$204,092.79

REEVES MACDONALD MINES LIMITED

Pend Oreille owns 60.33% of the outstanding shares of this company, and we quote the following excerpts from its Annual Report, recently distributed:

"Your property was operated without interruption throughout the year and 395,921 tons ore were mined and milled, from which 32,088 tons concentrates were produced, having the following metal content:

49,774 ozs. Silver
7,979,943 lbs. Lead
27,770,831 lbs. Zinc
168,348 lbs. Cadmium

The gross income amounted to \$1,248,763, and after charging off the amount of \$181,770 for depreciation and exploration, as well as provision for income and mining taxes in the amount of \$407,000, the net income amounted to \$659,993.

Development work during the year consisted of:

4,829 feet drifting
3,726 feet raising
15,894 feet diamond and longhole drilling

the costs of which are included in the mining expenses.

Capital expenditures during 1966 were as follows:

Surface	\$ 76,236
Underground	26,563
	<hr/>
Total	\$102,798
Outside Exploration	21,165
	<hr/>
Total	\$123,963"

GENERAL

ON APRIL 15, 1966 PEND OREILLE PAID DIVIDEND No. 16 of 25¢ PER SHARE, AMOUNTING TO \$597,034.00 AND REEVES PAID DIVIDEND No. 13 OF 25¢ PER SHARE AMOUNTING TO \$584,500.00.

The financial position of both companies at December 31, 1966 and 1965 follows:

	PEND OREILLE		REEVES	
	1966	1965	1966	1965
Current Assets -----	\$2,702,302	\$2,838,277	\$1,371,331	\$1,391,382
Liabilities -----	227,634	251,367	296,786	425,831
Working Capital -----	\$2,474,668	\$2,586,860	\$1,074,545	\$ 965,551

The Collective Bargaining Agreements at both properties remained in effect during the year; the one at Pend Oreille expires June 30, 1967, while the one at Reeves expires January 15, 1968.

Complete statistics of consumption of lead and zinc in the United States as well as the Free World are not yet available, but various preliminary reports indicate an increase over 1965. Mine production may also indicate an increase, but somewhat less than that of consumption for the year.

The quotations of 14¢ for lead and 14.5¢ for zinc at year end were unchanged at the time of writing this report.

Respectfully,

JENS JENSEN,
President

PEND OREILLE MINES & METALS COMPANY

Balance Sheet at December 31, 1966, and December 31, 1965

ASSETS

CURRENT ASSETS:	1966	1965
Cash in banks	\$ 449,905	\$ 398,078
Certificates of deposit (including accrued interest)	-----	780,083
Marketable securities—at cost plus accrued interest (which approximates market value)	1,788,261	196,500
Due from smelter	108,224	23,079
Other accounts receivable	20,467	14,555
Operating supplies—at lower of cost or market	309,870	347,499
Prepaid expenses	25,575	31,026
Refundable federal income tax	-----	1,047,407
 Total current assets	 2,702,302	 2,838,227
 INVESTMENTS:		
Reeves MacDonald Mines, Ltd. (a Canadian subsidiary) :		
1,410,500 shares of stock—at cost, note 1	639,065	639,065
Shares of other mining companies—nominal value	1	1
 Total investments	 639,066	 639,066
 PROPERTY, PLANT AND EQUIPMENT:		
Mining property, development and land	3,735,996	3,650,574
Less: Accumulated depletion and amortization	2,051,087	1,931,989
	1,684,909	1,718,585
 Buildings, plant and equipment	4,914,913	4,799,667
Less: Accumulated depreciation	3,951,263	3,696,253
	963,650	1,103,414
 Property, plant and equipment—net	 2,648,559	 2,821,999
 OTHER ASSETS	 20,906	 -----
	<u>\$6,010,833</u>	<u>\$6,299,292</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	1966	1965
Accounts payable	\$ 112,178	\$ 147,110
Payroll payable	15,890	13,411
Provision for taxes:		
Federal income tax	36,491	-----
Other taxes	35,240	47,553
Pension plan costs payable	27,835	43,293
 Total current liabilities	 227,634	 251,367
 STOCKHOLDERS' EQUITY:		
Capital stock of a par value of \$1.00 per share:		
Authorized	3,000,000 shares	
Unissued	561,764 shares	
	2,438,236 shares	
Treasury stock	50,100 shares	
 Outstanding	 2,388,136 shares	 2,388,136
Capital contributed for shares in excess of par value, less charges thereagainst	3,395,063	3,588,080
Retained earnings	-----	71,709
 Total stockholders' equity	 5,783,199	 6,047,925
	<u>\$6,010,833</u>	<u>\$6,299,292</u>

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
PEND OREILLE MINES & METALS CO.
Spokane Washington

We have examined the balance sheet of Pend Oreille Mines & Metals Co. as of December 31, 1966, and the related statements of income and contributed capital and retained earnings 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 made a similar examination for the year ended December 31, 1965.

In our opinion, the accompanying balance sheet and statements of income and contributed capital and retained earnings present fairly the financial position of Pend Oreille Mines & Metals Co. at December 31, 1966 and 1965, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 16 1967

LEMASTER & DANIELS
Certified Public Accountants

SEE NOTES TO FINANCIAL STATEMENTS

PEND OREILLE MINES & METALS COMPANY

Statement of Income for the Years Ended
December 31, 1966, and December 31, 1965

INCOME FROM SALES:	1966	1965
Gross value of concentrates sold, less smelter charges	\$3,041,419	\$3,449,436
Less: Transportation charges	172,934	190,950
	<hr/>	<hr/>
Deduct: Direct operating costs	2,868,485	3,258,486
	2,310,590	2,502,080
	<hr/>	<hr/>
Gross profit on sales before depre- ciation and depletion	557,895	756,406
GENERAL AND ADMINISTRATIVE EXPENSES AND TAXES	221,028	215,853
	<hr/>	<hr/>
Income before undernoted items	336,867	540,553
	<hr/>	<hr/>
OTHER INCOME:		
Dividend received from Reeves MacDonald Mines, Ltd.	327,167	326,564
Interest, rents, gains and discounts	132,872	175,181
	<hr/>	<hr/>
	460,039	501,745
	<hr/>	<hr/>
	796,906	1,042,298
	<hr/>	<hr/>
OTHER EXPENSE:		
Production payment sale expense		100,559
		<hr/>
Income before depreciation, depletion and income taxes	796,906	941,739
	<hr/>	<hr/>
PROVISION FOR DEPRECIATION AND DEPLETION:		
Depreciation	317,841	314,090
Depletion	59,691	64,304
	<hr/>	<hr/>
	377,532	378,394
	<hr/>	<hr/>
Income before income taxes—note 2	419,374	563,345
	<hr/>	<hr/>
PROVISION FOR INCOME TAXES:		
Federal income tax—note 5	37,991	(154,383)
Canadian tax withheld on dividend	49,075	48,985
	<hr/>	<hr/>
	87,066	(105,398)
	<hr/>	<hr/>
NET INCOME—note 6	<u>\$ 332,308</u>	<u>\$ 668,743</u>

SEE NOTES TO FINANCIAL STATEMENTS

PEND OREILLE MINES & METALS COMPANY

Statement of Contributed Capital and Retained Earnings
For the Years Ended December 31, 1966, and December 31, 1965

	1966		1965	
	Contributed Capital	Retained Earnings	Contributed Capital	Retained Earnings
BALANCE, BEGINNING OF YEAR	\$3,588,080	\$ 71,709	\$3,588,080	\$ -
ADD:				
Net income for the year	-	332,308	-	668,743
	<u>3,588,080</u>	<u>404,017</u>	<u>3,588,080</u>	<u>668,743</u>
DEDUCT:				
Dividend paid at 25¢ per share	193,017	404,017	-	597,034
BALANCE, END OF YEAR	<u>\$3,395,063</u>	<u>\$ -</u>	<u>\$3,588,080</u>	<u>\$ 71,709</u>

OPERATING COSTS

For the Years Ended December 31, 1966, and December 31, 1965

	1966		1965	
Tons Ore Milled	594,654		640,604	
	Amount	Per Ton	Amount	Per Ton
Development	\$ 365,916	\$0.615	\$ 462,939	\$0.723
Mining	1,213,806	2.042	1,236,735	1.930
Milling	429,407	0.722	482,718	0.754
Other direct oper. costs	301,460	0.507	319,688	0.499
Total Operating Costs	<u>\$2,310,589</u>	<u>\$3.886</u>	<u>\$2,502,080</u>	<u>\$3.906</u>
Administrative & General expenses	71,736	0.121	67,025	0.105
Taxes, other than income	149,293	0.251	148,829	0.232
	<u>\$2,531,618</u>	<u>\$4.258</u>	<u>\$2,717,934</u>	<u>\$4.243</u>

PEND OREILLE MINES & METALS COMPANY

Notes to Financial Statements

NOTE 1: The equity (in United States dollars) of Pend Oreille Mines & Metals Co. in the net assets of Reeves MacDonald Mines, Ltd. at December 31, 1966, and December 31, 1965, was \$1,853,671 and \$1,826,361 respectively.

NOTE 2: The equity (in United States dollars) of Pend Oreille Mines & Metals Co. in the net income of Reeves MacDonald Mines, Ltd. for 1966 and 1965 was \$369,541 and \$431,692 respectively. If this amount were substituted for the dividend received from Reeves, the net income of the Company before income taxes would have been \$461,748 for 1966 and \$668,473 for 1965.

NOTE 3: The Company has been named as a defendant in a condemnation action brought by the City of Seattle in order to acquire land and land rights for reservoir purposes for the hydroelectric project under construction by the City of Seattle. The management of the Company reports that the area involved in the condemnation includes the Company's existing hydroelectric power plant, and involves a relatively small percentage of the potential ore reserves of the Company. The amount to be recovered by the Company for the taking has not yet been determined.

NOTE 4: In December, 1964, a production payment, representing a major portion of the Company's 1965 ore production, was sold for \$3,000,000. Proceeds of the sale, less income tax, were deferred and were taken up as income during 1965 as the concentrates produced were delivered.

NOTE 5: Since the cost of producing the ore referred to in the preceding footnote constituted a deduction in the year 1965 whereas the proceeds of the sale were taxable in 1964, the Company's 1965 federal income tax return showed a substantial loss. This gave rise to a claim for refund of federal income taxes on carryback of the net operating loss.

NOTE 6: Had the \$563,345 shown on the statement of income for 1965 constituted taxable income, the provision for federal income tax (giving effect to allowable percentage depletion and foreign tax credit) would have been \$131,411 which would have resulted in net income of \$431,934.

REEVES MACDONALD MINES LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET AT DECEMBER 31, 1966

(with comparative figures for 1965)

ASSETS

CURRENT ASSETS:	1966	1965
Cash	\$ 301,227	\$ 275,203
Interest bearing deposit	700,000	700,000
Accounts receivable	15,929	16,998
Concentrate settlements outstanding	141,853	202,467
Stores on hand, valued at cost	190,060	173,030
Prepaid expenses	22,262	23,684
	<u>\$1,371,331</u>	<u>\$1,391,382</u>
SPECIAL REFUNDABLE TAX	\$ 24,397	-
	<u>24,397</u>	<u>-</u>
BUILDINGS, PLANT AND EQUIPMENT, at cost	2,446,081	2,429,548
Less accumulated depreciation	2,208,226	2,133,795
	<u>\$ 237,855</u>	<u>\$ 295,753</u>
MINING PROPERTIES, at cost less realizations and amounts written off	<u>\$1,992,477</u>	<u>\$1,992,477</u>
	<u><u>\$3,626,060</u></u>	<u><u>\$3,679,612</u></u>

LIABILITIES

CURRENT LIABILITIES:	1966	1965
Accounts payable and accrued liabilities	\$ 189,250	\$ 187,272
Estimated income and mining taxes payable	107,536	238,559
	<u>\$ 296,786</u>	<u>\$ 425,831</u>
SHAREHOLDERS' EQUITY:		
Share capital:		
Authorized 3,000,000 shares of \$1 each, issued and fully paid 2,338,000 shares	2,338,000	2,338,000
Capital surplus:		
Arising from conversion of no par value shares to par value shares in 1938	221,136	221,136
Earned surplus:		
Appropriated for expenditures made on property, plant and equipment	450,000	450,000
Unappropriated	320,138	244,645
	<u>\$3,329,274</u>	<u>\$3,253,781</u>
	<u><u>\$3,626,060</u></u>	<u><u>\$3,679,612</u></u>

ON BEHALF OF THE BOARD:

JENS JENSEN, *Director*

JOSEPHINE WHITEHOUSE, *Director*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Reeves MacDonald Mines Limited at December 31, 1966 and the statement of income and unappropriated earned surplus 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 above balance sheet and the accompanying statement of income

and unappropriated earned surplus present fairly the financial position of the company at December 31, 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.

Vancouver, B. C.
February 10, 1967

HELLIWELL, MACLACHLAN & Co.
Chartered Accountants

REEVES MACDONALD MINES LIMITED

Statement of Income and Unappropriated Earned Surplus For the Year Ended December 31, 1966

(with comparative figures for 1965)

INCOME FROM PRODUCTION:	1966	1965
Gross value of concentrates produced less smelter charges	\$3,135,882	\$3,232,878
Less transportation charges	251,562	249,248
	<hr/>	<hr/>
	2,884,320	2,983,630
Deduct cost of production	1,576,967	1,524,658
	<hr/>	<hr/>
Income from production	\$1,307,353	\$1,458,972
GENERAL AND ADMINISTRATIVE EXPENSES	80,634	93,553
	<hr/>	<hr/>
Income before undernoted items	\$1,226,719	\$1,365,419
ADD interest income	22,044	18,300
	<hr/>	<hr/>
	\$1,248,763	\$1,383,719
	<hr/>	<hr/>
DEDUCT:		
Depreciation	84,320	109,863
Exploration	97,450	26,738
	<hr/>	<hr/>
	\$ 181,770	\$ 136,601
	<hr/>	<hr/>
Income before taxes on income	\$1,066,993	\$1,247,118
PROVISION FOR INCOME AND MINING TAXES	407,000	476,000
	<hr/>	<hr/>
Net income	\$ 659,993	\$ 771,118
UNAPPROPRIATED EARNED SURPLUS:		
Amount at beginning of year	244,645	58,027
	<hr/>	<hr/>
	904,638	829,145
Deduct dividends paid	584,500	584,500
	<hr/>	<hr/>
Amount at end of year	\$ 320,138	\$ 244,645
	<hr/>	<hr/>

OPERATING COSTS

For the Years Ended December 31, 1966, and December 31, 1965

	1966		1965	
Tons Ore Milled	395,921		409,504	
	Amount	Per Ton	Amount	Per Ton
Mining	\$ 884,771	\$2.235	\$ 859,828	\$2.100
Milling	420,838	1.063	399,318	0.975
Other direct oper. costs	271,358	0.685	265,512	0.648
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Costs	\$1,576,967	\$3.983	\$1,524,658	\$3.723
Administrative & general expense	61,107	0.154	75,913	0.186
Property Taxes	19,527	0.049	17,640	0.043
	<hr/>	<hr/>	<hr/>	<hr/>
Total Costs	\$1,657,601	\$4.186	\$1,618,211	\$3.952
	<hr/>	<hr/>	<hr/>	<hr/>