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Annual Report
OF THE
Pend Oreille Mines & Metals Co.
FOR THE YEAR ENDED
December 31, 1963



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Offices: Old National Bank Building
Spokane, Washington

PEND OREILLE MINES & METALS COMPANY

Spokane, Washington

March 30, 1964

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1963, 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

	1963	1962	1961
Tons ore milled.....	651,922	619,946	742,934
Pounds lead in concentrates.....	10,007,664	9,526,354	13,013,437
Pounds zinc in concentrates.....	33,394,046	31,593,977	31,858,414
Receipts from sale of concentrates.....	\$2,604,234	\$2,132,685	\$3,000,827
Stored lead concentrates.....	—	—	(424,242)
Other income.....	86,474	73,519	74,862
Div. from Reeves MacDonald Co.....	—	264,561	279,811
Costs	2,307,544	2,192,075	2,324,688
Income before charges.....	383,164	278,690	606,570
Depletion and depreciation.....	376,006	379,213	400,765
Provision for income tax.....	13,785	39,684	100,985
Claim for refund of Fed. Income Tax.....	—	62,786	—
Net income (loss).....	(6,627)	(77,421)	59,010
E. & M. J. average metal quotations:			
Lead per pound, New York.....	11.14c	9.63c	10.87c
Zinc per pound, E. St. Louis.....	12.00c	11.62c	11.54c

During the first six months of 1963 the metal prices continued at the low levels that prevailed in 1962, but in July a gradual improvement of prices began, resulting in lead advancing from 10.75c to 12.50c, and zinc from 10.55c to 13.00c at year end. The lead price advanced an additional 1/2c early in January, 1964, making the quotations 13c per pound of lead and 13c per pound of zinc, which are still in effect.

A shortage of skilled underground workers prevented your property from being operated at capacity, but a total of 651,922 tons ore were mined and milled, compared with 619,946 tons the previous year. The metal content of concentrates amounted to 10,007,664 lbs. lead and 33,394,046 lbs. zinc. Operating costs per ton ore were \$3.253 compared with \$3.264 the previous year.

The gross value of the concentrate production amounted to \$2,604,234.18 compared with \$2,132,685.16, an increase of \$471,549.02 in receipts.

The gross income for the year amounted to \$383,163.92 before write-offs,

compared with \$278,689.87 the previous year, and the operation resulted in a net loss of \$6,627.18, compared with a net loss of \$77,421.30 the previous year.

Underground development expenditures amounted to \$299,577.27, and consisted of 6926 feet drifts and raises, 11,324 cubic feet station excavation and 46,974 feet diamond and longhole percussion drilling.

Expenditures for plant and equipment amounted to:

Surface	\$ 32,457.75
Underground	124,161.61
Total	<u>\$156,619.36</u>

REEVES MACDONALD MINES LIMITED

There is included in this report the Balance Sheet and Operating Statements for this company of which Pend Oreille owns 59.4% of the outstanding shares, and we quote the following excerpts from its annual report, recently distributed:

“Your property was operated at capacity until May 5 when a strike closed the mine and mill for the remainder of the year. The Union demands were unacceptable to the company and notwithstanding strenuous efforts to bring about a settlement, it was not until December 20 that negotiations with the Mine-Mill Union were completed and ratified for a new agreement, ending the strike. The new agreement expires November 30, 1965.

During the operating period we mined and milled 145,966 tons ore from which 11,198 tons concentrates were produced, having the following metal content:

15,042 ozs. Silver
3,120,802 lbs. Lead
9,646,111 lbs. Zinc
55,895 lbs. Cadmium

The gross income amounted to \$18,932 and after charging the amount of \$17,168 for shaft sinking and exploration expenses, the net income amounted to \$1,764.

Development work consisted of 1,361 feet of drifts, 999 feet of raises and 1,477 feet of longhole test drilling.

Capital Expenditures for 1963 were as follows:

Surface	\$ 2,893.31
Underground	47,312.60
Total	<u>\$50,205.91</u>
Outside Exploration	12,311.43
Total	<u>\$62,517.34”</u>

GENERAL

In connection with the dividend of 10c per share, amounting to \$238,813.60, that was paid on May 10, 1963 the Company's tax advisors have determined that only 19.283% of the dividend is taxable as dividend income. The remaining 80.717% should be treated as having been paid out of capital and is non-taxable as dividend income. Under the Federal Internal Revenue Code the non-taxable portion of the dividend should be applied as a reduction of the tax basis of the shares upon which the dividend was paid.

It should be noted that the above percentages are subject to review by the Internal Revenue Service. Should the final determination result in significant changes, the stockholders will be so advised.

The financial position of both companies at year end, compared with the previous year, follows:

	PEND OREILLE		REEVES	
	1963	1962	1963	1962
Current Assets	\$2,267,139	\$2,267,760	\$689,214	\$798,931
Liabilities	207,578	191,087	62,068	128,488
Working Capital	\$2,059,561	\$2,076,673	\$627,146	\$670,443

The consumption of lead and zinc increased substantially both in United States and the Free World and metal sales have continued strong so far in 1964. With the outlook for present general business conditions continuing favorable in the months ahead we expect the prevailing metal prices will hold and perhaps improve, so that we can anticipate a very substantial improvement in operating results for 1964.

Respectfully,

JENS JENSEN,
President

PEND OREILLE MINES & METALS COMPANY

Balance Sheet at December 31, 1963

ASSETS

CURRENT ASSETS:

Cash in banks.....	\$ 465,073.01
U. S. Treasury obligations—at cost plus accrued interest (market value \$1,307,987.72).....	1,302,615.97
Due from smelter.....	196,450.07
Other accounts receivable.....	10,257.29
Operating supplies—at lower of cost or market.....	281,101.12
Prepaid insurance	11,641.08
Total current assets.....	2,267,138.54

INVESTMENTS:

Reeves MacDonald Mines, Ltd. (a Canadian subsidiary): 1,389,000 shares of stock—at cost.....	\$ 574,565.42
Shares of other mining companies—nominal value	1.00
	<u>574,566.42</u>

PROPERTY, PLANT AND EQUIPMENT:

Mining property, development and land	\$3,633,958.99
Less: Accumulated depletion and amortization	1,682,622.47
	<u>1,951,336.52</u>
Buildings, plant and equipment.....	6,291,956.21
Less: Accumulated depreciation....	4,868,024.08
	<u>1,423,932.13</u>
	<u>3,375,268.65</u>
	<u><u>\$6,216,973.61</u></u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 123,396.22
Payroll payable	20,296.07
Provision for taxes.....	35,915.56
Pension plan costs payable.....	27,970.00
Total current liabilities.....	207,577.85

CAPITAL:

Capital stock of a par value of \$1.00 a share:

Authorized	3,000,000 shares	\$3,000,000.00
Unissued	561,764 shares	561,764.00
	<u>2,438,236 shares</u>	<u>2,438,236.00</u>
Treasury stock.....	50,100 shares	50,100.00
Outstanding	2,388,136 shares	2,388,136.00
Capital contributed for shares in excess of par value, less charges thereagainst.....		3,621,259.76
		<u>6,009,395.76</u>

\$6,216,973.61

ACCOUNTANTS' CERTIFICATE

PEND OREILLE MINES & METALS COMPANY
Spokane, Washington

In our opinion, the accompanying balance sheet and statements of income and contributed capital present fairly the financial position of Pend Oreille Mines & Metals Company at December 31, 1963, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied

on a basis consistent with that of the preceding year. 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.

March 16, 1964

LEMASTER & DANIELS
Certified Public Accountants

PEND OREILLE MINES & METALS COMPANY

Statement of Income, Year Ended December 31, 1963

INCOME FROM SALES:

Gross value of concentrates sold, less smelter charges.....	\$2,863,286.02
Less: Transportation charges.....	259,051.84

2,604,234.18

Deduct: Direct operating costs.....	2,121,247.57
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482,986.61

Gross profit on sales before depletion and depreciation

GENERAL AND ADMINISTRATIVE

EXPENSES AND TAXES.....	186,296.36
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296,690.25

Income before undernoted items.....

OTHER INCOME:

Interest, rents, gains and discounts.....	86,473.67
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383,163.92

Income before depreciation, depletion
and income taxes.....

PROVISION FOR DEPRECIATION AND DEPLETION:

Depreciation	\$310,775.66	
Depletion	65,229.88	376,005.54

7,158.38

Income before income taxes.....

PROVISION FOR FEDERAL INCOME TAXES.....	13,785.56
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NET LOSS FOR THE YEAR.....	\$ 6,627.18
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STATEMENT OF CONTRIBUTED CAPITAL

Year Ended December 31, 1963

BALANCE, JANUARY 1, 1963.....	\$3,866,700.54
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DEDUCT:

Dividend paid at 10c per share.....	\$238,813.60	
Net loss for the year ended December 31, 1963.....	6,627.18	245,440.78

BALANCE, DECEMBER 31, 1963.....	\$3,621,259.76
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OPERATING COSTS

For the Year Ended December 31, 1963

Tons Ore Milled.....	651,922
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	<i>Amount</i>	<i>Per Ton</i>
Development	\$ 299,577.27	\$0.460
Mining	1,038,851.24	1.593
Milling	510,119.71	0.782
Other Direct Operating Costs.....	272,699.35	0.418
Total Operating Costs.....	2,121,247.57	3.253
Administration and General Expenses.....	53,475.30	0.082
Taxes, Other than Income.....	132,671.04	0.204
Total Costs.....	\$2,307,393.91	\$3.539

REEVES MACDONALD MINES LIMITED

Statement of Income and Earned Surplus

For the Year Ended December 31, 1963

INCOME FROM PRODUCTION:

Gross value of concentrates produced less smelter charges.....	\$666,717.61
Less transportation charges.....	56,208.26
	<u>610,509.35</u>
Deduct cost of production (including strike expenses).....	542,113.35
	<u>\$ 68,396.00</u>

GENERAL AND ADMINISTRATIVE EXPENSES..... 57,944.24

Profit before undernoted items.....	\$ 10,451.76
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OTHER INCOME:

Interest on bank deposit.....	8,480.57
	<u>18,932.33</u>

DEDUCT:

Shaft sinking and exploration expenses.....	17,168.43
	<u>1,763.90</u>

PROVISION FOR INCOME AND MINING TAXES..... nil

Net income for the year.....	1,763.90
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UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1962..... 73,036.56

UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1963..... \$ 74,800.46

OPERATING COSTS

For First Four Months, 1963

Tons Ore Milled.....	139,762	
	<i>Amount</i>	<i>Per Ton</i>
Mining	\$ 208,702.48	\$1.493
Milling	126,750.75	0.907
Other Direct Operating Costs.....	63,439.98	0.454
	<u>\$ 398,893.21</u>	<u>\$2.854</u>
Total Operating Costs.....		
Administrative and General Expenses.....	14,508.08	0.104
Property Taxes.....	4,800.00	0.034
	<u>\$ 418,201.29</u>	<u>\$2.992</u>

REEVES MACDONALD

Balance Sheet as at

ASSETS

CURRENT ASSETS:

Cash on hand and in bank.....	\$ 522,401.60
Accounts receivable	10,619.13
Stores on hand, valued at cost.....	145,855.04
Prepaid expenses	10,337.81

\$ 689,213.58

BUILDINGS, PLANT AND EQUIPMENT — at cost	2,259,807.14
Less accumulated depreciation (see note 1 below)	1,891,907.38

367,899.76

MINING PROPERTIES:

At cost less realizations and amounts written off
(including those acquired for shares and valued
by the directors at \$2,000,000)

1,997,332.87

DEFERRED CHARGES:

Mine shaft preparation at cost, less amounts writ-
ten off (see note 2 below)

91,558.36

NOTES:

1. In years prior to 1963 depreciation was provided at the maximum rates allowable for income tax purposes. In 1963 no provision has been made. Had the previous policy been continued in 1963 the charge against income for depreciation would have amounted to \$97,489.
2. Charges to income for amortization of shaft sinking expenses have not been related to production, but have been the amounts claimed for tax purposes.

\$3,146,004.57

AUDITORS' REPORT TO

We have examined the balance sheet of Reeves MacDonald Mines Limited as at December 31, 1963 and the statement of income and unappropriated earned surplus for the year ended on that date and have obtained all the information and explanations we have required. 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, according to the best of our information and the explanations given to us and as shown by the books of the company, the above balance sheet and

MINES LIMITED

December 31, 1963

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities.....	\$ 62,067.61
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SHAREHOLDERS' EQUITY:

Share Capital:

Authorized 3,000,000 shares of \$1.00 each, issued and fully paid 2,338,000 shares.....	2,338,000.00
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Capital Surplus:

Arising from conversion of no par value shares to par value shares in year ended August 31, 1938.....	221,136.50
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Earned Surplus:

Appropriated for expenditures made on property, plant and equipment.....	\$450,000.00
Unappropriated	74,800.46

524,800.46

ON BEHALF OF THE BOARD:

JENS JENSEN, *Director*

JOSEPHINE WHITEHOUSE, *Director*

\$3,146,004.57

THE SHAREHOLDERS

the accompanying statement of income and unappropriated earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1963 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, except for the changes referred to in Note 1.

Vancouver, B. C.
March 2, 1964

HELLIWELL, MACLACHLAN & Co.
Chartered Accountants