

Annual Report

OF THE

Pend Oreille Mines & Metals Co.

FOR THE YEAR ENDED

December 31, 1967



Offices: Old National Bank Building
Spokane, Washington

THIRTY-EIGHTH
ANNUAL REPORT
of the directors of
PEND OREILLE MINES & METALS CO.
for the year ended
DECEMBER 31, 1967

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PEND OREILLE MINES & METALS COMPANY

Spokane, Washington
April 1, 1968

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1967, 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

	1967	1966
Tons Ore Milled.....	292,628	594,654
Pounds lead in concentrates.....	3,670,005	7,992,615
Pounds zinc in concentrates.....	11,218,264	24,822,194
Receipts from sale of concentrates.....	\$1,207,247	\$2,868,485
Other Income.....	118,837	132,872
Dividend from Reeves MacDonald Co.	325,627	327,167
Costs	1,598,386	2,531,618
Income before charges.....	53,325	796,906
Depletion and Depreciation.....	342,128	377,532
Provision for Income Tax.....	(146,894)	87,066
Extraordinary Item	468,417	
Net Income	326,508	332,308
E. & M. J. average metal quotations:		
Lead per pound, New York.....	14.00¢	15.115¢
Zinc per pound, E. St. Louis.....	13.85¢	14.500¢

Comparative operating costs for six month periods ending June 30, 1967 and June 30, 1966 are as follows:

	1967		1966	
Tons Ore Milled.....	276,328		316,346	
	Amount	Per Ton	Amount	Per Ton
Development	\$ 159,338	\$0.576	\$ 195,878	\$0.619
Mining	604,732	2.189	616,881	1.950
Milling	208,527	0.754	221,859	0.701
Other Direct Operating Costs.....	153,911	0.557	147,582	0.467
Total Operating Costs.....	1,126,508	4.076	1,182,200	3.737
Administrative & General Expenses	40,201	0.145	37,052	0.117
Taxes, other than income.....	90,408	0.327	84,198	0.266
	<u>\$1,257,117</u>	<u>\$4.548</u>	<u>\$1,303,450</u>	<u>\$4.120</u>

As the mine was not operated after July 15, comparative operating costs are shown for six month periods rather than the usual one year periods.

We mined and milled 292,628 tons ore, compared with 594,654 tons in 1966, and the property has now processed 12,380,712 tons ore.

Total costs per ton were 5.462, compared with 4.258 for 1966. 1967 costs include .973¢ strike costs.

The decreased tonnage mined due to the strike as well as the reduction in lead and zinc prices, resulted in receipts from concentrate sales declining to \$1,207,247 from \$2,868,485 in 1966.

Underground development expenditures amounted to \$167,560 and consisted of 2,519 feet drifts and raises, 41,530 cubic feet station work and 24,024 feet diamond and long hole percussion drilling.

Expenditures for plant and equipment amounted to:

Surface	\$ 17,496.42
Underground	243,310.61
TOTAL	\$260,807.03

In connection with the dividend of 25¢ per share, amounting to \$597,034.00, that was paid on April 22, 1967, the Company's tax advisors have determined that only 58.395% of the dividend is taxable as dividend income. The remaining 41.605% 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.

To date the property has paid out in dividends a total of \$6,871,371.71.

In April, 1967, by stipulation, a settlement was reached in the condemnation action that had been brought by Seattle City Light involving property of the Pend Oreille Mines & Metals Company. The financial results are reflected in the financial report. Seattle City Light filed its first application with the Federal Power Commission in 1954. Since that time our company has been affected by this action in many areas. The possibility of flooding the mine by the heightened water table to be established, was of major concern. Since completion of the dam and the subsequent establishment of the pool level, no evidence of river water seepage has yet been detected. During the long period of dam construction, we were unable to maintain adequate work crews. Labor turnover was abnormal partly because wage patterns established by the contractors could not be met. While attempting to maintain reasonable production schedules, man power was not available for normal mine development. We now hope to establish a normal balance of production and development. Notwithstanding the necessary costs involved in this prolonged situation, both of time and money, your management believes the interests of the company have been preserved.

The labor contract between Pend Oreille Mines & Metals Co. and United Steel Workers of America expired July 15, 1967. Prior to expiration, several meetings were held during which the union representatives refused to recede from original demands which followed the pattern of the demands made on the copper industry, and which the company could not meet. A strike was then called by the United Steel Workers which extended to year end. After a petition was filed by a group of employees, a National Labor Relations Board supervised election was conducted in December, 1967. The Northwest Metal Workers was certified as the new bargaining unit on January 2, 1968. Subsequent to the year end, a three year contract was negotiated and mining was resumed on a reduced scale at the end of January. The economic consequence of this strike has been severe for the company, its employees, and the local community.

Domestic Lead-Zinc Mining Companies are burdened with extraordinary problems in coping with the effect of price wage inflation. The cancellation of import quotas has damaged the position of the domestic producer. The price received for lead and zinc concentrates is based on supply and demand on a world wide basis. The rapid escalation of costs has been recognized by all and has affected our operations in virtually all areas. We are attempting to mine higher grade ore to counteract these effects.

Taxes, both real and personal property, continue to mount. This becomes an important factor in future development of mineral resources for your company and in our state. Its impact requires our continued attention and must be carefully studied and understood by tax levying bodies.

During the past year, examinations were made of several potential mining properties. None of these were considered attractive for investment or exploration. While we do not maintain an exploration department, we will continue to search for attractive opportunities in the mining field.

On August 11, 1967, Mr. Jens Jensen resigned as President of this company because of ill health. Mr. Jensen has been an officer of the company since organization and has contributed substantially to its achievements. He remains a director.

Mr. A. C. Wimberly, Secretary-Treasurer of the company retired December 31, 1967. His loyal and capable service to the company dated from 1951.

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:

"The property was operated without interruption throughout the year and 404,782 tons ore were mined and milled, from which 25,920 tons concentrates were produced, having the following metal content:

54,073 ozs. Silver
5,535,862 lbs. Lead
22,916,518 lbs. Zinc
159,460 lbs. Cadmium

The gross income amounted to \$354,667, and after charging off the amount of \$72,611 for depreciation and exploration, as well as provision for income and mining taxes in the amount of \$95,750, the net income amounted to \$186,306.

Development work during the year consisted of:

9,749 feet drifting
5,349 feet raising
14,201 feet diamond and longhole drilling

the costs of which are included in the mining expenses.

Operating costs for years ended December 31, 1967 and 1966 are as follows:

	1967		1966	
	<hr/>		<hr/>	
Tons Ore Milled	404,782		395,921	
	Amount	Per Ton	Amount	Per Ton
Mining	\$ 986,704	\$2.438	\$ 884,772	\$2.235
Milling	414,179	1.023	420,837	1.063
Other Direct Operating Costs	314,050	0.776	271,358	0.685
Total Operating Costs	<hr/> \$1,714,933	<hr/> \$4.237	<hr/> \$1,576,967	<hr/> \$3.983
Administrative and General Expense	65,377	0.162	61,107	0.154
Property Taxes	24,260	0.059	19,527	0.049
	<hr/> \$1,804,570	<hr/> \$4.458	<hr/> \$1,657,601	<hr/> \$4.186

Capital expenditures during 1967 were as follows:

Surface	\$ 17,720
Underground	22,002
	<hr/>
TOTAL	\$ 39,722
Annex Mine	109,745
	<hr/>
TOTAL	\$149,467

Dividend No. 14 of 25¢ per share amounting to \$584,500 was paid April 22, 1967.

Respectfully,

WRAY D. FARMIN
President

PEND OREILLE MINES & METALS COMPANY

Balance Sheet at December 31, 1967, and December 31, 1966

ASSETS

CURRENT ASSETS:

	1967	1966
Cash in banks	\$ 125,103	\$ 449,905
Time certificates of deposit (including accrued interest)	909,307	-----
Marketable securities — at cost plus accrued interest (which approximates market value)	1,097,673	1,788,261
Due from smelter	26,237	108,224
Other accounts receivable	7,969	20,467
Operating supplies — at lower of cost or market	316,759	309,870
Prepaid expenses	21,890	25,575
Total current assets	2,504,938	2,702,302

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	3,971,614	3,735,996
Less: Accumulated depletion and amortization	2,161,225	2,051,087
	1,810,389	1,684,909
 Buildings, plant and equipment	4,132,972	4,914,913
Less: Accumulated depreciation	3,451,730	3,951,263
	681,242	963,650
 Property, plant and equipment—net	2,491,631	2,648,559

OTHER ASSETS

.....	6,750	20,906
	\$5,642,385	\$6,010,833

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

	1967	1966
Accounts payable	\$ 54,107	\$ 112,178
Payroll payable	-----	15,890
Provision for taxes:		
Federal income tax	16,471	36,491
Other taxes	27,752	35,240
Pension plan costs payable	31,382	27,835
Total current liabilities	129,712	227,634

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
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Outstanding	2,388,136 shares
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2,388,136 2,388,136

Capital contributed for shares in excess of par value, less charges thereagainst

3,124,537 3,395,063

Total stockholders' equity **5,512,673 5,783,199**

\$5,642,385 \$6,010,833

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, 1967, 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, 1966.

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, 1967 and 1966, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 19, 1968

LEMASTER & DANIELS
Certified Public Accountants

SEE NOTES TO FINANCIAL STATEMENTS

PEND OREILLE MINES & METALS COMPANY

Statement of Income for the Years Ended
December 31, 1967, and December 31, 1966

	1967	1966
INCOME FROM SALES:		
Gross value of concentrates sold, less smelter charges	\$1,288,082	\$3,041,419
Less: Transportation charges	80,835	172,934
	<u>1,207,247</u>	<u>2,868,485</u>
Deduct: Direct operating costs	1,399,014	2,310,590
	<u>(191,767)</u>	<u>557,895</u>
Gross profit (loss) on sales before depreciation and depletion		
GENERAL AND ADMINISTRATIVE EXPENSES AND TAXES	199,372	221,028
	<u>(391,139)</u>	<u>336,867</u>
Income (loss) before undernoted items		
OTHER INCOME:		
Dividend received from Reeves MacDonald Mines, Ltd.	325,627	327,167
Interest, rents, gains and discounts	118,837	132,872
	<u>444,464</u>	<u>460,039</u>
Income before depreciation, depletion and income taxes	53,325	796,906
PROVISION FOR DEPRECIATION AND DEPLETION:		
Depreciation	312,754	317,841
Depletion	29,374	59,691
	<u>342,128</u>	<u>377,532</u>
Income (loss) from operations before income taxes — note 2	(288,803)	419,374
PROVISION FOR INCOME TAXES:		
Federal income tax	-----	37,991
Federal income tax saving attributable to the loss from operations	(195,738)	-----
Canadian income tax withheld on dividend	48,844	49,075
	<u>(146,894)</u>	<u>87,066</u>
Income (loss) before extraordinary item	(141,909)	332,308
EXTRAORDINARY ITEM — note 4:		
Gain realized (less applicable income tax) from condemnation of certain properties for hydroelectric project	468,417	-----
NET INCOME	<u>\$ 326,508</u>	<u>\$ 332,308</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEND OREILLE MINES & METALS COMPANY

Statement of Contributed Capital and Retained Earnings
For the Years Ended December 31, 1967, and December 31, 1966

	1967		1966	
	Contributed Capital	Retained Earnings	Contributed Capital	Retained Earnings
BALANCE, BEGINNING OF YEAR -----	\$3,395,063	\$ -----	\$3,588,080	\$ 71,709
ADD:				
Net income for the year -----	-----	326,508	-----	332,308
	<u>3,395,063</u>	<u>326,508</u>	<u>3,588,080</u>	<u>404,017</u>
DEDUCT:				
Dividend paid at 25¢ per share -----	270,526	326,508	193,017	404,017
BALANCE, END OF YEAR -----	<u><u>\$3,124,537</u></u>	<u><u>\$ -----</u></u>	<u><u>\$3,395,063</u></u>	<u><u>\$ -----</u></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, 1967, and December 31, 1966, was \$1,654,043 and \$1,853,671 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 1967 and 1966 was \$104,192 and \$369,541 respectively. If these amounts were substituted for the dividends received from Reeves, the loss of the Company before income taxes for 1967 would have been \$510,238, and the income before income taxes for 1966 would have been \$461,748.

NOTE 3: Income tax deficiencies of approximately \$360,000 for the years 1963 through 1966 have been proposed by the Internal Revenue Service during 1967. The Company is resisting payment of a major portion of the deficiencies.

NOTE 4: Had the Company not experienced a loss from operations for 1967, the federal income tax applicable to the extraordinary gain would have been approximately \$213,000. This amount has been charged to the extraordinary gain and the loss from operations has been reduced by a like amount.

NOTE 5: A strike at the mine on July 15, 1967, did not permit resumption of production until January 16, 1968.

REEVES MACDONALD MINES LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET AT DECEMBER 31, 1967

(with comparative figures for 1966)

ASSETS

CURRENT ASSETS:	1967	1966
Cash	\$ 235,083	\$ 301,227
Interest bearing deposit	200,000	700,000
Accounts receivable	46,048	15,929
Estimated income taxes recoverable	28,767	-----
Concentrate settlements outstanding	158,134	141,853
Stores on hand, valued at cost	182,431	190,060
Prepaid expenses	21,124	22,262
	<u>871,587</u>	<u>1,371,331</u>
SPECIAL REFUNDABLE TAX	13,048	24,397
BUILDINGS, PLANT AND EQUIPMENT, at cost	2,473,759	2,446,081
Less accumulated depreciation	2,267,467	2,208,226
	<u>206,292</u>	<u>237,855</u>
MINING PROPERTIES, at cost less realizations and amounts written off	1,993,206	1,992,477
DEFERRED CHARGES		
Development and exploration expenditures, at cost	109,745	-----
	<u>\$3,193,878</u>	<u>\$3,626,060</u>

LIABILITIES

CURRENT LIABILITIES:	1967	1966
Accounts payable and accrued liabilities	\$ 189,131	\$ 189,250
Estimated income taxes payable	-----	107,536
	<u>189,131</u>	<u>296,786</u>
DEFERRED INCOME TAXES (see note)	43,000	-----
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 (transferred in 1967 to unappropriated earned surplus)	-----	450,000
Unappropriated	402,611	320,138
	<u>2,961,747</u>	<u>3,329,274</u>
Approved on behalf of the Board:		
W. W. WITHERSPOON, <i>Director</i>		
WRAY D. FARMIN, <i>Director</i>		
	<u>\$3,193,878</u>	<u>\$3,626,060</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of
REEVES MacDONALD MINES LIMITED

We have examined the balance sheet of Reeves MacDonald Mines Limited at December 31, 1967 and the statements of income and earned surplus 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, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Vancouver, B. C.
February 3, 1968

REEVES MACDONALD MINES LIMITED

Statement of Income and Unappropriated Earned Surplus

Year Ended December 31, 1967

(with comparative figures for 1966)

INCOME FROM PRODUCTION:	1967	1966
Gross value of concentrates produced		
less smelter charges	\$2,340,132	\$3,135,882
Less transportation charges	203,407	251,562
	<hr/>	<hr/>
	2,136,725	2,884,320
Deduct cost of production	1,709,373	1,576,967
	<hr/>	<hr/>
Income from production	427,352	1,307,353
GENERAL AND ADMINISTRATIVE EXPENSES	92,637	80,634
	<hr/>	<hr/>
Income before undernoted items	334,715	1,226,719
ADD INTEREST INCOME	19,952	22,044
	<hr/>	<hr/>
	354,667	1,248,763
	<hr/>	<hr/>
DEDUCT:		
Depreciation	71,285	84,320
Exploration	1,326	97,450
	<hr/>	<hr/>
	72,611	181,770
	<hr/>	<hr/>
Income before provision for income taxes	282,056	1,066,993
PROVISION FOR INCOME TAXES (see note)	95,750	407,000
	<hr/>	<hr/>
Net income	186,306	659,993
	<hr/>	<hr/>
UNAPPROPRIATED EARNED SURPLUS:		
Amount at beginning of year	320,138	244,645
Add		
Adjustment of prior years' income taxes	30,667	-----
Transfer from appropriated earned surplus	450,000	-----
	<hr/>	<hr/>
	987,111	904,638
Deduct dividends paid	584,500	584,500
	<hr/>	<hr/>
Amount at end of year	\$ 402,611	\$ 320,138
	<hr/>	<hr/>

REEVES MACDONALD MINES LIMITED

Statement of Source and Application of Funds

Year Ended December 31, 1967

(with comparative figures for 1966)

	1967	1966
SOURCE OF FUNDS:		
From operations		
Net income for year	\$ 186,306	\$ 659,993
Add items charged which do not represent a current outflow of funds		
Depreciation	71,285	84,320
Deferred income taxes	43,000	-----
	<u>300,591</u>	<u>744,313</u>
Proceeds on disposal of buildings, plant and equipment	5,790	3,000
Recovery of prior years' income taxes	30,667	-----
Special refundable tax receivable within one year	15,135	-----
	<u>352,183</u>	<u>747,313</u>
APPLICATION OF FUNDS:		
Dividends	584,500	584,500
Expenditure on buildings, plant and equipment	45,512	29,422
Expenditure on mining properties	729	-----
Special refundable tax	3,786	24,397
Deferred exploration and development expenditures	109,745	-----
	<u>744,272</u>	<u>638,319</u>
(Decrease) Increase in working capital	(392,089)	108,994
Working capital at beginning of year	1,074,545	965,551
Working capital at end of year	<u>\$ 682,456</u>	<u>\$1,074,545</u>

REEVES MACDONALD MINES LIMITED

NOTE TO FINANCIAL STATEMENTS

Year Ended December 31, 1967

For 1967 the company intends to claim for income tax purposes exploration and development expenditures in excess of the amounts charged against reported income, with the result that income taxes currently payable have been reduced by \$43,000. This reduction is reflected in the accompanying balance sheet as deferred income taxes to be taken into income in future years when allowances for income tax purposes will be less than the related amounts recorded in the financial statements.

PEND OREILLE MINES & METALS COMPANY

Incorporated under the Laws of the State of Washington, April, 1929
Capitalization — 3,000,000 shares of a par value of \$1.00 each (\$3,000,000)
of which 2,388,136 shares were outstanding at December 31, 1967.
MAIN OFFICE, 923 Old National Bank Building, Spokane, Washington
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

Executive Committee

WRAY D. FARMIN, *Chairman*
CHARLES E. SCHWAB
W. W. WITHERSPOON

Officers

WRAY D. FARMIN, <i>President</i>	Spokane, Washington
CHARLES E. SCHWAB, <i>Executive Vice President</i>	Kellogg, Idaho
W. W. WITHERSPOON, <i>Vice President</i>	Spokane, Washington
D. D. WILSON, <i>Secretary and 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.