

Annual Report

OF THE

PACIFIC

Pend Oreille Mines & Metals Co.

FOR THE YEAR ENDED

December 31, 1965



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

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 25, 1966

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1965, 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

	1965	1964
Tons Ore Milled	640,604	697,113
Pounds lead in concentrates	9,055,012	8,887,758
Pounds zinc in concentrates	27,425,714	34,283,665
Receipts from sale of concentrates	\$3,258,486	\$3,265,874
Other Income	175,181	99,049
Dividend from Reeves MacDonald Co.	326,564	322,836
Costs	2,717,934	2,545,708
Production Sale Expense	100,559	
Income before charges	941,738	1,142,051
Depletion and depreciation	378,393	389,174
Provision for income tax		200,466
Credit for income tax adjustment	105,398	
Net income	668,743	552,411
E. & M. J. average metal quotations:		
Lead per pound, New York	16.00¢	13.60¢
Zinc per pound, E. St. Louis	14.50¢	13.57¢

1965 was a good year for your company, the net income increasing to \$668,743 from \$552,411 the previous year, the best financial results since 1952.

Your property was operated uninterruptedly throughout 1965, but at slightly less than 70% of the rated capacity, due to the continued critical shortage of skilled underground laborers, which seriously affected production and development work. 640,604 tons ore were mined and milled compared with 697,113 tons in 1964. Operating costs were \$3.906 per ton and total costs \$4.243 per ton compared with \$3.353 and \$3.652 per ton the previous year.

However, the increased metal prices resulted in receipts from the sale of concentrates amounting to \$3,258,486, compared with \$3,265,874 in 1964 notwithstanding reduced tonnage milled and the increased costs.

In December, 1964 a portion of the proceeds from future ore production were sold for \$3,000,000, which increased Federal income tax payments for the year 1964 to \$1,045,065. During 1965 as the ore was produced and sold, costs and expenses of this production primarily resulted in the company having refundable income tax of \$1,047,407.

Underground development expenditures amounted to \$462,939 and consisted of 6,100 feet drifts and raises, 40,650 cubic feet of station work and 72,511 feet of diamond and long hole drilling.

Expenditures for plant and equipment amounted to:

Surface	\$22,101.40
Underground	68,237.17
Total	<u>\$90,338.57</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 60.33% of the outstanding shares, and we quote the following excerpts from its annual report, recently distributed:

“Your Company’s property was operated without interruption throughout the year and 409,504 tons ore were mined and milled, from which 31,723 tons concentrates were produced, having the following metal content:

47,317 ozs. Silver
8,240,793 lbs. Lead
27,337,880 lbs. Zinc
158,635 lbs. Cadminum

The gross income amounted to \$1,383,719, and after charging off the amount of \$136,601 for depreciation and exploration and also making provision of \$476,000 for income and mining taxes, the net income amounted to \$771,118.

Development work during the year consisted of:

6,114 ft. drifts
2,436 ft. raises
26,353 ft. diamond and long hole drilling

the costs of which are included in the mining expenses.

Capital expenditures during 1965 were as follows:

Surface	\$21,923
Underground	30,733
Total	<u>\$52,656</u>
Outside Explor.	26,738
Total	<u>\$79,394”</u>

GENERAL

On May 24, 1965 Pend Oreille paid Dividend No. 15 of 25¢ per share amounting to \$597,034.00 and Reeves paid Dividend No. 12 of 25¢ per share amounting to \$584,500.00.

The financial position of both companies at December 31, 1965 compared with the previous year, follows:

	PEND OREILLE		REEVES	
	1965	1964	1965	1964
Current Assets	\$2,838,227	\$5,746,066	\$1,391,382	\$1,335,255
Liabilities	251,367	1,357,786	425,831	613,528
Working Capital	\$2,586,860	\$4,388,280	\$ 965,551	\$ 721,727

The Collective Bargaining Agreement with the Union at Pend Oreille remained in effect during the year and expires June 30, 1967, while at Reeves negotiations for a new agreement were underway at year end. A new agreement providing for substantial wage increases has since been concluded which expires January 15, 1968.

The high level of industrial activity caused consumption of lead and zinc to further increase in 1965, both in the U.S. and the Free World. With metal stocks low and consumption continuing high, it is expected the strong demand will result in prices of the two metals remaining at the present satisfactory level.

Respectfully,

JENS JENSEN,
President

PEND OREILLE MINES & METALS COMPANY

Balance Sheet at December 31, 1965

A S S E T S

CURRENT ASSETS:

Cash in banks	\$ 398,078.22
Certificates of deposit (including accrued interest)	780,082.49
Marketable securities—at cost plus accrued interest (market value \$196,500.00)	196,500.00
Due from smelter	23,079.34
Other accounts receivable	14,555.16
Operating supplies—at lower of cost or market	347,499.48
Prepaid expenses	31,025.58
Refundable federal income tax	1,047,406.97
Total current assets	2,838,227.24

INVESTMENTS:

Reeves MacDonald Mines, Ltd. (a Canadian subsidiary):	
1,410,500 shares of stock—at cost, note 1	\$ 639,065.42
Shares of other mining companies—nominal value	1.00
	639,066.42

PROPERTY, PLANT AND EQUIPMENT:

Mining property, development and land	\$3,650,573.60
Less: Accumulated depletion and amortization	1,931,988.62
	1,718,584.98
Buildings, plant and equipment	4,799,667.08
Less: Accumulated depreciation	3,696,253.49
	1,103,413.59
	2,821,998.57
	\$6,299,292.23

L I A B I L I T I E S

CURRENT LIABILITIES:

Accounts payable	\$ 147,110.20
Payroll payable	13,410.49
Provision for taxes	47,552.99
Pension plan costs payable	43,293.00
Total current liabilities	251,366.68

CAPITAL:

Capital stock of a par value of \$1.00 per share:	
Authorized	3,000,000 shares \$3,000,000.00
Unissued	561,764 shares 561,764.00
	2,438,236 shares 2,438,236.00
Treasury stock	50,100 shares 50,100.00
	2,388,136 shares 2,388,136.00
Capital contributed for shares in excess of par value, less charges thereagainst	3,588,080.42
Earned surplus	71,709.13
	6,047,925.55

\$6,299,292.23

ACCOUNTANTS' CERTIFICATE

PEND OREILLE MINES & METALS CO.
Spokane, Washington

In our opinion, the accompanying balance sheet and statement of income and earned surplus present fairly the financial position of Pend Oreille Mines & Metals Co. at December 31, 1965, 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 preced-

ing year. Our examination of these statements 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 11, 1966

LEMASTER & DANIELS
Certified Public Accountants

SEE NOTES TO FINANCIAL STATEMENTS

PEND OREILLE MINES & METALS CO.

Statement of Income and Earned Surplus

Year Ended December 31, 1965

INCOME FROM SALES:

Gross value of concentrates sold,	
less smelter charges	\$3,449,435.78
Less: Transportation charges	190,949.42
	<hr/>
	3,258,486.36
Deduct: Direct operating costs	2,502,080.16
	<hr/>
Gross profit on sales before depreciation and depletion	756,406.20

GENERAL AND ADMINISTRATIVE EXPENSES

AND TAXES	215,853.37
	<hr/>
Income before undernoted items	540,552.83

OTHER INCOME:

Dividend received from Reeves MacDonald Mines, Ltd.	\$ 326,563.81
Interest, rents, gains and discounts	175,180.99
	<hr/>
	501,744.80
	<hr/>
	1,042,297.63

OTHER EXPENSE:

Production payment sale expense	100,558.91
	<hr/>
Income before depreciation, depletion and income taxes	941,738.72

PROVISION FOR DEPRECIATION AND DEPLETION:

Depreciation	314,089.73
Depletion	64,303.75
	<hr/>
	378,393.48
	<hr/>
Income before income tax adjustment—note 2.....	563,345.24

INCOME TAX ADJUSTMENT:

Refundable federal income taxes—note 4	1,047,406.97
Less:	
Deferred federal income tax attributable to production payment sold in 1964...\$	893,024.52
Canadian tax withheld on dividend...	48,984.56
	<hr/>
	942,009.08

	<hr/>
	105,397.89
	<hr/>
NET INCOME—note 5	668,743.13
DIVIDEND PAID (AT 25¢ PER SHARE)	597,034.00
	<hr/>
EARNED SURPLUS, DECEMBER 31, 1965	\$ 71,709.13

SEE NOTES TO FINANCIAL STATEMENTS

PEND OREILLE MINES & METALS CO.

Footnotes to Financial Statements at December 31, 1965

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, 1965, was \$1,826,360.87.

NOTE 2: The equity (in United States dollars) of Pend Oreille Mines & Metals Co. in the net income of Reeves MacDonald Mines, Ltd. for 1965 was \$431,691.99. If this amount were substituted for the dividend received from Reeves, the net income of the Company before income taxes would have been \$668,473.42.

NOTE 3: In December, 1964, a production payment, representing a major portion of the Company's 1965 ore production, was sold for \$3,000,000.00. Proceeds of the sale, less income tax, were deferred and were taken up as income during 1965 as the concentrates produced were delivered.

NOTE 4: Since the cost of producing the ore referred to in the preceding footnote constitutes a deduction in the year 1965 whereas the proceeds of the sale were taxable in 1964, the Company's 1965 federal income tax return shows a substantial loss. This has given rise to a claim for refund of federal income taxes on carryback of the net operating loss. In addition, unused foreign tax credits and unused investment credits of approximately \$259,000.00 are available for carryover to future years.

NOTE 5: Had the \$563,345.24 shown on the statement of income constituted taxable income, the provision for federal income tax (giving effect to allowable percentage depletion and foreign tax credit) would have been \$131,411.36 which would have resulted in a net income of \$431,933.88.

OPERATING COSTS

For the Year Ended December 31, 1965

Tons Ore Milled	640,604	
	Amount	Per Ton
Development	\$ 462,939.19	\$0.723
Mining	1,236,735.13	1.930
Milling	482,718.36	0.754
Other Direct Operating Costs	319,687.48	0.499
Total Operating Costs	2,502,080.16	3.906
Administrative & General Expense	67,024.60	0.105
Taxes, Other than Income	148,828.77	0.232
	\$2,717,933.53	\$4.243

REEVES MACDONALD MINES LIMITED

Balance Sheet as at December 31, 1965

ASSETS

CURRENT ASSETS:

Cash	\$ 275,202.88	
Interest bearing deposit	700,000.00	
Accounts Receivable	16,998.24	
Concentrate settlements outstanding	202,466.83	
Stores on hand, valued at cost	173,029.93	
Prepaid expenses	23,684.21	
		<u>1,391,382.09</u>

BUILDINGS, PLANT AND EQUIPMENT—at cost	2,429,548.42	
Less accumulated depreciation	2,133,795.38	
		<u>295,753.04</u>

MINING PROPERTIES:

At cost less realizations and amounts written off		<u>1,992,476.87</u>
--	--	---------------------

\$3,679,612.00

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 187,272.28	
Estimated income and mining taxes payable	238,558.40	
		<u>425,830.68</u>

SHAREHOLDERS' EQUITY:

Share Capital:		
Authorized 3,000,000 shares at \$1 each, issued and fully paid 2,338,000 shares		<u>2,338,000.00</u>
Capital Surplus:		
Arising from conversion of no par value shares in 1938		<u>221,136.50</u>
Earned Surplus:		
Appropriated for expenditures made on prop- erty, plant and equipment	450,000.00	
Unappropriated	244,644.82	
		<u>694,644.82</u>

ON BEHALF OF THE BOARD:

JENS JENSEN, *Director*

JOSEPHINE WHITEHOUSE, *Director*

\$3,679,612.00

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Reeves MacDonald Mines Limited as at December 31, 1965 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 as at December 31, 1965 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 21, 1966

HELLIWELL, MACLACHLAN & CO.

Chartered Accountants

REEVES MACDONALD MINES LIMITED

Statement of Income and Unappropriated Earned Surplus For the Year Ended December 31, 1965

INCOME FROM PRODUCTION:

Gross value of concentrates produced less smelter charges	\$3,232,877.62
Less transportation charges	249,247.51

	2,983,630.11
Deduct cost of production	1,524,657.85

Gross income from production	1,458,972.26
------------------------------------	--------------

GENERAL AND ADMINISTRATIVE EXPENSES	93,553.42
---	-----------

Income before undernoted items	\$1,365,418.84
--------------------------------------	----------------

OTHER INCOME:

Interest on bank deposit	18,299.52
--------------------------------	-----------

\$1,383,718.36

DEDUCT:

Depreciation	\$ 109,862.87	
Exploration	26,737.74	136,600.61

Income before taxes on income	\$1,247,117.75
-------------------------------------	----------------

PROVISION FOR INCOME AND MINING TAXES	476,000.00
---	------------

Net income for the year	\$ 711,117.75
-------------------------------	---------------

UNAPPROPRIATED EARNED SURPLUS

AT DECEMBER 31, 1964	58,027.07
----------------------------	-----------

\$ 829,144.82

DEDUCT:

Dividend No. 12 at 25¢ per share	584,500.00
--	------------

UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1965

\$ 244,644.82

OPERATING COSTS

For the Year Ended December 31, 1965

Tons Ore Milled	409,504	
	Amount	Per Ton
Mining	\$ 859,828.03	\$2.100
Milling	399,317.64	0.975
Other Direct Operating Costs	265,512.18*	0.648
Total Operating Costs	\$1,524,657.85	\$3.723
Administrative and General Expense	75,913.48*	0.186
Property Taxes	17,639.94	0.043
Total Costs	<u>\$1,618,211.27</u>	<u>\$3.952</u>

*Note: Effective December 31, 1965, the Company adopted a voluntary Pension Plan for salaried employees. The plan is non-contributory and provides for retirement at age 65, the benefits being based upon length of service and compensation. The cost of benefits for past services was paid during 1965 and is included in the above operating statement.