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Annual Report
OF THE
Pend Oreille Mines & Metals Co.
FOR THE YEAR ENDED
December 31, 1962



Offices: Old National Bank Building
Spokane, Washington

PEND OREILLE MINES & METALS COMPANY

Main Office, 923 Old National Bank Bldg., Spokane 1, Washington

Mine Office, Metaline Falls, Washington

Directors

| | |
|------------------------|----------------------|
| HENRY L. DAY..... | Wallace, Idaho |
| WRAY D. FARMIN..... | Spokane, Washington |
| JENS JENSEN..... | Spokane, Washington |
| ROSS D. LEISK..... | 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 |
| W. W. WITHERSPOON, <i>Vice President</i> | Spokane, Washington |
| CHARLES E. SCHWAB, <i>Vice President</i> | Kellogg, Idaho |
| 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 30, 1963

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1962, 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

| | 1962 | 1961 | 1960 |
|--|-------------|-------------|-------------|
| Tons ore milled..... | 619,946 | 742,934 | 727,759 |
| Pounds lead in concentrates..... | 9,526,354 | 13,013,437 | 12,746,553 |
| Pounds zinc in concentrates..... | 31,593,977 | 31,858,414 | 29,128,840 |
| Receipts from sale of concentrates..... | \$2,132,685 | \$3,000,827 | \$2,136,604 |
| Stored lead concentrates..... | — | (424,242) | 424,242 |
| Other income | 73,519 | 74,862 | 68,153 |
| Div. from Reeves MacDonald Co..... | 264,561 | 279,811 | 283,289 |
| Costs | 2,192,075 | 2,324,688 | 2,368,597 |
| Income before charges..... | 278,690 | 606,570 | 543,692 |
| Depletion and depreciation..... | 379,213 | 400,765 | 393,135 |
| Provision for income tax..... | 39,684 | 100,985 | 71,108 |
| Claim for refund of Fed. Income Tax..... | 62,786 | — | — |
| Net income (loss)..... | (77,421) | 59,010 | 30,358 |
| E. & M. J. average metal quotations: | | | |
| Lead per pound, New York..... | 9.63c | 10.87c | 11.95c |
| Zinc per pound, E. St. Louis..... | 11.62c | 11.54c | 12.95c |

The lead-zinc situation further deteriorated in 1962, the combined metals price declining from 22.41c in 1961 to 21.25c in 1962, again causing disappointing financial results for the year.

In an attempt to offset the unprofitable prices an effort was made to increase the grade of ore milled by selective mining. We succeeded in improving the mill heads by 10%, but the tonnage milled was reduced and operating costs increased.

Gross value of concentrates produced amounted to \$2,132,685.16, compared with \$2,461,497.48 in 1961, a reduction of \$328,812.32 in receipts.

The gross income for the year was \$278,689.87 before write-offs, while the operation resulted in a net loss of \$77,421.30, compared with a net income of \$59,009.73 for 1961.

Underground development expenditures totalled \$277,067.61 and consisted of 5543 feet drifts and raises, 69,764 cubic feet station excavation and 47,719 feet diamond and long-hole percussion drilling.

Expenditures for plant and equipment amounted to:

| | |
|-------------------|---------------------|
| Surface | \$ 44,526.49 |
| Underground | \$ 80,461.87 |
| Total | <u>\$124,988.36</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 throughout the year and produced 33,518 dry tons concentrates from 417,448 tons ore. The concentrates had the following metal content:

| |
|----------------------|
| 41,830 ozs. Silver |
| 9,161,915 lbs. Lead |
| 29,201,409 lbs. Zinc |
| 166,867 lbs. Cadmium |

Over production of lead and zinc worldwide continued and caused prices to decline to new lows, the lowest since 1946 — making the results for the year disappointing and unsatisfactory.

The gross income amounted to \$376,590 and after charging off the amount of \$326,288 for amortization and depreciation, and provision for income and mining taxes in the amount of \$7,500, the net income for the year amounted to \$42,802.

Development work was concentrated on the main orebody below the 1900 foot level. The shaft was extended from the 420 foot level to 55 feet above sea level and is now 1845 feet vertically, and has a slope distance of 2209 feet below the 1900 foot level.

The development work consisted of 408 feet of shaft, 6,989 feet of drifts and raises, 131 feet of stations and 7,101 feet of diamond drilling.

Capital Expenditures during 1962 were as follows:

| | |
|---------------------------|----------------------|
| Surface | \$ 17,937.72 |
| Underground | 155,467.18 |
| Total | <u>173,404.90</u> |
| Outside Exploration | 21,250.47 |
| Total | <u>\$194,655.37”</u> |

GENERAL

The entire production of concentrates at both properties was shipped as produced.

At Pend Oreille a new labor agreement was negotiated with the United

Steelworkers of America which provided for wage increases and other benefits. At Reeves negotiations were in process at year end with Mine, Mill and Smelter Workers and have not yet been concluded.

Pend Oreille did not declare a dividend in 1962, having paid one of 20 cents on December 30, 1961; but your Directors authorized a distribution of 10 cents per share on March 29, 1963, payable May 10, 1963, to shareholders of record April 20, 1963. Reeves MacDonald paid a dividend of 20 cents a share on April 16, 1962.

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

| | PEND OREILLE | | REEVES | |
|-----------------------|--------------|-------------|------------|-------------|
| | 1962 | 1961 | 1962 | 1961 |
| Current Assets | \$2,267,760 | \$2,153,830 | \$ 798,931 | \$1,117,239 |
| Liabilities | 191,087 | 247,349 | 128,488 | 156,351 |
| Working Capital | \$2,076,673 | \$1,906,481 | \$ 670,443 | \$ 960,888 |

Respectfully,

JENS JENSEN,
President

PEND OREILLE MINES & METALS COMPANY

Balance Sheet at December 31, 1962

A S S E T S

CURRENT ASSETS:

| | |
|--|---------------|
| Cash in banks..... | \$ 289,502.68 |
| U. S. Treasury obligations—at cost plus accrued interest (market value \$1,427,757.65)..... | 1,402,495.46 |
| Due from smelter..... | 228,926.35 |
| Other accounts receivable..... | 8,788.49 |
| Operating supplies—at lower of cost or market..... | 263,914.05 |
| Prepaid insurance..... | 10,904.56 |
| Claims for refund of federal income taxes..... | 63,227.94 |
| Total current assets..... | 2,267,759.53 |

INVESTMENTS:

| | |
|---|---------------|
| Reeves MacDonald Mines, Ltd. (a Canadian sub- sidiary): 1,389,000 shares of stock—at cost..... | \$ 574,565.42 |
| Shares of other mining companies—nominal value..... | 1.00 |
| | 574,566.42 |

PROPERTY, PLANT AND EQUIPMENT:

| | |
|--|----------------|
| Mining property, development and land..... | \$3,577,499.86 |
| Less: Accumulated depletion and amortization..... | 1,567,897.83 |
| | 2,009,602.03 |
| Buildings, plant and equipment..... | 6,207,850.11 |
| Less: Accumulated depreciation..... | 4,619,405.68 |
| | 1,588,444.43 |
| | 3,598,046.46 |

| | |
|-------------------|----------------|
| OTHER ASSETS..... | 5,551.27 |
| | \$6,445,923.68 |

L I A B I L I T I E S

CURRENT LIABILITIES:

| | |
|---------------------------------|---------------|
| Accounts payable..... | \$ 96,183.35 |
| Payroll payable..... | 14,041.31 |
| Provision for taxes..... | 32,430.48 |
| Pension plan costs payable..... | 48,432.00 |
| Total current liabilities..... | \$ 191,087.14 |

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 |
| | 2,438,236 shares | 2,438,236.00 |
| Treasury stock..... | 50,100 shares | 50,100.00 |
| | 2,388,136 shares | 2,388,136.00 |
| Outstanding..... | | |
| Capital contributed for shares in excess of par value, less charges thereagainst..... | | 3,866,700.54 |
| | | 6,254,836.54 |

\$6,445,923.68

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, 1962, 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 14, 1963

LEMASTER & DANIELS
Certified Public Accountants

PEND OREILLE MINES & METALS COMPANY

Statement of Income, Year Ended December 31, 1962

INCOME FROM SALES:

| | |
|--|---------------------|
| Gross value of concentrates sold less smelter charges..... | \$2,399,454.73 |
| Less: Transportation charges..... | 266,769.57 |
| | <u>2,132,685.16</u> |
| Deduct: Direct operating costs..... | 2,023,306.95 |
| | <u>109,378.21</u> |

Gross profit on sales before depletion and depreciation

GENERAL AND ADMINISTRATIVE EXPENSES AND TAXES.....

168,768.52

Loss before undernoted items.....

59,390.31

OTHER INCOME:

| | | |
|--|-------------------|------------|
| Dividends received | \$ 264,561.09 | |
| Interest, rents, gains and discounts..... | 73,519.09 | 338,080.18 |
| | <u>338,080.18</u> | |
| Income before depletion, depreciation and income taxes..... | | 278,689.87 |

PROVISION FOR DEPRECIATION AND DEPLETION:

| | | |
|--|-------------------|------------|
| Depreciation | 317,182.91 | |
| Depletion | 62,030.43 | 379,213.34 |
| | <u>379,213.34</u> | |
| Loss before income tax adjustment..... | | 100,523.47 |

INCOME TAX ADJUSTMENT:

| | | |
|--------------------------------------|------------------|-----------|
| Refundable federal income taxes..... | 62,786.33 | |
| Less: Canadian income tax paid..... | 39,684.16 | 23,102.17 |
| | <u>23,102.17</u> | |

NET LOSS FOR THE YEAR.....

\$ 77,421.30

STATEMENT OF CONTRIBUTED CAPITAL

| | |
|--|-----------------------|
| BALANCE, JANUARY 1, 1962..... | \$3,944,121.84 |
| DEDUCT: | |
| Net loss for the year ended December 31, 1962..... | 77,421.30 |
| | <u>77,421.30</u> |
| BALANCE, DECEMBER 31, 1962..... | <u>\$3,866,700.54</u> |

OPERATING COSTS

For the Year Ended December 31, 1962

| | | |
|--|-----------------------|----------------|
| Tons Ore Milled..... | 619,946 | |
| | <i>Amount</i> | <i>Per Ton</i> |
| Development | \$ 228,817.08 | \$0.369 |
| Diamond Drilling | 48,250.53 | 0.078 |
| Mining | 985,921.20 | 1.590 |
| Milling | 477,825.51 | 0.771 |
| Other Direct Operating Costs..... | 282,492.63 | 0.456 |
| | <u>\$2,023,306.95</u> | <u>\$3.264</u> |
| Total Operating Costs..... | | |
| Administrative and general expenses..... | 49,583.92 | 0.080 |
| Taxes, other than income..... | 119,184.60 | 0.192 |
| | <u>\$2,192,075.47</u> | <u>\$3.536</u> |
| Total Costs | | |

REEVES MACDONALD MINES LIMITED

Statement of Income and Earned Surplus

For the Year Ended December 31, 1962

INCOME FROM PRODUCTION:

| | |
|--|----------------------|
| Gross value of concentrates produced less smelter charges..... | \$1,785,791.42 |
| Less transportation charges..... | 168,591.72 |
| | <u>1,617,199.70</u> |
| Deduct cost of production..... | 1,192,538.01 |
| Gross profit on production..... | <u>\$ 424,661.69</u> |

| | |
|--|-----------|
| GENERAL AND ADMINISTRATIVE EXPENSES..... | 56,425.75 |
|--|-----------|

| | |
|-------------------------------------|----------------------|
| Profit before undernoted items..... | <u>\$ 368,235.94</u> |
|-------------------------------------|----------------------|

OTHER INCOME:

| | |
|-------------------------------|-------------------|
| Interest on bank deposit..... | 8,353.56 |
| | <u>376,589.50</u> |

DEDUCT:

| | |
|---|-------------------|
| Depreciation | \$ 120,037.31 |
| Shaft sinking and exploration expenses..... | 206,250.47 |
| | <u>326,287.78</u> |

| | |
|------------------------------------|-----------|
| Income before taxes on income..... | 50,301.72 |
|------------------------------------|-----------|

| | |
|--|----------|
| PROVISION FOR INCOME AND MINING TAXES..... | 7,500.00 |
|--|----------|

| | |
|------------------------------|------------------|
| Net income for the year..... | <u>42,801.72</u> |
|------------------------------|------------------|

| | |
|---|------------|
| UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1961..... | 347,834.84 |
|---|------------|

| | |
|--|-------------------|
| Add transfer from appropriated earned surplus..... | 150,000.00 |
| | <u>540,636.56</u> |

DEDUCT:

| | |
|--|------------|
| Dividend No. 10 at 20 Cents per share..... | 467,600.00 |
|--|------------|

| | |
|---|----------------------------|
| UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1962..... | <u><u>\$ 73,036.56</u></u> |
|---|----------------------------|

OPERATING COSTS

For the Year Ended December 31, 1962

| | | |
|--|------------------------------|-----------------------|
| Tons Ore Milled..... | 417,448 | |
| | <i>Amount</i> | <i>Per Ton</i> |
| Mining | \$ 638,529.78 | \$1.530 |
| Milling | 361,323.29 | 0.865 |
| Other Direct Operating Costs..... | 192,684.94 | 0.462 |
| Total Operating Costs..... | <u>\$1,192,538.01</u> | <u>\$2.857</u> |
| Administrative and General Expenses..... | 43,297.51 | 0.104 |
| Property Taxes | 13,128.24 | 0.031 |
| Total Costs | <u><u>\$1,248,963.76</u></u> | <u><u>\$2.992</u></u> |

REEVES MACDONALD MINES LIMITED

Balance Sheet as at December 31, 1962

ASSETS

CURRENT ASSETS:

| | |
|--|---------------|
| Cash on hand and in bank..... | \$ 448,445.52 |
| Concentrate settlements outstanding..... | 160,494.11 |
| Accounts receivable | 11,949.24 |
| Estimated income taxes recoverable..... | 3,234.10 |
| Stores on hand, valued at cost..... | 155,541.71 |
| Prepaid expenses | 19,265.93 |

\$ 798,930.61

BUILDINGS, PLANT AND EQUIPMENT — at cost 2,220,103.92

Less accumulated depreciation..... 1,892,309.50

327,794.42

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 below)..... | 86,602.83 |
|--|-----------|

NOTE: Charges to income for amortization of shaft sinking expenses have not been related to production, but have been the amounts claimed for tax purposes.

\$3,210,660.73

LIABILITIES

CURRENT LIABILITIES:

| | |
|---|---------------|
| Accounts payable and accrued liabilities..... | \$ 128,487.67 |
|---|---------------|

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 |
|--|--------------|

Capital Surplus:

| | |
|--|------------|
| Arising from conversion of no par value shares to par value shares in year ended August 31, 1938..... | 221,136.50 |
|--|------------|

Earned Surplus:

| | |
|--|------------|
| Appropriated for expenditures made on prop- erty, plant and equipment (after transfer in 1962 of \$150,000 to unappropriated surplus) \$ | 450,000.00 |
| Unappropriated | 73,036.56 |

523,036.56

ON BEHALF OF THE BOARD:

JENS JENSEN, *Director*

JOSEPHINE WHITEHOUSE, *Director*

\$3,210,660.73

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Reeves MacDonald Mines Limited as at December 31, 1962 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

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, 1962 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.
March 4, 1963

HELLIWELL, MACLACHLAN & Co.
Chartered Accountants