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Annual Report

OF THE

Pend Oreille Mines & Metals Co.

FOR THE YEAR ENDED

December 31, 1960



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 Spokane.....	Spokane, Washington
The Royal Trust Company.....	Toronto, Ontario
The Royal Trust Company.....	Vancouver, B. C.

PEND OREILLE MINES & METALS COMPANY

Spokane, Washington
March 31, 1961

TO OUR SHAREHOLDERS:

We submit the Annual Report for year ended December 31, 1960, 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

	1960	1959	1958
Tons ore milled.....	727,759	619,779	607,695
Pounds lead in concentrates.....	12,746,553	15,636,497	12,063,195
Pounds zinc in concentrates.....	29,128,840	21,636,820	24,191,398
Receipts from sale of concentrates.....	\$2,136,604	\$2,407,438	\$2,107,568
Lead concentrates on hand at cost.....	424,242	-----	-----
Other income	68,153	61,139	55,220
Div. from Reeves MacDonald Co.....	283,289	182,763	180,624
Operating costs	2,368,597	2,097,217	1,995,864
Income before charges.....	543,692	554,124	347,548
Depletion & Depreciation.....	393,135	463,784	515,102
Provision for Income Tax.....	71,108	13,834	9,031
Tax refund from loss carry-back.....	-----	-----	54,497
Net income (Loss)	30,358	(7,833)	(122,088)
E. & M. J. average metal quotations:			
Lead per pound, New York.....	11.95c	12.21c	12.11c
Zinc per pound, E. St. Louis.....	12.95c	11.45c	10.31c

Your property was operated without interruption throughout 1960. 727,759 tons ore were mined and milled compared with 619,779 tons in 1959. Operating costs were reduced to \$3.004 per ton from \$3.116 the previous year, and total costs to \$3.254 from \$3.384.

Gross income for the year amounted to \$543,691.71 before write-offs, and net income after depletion, depreciation, special expenditures in Federal Power Commission proceedings, and provisions for Federal income taxes, amounted to \$30,358.30 compared with a loss of \$7,833.30 in 1959.

In spite of decreased metal consumption in the United States the quotations held steady at 12c for lead and 13c for zinc for eleven months of the year, but began to decline in December, and are currently 11c per pound for lead and 11½c per pound for zinc. The forecast early in 1960 for increased consumption and prices did not materialize.

The quotas on imports that were established in September 1958 continued in effect during the year without providing any noticeable improvement in the marketing situation; excessive and unneeded imports of concentrates and metals per-

sisted. Our industry is continuing its efforts to have the Congress enact corrective legislation, or the Administration provide relief.

Underground development expenditures totalled \$305,132.44 and consisted of 6,725 feet drifts and raises, 25,380 cubic feet station excavation and 67,215 feet diamond and long-hole percussion drilling.

Expenditures for plant and equipment in 1960 were as follows:

Surface	\$ 13,129.88
Underground	166,016.87
Total	<u>\$179,146.75</u>

In our annual report for 1959 we summarized details of proceedings before the Federal Power Commission resisting the applications of the City of Seattle and the Public Utility District of Pend Oreille County for granting of licenses for the construction of dams on the Pend Oreille River in the area of the Meteline Mining District, because of possible damage to the mines.

The proceedings to resist the applications continued throughout 1960 with the latest hearing being held in Washington, D. C. in November, and we were again compelled to incur substantial expenditures.

Notwithstanding the recommendations of the U. S. Army Engineers in 1947 that,

“Boundary Dam, therefore, is proposed only for future consideration at such time as the mines have been worked out or the area becomes dormant, or the need for power transcends the national value of the minerals”,

and notwithstanding the several letters of the Department of Interior to the Chairman of the Federal Power Commission, the last one in 1960, which reads in part as follows:

“In view of the importance of the ore reserves in the Pend Oreille Mining District to the welfare and security of the United States, it is recommended that any application for license for dam construction on the Pend Oreille River between Box Canyon Dam and the Canadian Boundary be rejected”,

the Hearing Examiner of the Federal Power Commission on March 10, 1961 issued a decision to the effect that a license for the construction of Boundary Dam with reservoir elevation to 1990 should be issued to Seattle.

In his decision the Examiner 1) recognizes that substantial reserves of lead and zinc exist in the area, that they are valuable and constitute a strategic reserve 2) the Examiner further recognized that all witnesses agreed that if there were open channelways extending from the reservoir to present or future mine workings, reservoir water would move into the mines 3) he conceded that there was no evidence that such openings do not exist and that there is no way to prove or disprove that they do not exist 4) he recognized the possibility of flooding the mines does exist, but 5) contrariwise concludes the chances of flooding are “small”. His only provision for protection of the mines is a requirement for outlets in the dam for emergency reservoir evacuation.

We continue to maintain the position that the mineral resources of the area cannot be replaced if inundated, and that the Federal Power Commission should,

as the Department of Interior also recommends, reject any application for a dam between Box Canyon and the Canadian Boundary.

The Examiner's decision is subject to review by the Federal Power Commission itself, and steps are being taken by your company and the other mining interests to obtain such review.

REEVES MACDONALD MINES LIMITED

There is appended copy of Balance Sheet, Statement of Income and Earned Surplus, and Statement of Operating Costs for this company of which Pend Oreille owns 59.4% of the outstanding shares.

The Reeves property was also operated uninterruptedly during 1960 and 411,282 tons ore were mined and milled. The concentrates produced therefrom contained the following metals:

33,983 ozs. Silver
7,399,020 lbs. Lead
25,339,456 lbs. Zinc
159,857 lbs. Cadmium

The gross income amounted to \$646,729.07 before write-offs, and the net income for the year was \$66,722.56, as detailed on the appended statement.

Development work was accelerated below the 1900 level of the main Reeves orebody as well as in the No. 4 orebody to prepare these blocks for mining. This work consisted of 5,581 feet drifts and raises, 145 feet shaft and 1,738 feet of test drilling.

Expenditures for plant and equipment in 1960 were as follows:

Surface	\$ 49,958.06
Underground	90,960.10
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	\$140,918.16
And for outside exploration.....	15,618.99
	<hr/>
Total	\$156,537.15

GENERAL

All the zinc concentrates that we produced at both properties were disposed of during 1960, but the lead concentrates only the first four months. A strike at the Smelter and lack of demand from other smelters made it necessary to stock-pile the lead concentrates for the rest of the year.

Commencing with 1961 the current production of both lead and zinc has been shipped as produced. We also commenced shipping the stored concentrates in February, and the smelter has agreed to accept shipments as fast as its facilities permit.

Pend Oreille paid dividend No. 11 April 28, 1960 of 25c per share, amounting to \$597,034.00 and Reeves paid dividend No. 8 June 27, 1960 of 20c per share, amounting to \$467,600.00.

The financial position of both companies at December 31, 1960, compared with the previous year, follows:

	Pend Oreille		Reeves	
	1960	1959	1960	1959
Current Assets.....	\$2,258,348	\$2,641,994	\$1,175,966	\$1,197,548
Current Liabilities.....	239,928	212,173	131,494	144,615
Working Capital	\$2,018,420	\$2,429,821	\$1,044,472	\$1,052,933

There is as yet no indication of any substantial improvement in the demand for the metals, and the prevailing prices are too low for profitable operation, but it is expected that with general business conditions improving, which is now predicted for the second quarter of 1961, the demand for metals will also improve and result in a better price structure.

Respectfully,

JENS JENSEN,
President.

PEND OREILLE MINES & METALS COMPANY

Condensed Balance Sheet at December 31, 1960

ASSETS

CURRENT ASSETS:

Cash on hand and in banks.....	\$ 331,474.60
U. S. Treasury Notes—at cost plus accrued interest (market value \$1,058,694.75).....	1,003,694.75
Due from smelter.....	230,762.42
Other accounts receivable.....	63,148.34
Lead concentrates on hand at lower of cost or market less advances from smelter in the sum of \$48,000.00.....	376,242.10
Operating supplies at lower of cost or market.....	242,967.11
Prepaid insurance	10,058.55
	<u>\$2,258,347.87</u>

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
	<u>574,566.42</u>

PROPERTY, PLANT AND EQUIPMENT:

Mining property, development and land, less depletion	2,238,048.75
Buildings, plant and equipment, less depreciation....	1,912,978.75
	<u>4,151,027.50</u>

OTHER ASSETS	6,862.00
	<u>\$6,990,803.79</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 99,598.51
Payroll payable.....	14,496.83
Provision for taxes.....	86,033.14
Pension plan costs payable.....	39,800.00
	<u>\$ 239,928.48</u>

CAPITAL:

Capital contributed:

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
	<u>2,388,136 shares</u>	<u>2,388,136.00</u>

Capital contributed for shares in excess of par

value less charges thereagainst.....	<u>4,362,739.31</u>
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6,750,875.31

\$6,990,803.79

ACCOUNTANTS' CERTIFICATE

PEND OREILLE MINES & METALS COMPANY
Spokane, Washington

In our opinion, the accompanying balance sheet and statement of income and surplus present fairly the financial position of Pend Oreille Mines & Metals Company at December 31, 1960, 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.

Spokane, Washington
March 24, 1961

LEMASTER & DANIELS
Certified Public Accountants

PEND OREILLE MINES & METALS COMPANY
Condensed Statement of Income and Retained Earnings
For the Year Ended December 31, 1960

INCOME FROM SALES:

Gross value of concentrates sold less smelter charges.....		\$2,376,720.91
Less: Transportation charges.....		<u>240,116.71</u>
Deduct:		2,136,604.20
Direct operating costs.....	\$2,186,550.52	
Less: Ending inventory of concentrates—at cost.....	<u>424,242.10</u>	
		<u>1,762,303.42</u>
Gross profit on sales before depletion and depreciation		374,295.78

**GENERAL AND ADMINISTRATIVE
EXPENSES AND TAXES.....**

182,046.27

Profit before undernoted items.....
192,249.51

OTHER INCOME:

Dividends received	283,288.72	
Interest, rents, gains and discounts.....	<u>68,153.48</u>	
		<u>351,442.20</u>

Income before depletion, depreciation, special charge
and income taxes.....
543,691.71

PROVISION FOR DEPLETION AND DEPRECIATION:

Depletion	72,526.80	
Depreciation	<u>320,608.21</u>	
		<u>393,135.01</u>

Income before special charge and income taxes.....
150,556.70

SPECIAL CHARGE:

Expenses in connection with dam hearings before the Federal Power Commission.....		<u>49,090.02</u>
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Income before income taxes.....
101,466.68

PROVISION FOR INCOME TAXES:

Federal income tax.....	56,943.94	
Canadian income tax paid.....	<u>14,164.44</u>	
		<u>71,108.38</u>

Net income for the year.....
30,358.30

RETAINED EARNINGS AT DECEMBER 31, 1959:

Balance as shown on prior year's report.....	146,436.54	
Add: Adjustment of depreciation for prior years less federal income taxes thereon.....	<u>77,943.35</u>	
		<u>224,379.89</u>

DEDUCT:

Dividend No. 11 at 25 cents a share paid April 28, 1960....	597,034.00	
Less: Portion paid out of contributed capital.....	<u>342,295.81</u>	
		<u>\$254,738.19</u>

OPERATING COSTS

For the Year Ended December 31, 1960

Tons Ore Milled.....		727,759	
	<i>Amount</i>		<i>Per Ton</i>
Development	\$ 305,132.44		\$0.419
Mining	1,082,550.97		1.488
Milling	522,023.73		0.717
Other direct operating costs.....	<u>276,843.38</u>		<u>0.380</u>
Total Operating Costs.....	2,186,550.52		3.004
Administrative and general expenses.....	54,341.71		0.075
Taxes, other than income.....	<u>127,704.56</u>		<u>0.175</u>
Total Costs	<u>\$2,368,596.79</u>		<u>\$3.254</u>

REEVES MACDONALD MINES LIMITED

Statement of Income and Earned Surplus

For the Year Ended December 31, 1960

INCOME FROM PRODUCTION:

Gross value of concentrates produced less smelter charges.....	\$1,965,261.66
Less transportation charges.....	148,235.54
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	1,817,026.12
Deduct cost of production.....	1,131,452.63
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Gross profit on production.....	\$ 685,573.49

GENERAL AND ADMINISTRATIVE EXPENSES.....

54,286.12

Profit before undernoted items.....	\$ 631,287.37
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OTHER INCOME:

Interest on bank deposit.....	\$ 15,348.63	
Discounts taken	93.07	15,441.70
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<i>Income before depreciation, amortization of preproduction expenses, and income taxes</i>		646,729.07

DEDUCT:

Depreciation	\$189,346.84	
Amortization of preproduction expenses (See note to balance sheet).....	224,294.57	
Shaft sinking and exploration expenses.....	136,742.17	550,383.58
	<hr/>	<hr/>
Income before taxes on income.....		96,345.49

PROVISION FOR INCOME AND MINING TAXES.....

29,622.93

Net income for the year.....	66,722.56
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UNAPPROPRIATED EARNED SURPLUS AT

DECEMBER 31, 1959.....	744,646.67
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	\$ 811,369.23

DEDUCT:

Dividend No. 8 at 20 Cents per Share.....	\$467,600.00	
Incorporation Expense written off.....	1,727.50	469,327.50
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UNAPPROPRIATED EARNED SURPLUS AT DECEMBER 31, 1960.....	\$ 342,041.73
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OPERATING COSTS

For the Year Ended December 31, 1960

Tons Ore Milled.....	411,282	
	<i>Amount</i>	<i>Per Ton</i>
Mining	\$ 523,121.07	\$1.272
Milling	407,955.67	0.992
Other direct operating costs.....	200,375.89	0.487
	<hr/>	<hr/>
Total Operating Costs.....	\$1,131,452.63	\$2.751
Administrative and General Expences.....	40,970.14	0.100
Taxes	13,315.98	0.032
	<hr/>	<hr/>
Total Costs	\$1,185,738.75	\$2.883

REEVES MACDONALD MINES LIMITED

Balance Sheet as at December 31, 1960

ASSETS

CURRENT ASSETS:

Cash on hand and in banks.....	\$ 741,316.45
Concentrate settlements outstanding.....	97,128.58
Concentrates on hand at estimated realizable values	162,524.90
Accounts receivable	13,800.43
Stores on hand, per physical inventory, valued at cost	141,967.80
Prepaid expenses	19,228.27

\$1,175,966.43

BUILDINGS, PLANT AND EQUIPMENT—at cost	2,106,232.12
Less accumulated depreciation.....	1,620,885.24

485,346.88

MINING PROPERTIES:

At cost (including those acquired for shares and valued by the directors at \$2,000,000.00), less realizations	1,997,332.87
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PREPRODUCTION DEVELOPMENT AND HOLDING EXPENSES:

Balance at December 31, 1959	897,178.26
Less accumulated amortization (see note below)....	728,836.67

168,341.59

DEFERRED CHARGES:

Mine shaft preparation.....	205,684.28
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NOTE: In the years 1956 to 1960 inclusive, charges to income for amortization of preproduction expenses and shaft sinking expenses have not been related to production, but have been the amounts claimed for tax purposes.

\$4,032,672.05

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities.....	\$ 116,156.82
Estimated income and mining taxes payable.....	15,337.00

\$ 131,493.82

SHARE CAPITAL:

Authorized— 3,000,000 shares of \$1.00 each.....	\$3,000,000.00
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Issued— 2,338,000 shares of \$1.00 each.....	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

EARNED SURPLUS:

Appropriated for expenditures made on property, plant and equipment (after transfer in 1959 of \$500,000.00 to unappropriated surplus)	1,000,000.00
Unappropriated	342,041.73

1,342,041.73

On Behalf of the Board:

JENS JENSEN, *Director*

JOSEPHINE WHITEHOUSE, *Director*

\$4,032,672.05

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Reeves MacDonald Mines Limited as at December 31, 1960 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, and 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, 1960 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 3, 1961

HELLIWELL, MACLACHLAN & Co.,
Chartered Accountants