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BRUNSWICK MINING AND SMELTING CORPORATION LIMITED

(NO PERSONAL LIABILITY)

Annual Report 1979

noranda group

BRUNSWICK MINING AND SMELTING CORPORATION LIMITED

(NO PERSONAL LIABILITY)

Head Office: Bathurst, N.B.
Executive Office: Suite 4500, Commerce Court West, Toronto, Ont. M5L 1B6

ANNUAL MEETING

May 23, 1980, 10:30 a.m., (Atlantic Time) in the Colonial Room, at Danny's Motel, Bathurst, N.B.

DIRECTORS

E. K. Cork, Toronto, Ont.

Gilbert Finn*, Moncton, N.B.

J. A. Hall, Toronto, Ont.

K. C. Hendrick*, Toronto, Ont.

J. O. Hinds, Toronto, Ont.

William James*, Toronto, Ont.

Gilbert Kerlin*, New York, N.Y.

James A. MacMurray, Saint John, N.B.

André Monast, Quebec, P.Q.

B. H. Morrison, Toronto, Ont.

Alfred Powis*, Toronto. Ont.

*Member of Executive Committee

OFFICERS

William James, President

Alfred Powis, Vice-President

E. K. Cork, Vice-President – Finance and Treasurer

J. W. Ivany, Secretary

B. H. Grose, Assistant Secretary

B. C. Bone, Assistant Treasurer

D. H. Ford, Comptroller

MANAGERS

Mining Division
J. W. Moerman

Smelting Division
A. Young

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada
Toronto, Ont. and Montreal, P.Q.
and its agent

The Central & Nova Scotia
Trust Company of Canada, Fredericton, N.B.

AUDITORS

Clarkson Gordon, Toronto, Ont.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Earnings and Dividends

Operations at both the mine and smelter ran smoothly during 1979. The combination of a continuing favourable exchange rate for the Canadian dollar and strong metal prices throughout the year provided a 54% increase in net revenues over those of 1978. As a result net earnings were $70.5 million or $2.06 per share in 1979 compared to $25.6 million or 75¢ per share in 1978.

This earnings performance produced a 28% rate of return on net assets, which is more than double that earned during 1978. The average rate of return during the eight-year period since the financial and operating reorganization in 1971 is 10%.

The improved fortunes of the company permitted payment of more than a token dividend for the first time in its history. Dividends were paid in all four quarters of 1979 and totalled 90¢ per share, compared to 10¢ per share in the previous year.

Silver Prices and Hedging

The most significant variable affecting 1979 earnings was the increase in the price of silver, which rose from $6.00 U.S. on the New York Commodity Exchange in January to $34.45 U.S. at year-end, and averaged $11.19 U.S. for the year, versus an average of $5.40 U.S. for 1978. Production of payable silver in 1979 was about 5.1 million ounces. At these higher prices, silver changed from a by-product metal to a major factor influencing the company's profitability.

In November, 3.7 million ounces of Brunswick's future silver production were sold forward at $21.00 Canadian. One million ounces were allocated to 1979 production and 2.7 million ounces were allocated to 1980 production. The hedging operation was undertaken to ensure that part of our silver production would be sold at what appeared to be reasonably high prices. Although we were well aware of the inherent risks associated with a hedging operation, little did we realize at the time that the machinations of a few individuals would turn the silver futures market into the world's biggest crap game. Silver rose dramatically and peaked at $50.35 U.S. on January 18, 1980, then fell to the $33-$37 U.S. range through February. It has since tumbled to as low as $10.20 U.S. and is currently $12.50 to $14.00 U.S.

With this spectacular and unprecedented rocketing of the silver price, the company was required to provide substantial margin deposits in order to maintain its hedged position. At year-end, margin deposits were $61.2 million, causing the bank indebtedness of $60.5 million shown on the balance sheet. These deposits rose to a high point of $130 million on January 18, 1980. With the falling silver price, margin deposits had been reduced to $26 million as of March 31, 1980.

On balance we walked away from the table neither bloodied nor bowed and at the time of writing our hedged silver position is at prices above the prevailing market. Revenue from silver sales in 1980 should cover most of the operating costs for the year.

Financial Position

The high earnings together with the reduction of zinc concentrate inventories resulted in the company's financial position strengthening consistently as the year progressed. Funds generated were just over $115 million and this enabled the company to undertake a number of necessary capital projects which had been delayed due to the financial constraints of the past few years. Capital expenditures totalled $22.8 million, including $10.1 million spent on the expansion project. Surplus funds beyond dividend and capital expenditure requirements were used to retire long-term debt obligations ahead of schedule.

Investments

On November 16, 1979 Brunswick purchased 38.2% of the shares of Frenswick Holdings Limited for $50 million. The other Frenswick shareholders are Brenda Mines Ltd. (38.2%) and Fraser Inc. (23.6%). Frenswick used the $131 million contributed by its shareholders to acquire a 36.3% interest in Zinor Holdings Limited. The other shareholders of Zinor are Kerr Addison Mines Limited (27.4%) and Placer Development Limited (36.3%). Zinor used the $171 million contributed by its shareholders, together with $95 million borrowed from banks to purchase 14 million treasury shares of Noranda Mines Limited. Kerr Addison and Placer had also transferred a total of 9,980,202 common shares of Noranda to Zinor as part of their payment for their interest in Zinor. As a result, Zinor owns 23,980,202 common shares of Noranda or about 21.2% of the common shares of Noranda outstanding at March 3, 1980.

The structure of these holding companies is such that Brunswick can equity account for its share of the earnings of Noranda and the contribution to earnings from this source for the six-week period subsequent to November 16 was $2.3 million or 7¢ per Brunswick share.

In early 1980 Zinor shareholders funded the repayment of the $95 million bank loan by purchasing additional common shares of Zinor. Brunswick purchased additional shares of Frenswick for $13.2 million to meet its share of this obligation.

A total of $12.25 million pre-tax was invested with Dome Petroleum Limited to earn net profits interests in oil and gas exploratory lands in the East Coast Offshore, Arctic Islands and Beaufort Sea. The East Coast and Arctic Islands wells were dry and abandoned. The Beaufort Sea program earned a 0.729% net profits interest in three future exploratory wells, 0.364% in the Tarsuit A-25 well which will be production tested in 1980, and 0.146% in the first step-out from the Kopanoar M-13 12,000-barrel-per-day oil discovery. All these investments were subject to the special Frontier Allowance, resulting in a relatively small after-tax cost to Brunswick. An additional $20 million was spent on the Beaufort Sea exploration program in March of 1980.

Ore Reserves

Proven and probable ore reserves as of December 31, 1979 at the No. 12 orebody were 109 million tons with a grade of 9.18% zinc, 3.76% lead, 0.32% copper and 2.81 ounces of silver per ton. Reserves at the No. 6 orebody were less than 0.5 million tons and will probably be exhausted by 1981.

General

The expansion program to increase the mining and concentrating capacity to 11,000 tons of ore per day is on schedule for January, 1981 startup.

Demand for zinc concentrate was strong and surplus stocks which the company held at the beginning of the year were sold, resulting in normal inventories at year-end. It is expected that good demand will continue through 1980 and no buildup in inventory is anticipated.

Over the year our metallurgical task force has been investigating ways to improve silver recovery by use of cyanide in the zinc concentrate. There is a possibility that this technique could provide recovery of an additional 400,000 ounces per year and would be economic at silver prices in excess of $15.00 per ounce. An engineering company is preparing an estimate of the capital cost of the plant. Some improvements have been made in silver metallurgy in the concentrator and recovery for the year has increased from 54.7% in 1978 to 57.8% in 1979.

The engineering study for the zinc reduction plant which was started in the first quarter of 1979 is continuing. Definitive capital costs have not yet been estimated but they are probably over $250 million for a 100,000 metric ton per year plant. No commitment has been made to go ahead with the project.

A mineral exploration program in northern New Brunswick was initiated during the year with expenditures of $1 million, which will be increased to $2 million in 1980.

The earnings and cash flow of 1979 have strengthened the company and, with reasonable metal markets, 1980 will also be a satisfactory year. The phasing in of the expansion in 1981 should help the company to remain competitive on a world basis in future years.

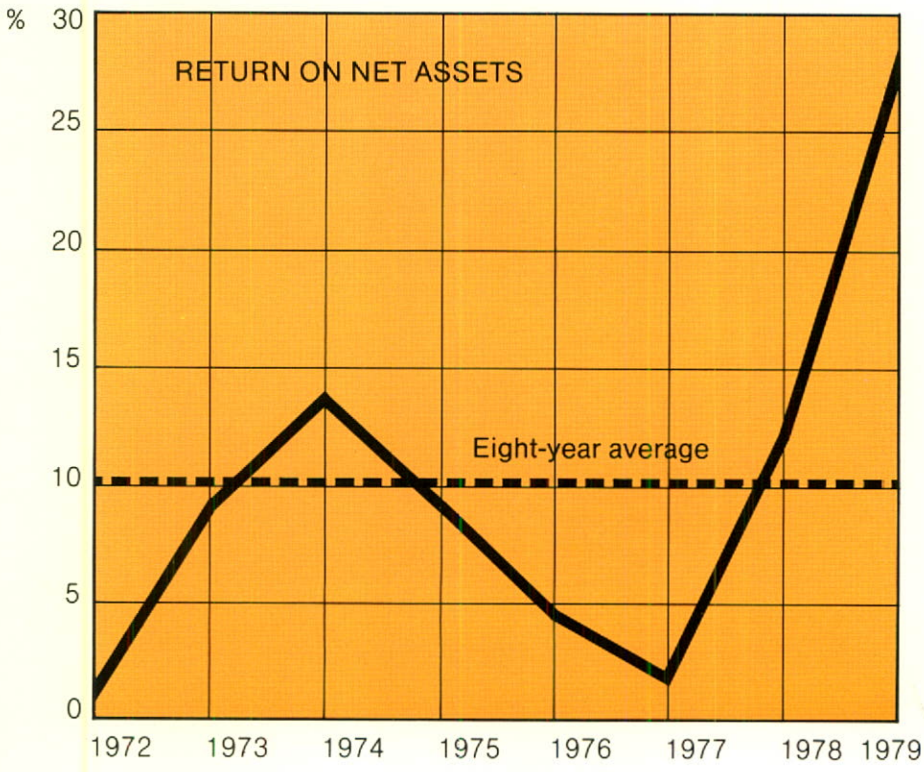
The management and employees have performed well throughout the year and have contributed to the strength of the company. The Directors are pleased to express their appreciation for the efforts and contribution of all employees.

On Behalf of the Board,

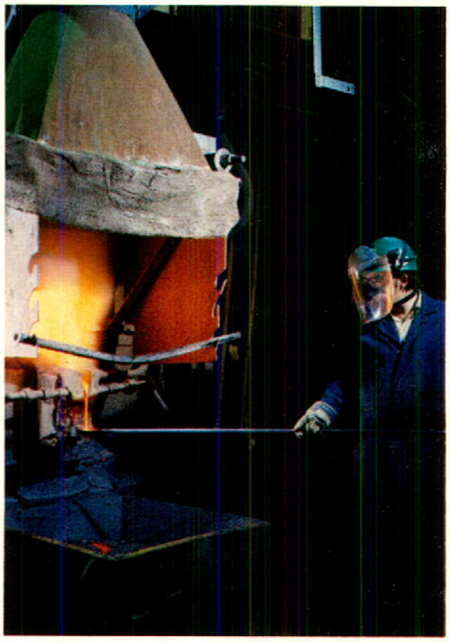
William James

WILLIAM JAMES,
President.

Toronto, Ontario,
April 3, 1980.



Silver Dore Production Furnace.



METAL MARKETS

Metal prices rose steadily throughout 1979 with very sharp increases recorded for silver and gold. With the recession forecast in the U.S.A. during 1980, downward pressure on prices has developed. However, there is basic underlying strength in the metal markets because inventories remain low, production is close to capacity and consumption growth in the 1980's will require substantial new investment in mining and processing facilities.

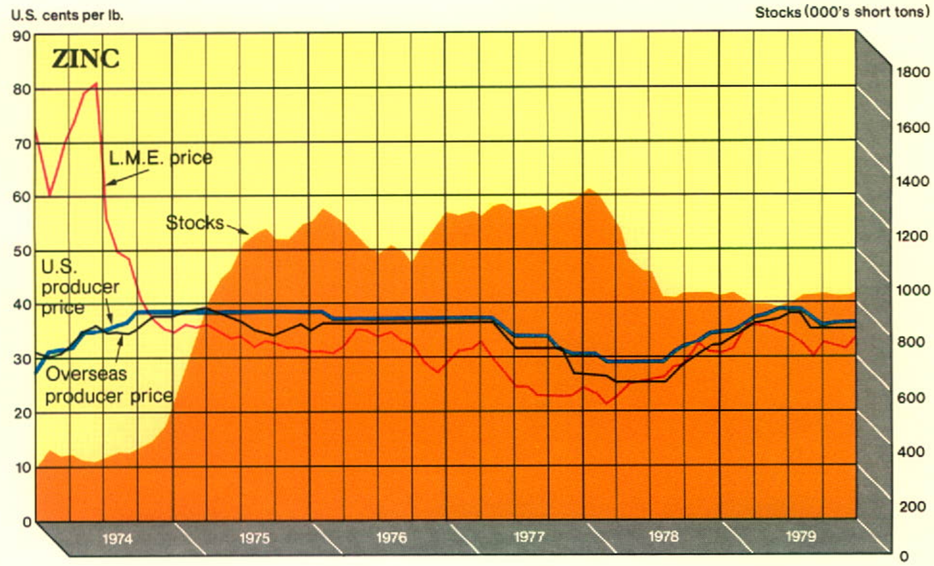
ZINC

WESTERN WORLD BALANCE — '000 Short Tons

	1977	1978	1979
Supply	4,710	4,630	5,100
Consumption	4,660	5,030	5,090
Year-end Stocks	1,215	815	825

Zinc demand was strong throughout 1979. Prices improved from U.S.$720 to $845 per metric ton in Europe and from 34½¢ to 39½¢ per pound in the U.S.A. before declining to $780 and 37½¢ respectively as the U.S. recession threatened.

Substantial purchases of zinc concentrate by Eastern bloc countries, combined with lower than expected output, reduced mine inventories in 1979 to minimal levels. This tight market condition is likely to continue until mine capacity is expanded.

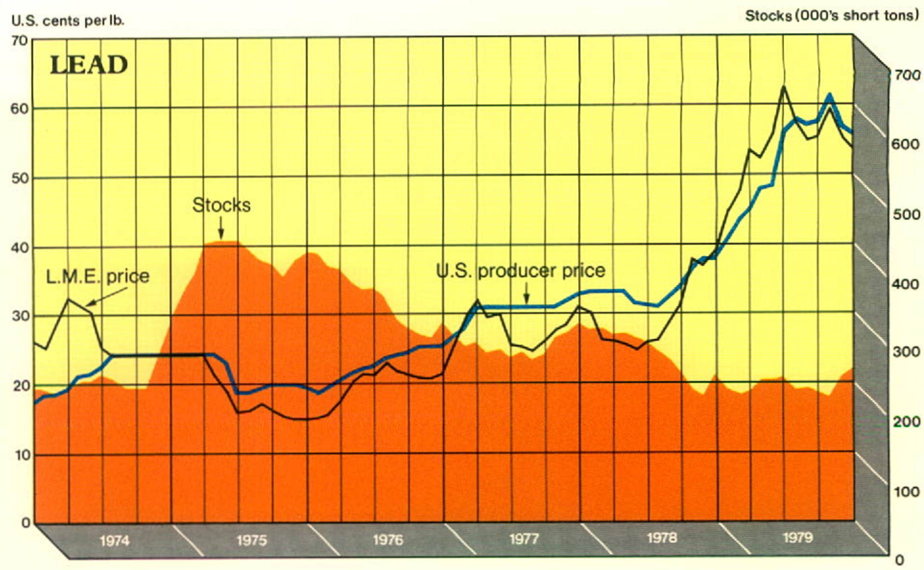


LEAD

WESTERN WORLD BALANCE — '000 Short Tons

	1977	1978	1979
Supply	4,150	4,090	4,180
Consumption	4,170	4,170	4,170
Year-end Stocks	290	210	220

The main factor affecting the lead market in 1979 was the continued substantial import of lead by the Eastern bloc countries. The resulting pressure on Western supplies kept prices at relatively high levels throughout the year despite consumption remaining virtually unchanged. Lower battery demand and greater availability of secondary lead have caused some price weakness from the year-end levels of 54½¢U.S. on the London Metal Exchange and 55-58¢ in the U.S.A.



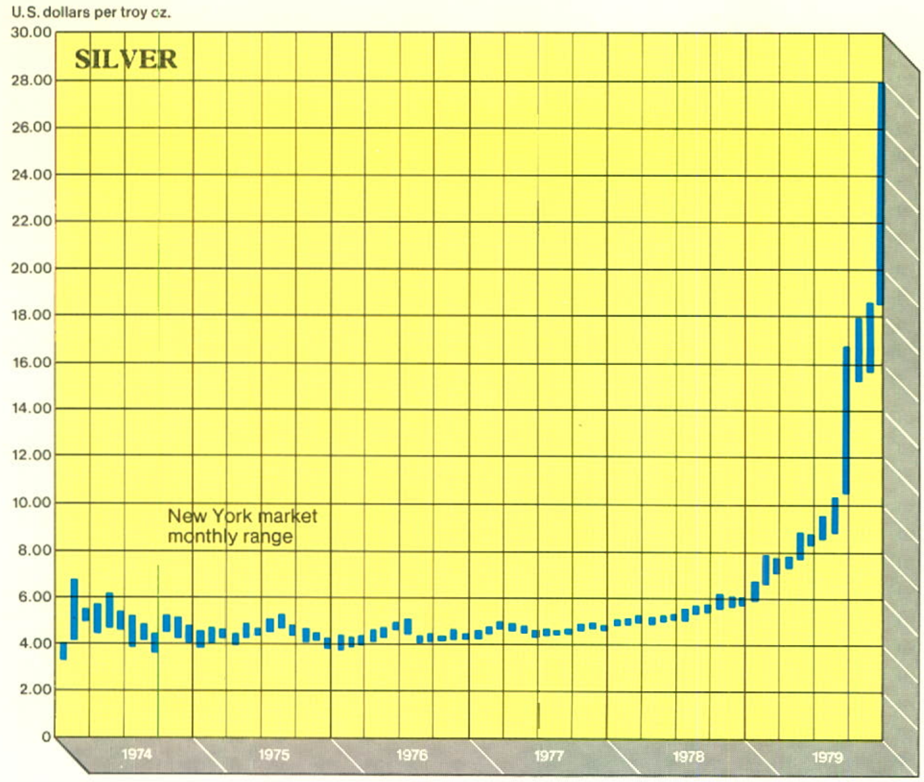
SILVER

WESTERN WORLD BALANCE — '000,000 Troy Ounces

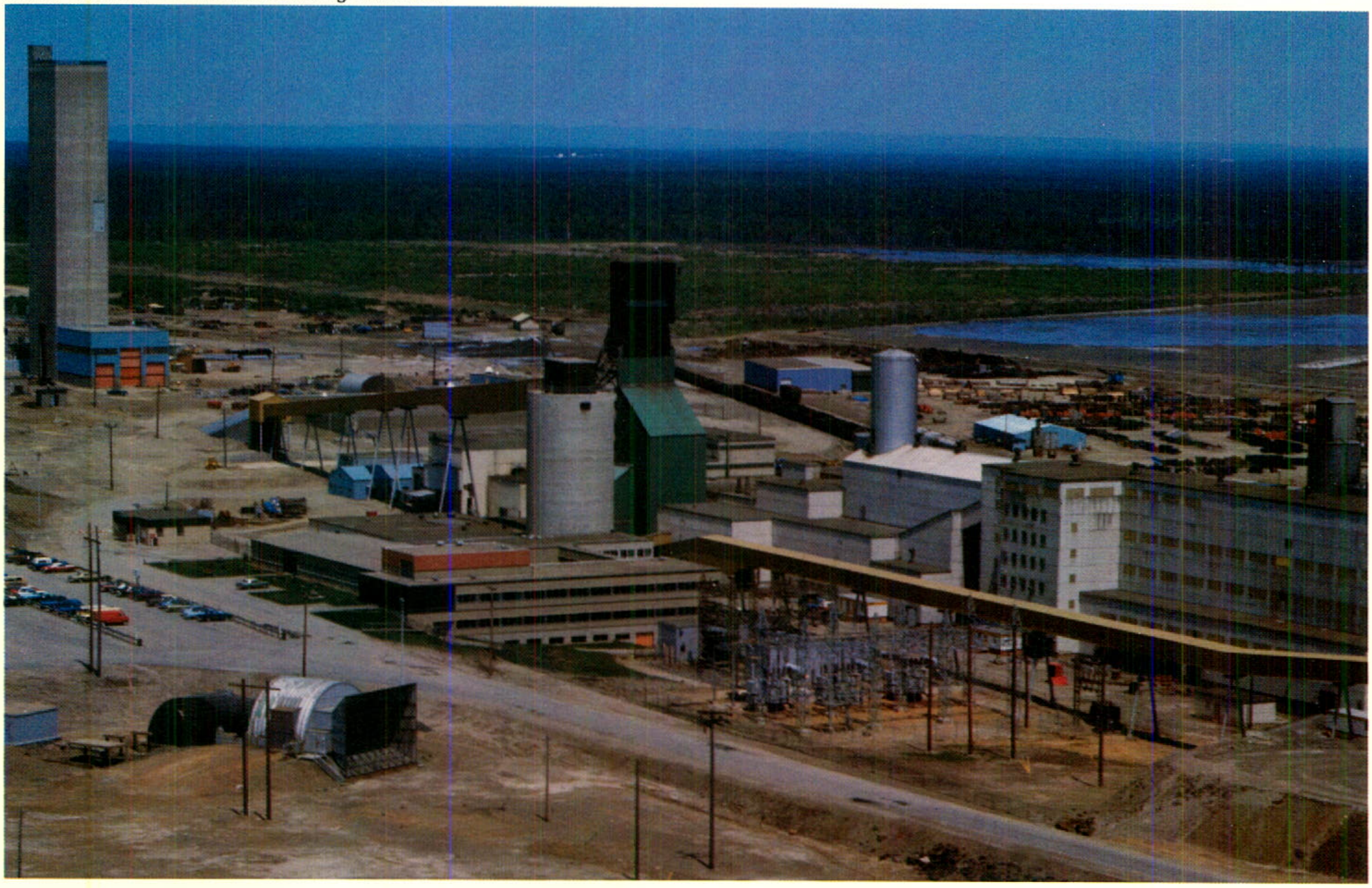
	1977	1978	1979
Supply — Primary	260	262	270
— Secondary	171	168	157
Consumption	430	450	465
Surplus (Deficit)	1	(20)	(38)

Silver prices rose dramatically, particularly towards the end of the year, reaching $34.45 U.S. per ounce at the end of December and peaking at $50.35 on January 18, 1980. These levels compare to $6.00 at the beginning of 1979 and an average for the first nine months of $8.62.

The spiralling price attracted heavy supplies of secondary and coinage silver and depressed the consumption of silver products. When the speculative fever subsided, there was a sharp downward price correction in March this year.



Aerial View No. 12 Minesite Looking Northeast.



Operations

Shift Over.

MINING DIVISION

No. 12 Mine

The 3,001,000 tons produced and processed in the concentrator represented a slight increase over 1978. The grade of mill feed declined from 13.08% combined lead and zinc to 12.84%.

The tons hoisted per calendar day increased to 7,592 tons from 7,503 tons in 1978.

One skip in No. 3 shaft and the new surface material handling system are now in operation. The third crusher is scheduled for commissioning in the first half of 1980. The amount of development done and the ability to maintain adequate equipment availability become then the restraints on No. 12 production capacity.

Production from the 2800-level increased to 459,000 tons from 382,000 tons in 1978.

Operating costs per ton increased to $24.73 from $20.02, mainly as a result of increased maintenance carried out and a continuing sharp increase in the cost of supplies.

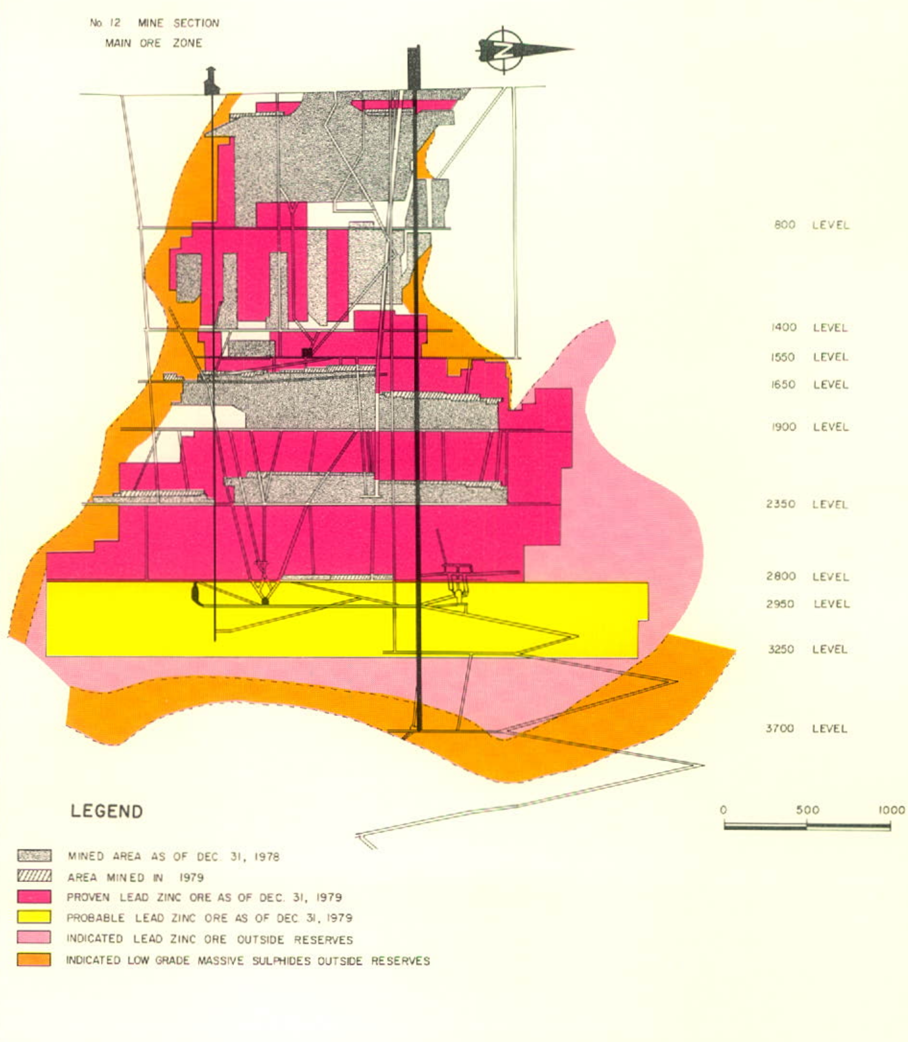
As no new areas were opened up for diamond drilling, the ore reserves changed only slightly.

No. 6 Mine

The tons hoisted from No. 6 mine declined to 275,000 tons, virtually all from the underground operation.

Costs per ton were $25.30, compared to $18.44 the previous year, mainly as a result of the change to underground mining.

No. 12 MINE SECTION main ore zone



Concentrator

The emphasis on metal recovery in 1979 is reflected in the significant improvement in recoveries over 1978. Installation of new flotation cells for the expansion progressed well in 1979.

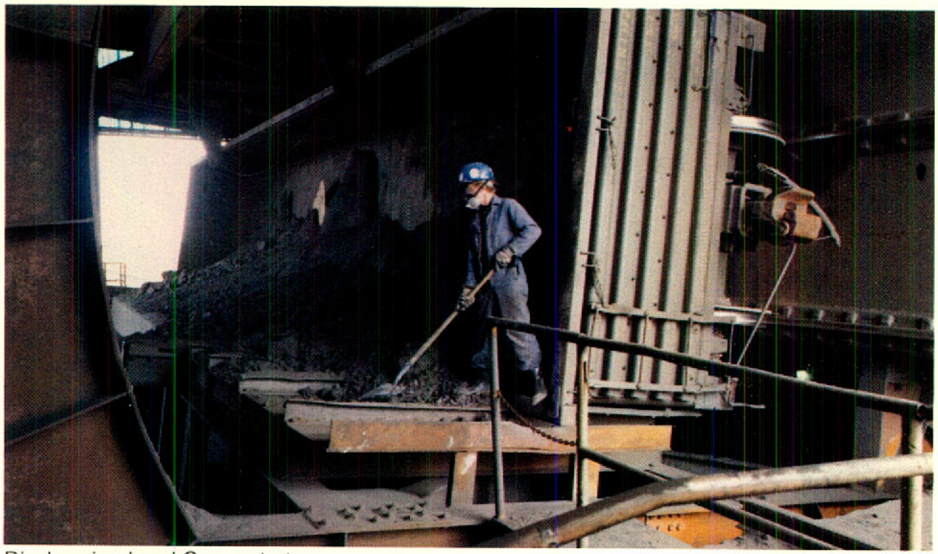
Environmental Control

A new plant to treat acid mine water was put in operation at No. 6 mine.

General

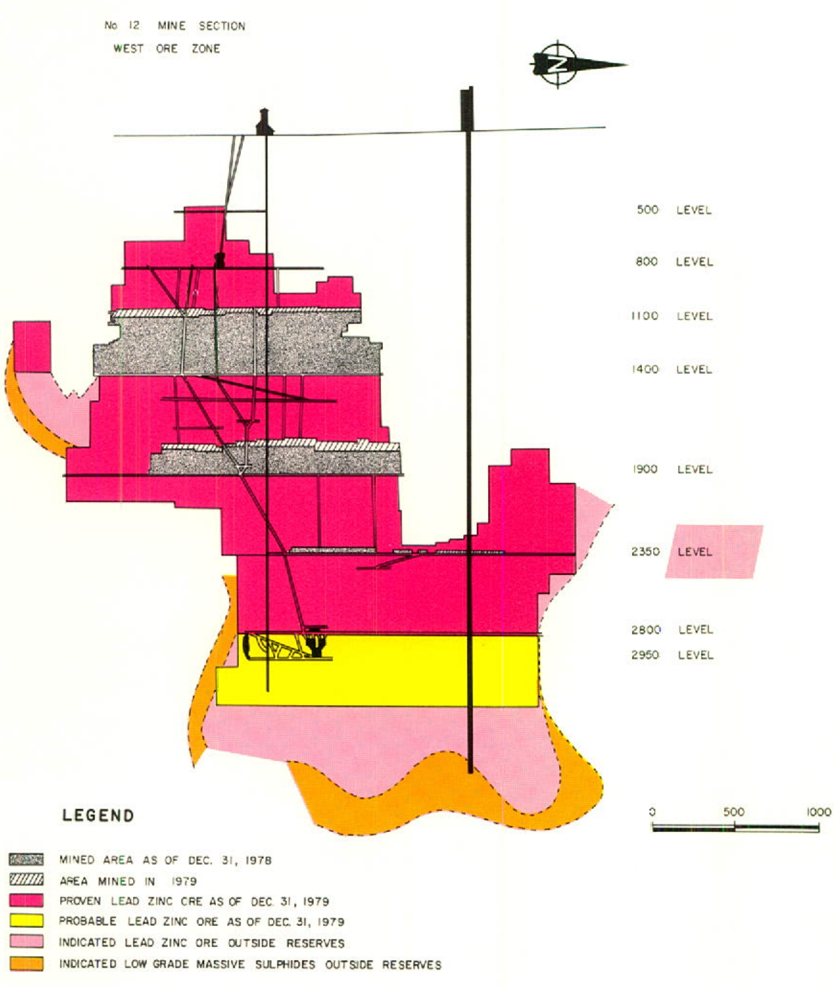
The total number of employees increased to 1,598 from 1,463 the year before as development and the number of capital projects were increased, following the improvement in market conditions.

Over the last year a cost reduction program has been instituted at the mine in an effort to involve all employees in managing costs. Both first and second line supervisors have attended seminars aimed at increasing their understanding of costs and providing them with increased skills in cost control. A variety of cost reduction projects has already started in most departments and an intensive program to capture the attention of all employees is planned for the fall, named PLUS (Prevent Loss and Unnecessary Spending.). The program will call for a short duration cost reduction effort in all departments. PLUS is expected to become an annual program at the mine.



Discharging Lead Concentrates.

No. 12 MINE SECTION west ore zone



MINING DIVISION

PRODUCTION

Ore	Tons	% Zn	% Pb	% Cu	Oz. Ag (per ton)
No. 12 Mine:					
Hoisted	2,771,000				
Crown Pillar	230,000				
	3,001,000	9.13	3.71	0.30	2.82
No. 6 Mine:					
Underground	259,000				
Pit	16,000				
	275,000	6.78	2.60	0.41	2.28
Total	3,276,000	8.93	3.61	0.31	2.77

Concentrates	Tons	% Zn	% Pb	% Cu	Oz. Ag
Zinc	417,000	52.1	2.1	0.2	2.4
Bulk	45,000	33.1	19.0	0.7	10.5
Lead	227,000	7.3	31.3	0.7	14.1
Copper	19,000	2.8	7.5	21.7	85.5
	708,000				

Recoveries (in %)	% Zn	% Pb	% Cu	Oz. Ag
Zinc	74.2			
Bulk	5.1	7.3		5.2
Lead		59.9		35.1
Copper			39.5	17.4
	79.3	67.2	39.5	57.7

MINERAL RESERVES
(Includes allowance for dilution)

	Tons (000)	% Zn	% Pb	% Cu	Oz. Ag (per ton)	Total Tons (000) 1979	1978
Zinc-Lead							
No. 12 Mine							
Proven	68,970	9.15	3.70	0.30	2.80		
Probable	40,167	9.22	3.87	0.36	2.84	109,137	108,530
No. 6 Mine							
Proven	430	7.47	2.66	0.25	2.58	430	632

DEVELOPMENT

No. 12 Mine:	
Drifts, Crosscuts	18,000 feet
Raises	3,100 feet
Diamond Drilling	79,200 feet

SMELTING DIVISION

Lower grade lead concentrate and reduced purchases of concentrate resulted in a decline in production of lead and silver for the year compared to 1978.

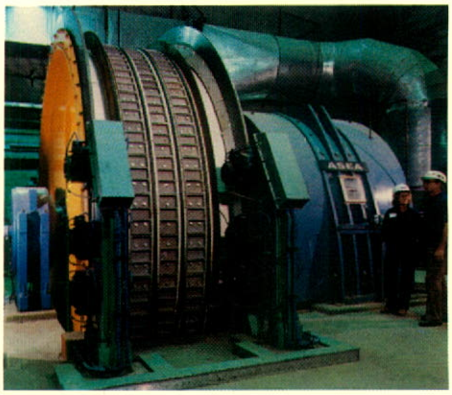
The plant was shut down in July for vacations and maintenance and during this time major repairs were carried out, along with ventilation equipment tie-ins and catalyst screening. The new dining room was commissioned in October, and more of the plant roads were paved along with the parking lot and the townsite roads. A start was made on the laboratory extension and the salvage and sand blasting building.

The hygiene statistics continue to improve, with an average lead in blood of 43.6 ug/100 ml. of whole blood being attained, which compares with 46.8 for 1978. The University of Toronto completed a Health Survey of the employees during the year, and a preliminary report is expected in April of 1980.

There were only three lost time accidents during the year, which gives a frequency of 2.8 compensable accidents per million manhours. This achievement enabled the smelter once again to receive the New Brunswick Mining Association Award, and the New Brunswick Government Mining Safety Award.

Production

Year	Lead Tons	Silver Ounces	Sulphuric Acid Tons
1979	62,600	3,097,000	196,400
1978	66,900	3,668,000	185,000
1977	56,400	3,458,000	152,100
1976	51,400	3,004,000	119,300
1975	50,900	2,195,000	139,700



South Skip Hoist

BRUNSWICK MINING AND SMELTING CORPORATION LIMITED
(NO PERSONAL LIABILITY)

(Incorporated under the laws of New Brunswick)

Balance Sheet as at December 31, 1979
(with comparative figures as at December 31, 1978) (thousands of dollars)

ASSETS

	1979	1978
Current:		
Accounts and settlements receivable –		
Parent and affiliated companies	$ 7,922	$ 8,916
Other trade	40,281	25,955
Margin deposits (note 2)	61,234	
Inventories of metals and concentrates, at estimated realizable value	47,690	61,251
Materials, supplies and prepaid expenses	5,183	4,696
	162,310	100,818
Investment in associated company (note 3)	48,297	
Fixed, at cost (note 4):		
Mine buildings, machinery and equipment	127,904	110,752
Smelter buildings, machinery and equipment	88,986	86,257
	216,890	197,009
Less accumulated depreciation	107,570	97,304
	109,320	99,705
Mining properties, at cost less amortization and land	2,276	2,338
	111,596	102,043
Other assets, at cost less amortization (note 5)	51,968	51,804
	$374,171	$254,665

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current:		
Bank indebtedness	$ 60,474	$ 1,392
Accounts payable and accrued liabilities –		
Parent and affiliated companies	2,441	1,514
Other trade	18,716	16,500
Taxes payable	25,405	12,388
	107,036	31,794
Taxes provided not currently payable	68,332	39,698
Long-term debt (note 6)	31,827	53,269
Shareholders' equity:		
Capital stock (note 7)	34,403	34,288
Contributed surplus (note 8)	58,722	58,057
Retained earnings	77,407	37,559
	170,532	129,904
Less the company's pro rata interest in its shares held through the associated company	(3,556)	
	166,976	129,904
	$374,171	$254,665

On behalf of the Board:

WILLIAM JAMES, Director

ALFRED POWIS, Director

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Brunswick Mining and Smelting
Corporation Limited
(No Personal Liability):

We have examined the balance sheet of Brunswick Mining and Smelting Corporation Limited (No Personal Liability) as at December 31, 1979 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON GORDON
Chartered Accountants

Toronto, Canada
February 13, 1980.

Statement of Earnings for the Year ended December 31, 1979

(with comparative figures for the year ended December 31, 1978) (thousands of dollars)

	1979	1978
Revenue from concentrates and smelter products	$ 287,662	$ 189,589
Less transportation and outside smelting costs	(30,099)	(22,816)
	257,563	166,773
Expenses:		
Production costs	123,606	104,019
Oil, gas and mineral exploration	12,942	31
Depreciation and preproduction amortization	10,762	9,963
Interest on long-term debt (note 6)	1,250	998
	148,560	115,011
	109,003	51,762
Interest income (expense), net	3,836	(446)
Earnings before the following	112,839	51,316
Taxes:		
Income and production taxes	40,900	23,700
New Brunswick mining tax royalty	3,700	2,000
	44,600	25,700
	68,239	25,616
Share of after tax earnings of associated company	2,305	
Net earnings	$ 70,544	$ 25,616
Net earnings per share	$2.06	$0.75

Statement of Retained Earnings for the Year ended December 31, 1979

(with comparative figures for the year ended December 31, 1978) (thousands of dollars)

	1979	1978
Retained earnings, beginning of year	$ 37,559	$ 15,372
Net earnings	70,544	25,616
Dividends (note 9)	(30,696)	(3,429)
Retained earnings, end of year	$ 77,407	$ 37,559

(See accompanying notes)

Statement of Changes in Financial Position for the Year ended December 31, 1979

(with comparative figures for the year ended December 31, 1978) (thousands of dollars)

	1979	1978
Source of funds:		
Net earnings	$ 70,544	$ 25,616
Add (deduct) amounts not requiring an outlay of funds –		
Depreciation and preproduction amortization	10,762	9,963
Deferred development amortization	6,076	7,076
Taxes provided not currently payable	28,634	15,657
Share of earnings less dividends of associated company	(1,634)	
Funds derived from operations	114,382	58,312
Issue of shares	779	101
Total funds provided	115,161	58,413
Applications of funds:		
Additions to fixed assets (net)	19,869	8,106
Preproduction and deferred development	6,685	6,001
Investment in associated company	50,000	
Reduction of long-term debt	21,442	2,409
Dividends	30,915	3,429
Total funds applied	128,911	19,945
Net increase (decrease) in working capital	(13,750)	38,468
Working capital, beginning of year	69,024	30,556
Working capital, end of year	$ 55,274	$ 69,024

(See accompanying notes)

Notes to Financial Statements December 31, 1979

1. Accounting policies

Translation of foreign currencies —
Accounts receivable or payable in foreign currencies are translated into Canadian dollars at the rate of exchange on the balance sheet date.

Inventories —
Inventories of metals and concentrates are valued at estimated realizable value. Supplies are valued at the lower of cost or replacement cost.

Investment in associated company —
The investment in Frenswick Holdings Limited is accounted for by the equity method. Under this method, the company takes into earnings and reflects in the investment account its share of the earnings or loss of Frenswick, after the elimination of reciprocal interests. Dividends received are credited to the investment account.

Fixed assets —
Fixed assets are valued at cost. Depreciation and amortization are provided primarily on a straight-line basis using rates that will charge operations with the cost of these assets over their estimated useful lives. Rates in use are as follows:

Buildings, machinery and equipment	4.5%
Capital spares	10.0%
Tailing dams and equipment	6.5%
Housing	4.5% - 5.0%
Mining properties	4.0%

Preproduction and deferred development costs —
Expenditures for mine development are deferred and then amortized on the basis of tons of ore extracted from the mine. The estimated total cost of developing the mine and the proven and probable tonnage of ore reserves are used in computing the per ton amortization charge to operations.

Exploration expenditures —
Oil, gas and mineral exploration expenditures are charged against current income unless they relate to properties from which production is reasonably certain, in which case they are capitalized.

Taxes —
The company provides for income and production taxes by the tax allocation method. Under this method, timing differences between reported and taxable income (related primarily to claiming capital cost allowances, preproduction and deferred development expenses for tax purposes in excess of amounts written off in the accounts) result in taxes provided not currently payable.
Federal investment tax credits are recognized as a reduction in the provision for income taxes in the years in which such credits are claimed for tax purposes.

Revenue —
Concentrates and metals produced are included in inventories and revenue at estimated realizable values when they reach saleable forms.

Interest expense —
Interest on corporate borrowing applicable to major construction projects is capitalized during the construction period. Discounts on bonds repurchased are netted with interest on long-term debt.

2. Margin deposits and forward silver sales

At December 31, 1979, the company has sold forward 2.7 million ounces of silver to be produced in 1980 at an average price of Cdn. $21 per ounce. As the market price exceeded the contracted price at the year end, the company has made margin deposits against these contracts.

3. Investment in associated company

On November 16, 1979, the company purchased 2,631,579 common shares of Frenswick Holdings Limited for $50,000,000 cash, giving it a 38.2% interest in that company. These shares have been pledged as collateral for the company's bank indebtedness. Frenswick owns a 36.3% interest in the common shares of Zinor Holdings Limited, whose principal asset is a 23.6% interest in the common shares of the company's parent, Noranda Mines Limited.

Because of the reciprocal shareholdings which resulted from the Frenswick purchase, part of the $50,000,000 price is deemed for accounting purposes to be a repurchase by the company of an interest in its own shares and accordingly each of the number of shares issued, the dollar amount of shareholders' equity, earnings per share, and dividends paid have been reduced to reflect the company's pro rata interest in its own shares, as shown in notes 7 and 9.

Subsequent to the year end, the company purchased a further 693,243 common shares of Frenswick for $13,172,000 cash and thereby maintained its 38.2% interest in Frenswick. Frenswick purchased additional common shares of Zinor and maintained its 36.3% interest in Zinor.

4. Fixed assets

(a) Expansion project —
Expenditures to date to increase the capacity of No. 12 mine to 11,000 tons per day and the revised estimated final cost of the program are as follows:

	Total expenditures as at December 31, 1979	1978	Estimated final cost
	(thousands of dollars)		
Fixed assets (includes $28.1 million in use at December 31, 1979)	$ 34,400	$ 28,200	$ 38,600
Preproduction costs	15,600	14,300	15,700
	$ 50,000	$ 42,500	$ 54,300

Accelerated development expenditures in connection with preparation of expanded facilities for production were $0.4 million for 1979 ($18.7 million to December 31, 1979). Capitalized interest, not included above, on borrowings applicable to this project was $2.2 million for 1979 ($12.2 million to December 31, 1979).

Depreciation has been provided in 1979 on the fixed assets which were in use during the year. Amortization of the preproduction costs and accelerated development expenditures commenced in 1979 on the basis described in note 1. Capitalized interest has been allocated to fixed assets and deferred costs based upon total dollars spent and is being amortized in conjunction with the related assets or costs.

(b) 1980 capital expenditures –

Capital expenditures during 1980 are estimated to be $36.0 million, including $4.3 million for the expansion project.

5. Other assets

Details of these assets, carried at cost less amortization, are as follows:

	As at December 31	
	1979	1978
	(thousands of dollars)	
Preproduction	$ 21,008	$ 20,378
Deferred development	29,931	30,467
Bond issue expense	539	959
Oil and gas expenditures	490	
	$ 51,968	$ 51,804

6. Long-term debt

	Outstanding as at December 31,	
	1979	1978
	(thousands of dollars)	
11% General Mortgage Sinking Fund Bonds, Series B due December 1, 1996	$ 17,434	$ 35,000
5.85% First Mortgage Sinking Fund Bonds, Series A due April 1, 1986	7,254	8,662
7.25% General Mortgage Sinking Fund Bonds, Series A due August 15, 1987	7,008	9,454
6¼% and 6¾% first mortgages	131	153
Long-term debt	$ 31,827	$ 53,269

All maturities and sinking fund requirements for 1980 have been satisfied at the end of 1979.

Remaining long-term debt maturities and sinking fund requirements are:

1981	$ 804,000
1982	1,958,000
1983	2,500,000
1984	2,600,000
Subsequently	23,965,000

Bonds in the amount of $21,420,000 were repurchased during the year at a discount of $917,000, which has been netted with interest on long-term debt.

7. Capital stock

(a) Authorized capital –
The authorized capital consists of 40,000,000 common shares of the par value of $1 each.

(b) Issued capital –
The issued capital stock is summarized below:

	1979	1978
Shares issued at beginning of year	34,288,228	34,267,878
Issued under stock option plan (note 7(c))	93,312	350
Issued as performance bonus (note 7(d))	21,080	20,000
Shares issued at end of year	34,402,620	34,288,228
Company's pro rata interest in its shares held through the associated company	728,991	
Net shares	33,673,629	34,288,228

(c) Stock option plan –
In 1979, 93,312 shares in the company's capital stock were issued under the company's stock option plan for $550,000, and options on an additional 124,000 shares at $6.76, and 174,550 shares at $6.11 were granted. At December 31, 1979, 278,088 common shares had been set aside to cover employees' stock options, of which the following were outstanding:

Year granted	No. of shares	Normal expiry date	Option price per share
1972	15,850	Feb. 28, 1982	$3.49
1976	4,500	Sept. 9, 1986	5.34
1979	110,663	Feb. 21, 1989	6.76
1979	105,675	May 16, 1989	6.11
	236,688		

(d) Performance bonus –
On September 13, 1979, 10 shares in the company's capital stock were issued to each employee as a bonus in recognition of good performance. The 21,080 shares so issued were valued at $10.88 per share being their market price on that day.

(e) Earnings per share –
The earnings per share calculation for 1979 has been based on the weighted average number of shares outstanding after deduction of the pro rata interest.

8. Contributed surplus

As a result of the issue of 114,392 shares at values in excess of par, $665,000 has been added to contributed surplus in 1979.

9. Dividends

Dividends declared and paid were as follows:

	1979	1978
	(thousands of dollars)	
1979 – $0.90 per share	$ 30,915	
1978 – $0.10 per share		$ 3,429
Less pro rata share of dividends accruing to the company by virtue of the reciprocal shareholdings (note 3)	(219)	
Net charge to retained earnings	$ 30,696	$ 3,429

EFFECTS OF INFLATION

The Canadian economy continues to experience a high level of inflation. For the wage or salary earner, the impact of inflation is all too evident on a daily basis. For a business, particularly one in a cyclical industry, the effects of inflation are just as real, but are less easy to measure. The effects of inflation on the long term financial strength of the Company are a major concern to management and must be considered in evaluating both the financial results for the year and in making investment decisions.

The statement below which incorporates three adjustments (inventories, long term assets and financing) has been prepared in accordance with a format which has gained some acceptance in Canada over the past few years. The adjustments are based on a Statistics Canada index that is available to all companies.

Funds derived from operations (total from statement of changes in financial position)		$ 114,000,000
From this, deduct the funds required to finance original cost of productive assets (historical cost depreciation and amortization)		17,000,000
Leaves: amount available, on an historical accounting basis, for distribution to shareholders or for expansion		97,000,000
But to take account of the increased cost of maintaining operating capacity in our inflationary environment the following allocations of funds should also be deducted:		
To replace inventories at higher prices	2,000,000	
For fixed assets, preproduction and development at higher prices	12,000,000	
	14,000,000	
Less additional funds which may be available from borrowings if present debt-equity ratio is maintained	3,000,000	11,000,000
Leaves: funds hypothetically available from the year's operations for distribution to shareholders or investment in expansion of activities		$ 86,000,000

The statement suggests that of the $114 million generated in 1979, $31 million ($17 million plus $14 million) should have been spent to maintain the business, given the level of inflation Canada has been experiencing, of which $3 million could be borrowed. This would have left $86 million to distribute to shareholders or to spend on growth.

The actual experience of 1979 was that no net investment was made to maintain the business (since non-expansion capital spending was offset by a decrease in operating working capital due to the reduction of concentrate inventories to normal working levels), $31 million was paid as dividends, $60 million was spent to expand the business (including the long-term investment), and $23 million was used to repay debt.

Thus in 1979, the actual funds spent on expansion of the business and distributed to shareholders were very close to the hypothetical amount available (actual $91 million versus hypothetical $86 million), and the company took advantage of the one-time drop in operating working capital to strengthen its financial position.

It should also be noted that the $11 million shown in the statement could be interpreted as being the approximate amount by which Brunswick's 1979 earnings were overstated due to the effect of inflation on costs.

It must be emphasized that this statement is intended to provide perspective and involves many statistical estimates. There is also concern that it may understate the full impact of inflation since the Statistics Canada index used does not fully reflect the escalation that has taken place in the replacement cost of fixed assets.

EIGHT YEAR FINANCIAL SUMMARY

The financial summary on the opposite page is intended to provide some perspective on the company's financial history during the eight year period subsequent to the operational and capitalization changes made at the end of 1971.

Distribution of Revenue

This table shows the distribution throughout the economy of the revenues generated by the company's productive activity. The revenues are merely the product of production volumes (which the company can control) and prevailing international metal prices and foreign exchange rates (over which the company has no control). Net earnings are the residual amount after contracted or legislated obligations to employees, suppliers, lenders and governments have been satisfied and after a provision has been made to recover the original cost of productive assets over their useful lives. Net earnings are volatile as metal markets are traditionally cyclical in nature.

Financial Position

Net assets represent the permanent investment in the business on which a return must be earned irrespective of financing sources. This capital base has increased steadily in every year (despite the unsatisfactory earnings in some years) because capital reinvestment has exceeded depreciation charges and because operating working capital has grown due to cost inflation and higher production volumes. The lower half of the table shows how the net assets have been financed.

Rate of Return on Net Assets

This percentage is a key measurement of performance since it relates the earnings to the capital base and can be compared with returns in other businesses. As with the net earnings, the rate of return is volatile and cyclical. It has averaged 10% over the eight year period. High rates of return are necessary in the good years to compensate for the lower rates which have been and will be experienced during the bad years of the price cycle.

Cash Flow and Reinvestment

The annual Statement of Changes in Financial Position highlights the movements in working capital and does not specifically deal with cash generation. The table opposite recognizes that operating working capital is part of the permanent investment in the business and is not available for distribution or expansion. The short term and long term financing activities are grouped together to demonstrate that the incurring or repayment of debt is merely a bridge between the cash generated and the desired use of that cash.

The cumulative column shows that reinvestment in the business (capital expenditures plus investment in associated company) is 150% of net earnings. Dividends represent only 32% of net earnings and only 17% of cash available. 83% of the cash available for distribution or reinvestment has been reinvested in the business.

EIGHT YEAR FINANCIAL SUMMARY ($ in millions)

	1979	1978	1977	1976	1975	1974	1973	1972
DISTRIBUTION OF REVENUE								
Revenue from production	$ 287.7	$ 189.6	$ 137.7	$ 103.1	$ 121.3	$ 100.0	$ 79.0	$ 59.0
Wages, salaries and benefits	45.9	39.2	40.8	30.7	31.7	20.3	17.2	14.9
Energy, supplies and services	83.2	56.8	56.8	34.7	36.1	24.5	18.1	23.0
Transportation and by-product smelting costs	30.1	22.8	18.0	14.3	15.9	15.0	13.2	6.6
Depreciation and amortization	16.8	17.0	15.7	11.6	12.9	10.7	10.9	10.9
Interest expense (income)	(2.6)	1.4	2.0	1.4	1.2	1.2	2.7	3.0
Provincial sales, property and business taxes	1.5	1.1	1.1	0.9	0.9	0.4	0.3	0.3
Income and production taxes	44.6	25.7	0.9	2.0	10.0	10.8	6.7	0.5
Share of associated company earnings	(2.3)	—	—	—	—	—	—	—
	217.2	164.0	135.3	95.6	108.7	82.9	69.1	59.2
Net earnings (loss)	$ 70.5	$ 25.6	$ 2.4	$ 7.5	$ 12.6	$ 17.1	$ 9.9	$ (0.2)
FINANCIAL POSITION — YEAR END								
Net assets consisted of:								
Operating working capital	$ 54.5	$ 70.5	$ 51.1	$ 43.0	$ 40.6	$ 26.4	$ 25.5	$ 17.8
Investment in associated company	48.3	—	—	—	—	—	—	—
Fixed assets (net)	111.6	102.0	104.0	93.9	89.4	85.2	84.0	86.5
Other assets (net)	52.0	51.8	52.8	41.5	30.2	19.3	16.3	15.6
	266.4	224.3	207.9	178.4	160.2	130.9	125.8	119.9
Financed by:								
Short-term debt less cash*	(0.7)	1.4	20.6	(10.9)	10.4	(6.3)	9.9	13.5
Long-term debt	31.8	53.3	55.7	57.6	24.6	26.4	28.1	34.8
Shareholders' equity	167.0	129.9	107.6	106.9	102.8	93.7	80.0	70.0
Taxes provided not currently payable	68.3	39.7	24.0	24.8	22.4	17.1	7.8	1.6
*and margin deposits in 1979	$ 266.4	$ 224.3	$ 207.9	$ 178.4	$ 160.2	$ 130.9	$ 125.8	$ 119.9
RATE OF RETURN ON NET ASSETS %	28.2	12.2	1.8	4.9	9.1	13.8	9.2	1.3

Net earnings exclusive of interest income or expense (net of tax) divided by average of opening and closing net assets

CASH FLOW AND REINVESTMENT

	Cumulative	1979	1978	1977	1976	1975	1974	1973	1972
Net earnings (loss)	$ 145.4	$ 70.5	$ 25.6	$ 2.4	$ 7.5	$ 12.6	$ 17.1	$ 9.9	$ (0.2)
Depreciation and amortization	106.5	16.8	17.0	15.7	11.6	12.9	10.7	10.9	10.9
Taxes provided not currently payable	67.2	28.6	15.7	(0.8)	2.4	5.3	9.3	6.2	0.5
Decrease (increase) in operating working capital	(57.5)	16.0	(19.4)	(8.1)	(2.4)	(14.2)	(0.9)	(7.7)	(20.8)
Other	21.1	(0.9)	0.3	0.2	—	0.2	0.2	0.6	20.5
Cash generated	282.7	131.0	39.2	9.4	19.1	16.8	36.4	19.9	10.9
Borrowings (reduction in)	(16.1)	(23.6)	(21.6)	29.6	11.7	14.9	(17.9)	(10.3)	1.1
Cash available	$ 266.6	$ 107.4	$ 17.6	$ 39.0	$ 30.8	$ 31.7	$ 18.5	$ 9.6	$ 12.0
Used as follows:									
Capital expenditures	$ 169.3	$ 26.5	$ 14.2	$ 37.2	$ 26.5	$ 28.3	$ 15.1	$ 9.6	$ 11.9
Investment in associated company	50.0	50.0	—	—	—	—	—	—	—
Dividends	46.2	30.9	3.4	1.7	3.4	3.4	3.4	—	—
Other	1.1	—	—	0.1	0.9	—	—	—	0.1
	$ 266.6	$ 107.4	$ 17.6	$ 39.0	$ 30.8	$ 31.7	$ 18.5	$ 9.6	$ 12.0

PER SHARE DATA — $

	1979	1978	1977	1976	1975	1974	1973	1972
Net earnings	2.06	0.75	0.07	0.22	0.37	0.50	0.29	—
Dividends	0.90	0.10	0.05	0.10	0.10	0.10	—	—
Market price range — High	11.50	5.75	6.12	6.50	4.70	5.87	6.50	4.60
— Low	5.38	2.71	3.00	3.85	3.50	3.30	3.70	2.53
Book Value — Average	4.34	3.46	3.13	3.06	2.87	2.53	2.19	2.05

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