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**BRUNSWICK MINING AND SMELTING
CORPORATION LIMITED**

(NO PERSONAL LIABILITY)

Annual Report 1978

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 18, 1979, 10:30 a.m., (Atlantic Time)
at the Mine Office of the Company
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

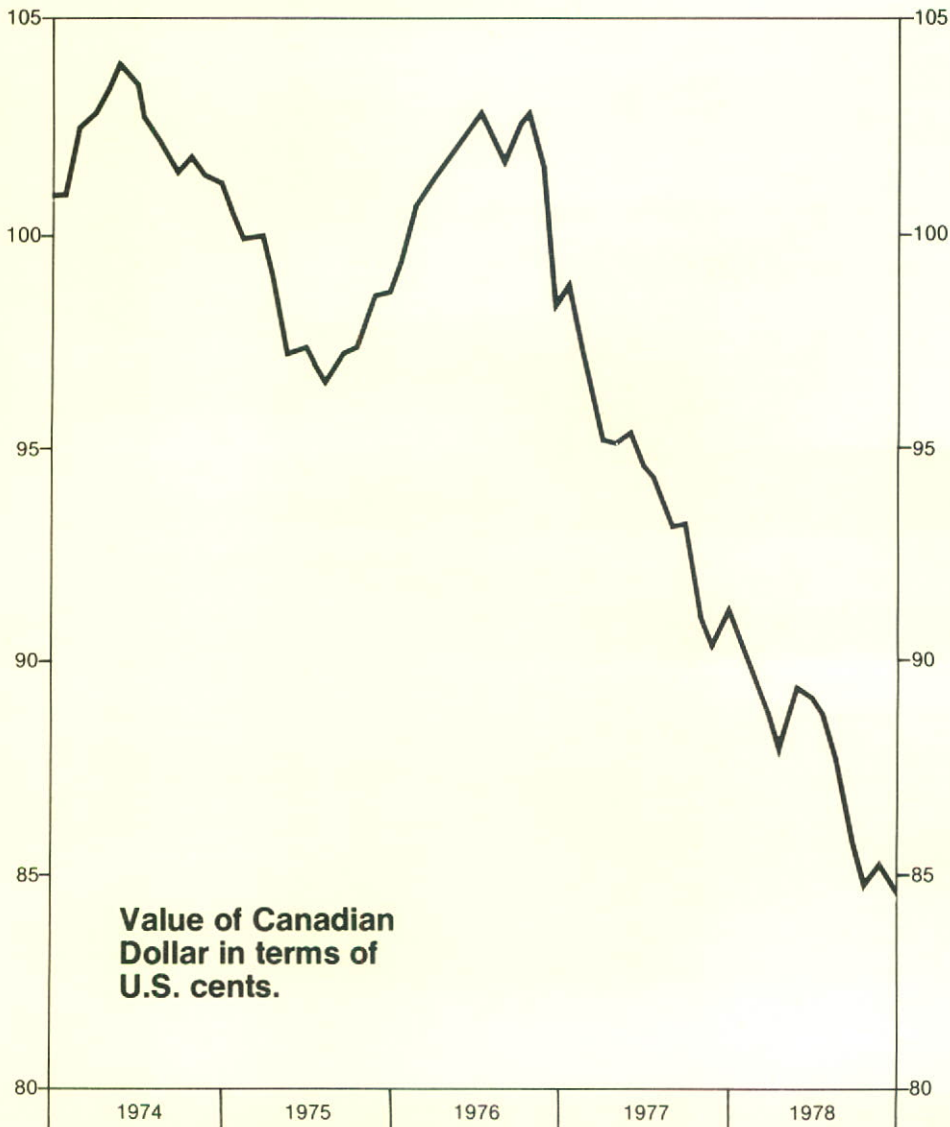
TRANSFER AGENT AND REGISTRAR

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 & Co., Toronto, Ont.



Source: Bank of Canada — average noon spot rate for the month.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The year 1978 began with extremely depressed prices and poor demand for our main product—zinc, prices fell even further in February, as they did for lead and copper. The outlook for the company was somewhat bleak. However, two factors occurred which helped offset this situation. The Canadian dollar continued to fall in terms of U.S. funds, having the effect of making international metal prices higher in Canadian dollars and the price of silver continued to rise. These factors were beyond the control of the company.

The company and employees did make changes in areas where they have some influence, such as, productivity, reduction of inventory, quality of production, rate of capital expenditures, and reduction of short-term debt. Since the last quarter of 1977, steps had been taken to; reduce unit costs of production by means of reduction of work force; increase extraction of the higher grade ore from the No. 12 mine; produce higher grade zinc concentrate and, curtail the expansion program. With this action, the operation was able to compete under conditions as they existed in the first half of the year.

In April, the copper price, which has only a modest effect on the company's profits, began to rise; in August the zinc price started an upward trend and was followed by lead in September. The prices continued to increase through the fourth quarter. Coincident with this rising trend in prices, the value of the Canadian dollar continued its downward slide, declining from 91¢ U.S. on January 2 to 84¢ on December 31 some 7½%. The combined effect of these occurrences resulted in a dramatic improvement in the fortunes of the company. A marginal operation in the early part of

the year became very profitable by the fourth quarter. Earnings also benefited by about \$6 million, due to revaluation of a large inventory of zinc concentrate recorded at estimated realizable value. The foregoing factors combined to provide earnings of \$25.6 million or 75¢ per share, compared to \$2.4 million or 7¢ per share in 1977.

The worldwide over-supply of zinc concentrates which existed in the first half now appears to have been consumed, and although Brunswick still carries a substantial inventory, it is expected that these stocks will be reduced to normal levels by the end of the current year.

Working capital increased from \$31 million to \$69 million and short-term debt decreased from \$21 million to \$1 million. In view of the company's improved financial position, a dividend of 10¢ per share was paid in the fourth quarter.

With the changed outlook in the second half, the mine expansion program to 11,000 tons per day was reinstated and is scheduled for completion by January, 1981. Capital expenditures on the project were \$4.0 million making a total of \$43 million spent to December 31, 1978. The budgeted cost remains at \$53 million and it is planned to provide the balance of \$10 million from operating income. Milling rates are expected to gradually increase over the next two years.

Smelter operations continued to improve and, because of higher grade lead concentrate feed, record production of lead and silver was achieved. With higher productivity from the No. 12 orebody, record levels of production were also attained by the Mining Division.

The proven and probable ore reserves as at the end of 1978 of the No. 12 orebody are estimated at 108 million tons with a grade of 9.2% zinc, 3.8% lead, 0.3% copper and 2.8 ounces silver per ton. The reserves at the No. 6 orebody have been reduced to 0.6 million tons which will probably be mined by 1981.

The orebody is a good one, and with continued efficiency of operation through industrious efforts of all concerned, the company should be able to compete during periods of low prices. Our competitive position will be further enhanced if improvements can be made in metal recoveries from these complex ores. In an attempt to achieve this goal, a special research team is undertaking a long-range program of metallurgical investigations.

The staff and hourly-rated personnel are both responsible for the improved operation throughout the year and it is a pleasure to express the directors' and management's appreciation of their effective work.

On Behalf of the Board,



WILLIAM JAMES,
President

Toronto, Canada.
March 26, 1979.

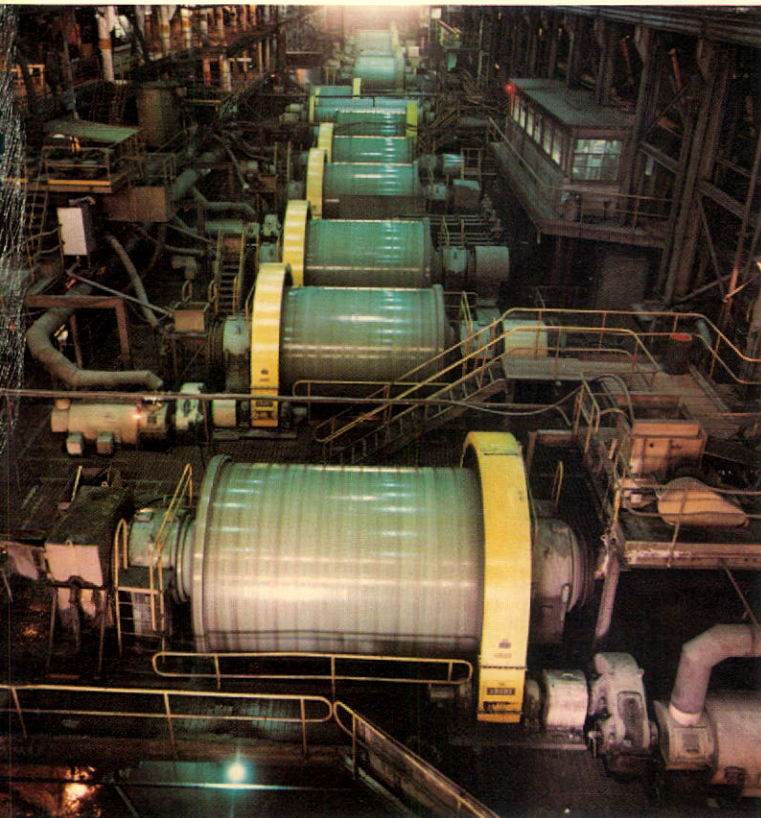


Machinist working on lathe

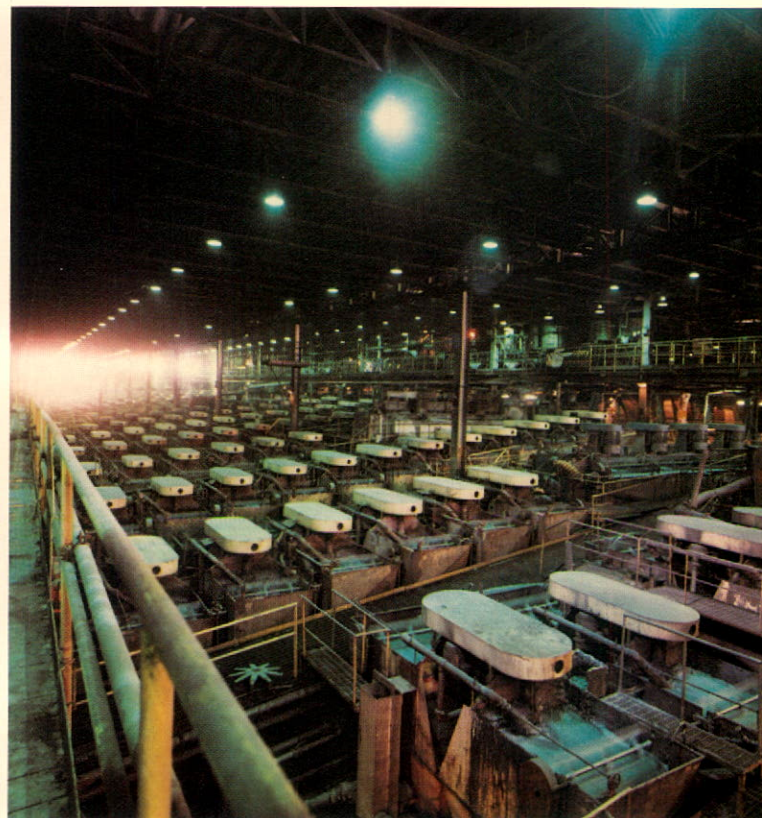


Ore and concentrates assaying with spectrographic analyzer

Grinding bay-concentrator



Flotation bay-concentrator



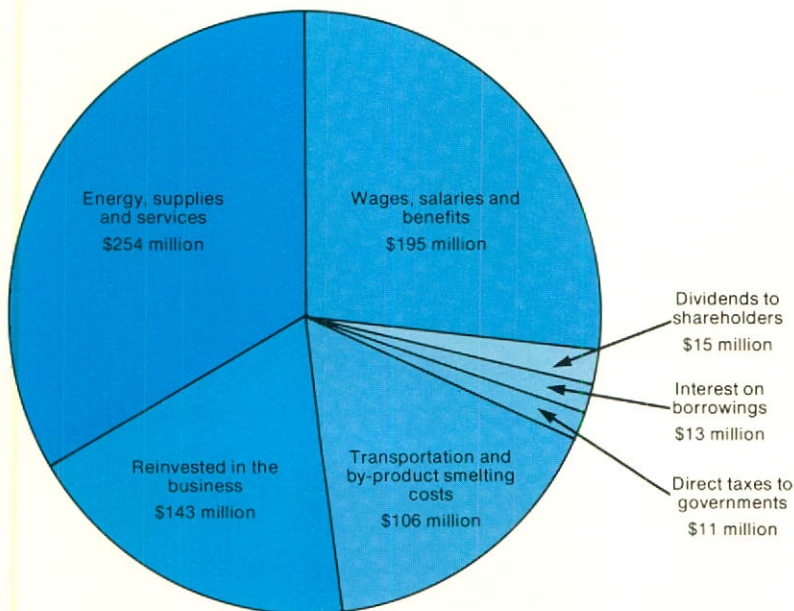
FINANCIAL SUMMARY — ECONOMIC PERSPECTIVE

The summary opposite is intended to provide some perspective on the financial history of the company subsequent to the operational and capitalization changes made at the end of 1971.

A number of general observations can be made, but the chief ones are:

- 1) The earnings are volatile.
- 2) 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.
- 3) Capital expenditures over the period were almost double the net earnings.
- 4) The growth of operating working capital due to cost inflation and higher production volumes has been almost equal to net earnings.
- 5) Dividends represent only 20% of net earnings and only 10% of the cash generated from operations. 90% of the cash flow has been ploughed back into the business.

The chart below shows the distribution of the \$737 million actually received by Brunswick from the sale of its products over the seven year period.



SEVEN YEAR FINANCIAL SUMMARY (\$ in millions)

	1978	1977	1976	1975	1974	1973	1972	
DISTRIBUTION OF REVENUE								
Revenue from production	\$189.6	\$137.7	\$103.1	\$121.3	\$100.0	\$ 79.0	\$ 59.0	
Wages, salaries and benefits	39.2	40.8	30.7	31.7	20.3	17.2	14.9	
Energy, supplies and services	56.8	56.8	34.7	36.1	24.5	18.1	23.0	
Transportation and by-product smelting costs	22.8	18.0	14.3	15.9	15.0	13.2	6.6	
Depreciation and amortization	17.0	15.7	11.6	12.9	10.7	10.9	10.9	
Interest	1.4	2.0	1.4	1.2	1.2	2.7	3.0	
Provincial sales, property and business taxes	1.1	1.1	0.9	0.9	0.4	0.3	0.3	
Income and production taxes	25.7	0.9	2.0	10.0	10.8	6.7	0.5	
	<u>164.0</u>	<u>135.3</u>	<u>95.6</u>	<u>108.7</u>	<u>82.9</u>	<u>69.1</u>	<u>59.2</u>	
Net earnings (loss)	<u>\$ 25.6</u>	<u>\$ 2.4</u>	<u>\$ 7.5</u>	<u>\$ 12.6</u>	<u>\$ 17.1</u>	<u>\$ 9.9</u>	<u>\$ (0.2)</u>	
FINANCIAL POSITION — YEAR END								
Net assets consisted of:								
Operating working capital	\$ 70.5	\$ 51.1	\$ 43.0	\$ 40.6	\$ 26.4	\$ 25.5	\$ 17.8	
Fixed assets (net)	102.0	104.0	93.9	89.4	85.2	84.0	86.5	
Other assets (net)	51.8	52.8	41.5	30.2	19.3	16.3	15.6	
	<u>224.3</u>	<u>207.9</u>	<u>178.4</u>	<u>160.2</u>	<u>130.9</u>	<u>125.8</u>	<u>119.9</u>	
Financed by:								
Short-term debt less cash	1.4	20.6	(10.9)	10.4	(6.3)	9.9	13.5	
Long-term debt	53.3	55.7	57.6	24.6	26.4	28.1	34.8	
Shareholders' equity	129.9	107.6	106.9	102.8	93.7	80.0	70.0	
Taxes provided not currently payable	39.7	24.0	24.8	22.4	17.1	7.8	1.6	
	<u>\$224.3</u>	<u>\$207.9</u>	<u>\$178.4</u>	<u>\$160.2</u>	<u>\$130.9</u>	<u>\$125.8</u>	<u>\$119.9</u>	
RATE OF RETURN ON NET ASSETS %	12.2	1.8	4.9	9.1	13.8	9.2	1.3	
Net earnings plus interest expense (net of tax) divided by average of opening and closing net assets.								
CASH FLOW AND REINVESTMENT								
	Cumulative							
Net earnings (loss)	\$ 74.9	\$ 25.6	\$ 2.4	\$ 7.5	\$ 12.6	\$ 17.1	\$ 9.9	\$ (0.2)
Depreciation and amortization	89.7	17.0	15.7	11.6	12.9	10.7	10.9	10.9
Taxes provided not currently payable	38.6	15.7	(0.8)	2.4	5.3	9.3	6.2	0.5
Less: Increase in operating working capital (73.5)	(19.4)	(8.1)	(2.4)	(14.2)	(0.9)	(7.7)	(20.8)	
Other	22.0	0.3	0.2	—	0.2	0.2	0.6	20.5
Cash from operations	<u>151.7</u>	<u>39.2</u>	<u>9.4</u>	<u>19.1</u>	<u>16.8</u>	<u>36.4</u>	<u>19.9</u>	<u>10.9</u>
Borrowings (reduction in)	7.5	(21.6)	29.6	11.7	14.9	(17.9)	(10.3)	1.1
Cash available	<u>\$159.2</u>	<u>\$ 17.6</u>	<u>\$ 39.0</u>	<u>\$ 30.8</u>	<u>\$ 31.7</u>	<u>\$ 18.5</u>	<u>\$ 9.6</u>	<u>\$ 12.0</u>
Used as follows:								
Capital expenditures	\$142.8	\$ 14.2	\$ 37.2	\$ 26.5	\$ 28.3	\$ 15.1	\$ 9.6	\$ 11.9
Dividends	15.3	3.4	1.7	3.4	3.4	3.4	—	—
Other	1.1	—	0.1	0.9	—	—	—	0.1
	<u>\$159.2</u>	<u>\$ 17.6</u>	<u>\$ 39.0</u>	<u>\$ 30.8</u>	<u>\$ 31.7</u>	<u>\$ 18.5</u>	<u>\$ 9.6</u>	<u>\$ 12.0</u>
PER SHARE DATA								
Net earnings	75¢	7¢	22¢	37¢	50¢	29¢	—	
Dividends	10¢	5¢	10¢	10¢	10¢	—	—	
Market price range — High \$	5.75	6.12	6.50	4.70	5.87	6.50	4.60	
— Low \$	2.71	3.00	3.85	3.50	3.30	3.70	2.53	
Book value — Average \$	3.46	3.13	3.06	2.87	2.53	2.19	2.05	

METAL MARKETS

The very depressed outlook for most metals in the early months of 1978 gave way to some optimism as consumption exceeded production and stocks started to fall.

As the year progressed, prices improved, reflecting lower than anticipated production, consistently good demand and increased imports by China and the East Bloc countries.

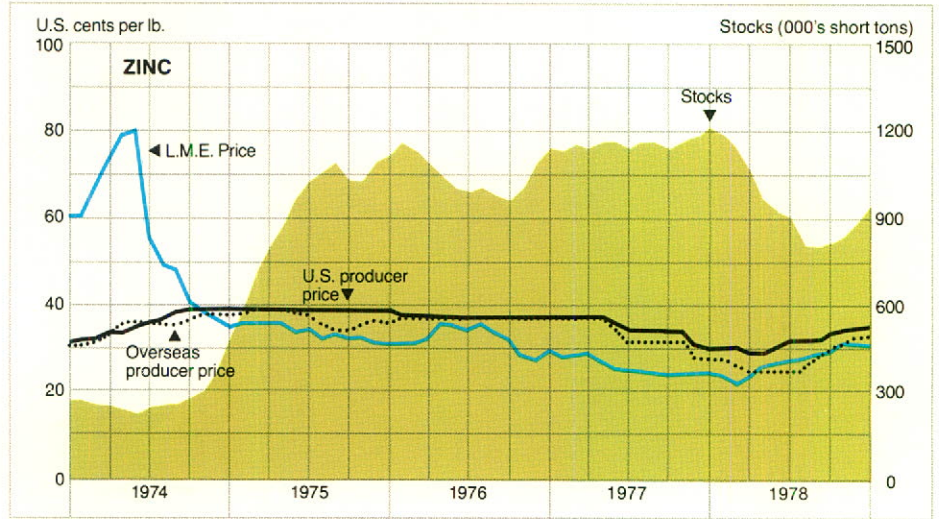
ZINC

Western World Balance — '000 Short Tons

	1976	1977	1978
Supply	4,600	4,720	4,575
Consumption	4,575	4,650	4,850
Year-end Stocks	1,145	1,215	940

The turnaround in 1978 resulted in zinc metal consumption exceeding production and stocks falling by 275,000 tons. Mine strikes prevented the build-up of excessive concentrate stocks and by year-end uncommitted inventories were at normal levels.

During the early part of the year, aggressive price discounting in Europe led to price reductions of US\$50 to \$550 per metric ton overseas and 1.5¢ to 29¢ per pound in the U.S.A. Prices recovered during the later months to \$720 in Europe and



34½¢ in the U.S.A. There have been continued increases in 1979 with the European price rising to \$800 per metric ton and the U.S. price to 37½¢. Despite the improved circumstances, zinc consumption in 1978 was still 6%

below the 1972-74 rate and a strong product research and market development effort must be sustained to provide the growth needed to utilize current world metal producing capacity.

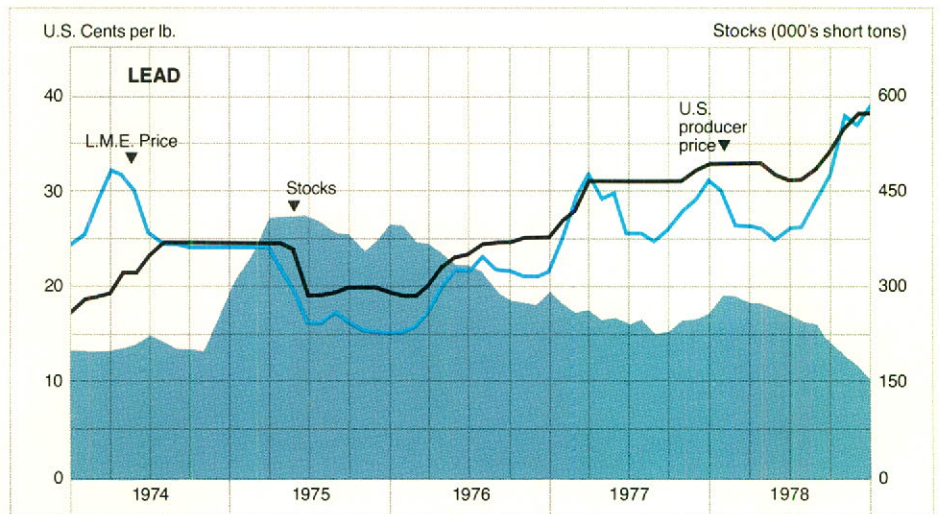
LEAD

Western World Balance — '000 Short Tons

	1976	1977	1978
Supply	3,820	4,030	3,950
Consumption	3,920	4,060	4,060
Stocks	290	260	150

1978 consumption was unchanged from 1977 as continuing strong battery demand offset lower consumption for gasoline anti-knock additives. Supply was affected by the high level of exports to the East Bloc countries and by strikes in Peru and Ireland and the U.S.A. Stocks fell to minimum levels.

Prices, which were 33¢ in the U.S.A. and 31¢ overseas a year ago, fell after the peak winter period for battery demand to 31¢ and 25¢ but



then rose to 38¢ and 41¢, respectively, by year-end. In 1979, there were further increases to 48¢ in the U.S.A. and 56¢ on the London

Metal Exchange. The Canadian domestic price followed to CF54.5¢, reflecting the lower value of the Canadian dollar.

SILVER

Western World Balance — '000,000 Troy Ounces

	1976	1977	1978
Supply — Primary	247	261	260
— Secondary	229	171	160
Consumption	440	422	448
Surplus (Deficit)	36	10	(28)

There was a deficit in silver supply during 1978 due to reduced sales from India and a 6% increase in consumption. Prices increased from \$4.82 US per ounce to \$6.02 in 1978 and to a peak of \$7.90 in February, 1979.



No. 2 headframe and new ore bin



Hoistman at controls —
No. 12 Mine, No. 2 Shaft, 3100 ft.



Operations



J. W. Moerman,
Manager,
Mining Division

MINING DIVISION

Production of zinc, lead and silver in concentrates improved significantly over 1977, and was accomplished with a reduction in manpower.

NUMBER 12 MINE

2,960,494 tons of ore averaging 9.31% zinc, 3.77% lead, 0.28% copper and 2.83 ounces of silver per ton were produced and processed in the concentrator. The improved grade of millfeed from 12.21% combined lead and zinc to 13.08% was largely due to better ground control.

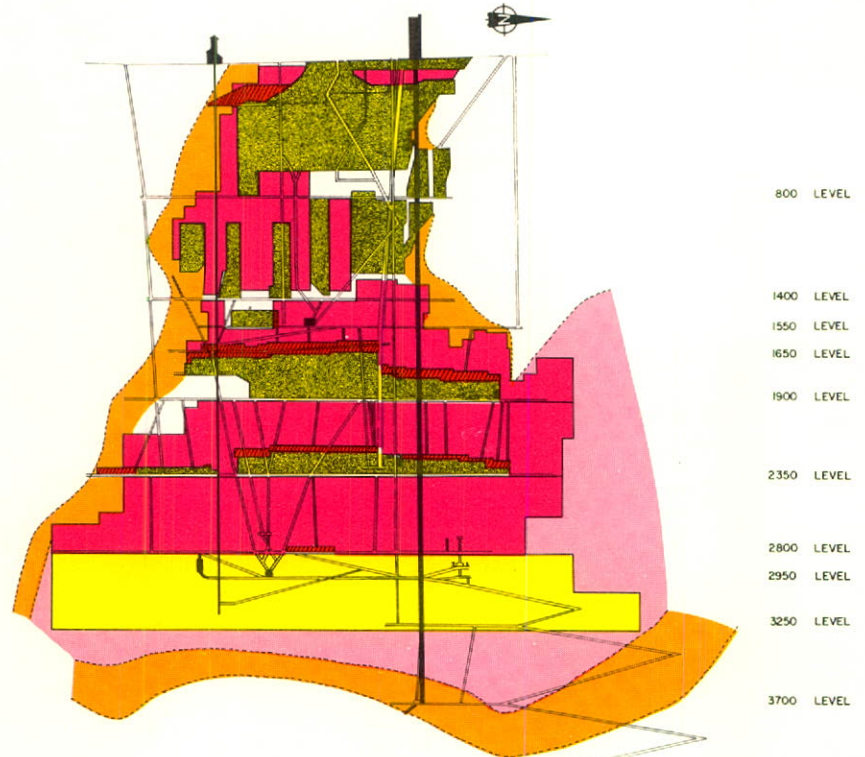
The average tons of ore hoisted increased to 7,503 tons per calendar day which includes a new monthly record of 8,030 tons per day established in February.

Mining on 2800 level was well underway with production of 382,000 tons from that level while the north end of the crown pillar was readied for production.

Continued improvement in underground operations resulted in a further 14 percent increase in efficiency which is confirmed by a less than 1% increase in operation costs; \$20.02 per ton, compared to \$19.88 in 1977.

Diamond drilling changed the ore reserve position only slightly as exploration was curtailed in view of the tight cash position.

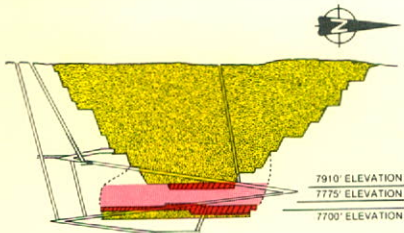
No. 12 MINE SECTION main ore zone



LEGEND

- MINED AREA AS OF DEC. 31, 1977
- AREA MINED IN 1978
- PROVEN LEAD ZINC ORE AS OF DEC. 31, 1978
- PROBABLE LEAD ZINC ORE AS OF DEC. 31, 1978
- INDICATED LEAD ZINC ORE OUTSIDE RESERVES
- INDICATED LOW GRADE MASSIVE SULPHIDES OUTSIDE RESERVES.

No. 6 MINE SECTION



LEGEND

- MINED AREA AS OF DEC. 31, 1977
- AREA MINED IN 1978
- PROVEN LEAD ZINC ORE AS OF DEC. 31, 1978

NUMBER 6 MINE

410,705 tons of ore, averaging 5.85% zinc, 2.07% lead, 0.39% copper, and 2.10 ounces of silver per ton were produced and treated in the concentrator.

This ore was from underground and a small benching operation below the pit bottom. Mainly because of the higher cost of underground mining operating costs increased to \$18.44 per ton of ore from \$14.03 in 1977.

CONCENTRATOR

During most of 1978, emphasis was placed on zinc concentrate grade rather than recovery, but at year-end, operation parameters were returned to normal following the improvement in market conditions.

The installation of computer control on two lines in the concentrator contributed to improved recovery of lead, silver and copper.

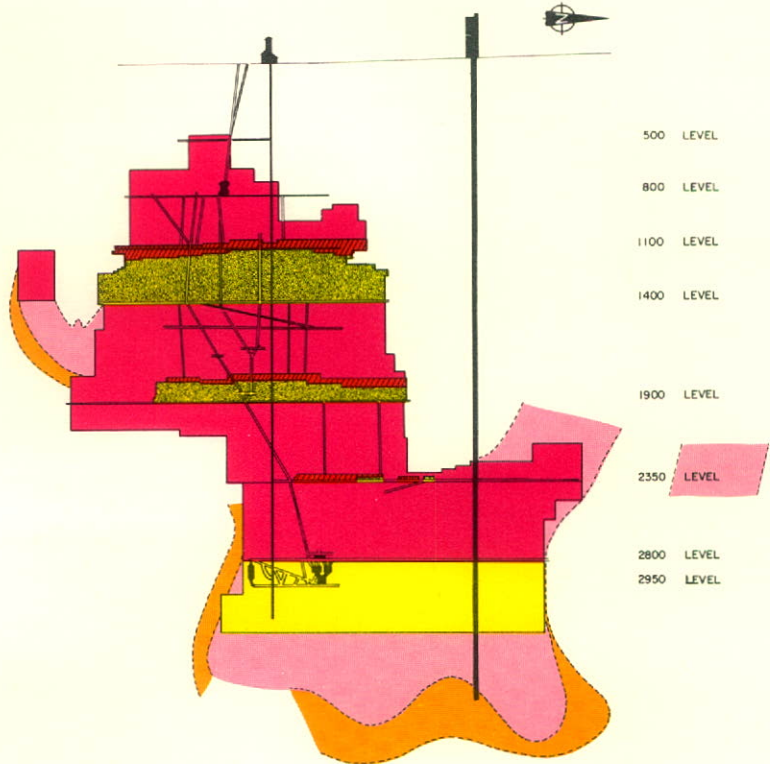
ENVIRONMENTAL CONTROL

A new plant to treat acid mine water from Number 12 mine which began operation in March is controlling effluents within the standards set by the federal government.

GENERAL

The practice of reducing total employment through normal attrition was continued. The result was 1,463 employees at year end, fifty-four less than a year ago.

No. 12 MINE SECTION west ore zone



LEGEND

- MINED AREA AS OF DEC. 31, 1977
- AREA MINED IN 1978
- PROVEN LEAD ZINC ORE AS OF DEC. 31, 1978
- PROBABLE LEAD ZINC ORE AS OF DEC. 31, 1978
- INDICATED LEAD ZINC ORE OUTSIDE RESERVES
- INDICATED LOW GRADE MASSIVE SULPHIDES OUTSIDE RESERVES.

MINING DIVISION

PRODUCTION

Ore	Tons	% Zn	%Pb	% Cu	Oz. Ag (per ton)
No. 12 Mine					
Hoisted	2,738,000				
Crown Pillar	222,000				
	<u>2,960,000</u>	9.31	3.77	0.28	2.83
No. 6 Mine					
Underground	158,000				
Benching	253,000				
	<u>411,000</u>	5.85	2.07	0.39	2.10
Total	<u>3,371,000</u>				

Concentrates

Zinc	399,000	53.5	2.0	0.2	2.4
Secondary zinc	11,000	48.8	3.0	0.3	2.9
Bulk	35,000	37.3	17.5	0.6	9.7
Lead	219,000	8.7	33.3	0.6	14.6
Copper	16,000	2.6	6.5	22.9	95.4
Total	<u>680,000</u>				

Recoveries

Zinc concentrate	71.3				
Secondary zinc concentrate	1.8				
Bulk concentrate	4.3	5.0			3.6
Lead concentrate		60.7			34.6
Copper concentrate				36.3	16.3
Total recovery	77.4	65.7	36.3		54.5

DEVELOPMENT

No. 12 Mine:	
Drifts, crosscuts	18,700 feet
Raises	3,100 feet
Diamond drilling	110,000 feet

MINERAL RESERVES

(includes allowance for dilution)

	Tons (000)	% Zn	% Pb	% Cu	Oz. Ag (per ton)	Total (000 tons)	
						1978	1977
Zinc-Lead							
No. 12 Mine							
Proven	71,545	9.13	3.68	0.29	2.79		
Probable	36,985	9.32	3.95	0.35	2.88	108,530	107,067
No. 6 Mine							
Proven	632	7.25	2.64	0.27	2.48	632	916
Copper							
No. 12 Mine							
Proven	9,474	1.13	0.40	1.11	0.85		
Probable	4,620	1.57	0.54	1.12	1.39	14,094	14,094

SMELTING DIVISION

Higher grade concentrate input combined with better operating performance resulted in increased consumption of lead concentrate of 18% and a 19% increase in lead production compared to the previous year.

The smelter and refinery were closed down three to four weeks for maintenance and vacations.

Operating costs were marginally higher than 1977 but this was offset by increased production.

The 20-ton per day oxygen plant was built and commissioned late in the year. This will help reduce onward operating costs.

Additional ventilation facilities have resulted in better hygiene standards within the plant. Safe working conditions continue to have a high priority in our operation and results have been encouraging. During the year there were four lost time accidents resulting in a frequency of 3.8 compensable accidents per million manhours. The smelter was proud to receive both the New Brunswick Mining Association Safety Award and the New Brunswick Government Mining Safety award.

PRODUCTION

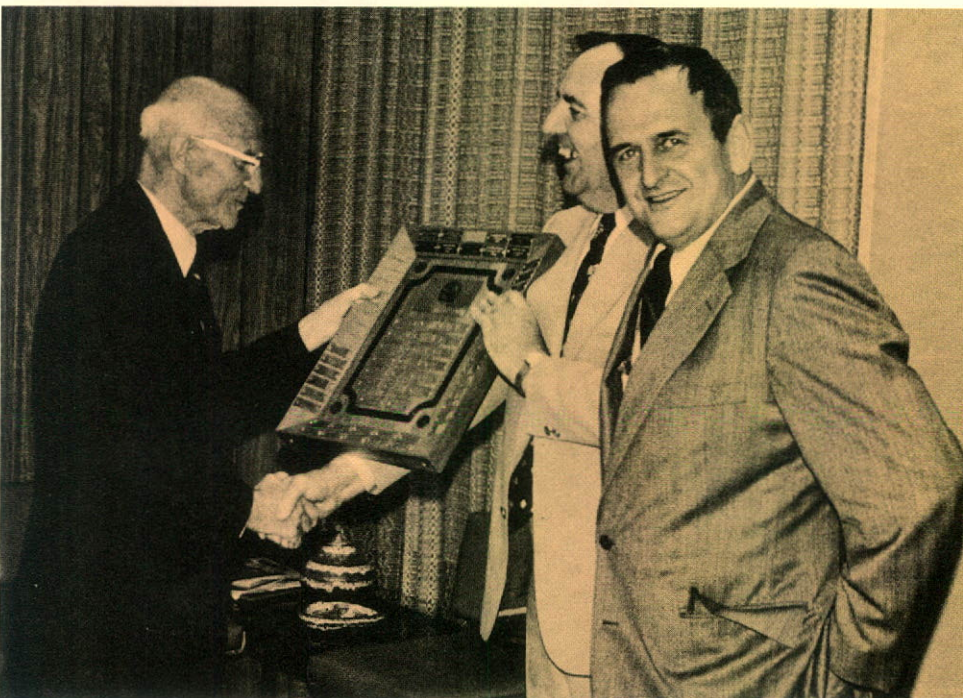
Year	Lead tons	Silver ozs.	Sulphuric acid tons
1978	66,900	3,668,000	185,000
1977	56,400	3,458,000	152,100
1976	51,400	3,004,000	119,300
1975	50,900	2,195,000	139,700
1974	44,200	2,085,000	117,000



Stoking furnace



Pouring refined lead into molds



Mr. K. C. Irving (l) Mr. A. Young, Manager (c) and Mr. W. James during presentation of safety award.

**BRUNSWICK
MINING AND
SMELTING
CORPORATION
LIMITED**

(NO PERSONAL LIABILITY)

(Incorporated under the laws of New Brunswick)

Balance Sheet as at December 31, 1978

(with comparative figures as at December 31, 1977) (thousands of dollars)

Assets

	1978	1977
<i>Current:</i>		
Cash	\$ 16	\$ 12
Accounts and settlements receivable —		
Parent and affiliated companies	8,916	4,562
Other trade	25,955	18,377
Inventories of metals and concentrates, at estimated realizable value	61,251	43,153
Prepaid expenses and deposits	354	626
Materials and supplies, at cost	4,342	5,024
	<u>100,834</u>	<u>71,754</u>
 <i>Fixed, at cost (note 2):</i>		
Mine buildings, machinery and equipment	110,179	105,157
Smelter buildings, machinery and equipment	84,823	84,253
Employee housing	2,007	2,007
	<u>197,009</u>	<u>191,417</u>
Less accumulated depreciation	97,304	89,842
	<u>99,705</u>	<u>101,575</u>
Mining properties, at cost less amortization	1,347	1,408
Land	991	991
	<u>102,043</u>	<u>103,974</u>
 <i>Other assets, at cost less amortization:</i>		
Preproduction (note 2)	20,378	17,475
Deferred development (note 2)	30,467	34,270
Bond issue expense	959	1,060
	<u>51,804</u>	<u>52,805</u>
	<u>\$254,681</u>	<u>\$228,533</u>

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, 1978 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, 1978 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 & CO.
Chartered Accountants

Toronto, Canada,
February 16, 1979.

Liabilities

	1978	1977
<i>Current:</i>		
Bank indebtedness	\$ 1,408	\$ 19,425
Accounts payable, advances and accrued liabilities —		
Due to parent and affiliated companies	1,514	1,075
Other trade	15,762	15,219
Taxes payable	12,388	3,484
Interest accrued	738	844
Current portion of long-term debt		1,151
	<u>31,810</u>	<u>41,198</u>
 <i>Taxes provided not currently payable</i>	 <u>39,698</u>	 <u>24,041</u>
 <i>Long-term debt (note 3)</i>	 <u>53,269</u>	 <u>55,678</u>

Shareholders' Equity

<i>Capital stock (note 4) —</i>		
Authorized:		
40,000,000 common shares of the par value of \$1 each		
Issued:		
34,288,228 shares (1977 — 34,267,878)	34,288	34,268
<i>Contributed surplus</i>	58,057	57,976
<i>Retained earnings</i>	37,559	15,372
	<u>129,904</u>	<u>107,616</u>
	<u>\$254,681</u>	<u>\$228,533</u>

On behalf of the Board:

WILLIAM JAMES, Director

ALFRED POWIS, Director

(See accompanying notes)

**Statement of Earnings
for the Year ended December 31, 1978**

(with comparative figures for the year ended December 31, 1977) (thousands of dollars)

	<u>1978</u>	<u>1977</u>
<i>Revenue from concentrates and smelter products</i>	\$189,589	\$137,727
Less transportation and outside smelting costs	<u>(22,816)</u>	<u>(18,014)</u>
	166,773	119,713
<i>Expenses:</i>		
Metal production	98,292	95,170
Purchased lead concentrate	5,758	10,054
Interest on long-term debt (note 3)	998	1,594
Interest expense (net)	<u>446</u>	<u>399</u>
	105,494	107,217
	<u>61,279</u>	<u>12,496</u>
<i>Depreciation of fixed assets</i>	9,731	8,939
<i>Amortization of preproduction and mining properties</i>	<u>232</u>	<u>232</u>
	9,963	9,171
<i>Income before taxes</i>	<u>51,316</u>	<u>3,325</u>
<i>Taxes:</i>		
Income and production	23,700	130
New Brunswick mining tax royalty	<u>2,000</u>	<u>800</u>
	25,700	930
<i>Net earnings</i>	<u>\$ 25,616</u>	<u>\$ 2,395</u>
<i>Net earnings per share</i>	<u>75¢</u>	<u>7¢</u>

**Statement of Retained Earnings
for the Year ended December 31, 1978**

(with comparative figures for the year ended December 31, 1977) (thousands of dollars)

	<u>1978</u>	<u>1977</u>
Retained earnings, beginning of year	\$ 15,372	\$ 14,690
Net earnings	25,616	2,395
Dividends	<u>(3,429)</u>	<u>(1,713)</u>
Retained earnings, end of year	<u>\$ 37,559</u>	<u>\$ 15,372</u>

(See accompanying notes)

Statement of Changes in Financial Position for the Year ended December 31, 1978

(with comparative figures for the year ended December 31, 1977) (thousands of dollars)

	1978	1977
<i>Source of funds:</i>		
Net earnings	\$ 25,616	\$ 2,395
Add (deduct) amounts not requiring an outlay of funds —		
Depreciation and preproduction amortization	9,963	9,171
Deferred development amortization	7,076	6,500
Taxes provided not currently payable	15,657	(745)
	<u>58,312</u>	<u>17,321</u>
Funds derived from operations		
	58,312	17,321
Miscellaneous	202	244
	<u>58,514</u>	<u>17,565</u>
<i>Application of funds:</i>		
Additions to fixed assets (net)	8,161	19,060
Deferred development and preproduction (note 2)	6,047	18,143
Current maturities of long-term debt	2,409	1,874
Dividends	3,429	1,713
Bond issue expense		55
	<u>20,046</u>	<u>40,845</u>
Total funds applied		
	20,046	40,845
Net increase (decrease) in working capital	38,468	(23,280)
Working capital, beginning of year	30,556	53,836
Working capital, end of year	<u>\$ 69,024</u>	<u>\$ 30,556</u>

(See accompanying notes)

Notes to Financial Statements December 31, 1978

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.

Deferred development and preproduction 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. Preproduction costs of major expansion programs are initially capitalized and then amortized on a straight-line basis at 4% per annum.

No amortization of the preproduction and deferred development costs related to the expansion described in note 2 has been provided in 1978. These assets will be amortized commencing when the facility starts production.

Fixed assets —

Fixed assets are valued at cost. Depreciation is 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 amortization	4.0%

Those fixed assets related to the expansion project that are in use now (\$10.2 million at December 31, 1978) are being depreciated; depreciation of the remainder will commence when the entire facility starts production.

Taxes —

The provision for income and production taxes is computed giving effect to certain permanent and timing differences between reported and taxable incomes. Current taxes are reduced by items such as earned depletion and other mining allowances. Taxes provided but not currently payable are due to timing differences such as deferred development costs, accelerated depreciation and preproduction costs.

Interest expense —

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

Revenue —

Concentrates and metals produced are included in inventories and revenue at estimated realizable value when they reach a saleable form.

2. Expansion project and other capital expenditures

The expansion program to increase the capacity of No. 12 mine to 11,000 tons per day was reinstated in 1978. Expenditures to date and the

estimated total cost of the program are as follows:

	Total expenditures as at December 31,		Estimated total cost
	1978	1977	
(in thousands of dollars)			
Expansion and development program — Fixed assets (includes \$10.2 million in use, December 31, 1978)	\$28,200	\$25,000	\$37,700
Preproduction costs	14,300	13,600	15,300
	<u>\$42,500</u>	<u>\$38,600</u>	<u>\$53,000</u>

Accelerated deferred development expenditures in connection with preparation of expanded facilities for production were \$0.3 million for 1978 (\$18.3 million to December 31, 1978). Capitalized interest, not included above, on corporate borrowings applicable to these major construction projects was \$4.0 million for 1978 (\$10.0 million to December 31, 1978).

Capital expenditures during 1979 are estimated to be \$6.9 million for the expansion and development program and \$10.3 million for other fixed assets.

3. Long-term debt

	As at December 31,	
	1978	1977
(thousands of dollars)		
11% General Mortgage Sinking Fund Bonds, Series B due December 1, 1996	\$35,000	\$35,000
5.85% First Mortgage Sinking Fund Bonds, Series A due April 1, 1986	8,662	9,937
7.25% General Mortgage Sinking Fund Bonds, Series A due August 15, 1987	9,454	11,714
6¼% and 6¾% first mortgages to Central Mortgage and Housing Corporation amortized to maturity in 1991	153	178
	<u>53,269</u>	<u>56,829</u>
Current portion		1,151
Long-term debt	<u>\$53,269</u>	<u>\$55,678</u>

Long-term debt maturities and sinking fund requirements, excluding the current portion and the amortization of the \$153,000 owing to Central Mortgage and Housing Corporation, are:

1980 — \$3,841,000; 1981 — \$4,225,000; 1982 — \$4,325,000;
1983 — \$4,425,000; Subsequently — \$36,300,000

To meet sinking fund requirements, bonds in the amount of \$3,535,000 were purchased during the year at a discount of \$378,000, which has been netted with the interest on long-term debt.

4. Capital stock

- (a) In 1978, 350 shares in the company's capital stock were issued under the company's stock option plan. At December 31, 1978, 46,400 common shares had been set aside to cover employees' stock options of which options on 26,900 shares at \$3.49 per share and 4,500 shares at \$5.34 per share were outstanding and may be exercised to February 28, 1982 and September 9, 1986, respectively.
- (b) On November 30, 1978, 10 shares in the company's capital stock were issued to each employee as a bonus in recognition of good performance. The 20,000 shares so issued were valued at \$5.00 per share being their market price on that day.

5. Statutory information

Total remuneration paid or payable in 1978 to directors of the company consisted of directors' fees of \$30,200. Total remuneration of the five highest paid employees of the company (who are not directors or officers) was \$259,700.

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 year. 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)		\$58,000,000
From this, deduct the funds required to finance original cost of productive assets (historical cost depreciation and amortization)		<u>17,000,000</u>
Leaves: amount available, on an historical accounting basis, for distribution to shareholders or for expansion		41,000,000
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	3,000,000	
For fixed assets, preproduction and development at higher prices	<u>12,000,000</u>	
	15,000,000	
Less additional funds which may be available from borrowings if a normal debt-equity ratio were maintained	<u>4,000,000</u>	<u>11,000,000</u>
Leaves: funds hypothetically available from the year's operations for distribution to shareholders or investment in expansion of facilities		<u>\$30,000,000</u>

The statement suggests that of the \$58 million generated in 1978, \$32 million (\$17 million plus \$15 million) should have been spent to maintain the business, given the level of inflation Canada has been experiencing, of which \$4 million could be borrowed. This would have left \$30 million to distribute to shareholders or to spend on growth.

What actually happened in 1978 was the spending of \$25 million (net) to maintain the business, \$3 million to pay dividends, \$8 million to expand the business and \$22 million to repay debt.

By this measure, Brunswick in 1978 sacrificed the spending required to maintain its business in order to strengthen its financial position. This shortfall must eventually be made up if productive capacity is not to be eroded over the relatively long life of the company's reserves.

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 1978 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.

