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AUG 8 1978
MCGILL UNIVERSITY

Granisle Copper Limited

Annual Report 1978

DIRECTORS

J. H. Colton
Senior Vice-President
and Secretary

T. G. Ewart
Retired,
Calgary, Alberta

W. F. James
Partner,
James & Buffam, Consulting Geologists,
Toronto, Ontario

*R. C. Lassiter
President,
Zapata Corporation,
Houston, Texas

*G. T. Smith
President,
Camflo Mines Limited,
Toronto, Ontario

*R. M. Sutherland, Q.C.
Partner,
Fasken & Calvin,
Barristers and Solicitors,
Toronto, Ontario

R. P. Taylor
President

**Member of the Audit Committee*

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited,
Vancouver and Toronto

OFFICERS

R. P. Taylor
President

J. H. Colton
Senior Vice President and Secretary

E. M. Berthelsen
Executive Vice President

R. B. Richards
Vice President Corporate Development

F. A. Alexander
Treasurer

I. W. Bartholomew
Controller

J. D. Balden
Assistant Treasurer

A. W. Hames
Assistant Secretary

AUDITORS

Arthur Andersen & Co.,
Vancouver, British Columbia

SHARES LISTED

Toronto Stock Exchange
Vancouver Stock Exchange

To the Shareholders:

The Company incurred a net loss of \$191,997, or \$.06 per share, for the year ended September 30, 1978, compared with a net loss of \$1,487,298, or \$.45 per share, for the preceding 12 month period.

Despite a 9.4% decrease in copper production attributable to the lower grade of ore milled, revenue increased by 8.1% as a consequence of: (1) improved gold and silver prices, and (2) the increased Canadian dollar value of the Company's production which is paid for in foreign currency. However, a net loss was experienced as a result of sub-economic copper prices. The average London Metal Exchange price for copper in fiscal 1978 was approximately 59¢ U.S. per pound compared to 60¢ U.S. in 1977. The outlook for copper in 1979 and subsequent years is reviewed in the "Marketing" section of this report.

Capital expenditures in fiscal 1978 totalled \$2,089,536; a second 10-yard electric shovel was purchased to enable the Company to meet its mining program objectives. The remaining expenditures were for replacement of items of mining equipment that had reached the end of their economic life. Capital commitments at the year end totalled approximately \$1,100,000, primarily for two 100 ton haulage trucks.

OPERATIONS

Mine Production

Year Ended September 30

Tonnages are in short tons or their metric equivalent	1978		1977	
		Metric Equivalent		Metric Equivalent
Tons Ore Treated	5,100,001	4,626,639	5,002,664	4,538,336
Average Tons Treated				
Per Day	13,973	12,676	13,706	12,434
Copper Content (%)	0.414	0.414	0.44	0.44
Tons Waste Removed	10,392,142	9,427,585	11,063,927	10,037,017
Stripping Ratio	1:1.98	1:1.98	1:2.21	1:2.21
Unit Cost of Production				
Per Ton Milled	\$3.78	\$4.17	\$3.88	\$4.28
Payable Metal Produced:				
Copper (Pounds/ Kilograms)	34,216,408	15,520,289	37,780,917	17,137,121
Gold (Ounces/ Grams)	14,944	464,809	16,373	509,256
Silver (Ounces/ Grams)	135,662	4,219,549	157,197	4,889,361

Although mill throughput was slightly higher in 1978, lower head grades and recoveries resulted in reduced copper production. During the year 5,258,000 tons of ore were mined compared to 4,997,000 tons in 1977.

As of September 30, 1978 Granisle ore reserves were estimated at 47,966,000 tons at an average copper content of 0.42% and an average stripping ratio of 1.62 tons of waste per ton of ore. At year end there was a stockpile of 6,395,000 tons of low grade material with an average copper content of 0.27%.

MARKETING

Market conditions which have been largely responsible for the low copper prices experienced over the past three years have been well documented in previous annual reports. Prices in 1978 remained at sub-economic levels throughout the year, ranging between 54¢ U.S. and 65¢ U.S. per pound on the London Metal Exchange. However, the large world-wide surplus of refined copper was substantially reduced during the year leading to a gradual improvement in prices by year end. This reduction resulted from production cutbacks in North America and other free market economies, and from interruptions in supply and transportation problems in Africa.

Consumption of copper is expected to continue to exceed supply with significant shortages developing in the 1980's. Even though a number of new copper mines are scheduled to open in Mexico, Iran and the Philippines in 1979, no subsequent major developments are currently evident that would alter the production forecasts. Given the long lead time required for planning, financing and development of new mines, the probability of substantial supply shortages in the next five year period is greatly increased.

EXPLORATION AND DEVELOPMENT

The Company participated, on the basis of a one-third interest, in the exploration activities of the parent company, Granby Mining Corporation (Granby). With respect to its exploration and development program, Granby has reported as follows:

"Exploration activities were concentrated in Western Canada, principally in British Columbia. Intensive surface work was carried out on staked claims in an area containing complex massive sulphide lenses. Other claims containing molybdenite showings which were subjected to geophysical and geochemical surveys are to be drilled in the near future. A number of prospects were examined, some in considerable detail."

The termination of the Granridge project is referred to in item 2 of the Notes to the financial statements, which form an integral part of this Annual Report.

MAJOR SHAREHOLDERS

As of September 30, 1978 Granby owned 3,272,280 shares of Granisle Copper Limited, or 98.3%. As of the same date, Zapata Canada Limited, a wholly-owned subsidiary of Zapata Corporation of Houston, Texas, held 1,337,658 shares, or 92.6% of Granby Mining Corporation.

AMALGAMATION

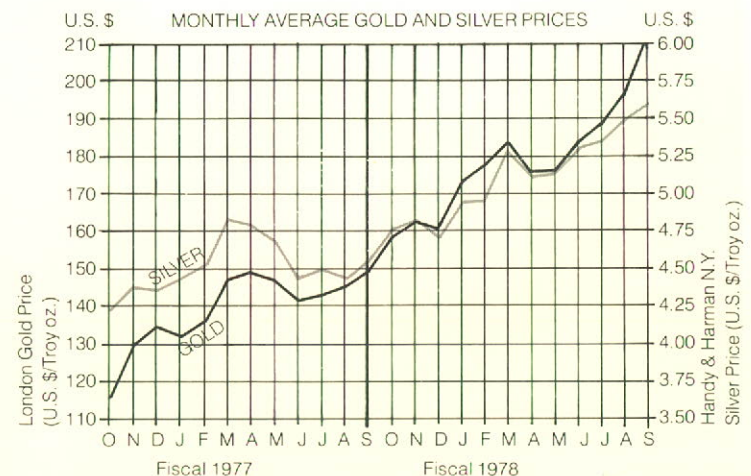
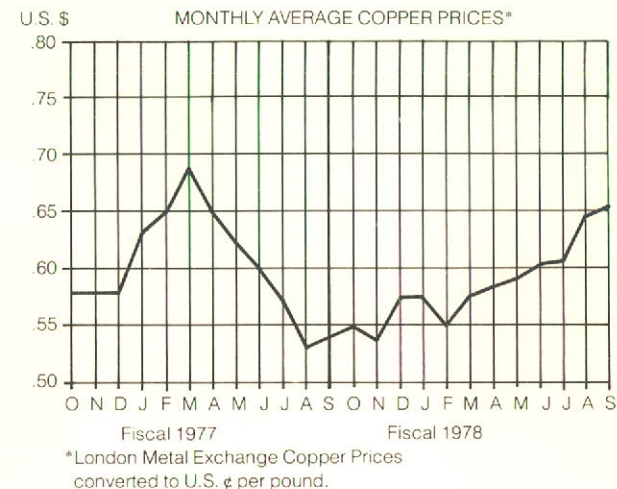
At a Special General Meeting of shareholders held on December 19, 1978, approval was given to the amalgamation of the Company, Granby Mining Corporation and their parent, Zapata Canada Limited, into one Company to be named Zapata Granby Corporation. On the same date, the shareholders of Granby Mining Corporation and Zapata Canada Limited also approved the amalgamation. The further procedures required to consummate the amalgamation are now being undertaken.

Under the terms of the amalgamation, the new company will be a wholly-owned subsidiary of Zapata Corporation and the minority shareholders of Granby and Granisle will receive Preference Shares of Zapata Granby Corporation at the rate of 2.7 Preference Shares for each Granby share, and 1.2 Preference Shares for each Granisle share.

As a result of the amalgamation, shareholders will receive shares bearing a fixed annual dividend. Additionally, under the exchange feature, Preference Shares in the new company may be converted into Common Stock of Zapata Corporation.

Each Preference Share will have an annual cumulative dividend of \$0.40 U.S.; will be redeemable at any time at the option of the amalgamated company at \$10.00 U.S., and if not redeemed prior to December 31, 1982 may be tendered by the holder to the amalgamated company and receive payment therefor in the amount of the redemption price plus accrued and unpaid dividends. Each Preference Share shall be exchangeable at any time by the holder for 0.6086 shares of Common Stock of Zapata Corporation and the payment of dividends, liquidation amounts and repurchase obligations will be guaranteed by Zapata Corporation.

Detailed information regarding the amalgamation was contained in a Proxy Statement and Information Circular sent to shareholders on November 13, 1978.



BALANCE SHEET

	<i>September 30</i>	
	<u>1978</u>	<u>1977</u>
Assets		
CURRENT ASSETS:		
Cash and short-term deposits	\$ 5,023,024	\$ 8,363,634
Accounts receivable	1,153,996	3,525,357
Demand note receivable from parent company, at prime interest rate	6,555,713	3,684,824
Concentrate inventory, at estimated realizable value	5,487,266	2,288,503
Materials and supplies, at the lower of average cost or replacement cost	3,284,239	3,271,796
Prepaid expenses	143,985	131,279
Total current assets	\$21,648,223	\$21,265,393
REFUNDABLE DEPOSITS	\$ 110,725	\$ 100,000
PROPERTY, PLANT AND EQUIPMENT, at cost	\$34,871,412	\$32,882,529
Less — Accumulated depreciation and depletion	15,068,334	12,985,750
Net property, plant and equipment	\$19,803,078	\$19,896,779
DEFERRED CHARGES:		
Exploration costs (Note 2)	\$ —	\$ 302,843
Mine development costs (Note 1e)	897,384	—
Total deferred charges	\$ 897,384	\$ 302,843
	\$42,459,410	\$41,565,015

Liabilities and Shareholders' Equity	<i>September 30</i>	
	1978	1977
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 3,121,861	\$ 2,946,748
Long-term debt due within one year (Note 4)	795,426	479,485
Total current liabilities	\$ 3,917,287	\$ 3,426,233
LONG-TERM DEBT (Note 4)	\$ 3,097,103	\$ 2,200,765
DEFERRED INCOME AND RESOURCE TAXES (Note 3)	\$ 3,349,397	\$ 3,650,397
SHAREHOLDERS' EQUITY:		
Capital stock:		
Shares of no par value:		
Authorized, 4,000,000 shares		
Outstanding, 3,329,919 shares	\$ 2,594,982	\$ 2,594,982
Retained earnings, per accompanying statement	29,500,641	29,692,638
Total shareholders' equity	\$32,095,623	\$32,287,620
CONTINGENT LIABILITIES AND COMMITMENTS (Note 5)		
	\$42,459,410	\$41,565,015

Approved on behalf of the Board:
R. P. TAYLOR, Director
J. H. COLTON, Director

See accompanying notes to financial statements.

Granisle Copper Limited

STATEMENT OF INCOME

	<i>Year Ended September 30</i>	
	<u>1978</u>	<u>1977</u>
Net revenues	\$20,923,786	\$19,352,915
Expenses:		
Cost of production	\$19,281,653	\$19,432,732
Depreciation and depletion	2,139,944	2,005,216
Exploration (Note 2)	39,012	154,059
General and administrative	594,008	617,296
Deferred exploration costs written off	—	311,760
	\$22,054,617	\$22,521,063
Operating loss	\$ 1,130,831	\$ 3,168,148
Investment and other income	637,834	879,850
Loss before recovery of taxes	\$ 492,997	\$ 2,288,298
Recovery of income and resource taxes (Note 3)	301,000	801,000
Net loss	\$ 191,997	\$ 1,487,298
Net loss per share	\$.06	\$.45
Number of shares outstanding	3,329,919	3,329,919

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<i>Year Ended September 30</i>	
	<u>1978</u>	<u>1977</u>
WORKING CAPITAL PROVIDED BY:		
Operations:		
Net loss	\$ (191,997)	\$ (1,487,298)
Depreciation and depletion	2,139,944	2,005,216
Deferred exploration costs written off	—	311,760
Deferred income and resource taxes	(301,000)	(801,000)
Other	(3,115)	(47,578)
Working capital provided by (deficiency from) operations	\$ 1,643,832	\$ (18,900)
Long-term borrowing	1,772,000	2,043,300
Recovery of deferred exploration costs	302,843	—
Total working capital provided	<u>\$ 3,718,675</u>	<u>\$ 2,024,400</u>
WORKING CAPITAL APPLIED TO:		
Net additions to property, plant and equipment	\$ 2,043,128	\$ 1,341,083
Increase in refundable deposits	10,725	40,000
Exploration costs deferred	—	7,912
Mine development costs deferred	897,384	—
Reduction of long-term debt	875,662	616,395
Total working capital applied	<u>\$ 3,826,899</u>	<u>\$ 2,005,390</u>
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (108,224)	\$ 19,010
Working capital at beginning of year	<u>17,839,160</u>	<u>17,820,150</u>
WORKING CAPITAL AT END OF YEAR	<u>\$17,730,936</u>	<u>\$17,839,160</u>

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

	<i>Year Ended September 30</i>	
	<u>1978</u>	<u>1977</u>
BALANCE AT BEGINNING OF YEAR	\$29,692,638	\$31,179,936
Deduct net loss	191,997	<u>1,487,298</u>
BALANCE AT END OF YEAR	<u>\$29,500,641</u>	<u>\$29,692,638</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

**To the Shareholders,
Granisle Copper Limited:**

We have examined the balance sheet of GRANISLE COPPER LIMITED (a British Columbia company and subsidiary of Granby Mining Corporation) as of September 30, 1978 and 1977, and the related statements of income, retained earnings and changes in financial position for the years 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, the accompanying financial statements present fairly the financial position of Granisle Copper Limited as of September 30, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO., Chartered Accountants.

Vancouver, British Columbia,
November 17, 1978. (except with respect
to the matter discussed in Note 9, as
to which the date is December 5, 1978)

Notes to Financial Statements September 30, 1978 and 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**(a) Foreign Currency Translations**

Current assets and liabilities denominated in foreign currencies have been translated into Canadian currency at the rates of exchange prevailing at the respective balance sheet dates, and long-term debt at the dates the liabilities were incurred. Gains and losses arising from the translation of foreign currencies are included in income.

(b) Property, Plant and Equipment

Particulars of the cost of property, plant and equipment are as follows:

	<i>September 30</i>	
	1978	1977
Mineral claims . . .	\$ 65,099	\$ 65,099
Land	14,271	14,271
Mine buildings and equipment	22,471,051	22,500,266
Mobile and other equipment	12,320,991	10,302,893
	<u>\$34,871,412</u>	<u>\$32,882,529</u>

Depreciation of the mine buildings and equipment is provided on a straight-line basis over the estimated life of the mine. Drills, shovels and the 100 ton ore trucks are being depreciated on a straight-line basis at 10% per annum. The remainder of the mobile equipment is being depreciated at a rate of 30% per annum on a diminishing balance basis.

In January 1978 the Company refined its method of calculating depreciation by recognizing the esti-

mated residual value of the mine buildings and equipment. This refinement had the effect of reducing the 1978 depreciation expense by approximately \$240,000.

(c) Exploration Costs

Current exploration costs are charged against income for the year. Costs relating to properties which, in the opinion of management indicate a probability of future development would be deferred, and would be either amortized over a period not to exceed the estimated life of the revenue producing property or charged against income in the year it is determined that the property under investigation no longer has a probability of future development or recovery.

Under the terms of an agreement between the Company and Granby Mining Corporation (Granby), all exploration costs on projects originated by Granby after January 1, 1971 are shared on a one-third, two-thirds basis.

(d) Net Revenues

Net revenues include all concentrate production sold under contracts to customers in Japan and Europe.

Production represented by concentrate inventory and shipments in transit at year-end has been recorded at the September average quoted price for metals, which is estimated to be the realizable value.

(e) Mine Development Costs

In accordance with the Company's policy adopted when the mine was first developed in 1966, the

current excess stripping costs, which amounted to \$897,384 as of September 30, 1978, have been deferred and will be amortized as the stripping ratios decrease below the estimated average stripping ratio.

2. DEFERRED EXPLORATION COSTS

Deferred exploration costs of \$302,843 relating to the Granridge property which were shown on the balance sheet as of September 30, 1977 were recovered from the Province of Alberta in fiscal 1978. An additional recovery of \$42,825 was credited against current exploration costs.

3. INCOME AND RESOURCE TAX EXPENSE (RECOVERY)

	<i>September 30</i>	
	1978	1977
Current —		
Income tax	\$ —	\$ —
Resource tax . . .	—	—
	<u>\$ —</u>	<u>\$ —</u>
Deferred —		
Income tax	\$(183,000)	\$(535,000)
Resource tax . . .	(118,000)	(266,000)
	<u>\$(301,000)</u>	<u>\$(801,000)</u>
	<u>\$(301,000)</u>	<u>\$(801,000)</u>

Deferred income and resource taxes result primarily from timing differences in the recording of depreciation for accounting purposes and the claiming of capital cost allowances for tax purposes.

Granisle Copper Limited

4. LONG-TERM DEBT

U.S. term bank loans repayable in equal quarterly instalments and with varying interest rates, secured by specific mobile equipment are as follows:

	<i>September 30</i>	
	<u>1978</u>	<u>1977</u>
(a) Due March 31, 1983, 10% interest rate at September 30, 1978. (U.S. \$678,475)	\$ 668,290	\$ 809,050
(b) Due October 15, 1983, 10 $\frac{1}{8}$ % interest rate at September 30, 1978. (U.S. \$1,575,000) . .	1,532,475	1,824,375
(c) Due November 15, 1984, 10 $\frac{1}{4}$ % interest rate at September 30, 1978. (U.S. \$1,428,571) . .	1,582,142	—
	<u>\$3,782,907</u>	<u>\$2,633,425</u>
Less: Payments due within one year before adjustment to current rate of exchange	685,804	432,660
	<u>\$3,097,103</u>	<u>\$2,200,765</u>

As of September 30, 1978 the payments due within one year, at the current exchange rate, were \$795,426.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers (as

defined in the British Columbia Companies Act) for the year ended September 30, 1978 amounted to \$180,325 (\$184,885 in 1977).

6. CONTINGENT LIABILITIES AND COMMITMENTS

(a) The Company has guaranteed 50% of a \$650,000 mortgage extended by a bank to Granisle Village Inn Ltd., a non-affiliate, in connection with a hotel built and operated at the Granisle townsite. Granisle Village Inn Ltd., is currently in receivership; however, the Company's management is of the opinion that no material liability in respect of this guarantee will be incurred by the Company.

Further, the Company is contingently liable to a maximum of approximately \$1,500,000 in connection with the mortgaging of and buy-back arrangements for certain homes occupied by employees in the town of Granisle.

Purchase commitments totalling approximately \$1,100,000 have been made in connection with the purchase of various mining equipment and facilities.

At September 30, 1978, no events had occurred giving rise to actual liabilities under these contingencies and commitments.

(b) A civil action which was instituted on May 11, 1972 and is currently pending in the United States District Court for the Southern District of Texas at Houston, was filed by certain minority shareholders of the Company and Granby, naming as defendants the Company, Granby and certain present and/or former directors and/or officers of the Company and Granby and alleging among other things violations of the United States Securities Exchange Act of 1934 and further seeking equitable relief and compensatory and punitive damages. After consultation with counsel, it is

management's opinion that this action should not result in any material loss or liability on the part of either company. No provision has been made in the accounts for any amounts which may become payable as a result of the said actions.

7. CANADIAN ANTI-INFLATION LEGISLATION

The Company was subject to and has complied with controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act effective October 14, 1975.

8. EVENT SUBSEQUENT TO SEPTEMBER 30, 1978

At a Special General Meeting of Shareholders held on December 19, 1978 the proposed amalgamation of the Company, Granby Mining Corporation and Zapata Canada Limited was approved.

9. EVENT SUBSEQUENT TO THE DATE OF THE AUDITORS' REPORT

Certain regulations under the British Columbia Mineral Land Tax Act, as they relate to the assessments based on the value of the Company's production were repealed effective January 1, 1977. The Company, together with other mining companies, has commenced action challenging the validity of the 1975, 1976 and 1977 assessments issued under the Act. The Company paid approximately \$1,437,000 on account of these assessments to December 31, 1977.

On December 5, 1978 the Supreme Court of British Columbia determined that the assessments challenged were null and void when issued and no tax should be payable thereon. The Crown is appealing this decision.

