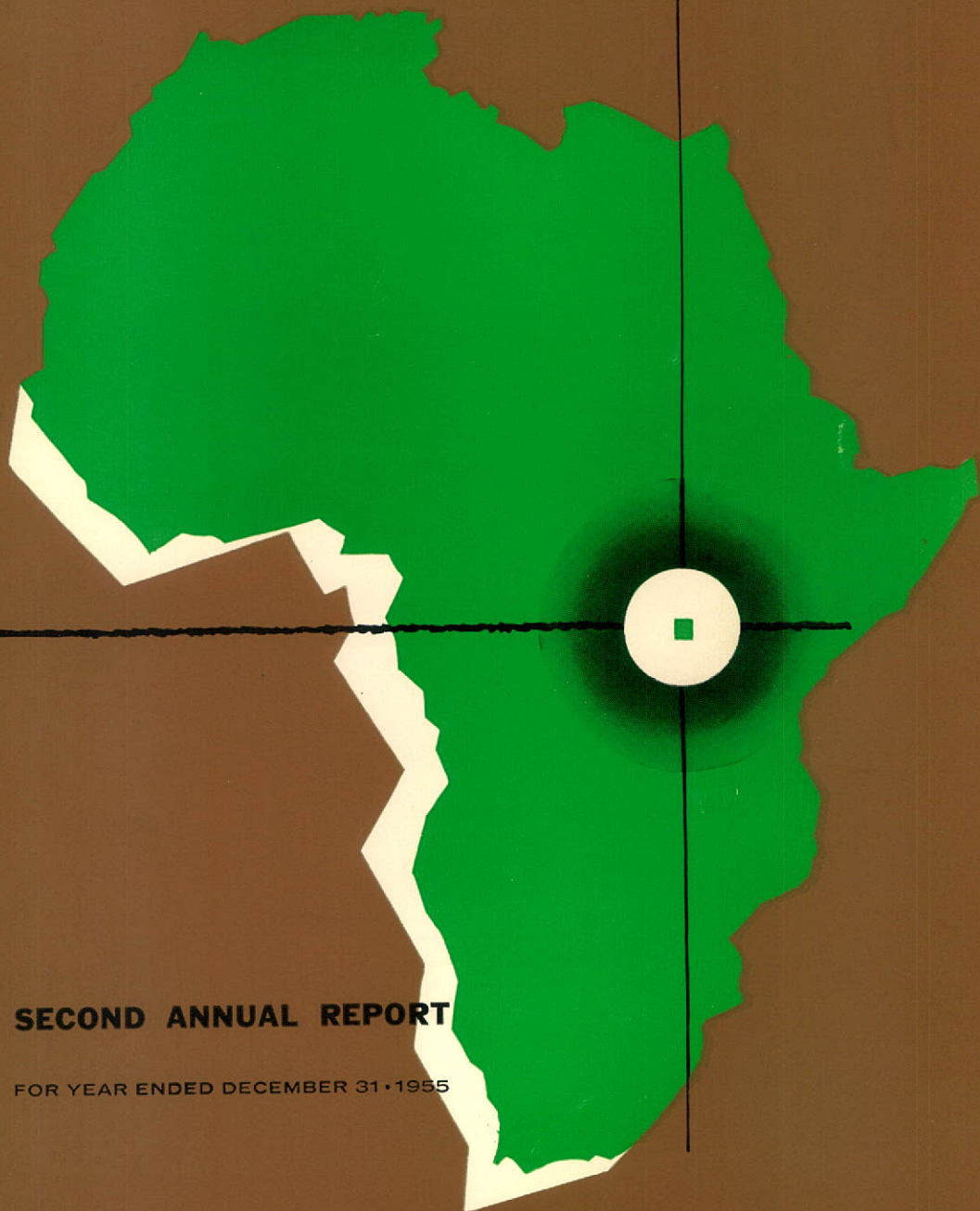


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copper cobalt ltd.



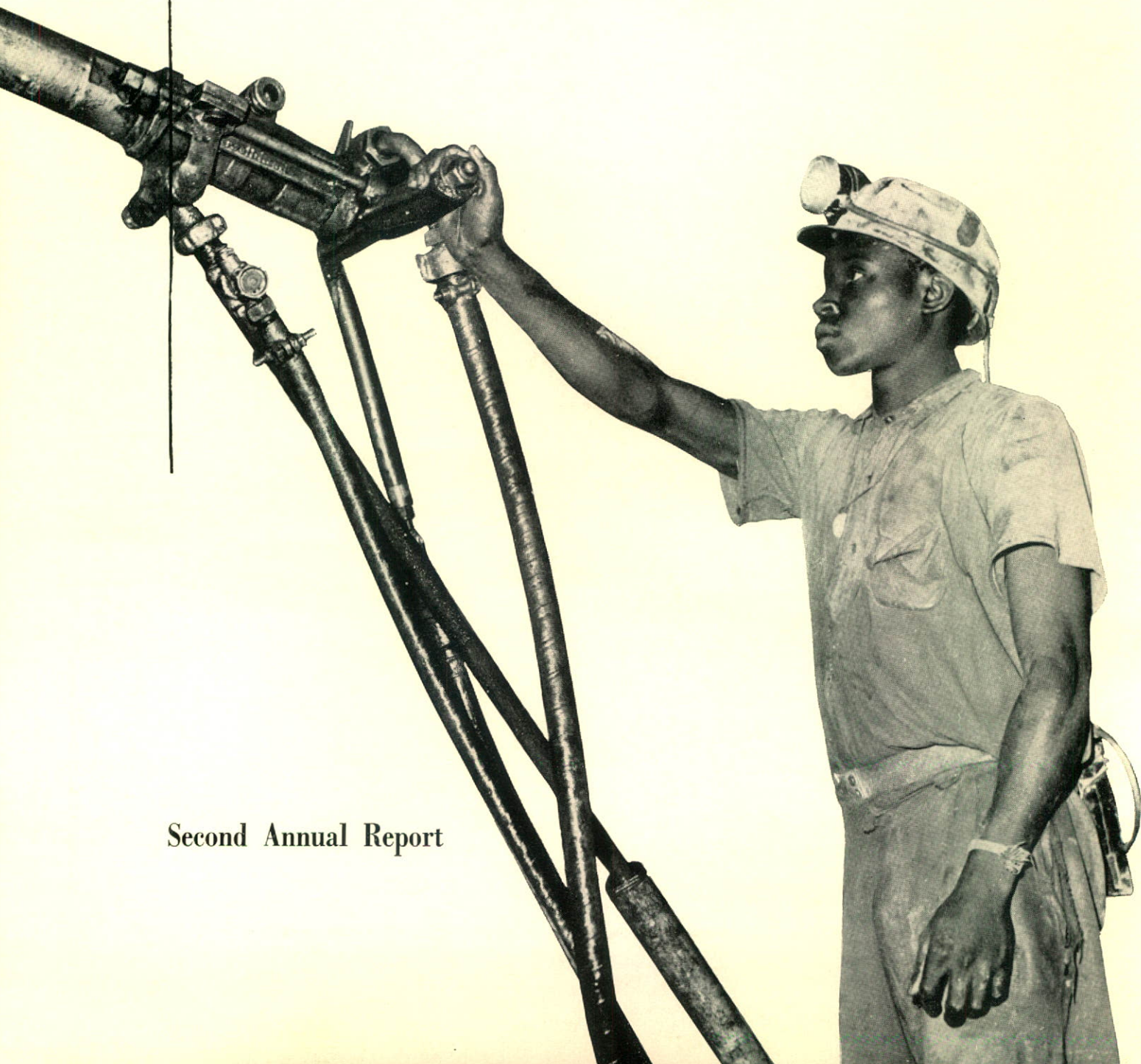
SECOND ANNUAL REPORT

FOR YEAR ENDED DECEMBER 31 • 1955

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McGILL UNIVERSITY

KILEMBE

copper cobalt ltd.



Second Annual Report

KILEMBE

copper cobalt ltd.

HEAD OFFICE: 25 King Street West, Toronto, Canada

OFFICERS: A. J. ANDERSON - - - - - *President*
W. B. MAXWELL - - - - - *Vice-President*
G. T. N. WOODROOFFE - *Secretary and Treasurer*

DIRECTORS: A. J. ANDERSON
W. B. MAXWELL
G. T. N. WOODROOFFE
T. LINDSLEY
COL. R. O. BULL

TRANSFER AGENTS
AND REGISTRAR:

CROWN TRUST COMPANY
302 Bay Street, 393 St. James St. West,
Toronto, Ontario Montreal, Quebec
364 Main Street, 569 Howe Street,
Winnipeg, Manitoba Vancouver, B.C.

BANKERS: THE CANADIAN BANK OF COMMERCE
Toronto, Ontario

AUDITORS: CLARKSON, GORDON & Co.
Toronto, Ontario

REPORT OF THE DIRECTORS*copper cobalt ltd.*

TO THE SHAREHOLDERS:

It is with great pleasure that we submit herewith our Second Annual Report, together with the Financial Statements and Auditors' Report, for the year ended December 31, 1955.

In October 1955, securities of your Company were offered to the public for the first time. A total of \$5,325,000 was raised from the sale of \$5,000,000 5½% Ten-year Collateral Trust Debentures accompanied by Stock Purchase Warrants, 250,000 Common Shares and 250,000 additional Stock Purchase Warrants.

Under the terms of the financing agreement, incidental to the provision of the foregoing funds, your Company granted Frobisher Limited an option on 294,266 shares of its capital stock at prices ranging from \$2.30 per share if exercised prior to April 1, 1956, to a price of \$3.00 per share if exercised during the period April 2, 1960 to October 1, 1960.

The entire amount of the funds received from the financial arrangements referred to above are being, or will be used, to bring the Kilembe mine into production during the current year. This mine, located in Uganda, East Africa, is being developed by Kilembe Mines Limited in which your Company holds a 70% interest.

You will note from the Progress Report, herein, that it has been necessary to defer erection of the cobalt treatment plant, pending completion of further research. It is indicated by this work to date that the cost of the cobalt metallurgical plant may be somewhat higher than was originally anticipated. There has also been a substantial overall increase in world prices of all materials and services since the Kilembe estimates were first prepared. In combination, these two factors will probably make it necessary to arrange for some additional funds in 1956 and 1957 to bring the project to completion.

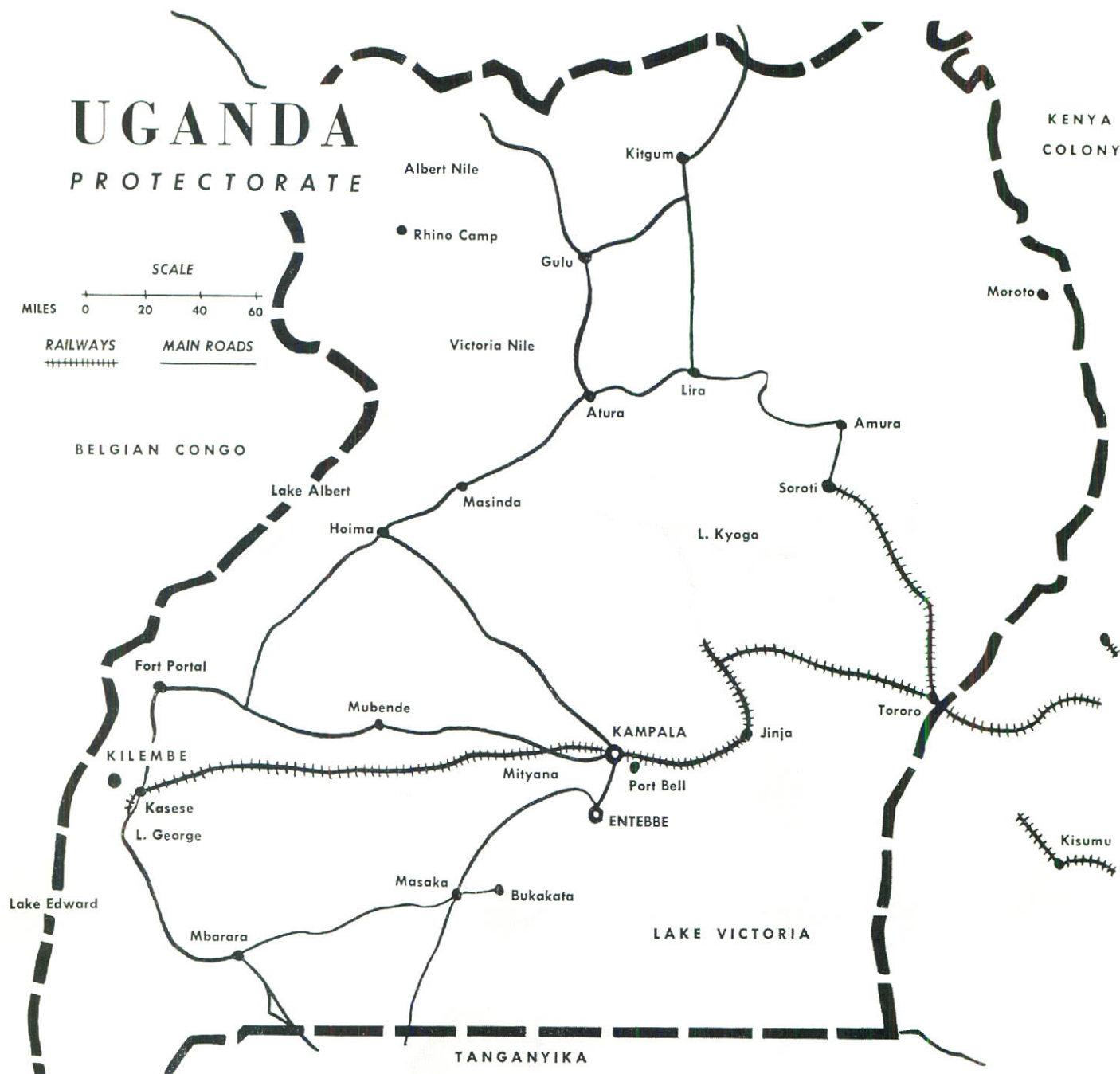
The past year has been one of intense activity at Kilembe and has seen the project emerge from its embryonic stage of engineering, planning, and design into a highly-g geared and well co-ordinated, large-scale construction project which is proceeding smoothly and on schedule towards its goal of finished blister copper before the end of the year 1956. The program is comprised of four major parts, at four separate locations, all under the co-ordinated management of Messrs. D. C. Sharpstone and A. E. Pugsley, Managing Director and General Manager, respectively, of Kilembe Mines Limited. In the Progress Report to be found in the body hereof it will be noted that excellent progress is being made in all divisions of the work.

The Kilembe project is a major undertaking by Canadian or any other standards and the inception of base metal production in Uganda, Kilembe being the first metaliferous mine in the territory, will be an event of major significance. Shareholders of Kilembe Copper Cobalt Ltd. may well feel justifiable pride with respect to the part they are playing in this important endeavour.

On behalf of the Board,

A. J. ANDERSON,
President.

Toronto, Ontario,
March 23, 1956.



Uganda

"With its natural resources, mountain ranges, and a variety of beautiful lakes, Uganda may well be called the Switzerland of Africa," declares George Haynes in "Africa, Continent of the Future." Although the 93,981-square-mile Protectorate of Uganda lies astride the Equator, a general plateau topography means an equitable climate of moderate day-time temperatures and cool nights.

An invigorating climate, well-watered fertile land suitable for agriculture, a diversity of known minerals and the large power resources of the Nile, recently harnessed where it emerges from Lake Victoria at Owen Falls—these have served to make Uganda of interest not only for its splendid scenic attractions and big game hunting, but to those interested in the rich promise for development of natural resources and establishment of manufacturing industries.

The Uganda Protectorate is administered under the Colonial Office by the Governor, who is assisted by the Executive and Legislative Councils, which were first established in 1921. The progressive policies of this administration have been reflected in creation of the Uganda Development Corporation to assist in furthering of new projects and of the Uganda Electricity Board, under whose auspices the Owen Falls power development was undertaken.

Until recently the country's economic life has been largely based on agriculture but with the aggressive sponsorship of the Uganda Development Corporation there has been, in the last few years, a distinct trend towards the first stages of industrialization. A cement plant, capable of producing 50,000 tons per year, has been established at Tororo. A textile mill and other industries are currently being established at Jinja. The Kilembe project, with its integrated mining, milling, and metallurgical operations, constitutes another important phase of this birth of industry which gives guarantee to the 5 million residents of the Protectorate that Uganda is assuredly coming of age.

REPORT OF PROGRESS**AT****THE KILEMBE MINE***copper cobalt ltd.***MINE GENERAL**

The preparation of the underground workings for active mining operations and removal of overburden from the site of the open pit were largely completed during the year. This program involved approximately 11,000 ft. of drifting, crosscutting, raising and winzing, and the removal of almost 250,000 cu. yds. of overburden. By April 1956 the mine workings will be fully equipped and ready to supply ore to the concentrator. Although initial tonnages will be below the full production rate, they will progressively increase as mining crews are trained, reaching full production in the fourth-quarter of 1956.

GENERAL BUILDINGS AND HOUSING

The construction program instituted in the previous year was essentially completed in 1955 and the property now stands provided with adequate working buildings of a permanent nature to accommodate the varied departmental activities connected with an operation of the size contemplated. A modern townsite has been established at Kilembe with modest, but durable, housing provided for European, Asian, and native African employees. Other basic necessities of a remote area have been provided as well, with a recreation club, hospital, and shopping centre having been brought into active use during the past year.

MOBUKU POWER PLANT

The hydro-electric power development on the Mobuku River consists of an intake weir from which water is transferred in a metal flume to a hillside penstock above a power house in which twin-turbine-generator units will be installed. The initial output of this power station will be 6,000 horsepower but provision has been made so that a third unit can be installed later to raise the output to 9,000 horsepower. The various works necessary to this installation are already well advanced, the intake being complete, erection of the flume being in progress and the power house building being near completion. The first power unit is expected to be in operation towards the end of May 1956.

CONCENTRATOR

A concentrating plant of modern design, with a nominal treatment rate of 40,000 tons of ore per month (1,335 tons per day) is now in course of erection. All foundations have been completed, steel erection is in progress and installation of the milling machinery has commenced. Construction schedules call for completion of the installation late in May 1956 and, following an initial tuneup period of some weeks, regular production is expected to commence in July.

METALLURGICAL PLANT

At Kasese, the railway terminus, eight miles distant from Kilembe proper, satisfactory progress is now being made on the installation of metallurgical treatment plants wherein the copper and cobalt-pyrite concentrates will be processed. These two concentrator products will be conveyed in separate pipelines, largely by gravity, from the mine site to Kasese. Due to the necessity for prolonged and extensive metallurgical testwork before the design of the cobalt section of this plant could be finalized, it has been necessary to restrict the present

KILEMBE

copper cobalt ltd.



View of the concentrator area from the Northern Deposit, showing the portal to the Eastern workings at right.



View of Smelter Area at Jinja, showing stack and first steel erected for smelter building.



Employees' Recreation Centre.

copper cobalt ltd.

Installation to the provision of copper handling facilities. This consists of a Dorco roaster and ancillary equipment for the de-watering of concentrates and shipment after roasting, and it is fully expected that this portion of the plant will be in operation in time to coincide with the commencement of smelting operations. Engineering design of the cobalt section is expected to be completed by August 1956 and construction of the special facilities required in that connection will be started immediately thereafter. However, it will be necessary to stockpile concentrates of both types, for a period of some months, following inception of the milling operation at Kilembe.

SMELTING PLANT

An electric smelter is in course of construction at Jinja, approximately 270 miles from Kilembe, where an abundant supply of electric power is available from the Uganda electricity development at Owen Falls. This installation will consist of an electric furnace, converters and the ancillary handling equipment. Progress on smelter erection has been delayed due to late deliveries of equipment, particularly heavy steel sections for the building itself. Excavations and foundations are, however, well advanced and the scheduled deliveries of structural steel and equipment are such that smelting operations are expected to commence in the fourth-quarter of 1956.

GENERAL

Construction of a new rail-link from Kampala to Kasese by the East African Railways & Harbours has been proceeding concurrently with the above program and while progress has been slower than had been hoped for, construction trains are expected to be running on the line early in March 1956. Labour requirements for the project, involving some 3,000 people (90% native African) have been met, generally without serious difficulty and the company's relationship with its employees has been extremely harmonious. The Government of Uganda has been most cooperative and has continually endeavoured to assist this development with every means at its command. Notwithstanding aggravating delays due to world supply conditions, accentuated by geographic location, the year 1955 must be regarded as one of major achievement at Kilembe and the goal of blister copper production in 1956 can now be anticipated with confidence.



1. Concentrator
2. Portals to Mine Workings
3. Explosives Magazine
4. Power & Compressor Station

5. Mechanical & Electrical Shops, Warehouse, etc.
6. General & Engineering Offices
7. Pilot Roast-Leach Plant

8. Concentrate Pipe Lines, Mill to Roast-Leach Plant
9. African Township
10. Uganda Police Station

- KEY TO KIL**
11. Bank & Post Office
 12. African & European Quarters
 13. Mine Dining Hall
 14. Quarters for Mine Workers



KILEMBE PLAN

Post Office
European Hospital
Dining Hall
for Single Men

15. School
16. Kilembe Townsite
17. Recreation Club & Playing Fields
18. Quarry & Stone Crushing Plant

19. Water Supply
20. Residential Area — Chanjojo
21. Roast-Leach Plant
22. Kasese Terminus, E. A. Railway

23. Sand Washing Plant
24. Airstrip, E. A. Airways
25. Brick & Tile Plant
26. Power Transmission Line
27. Penstock & Powerhouse

KILEMBE

copper cobalt ltd.



Main Entrance to Company Hospital — African & European wards lie beyond, out of picture.



Kilembe European Townsite from domestic water supply station. Recreation Centre and playing fields are visible in foreground.



View of rock dumps at the portals of the Northern Deposit adits, as seen from the Eastern Deposit.



KILEMBE

AUDITORS' REPORT

copper cobalt ltd.

To the Shareholders of
KILEMBE COPPER COBALT LTD.:

We have examined the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary, Kilembe Mines Limited, as at December 31, 1955 and the statement of consolidated pre-production development and administrative expenses as at that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statement of consolidated pre-production development and administrative expenses are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1955, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Toronto, Canada,
May 2, 1956.

CLARKSON, GORDON & CO.,
Chartered Accountants.

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Consolidated Balance Sheet

ASSETS

CURRENT:

Cash on hand and in banks	\$ 3,822,728
British Treasury Bills at cost	1,266,446
Accounts receivable	100,228
Inventories of materials and supplies at cost	1,283,184
Total current assets	<u>\$ 6,472,586</u>

PROPERTY (including pre-production expenses) (notes 2 and 3):

Mining concessions	\$ 479,778	
Land, buildings, machinery, plant and equipment, at cost	4,884,308	
Construction in progress at cost	2,957,502	
Pre-production development and administrative expenses	<u>6,480,866</u>	14,802,454

DEFERRED CHARGES:

Debenture discount and expenses, less amount written off	429,763
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Approved on behalf of the Board:

A. J. ANDERSON, Director.

W. B. MAXWELL, Director.

\$21,704,803

The notes to consolidated financial statements are an integral part of the

ER COBALT LTD.

(the laws of Canada)

subsidiary

NES LIMITED

(of the Uganda Protectorate)

as at December 31, 1955

LIABILITIES

CURRENT:

Accounts payable and accrued charges	\$ 947,409
Provision for leave pay and passages	83,799
Due to Frobisher Limited, parent company	7,768
Accrued interest on long term debt	170,104
Total current liabilities	<u>\$ 1,209,080</u>

LONG-TERM DEBT:

Kilembe Copper Cobalt Ltd.—

5½% 10-year collateral trust debentures, to mature October 1, 1965 (subject to prior redemption)	\$4,989,000
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Kilembe Mines Limited—

6% first mortgage debenture stock redeemable by a sinking fund commencing in the year ending December 31, 1959 calculated to redeem the stock by December 31, 1975—issued (£1,500,000) less held by Kilembe Copper Cobalt Ltd. (£500,000)	2,738,870	
6% unsecured loan stock, 1960 (£600,000) less held by Kilembe Copper Cobalt Ltd. (£200,000)	<u>1,101,758</u>	8,829,628
Minority interest in subsidiary (30%)		<u>4,109,802</u>

CAPITAL (notes 3 and 5):

Authorized—5,000,000 shares of a par value of \$1 each		
Issued for cash and other considerations—2,209,484 shares	\$2,209,484	
Contributed surplus (note 6)	5,247,184	
Redeemable stock purchase warrants—		
Issued—warrants for the purchase of 996,250 shares	<u>99,625</u>	7,556,293
		<u>\$21,704,803</u>

above consolidated balance sheet and should be read in conjunction therewith.

KILEMBE***copper cobalt ltd.*** and its subsidiary **KILEMBE MINES LIMITED**STATEMENT OF CONSOLIDATED PRE-PRODUCTION DEVELOPMENT
AND ADMINISTRATIVE EXPENSES
AS AT DECEMBER 31, 1955

KILEMBE MINES LIMITED—

Direct expenditures:

Underground development and opencast preparation	\$1,827,099	
Diamond drilling and geological interpretation	564,864	
Stock piling ore	11,105	
Access roads to workings	6,905	\$2,409,973

Indirect expenditure:

Metallurgical research	\$ 351,396	
Consultants' fees and expenses	629,401	
Geological mapping, etc.	89,677	1,070,474

Special charges:

Preliminary and issue expenses	\$ 168,296	
Parent company's preliminary, legal, etc. expenses	7,103	
Special services	28,837	
Premium on lease of Kampala office	616	
Expenses of discontinued investigations into other projects	5,607	210,459

General and administrative expenses:

Administration including licenses and rentals	\$1,208,430	
Services	320,132	
Insurance	52,938	
Communications	39,127	
Travelling expenses	328,364	
Audit, accountancy and secretarial fees	29,514	
Losses less profits on fixed assets sold and scrapped	251,688	
Expenditure not yet allocated	28,855	
Stores adjustment	101,070	
Debenture and loan stock interest	238,395	
Management fee	147,354	
General area survey	51,622	
Gain on conversion to Canadian dollars	(110,486)	2,687,003
		<u>\$6,377,909</u>

KILEMBE COPPER COBALT LTD.—

Debenture interest	\$ 66,225	
Amortization of debenture discount and expenses	11,845	
Foreign withholding taxes on debenture interest receivable by Kilembe Copper Cobalt Ltd. from Kilembe Mines Limited	4,893	
General and administrative expenses (including legal fees of \$495)	17,691	
Incorporation expense	2,303	102,957
		<u>\$6,480,866</u>

The notes to consolidated financial statements are an integral part of the above statement of consolidated pre-production development and administrative expenses and should be read in conjunction therewith.

copper cobalt ltd. and its subsidiary **KILEMBE MINES LIMITED**

Notes to Financial Statements

AS AT DECEMBER 31, 1955

1. FOREIGN EXCHANGE

Most of the expenditures and liabilities of Kilembe Mines Limited have been incurred in pounds sterling (or in British East African currency which is freely convertible to sterling). Fixed assets have been converted to Canadian dollars at the rates of exchange prevailing at the time of acquisition; share capital, debentures and unsecured loan stock allotted and issued have been converted to Canadian dollars at the rates of exchange in effect at the dates on which payments for such shares, debentures or loan stock were made; other assets and liabilities have been converted at \$2.805=£1, being the approximate rate of exchange in effect at December 31, 1955. A net gain of \$110,486 on the conversion to Canadian dollars has been carried forward in pre-production development and administrative expenses.

2. FIXED ASSETS

The Kilembe Mine property on which development and construction work has been carried on is held on a special mining lease from the Government of the Uganda Protectorate for a period of 21 years from January 1, 1953. A roast leach plant and an electric smelter under construction are located on land held on leases of 19 and 99 years respectively from January 1, 1955; a lease is under negotiation for the land on which a hydro-electric installation is under construction. As the Mine is not yet in production no provision has been made for depreciation or depletion other than \$109,217 accumulated in respect of motor vehicles.

3. SHARE CAPITAL

Share capital includes 1,142,857 shares with a par value of \$1,142,857 issued in exchange for the net assets of a predecessor company at a premium of \$2,857,143 for a total value of \$4,000,000. On a consolidated basis mining properties are carried at \$479,778 in excess of the aggregate cash cost of such properties to the original and subsequent owners and such excess has been assigned to the value of the mining concessions in the attached balance sheet.

During the year ended December 31, 1955 the following shares were issued:

	Number of shares	Capital	Contributed surplus	Total
For cash	250,000	\$ 250,000	\$ 350,000	\$ 600,000
For advances from Frobisher Limited	205,553	205,553	513,882	719,435
For £192,540 principal amount of 6% first mortgage debenture stock of Kilembe Mines Limited	150,171	150,171	375,427	525,598
For warrants exercised including the amount re- ceived on the issue of such warrants	3,750	3,750	7,875	11,625
	<u>609,474</u>	<u>\$ 609,474</u>	<u>\$1,247,184</u>	<u>\$1,856,658</u>

In addition to the shares issued the following authorized shares of Kilembe Copper Cobalt Ltd. are subject to options or warrants outstanding (the warrants being redeemable on 60 days' notice at 10¢ for each share represented by the warrants):

Options—

Frobisher Limited	294,266
Employees of the Company and employees of Kilembe Mines Limited	100,000
Redeemable warrants	996,250
	<u>1,390,516</u>

(a) The option to Frobisher Limited to purchase 294,266 shares was exercised in full on March 8, 1956 at \$2.30 per share, a total of \$676,812.

copper cobalt ltd.

- (b) The company has granted to the President, in trust for the employees of the company and its subsidiary, an option on an aggregate of 100,000 shares of its capital stock, which option may, at the discretion of the President be assigned in part or parts to certain employees of the company or its subsidiary at \$3.00 per share, exercisable until September 1, 1958.
- (c) The redeemable stock purchase warrants entitle the holders to purchase one share of stock for \$3.00 per share up to October 1, 1960. The warrants can be called for redemption by the company on 60 days' notice at 10¢ per warrant as soon as the proceeds from the sale of the shares which would be received if all stock purchase warrants then outstanding were exercised would be sufficient to redeem the then outstanding 5½% 10-year collateral trust debentures and such debentures have been called for redemption. Frobisher Limited has the right within 30 days after the redemption or expiry date of any stock purchase warrants to take up stock at \$3.00 per share to the extent of unexercised warrants.

A minority shareholder of the subsidiary company has been granted an option by the company for 2½ years from the time that ore is first delivered from the Kilembe Mine to the mill on a production basis or until December 31, 1963, whichever shall be the earlier, to exchange 500,000 ordinary shares of 20 shillings each of Kilembe Mines Limited, valued at par converted at 13¼¢ to the East African shilling for an equivalent value of shares of the company valued at the average price at which shares of the Company shall have been issued prior to the date of the exercise of the said option. If, at the time such option is exercised, Uganda currency is not fully convertible into Canadian dollars, or if the company has not been furnished with an undertaking from the proper government authorities that all dividends and capital repayments on the shares of the company under option would be fully convertible into Canadian dollars, the company has agreed that a special class of shares designated as Uganda issue shares will be issued. The rights, privileges, restrictions and limitations, if any, attached to the Uganda issue shares are to be in all respects identical with those attached to the other shares in the capital stock of the company except that all dividend payments and other distributions in money of any kind whatsoever to holders of the Uganda issue shares are to be payable in Uganda currency.

4. FUTURE FINANCING

Frobisher Limited, under the terms of an agreement by which it was granted an option to purchase the shares referred to in note 4 (a) above, has contracted to provide the company with sufficient cash to meet any or all of (i) the semi-annual interest coupons of its debentures to October 1, 1957; (ii) its cost of operations to October 1, 1957; (iii) further demands from its subsidiary for funds to bring the Kilembe Mine into production of commercial quantities on or before December 31, 1956. Frobisher Limited has agreed to provide any additional funds required in excess of those provided by the exercise of the option referred to above (\$676,812) against unsecured notes of Kilembe Copper Cobalt Ltd. The company's officials estimate that Frobisher Limited may be called upon to provide approximately \$3,100,000 additional under the terms of this agreement.

5. DIVIDENDS AND REDUCTION OF CAPITAL STOCK

The company has agreed that so long as the 5½% 10-year collateral trust debentures are outstanding it will not pay any dividends on any shares of its capital stock or make any distribution to its shareholders in reduction of its paid-up capital.

6. CONTRIBUTED SURPLUS

Contributed surplus consists of:

Premium on 1,955,724 shares issued at \$3.50 per share	\$4,889,309
Premium on 250,000 shares issued at \$2.40 per share	350,000
Premium on 3,750 shares issued at \$3.00 per share as a result of the exercise of share warrants originally issued at 10¢ per warrant	7,875
	<u>\$5,247,184</u>

7. SMELTER AGREEMENT

Kilembe Mines Limited has entered into an agreement with Macalder-Nyanza Mines Limited (another Uganda company) to provide capacity to process a maximum of 25 tons of copper precipitates for each day of operation of its smelter. In consideration of this undertaking Kilembe Mines Limited, at such time as the smelter is in operation, is to receive 200,000 fully paid ordinary shares of 20 East African shillings of that company out of a total of 700,000 such shares authorized.



View of south end of concentrator during construction, showing storage bins on left and crushing plant beyond. Stripped area for the open pit on the Eastern Deposit can be seen over storage bins. Northern Ore Deposit is located in hillside to right.

Kilembe Concentrator Under Construction

General view of crushing plant and mill during construction, showing crushing plant in centre foreground, and conveyor galleries through which crushed ore will be delivered to storage bins located behind concentrator on left.



