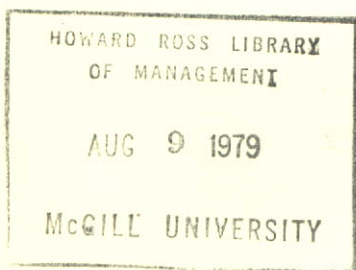


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PAMOUR PORCUPINE MINES,
LIMITED

ANNUAL REPORT 1978



noranda group

PAMOUR PORCUPINE MINES, LIMITED

EXECUTIVE OFFICE ADDRESS:

P.O. BOX 45, COMMERCE COURT WEST

TORONTO, ONTARIO M5L 1B6

MINE OFFICE: Timmins, Schumacher, Ontario

DIRECTORS

J. A. Graham	Omeme, Ontario
J. Conrad Lavigne	Timmins
The Rt. Honourable Roland Michener	Toronto
J. J. Rankin	Toronto
D. E. G. Schmitt	Toronto
J. M. Slack	Toronto
A. W. Stollery	Toronto

OFFICERS

D. E. G. Schmitt	President
J. A. Graham	Vice-President
J. M. Slack	General Manager
B. H. Grose	Secretary
E. K. Cork	Treasurer

TRANSFER AGENT AND REGISTRAR:

Canada Permanent Trust Company, Toronto and Montreal

ANNUAL MEETING

April 17, 1979 — 11:30 A.M. (Toronto Time),
Royal York Hotel, Toronto

Pamour Porcupine Mines is a founding corporate member and supporter of The Gold Institute / L'Institut de l'Or, an international association of leading producers of gold and gold products. The Gold Institute researches, gathers and distributes developmental, technical and industrial information relative to gold usage.

DIRECTORS' REPORT TO SHAREHOLDERS

This 45th Annual Report includes a summary of operating results at the mining properties in the Porcupine Area of Northern Ontario, the balance sheet with the Auditors' Report, financial statements and notes for the year ending December 31, 1978. The consolidated net earnings for the year, after including the extraordinary reduction of income taxes in the amount of \$2,124,000 on application of prior years' losses, were \$5,199,000. The highest recorded earnings in the history of Pamour were a refreshing change from the experience of the last three years in which losses totalled more than \$8.2 million for 1975 and 1976 and profit in 1977 was only \$128,000.

One dividend in the amount of 10¢ per share was paid in December, increasing the total of all dividends paid since production began at the No. 1 mine in 1936 to \$16.38 million. The substantial improvement in the results from operations was due mainly to the continuing rise in the price for gold on international commodity markets and the increasingly discounted value of the Canadian dollar in terms of other major industrial world currencies. Although the total of two million tons of ores treated in the two mills was slightly higher than in 1977, the average mineral content of gold and copper in the ores mined was lower. A summary tabulation for comparison of production and financial statistics for the past 5 years follows:

	1974	1975	1976	1977	1978
Ores treated — '000 tons	1,781	1,913	1,892	1,997	2,000
Production					
— Gold — ounces	143,262	149,582	155,880	164,267	161,372
— Copper — '000 pounds	8,168	7,800	6,359	6,186	3,753
— Silver — '000 ounces	72.6	73.2	62.3	63.1	71.5
Gross value of products — \$000	30,963	26,652	23,302	30,647	40,582
Net earnings (loss) — \$000	4,496	(2,096)	(6,179)	128	5,199
Wages, salaries and benefits — \$000 ..	14,525	17,433	16,034	15,001	17,472
Supplies and services purchased — \$000	9,297	11,429	12,217	14,028	14,142
Average number of employees	1,385	1,348	1,072	911	977

Metals in bullion and concentrate inventories at year end were valued at \$240 per ounce of gold, 75¢ per pound of copper and \$6.50 per ounce of silver and totalled \$7,159,000. The average of prices realized for gold in bullion and concentrate was \$217.38 per ounce and for copper in concentrate, 69¢ per pound.

METAL MARKETS

GOLD

Western World Balance — 000,000 Troy Ounces

(revised estimates)

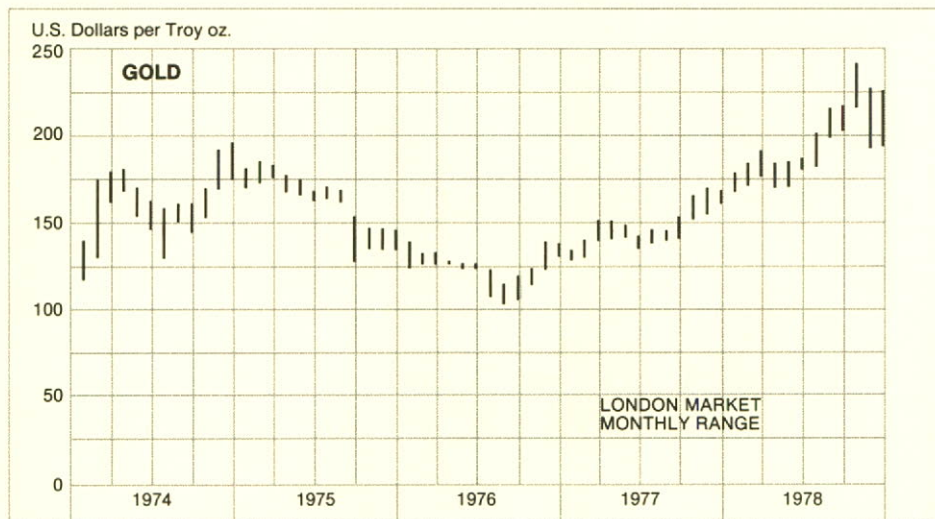
	1976	1977	1978	1979
Supply				
— Mines	31.2	31.0	31.5	32.0
— Russia	13.2	12.9	12.9	11.5
— Banks/IMF/US	2.3	7.8	9.6	18.0
	46.7	51.7	54.0	61.5
Consumption — Industrial	38.2	40.2	39.0	39.0
— Coinage	5.9	4.4	7.5	7.0
	44.1	44.6	46.5	46.0
Balance — Surplus	2.6	7.1	7.5	15.5

The price improvement for gold which began in 1977 continued throughout 1978. From a low of U.S.\$165.70 on January 5, the price reached an all time high of \$243.65 on October 31, dropped a full \$50 in November, and was \$224.50 at year end. In the early weeks of 1979, the price moved upward again into the \$230 range.

Higher prices have been maintained in the face of substantially increased sales from banks and monetary authorities, which sales are the reason for the large surplus forecast in 1979. In May the International Monetary Fund amended sales policy for gold auctions to accept non-competitive bids from developing nations. As a result, the quantity available at I.M.F. monthly public auctions was reduced from 525,000 ounces to 470,000 ounces. Then the U.S. Treasury announced on November 1 a further increase in monthly sales to 1.5 million ounces from 750,000 ounces, as compared to 300,000 ounces when sales

commenced in May. The ready acceptance of these increased quantities demonstrates an underlying confidence in gold. Apart from physical demand, concerns about inflation, the U.S. balance of trade deficit and related U.S. dollar weakness, as well as unrest in the Arab world, continue to be major market influences.

In Canada, there is increasing public interest in the acquisition of gold in small but readily marketable amounts. For more than a year, the Gold Committee of the Mining Association of Canada has been suggesting, and the Gold Institute has been advising regarding production of gold bullion coins at the Royal Canadian Mint in one ounce and half ounce legal tender forms for marketing on an international basis. It is now expected that a government inter-departmental committee will endorse a program to make Canadian gold bullion coins available for sale by September 1979.



COPPER

Western World Balance — '000 Short Tons (revised estimates)

	1976	1977	1978	1979
Supply	7,314	7,604	7,446	7,733
Consumption	7,087	7,535	7,898	7,970
Stocks	2,017	2,086	1,634	1,397

Copper consumption was an all time high in 1978, up 4.8% overall and 5.5% in the U.S.A. Stocks fell 450,000 tons and continue to drop in early 1979. Production was lower than expected due to U.S. mine cutbacks, political disruption and transportation delays in Africa, and strikes in Canada and Peru.

The London Metal Exchange quotation rose from U.S. 59¢ per pound at the beginning of the year to 71¢ at the end. U.S. producer prices increased to 72-73¢ and Canadian prices followed, reflecting the lower valued Canadian dollar, to CF 85¢ per pound. The sharp upward move continued during January 1979, with the LME exceeding 80¢ by month end.

SILVER

Western World Balance — 000,000 Troy Ounces (revised estimates)

	1976	1977	1978	1979
Supply — Primary	247	261	260	265
— Secondary	229	171	160	150
	<u>476</u>	<u>432</u>	<u>420</u>	<u>415</u>
Consumption — Industrial	410	395	415	415
— Coinage	30	27	33	35
	<u>440</u>	<u>422</u>	<u>448</u>	<u>450</u>
Balance — Surplus (Deficit)	<u>36</u>	<u>10</u>	<u>(28)</u>	<u>(35)</u>

The lowest silver price for 1978 was U.S.\$4.83 on January 5 and the highest was \$6.07 on December 29, with an average of \$5.40 per ounce compared with \$4.62 for 1977. In January 1979 the price rose to \$6.71 and was strong at month end. No decision was made to change U.S. stockpile holdings, but it is expected that 15 million ounces will be released sometime during 1979. The supply of silver from India was lower than expected due to their improved balance of payments position.

OPERATIONS

The combined tonnages of materials hoisted or trucked from seven mine sites, including open pit production from the Romfield Property and low grade development rock from the Porcupine Peninsular exploration project, were treated in the two mills and averaged 5,479 tons per day for a total of 2,000,009 tons which was the highest throughput achieved to date. The mineral inventory of 2.51 million tons on January 1, 1979 was 1.17 million tons lower than for 1978, leaving proven reserves sufficient for about 15 months of production. However, it is expected that accelerated exploration and development programs will transfer some four million tons of probable and possible ore to proven reserves within the next two years.

The centralized control of operations and services was continued and senior technical staff was increased to better coordinate production schedules. An improved maintenance control system was developed to increase availability and performance of production equipment. Employee training programs, designed to check work experience and improve skills have been conducted under the Modular Training System as recommended by the Ontario Mining Association. One of the identifiable results has been a reduction in the number of compensable injuries to underground workers.

Productivity in tons of ores treated, per manshift worked, declined by 10% and the cost per ton of ore treated increased by 15%. With lower grade mill heads the net result was a 25% increase in total costs per ounce of gold produced.

Fortunately, the net increase in the average price received for gold was almost 40%, of which about 10% was in exchange on the discounted Canadian dollar: a significant amount in favour of competitive sales of our products in world markets.

OUTLOOK

Pamour has been known for some years as the Canadian mine with the lowest grade underground gold and copper ores, still actively developing and producing. For successful survival, it is necessary that high levels of productivity and low unit costs be achieved. In 1978, rising prices for our products encouraged a 20% increase in exploration drilling, development and stope preparation work to re-establish a viable mineral inventory.

With the mineral properties now held in the Porcupine Area there is favourable ground for new discoveries of economic ore deposits. Underground access and the treatment plants already available, extend the opportunity to re-establish longer term profitable operations to the benefit of employees, shareholders and the community. Our people have demonstrated their capabilities throughout a period of uncertainty with a strong sense of personal responsibility.

Again the loyal support, productive work and good will of all employees is gratefully acknowledged.

On Behalf of the Board

D. E. G. Schmitt
President

Toronto, Ontario
February 6, 1979

REPORT TO THE DIRECTORS by the Assistant General Manager

The following report summarizes operations for the year 1978 at the various mining divisions of the Company.

PRODUCTION STATISTICS

Mine Site Divisions		No. 1	No. 3	Timmins	Schumacher	Ross	Totals	
							1978	1977
Ore milled	— tons	782,549	111,846	293,297*	572,416	239,901	2,000,009	1,997,257
Ore milled per day	— tons	2,144	306	803	1,568	657	5,479	5,472
Average grade								
Gold	— oz/ton	0.083	0.189	0.081	0.071	0.140	0.092	0.093
Copper	— %	—	—	—	0.304	0.217	0.113	0.178
Silver	— oz/ton	—	—	—	0.078	0.283	0.056	0.047
Concentrate produced	— tons	—	—	—	6,688	1,986	8,674	13,355
Copper in concentrate	— lbs	—	—	—	2,905,345	847,784	3,753,129	6,185,902
Gold in bullion and concentrate	— ounces	59,268	18,891	20,467	35,038	27,708	161,372	164,267
Silver in bullion and concentrate	— ounces	—	—	—	29,414	42,117	71,531	63,115
Recoveries								
Gold	— %	90.88	89.41	87.48	86.67	82.29	87.79	88.00
Copper	— %	—	—	—	83.36	81.59	82.96	86.80
Silver	— %	—	—	—	66.07	61.97	63.60	67.20
Productivity in tons per manshift	—	—	—	—	—	8.2	9.1	
Employees at year end	— number	382	93	—	456	74	1,005	958
Development Advances								
Drifts and raises	— feet	7,102	—	—	5,041	460	12,603	7,426
Stope preparation	— feet	13,021	3,767	—	3,652	1,174	21,614	18,574
Diamond drilling	— feet	12,895	2,361	—	11,393	1,337	27,986	25,715

* 42,067 tons included from the Romfield Property.

Exploration and Development

Exploration and development was increased at all divisions, with priority given to large lower grade areas to ensure continuing high volume production. As time and resources permit, exploration and development for more elusive higher grade ores will be undertaken. The Exploration Division has been expanded and comprehensive area programs are under way.

New zones are being explored at the Porcupine Peninsular property and on the Falconbridge Hoyle property adjoining the No. 1 Mine. Surface mining was commenced at the Romfield property and underground potential is being investigated. At the Schumacher Division the potential of a major copper-gold zone is being studied. The first phase of the Ross Mine shaft deepening was completed early in 1979. Development of surface ores on the Timmins Property continued throughout the year and the underground development of the carbonaceous zone has been resumed.

Mining

The Schumacher and No. 1 Divisions experienced production shortfalls due primarily to the shortage of working places resulting from curtailment of development in earlier years. During this period of a return to a balanced exploration, development and production program, serious

shortfalls have been alleviated by expanded mining of low grade surface ores. Pits at Hoyle, Ross and Schumacher Division sites were depleted during 1978. At the Timmins and Romfield properties, mining will continue in 1979 and new zones are being investigated.

Mineral Inventory as of January 1, 1979

<u>Divisions</u>	<u>Proven Tons</u>	<u>Gold oz/ton</u>	<u>Copper %</u>	<u>Silver oz/ton</u>
No. 1 Mine	1,398,000	0.101		
No. 3 Mine	196,740	0.200		
Schumacher Gold	109,235	0.196		
Schumacher Copper	560,810	0.036	0.624	0.10
Ross Mine	246,000	0.154	0.125	0.32
Total	2,510,785	0.10		

The probable and possible mineral inventory includes some 6,396,000 tons of material grading .69% copper and .05 ounces of gold per ton. Much of the Pamour properties remains to be evaluated, and there is considerable potential for the development of additional tonnages.

General

The number of employees was increased from 958 to 1,005 and productivity declined from 9.1 tons per man shift in 1977 to 8.2 tons in 1978, due primarily to increased stope preparation and development work. The recruitment of additional senior technical people and the implementation of comprehensive training and management programs has re-established depth and competence in the minesite organization. Having survived the extreme price reversals of recent years, the staff now faces the future on a stronger, more optimistic and flexible basis.

The average mine site cost per ton of ore treated was \$16.58 compared to \$14.38 in 1977 and the mine site cost per ounce of gold produced was \$184.90 compared to \$148.28 in 1977. The higher costs of materials, wage increases at the beginning of the last year of the labour agreement, additional trucking of higher volumes of surface ores, increased royalty payments, plus accelerated exploration and development all contributed to the higher costs of operating.

I wish to express my thanks to mine management and employees for their continued efforts and support in the operation.

Respectfully submitted,

A. A. Adamson,
Assistant General Manager.

Schumacher, Ontario
February 6, 1979

PAMOUR PORCUPINE MINES, LIMITED
(Incorporated under the laws of the Province of Ontario)

BALANCE SHEET AS AT DECEMBER 31, 1978

ASSETS

	1978	1977
	(in thousands)	
	\$	\$
Current Assets		
Cash	16	61
Bullion and concentrates	7,159	6,637
Accounts receivable	41	86
Stores — at cost	2,221	2,187
Prepaid expenses and deposits	76	168
	<u>9,513</u>	<u>9,139</u>
Investments (note 2)	<u>7,751</u>	<u>7,746</u>
Fixed Assets		
Plant, buildings, equipment and townsite — at cost	10,269	9,803
Accumulated depreciation	6,625	5,804
	3,644	3,999
Mine properties — at cost, less amortization	548	768
	<u>4,192</u>	<u>4,767</u>
	<u>21,456</u>	<u>21,652</u>

AUDITORS' REPORT

We have examined the balance sheet of Pamour Porcupine Mines, Limited 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.

NE MINES, LIMITED

(the laws of Canada)

AT DECEMBER 31, 1978

LIABILITIES

	1978	1977
	(in thousands)	
	\$	\$
Current Liabilities		
Short-term loans	—	8,875
Accounts payable	4,986	4,138
Due to associated companies	2,884	37
Production taxes payable	485	—
	<u>8,355</u>	<u>13,050</u>

SHAREHOLDERS' EQUITY

Capital Stock (note 3)

Authorized —

10,000,000 Class A common shares of no par value

10,000,000 Class B common shares of no par value

Issued and fully paid —

6,733,725 Class A

266,275 Class B

Retained Earnings

8,069	8,079
319	309
<u>8,388</u>	<u>8,388</u>
<u>4,713</u>	<u>214</u>
<u>13,101</u>	<u>8,602</u>

Signed on behalf of the Board:

D. E. G. SCHMITT, Director

J. A. GRAHAM, Director

<u>21,456</u>	<u>21,652</u>
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THE SHAREHOLDERS

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.

January 26, 1979.

COOPERS & LYBRAND

Chartered Accountants

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
	(in thousands)	
	\$	\$
Revenue		
Gross value of bullion and concentrates produced	40,582	30,647
Less: Treatment and marketing costs	1,774	2,166
	<u>38,808</u>	<u>28,481</u>
Expense		
Cost of production	30,601	26,097
Royalties	777	464
Administrative expenses	623	302
Depreciation and amortization	1,095	1,176
Exploration	76	—
	<u>33,172</u>	<u>28,039</u>
Operating Income	<u>5,636</u>	<u>442</u>
Investment Income (Expense)		
Income from associated companies	575	476
Other dividends	15	20
Interest expense	(518)	(810)
	<u>72</u>	<u>(314)</u>
Net Earnings Before Taxes and Extraordinary Item	<u>5,708</u>	<u>128</u>
Income and Production Taxes	<u>2,633</u>	<u>—</u>
Earnings Before Extraordinary Item	<u>3,075</u>	<u>128</u>
Extraordinary Item		
Reduction of income taxes on application of prior years' losses	2,124	—
Net Earnings for the Year	<u>5,199</u>	<u>128</u>
Earnings per Share — Before Extraordinary Item	<u>44¢</u>	<u>1.8¢</u>
Earnings per Share — After Extraordinary Item	<u>74¢</u>	<u>1.8¢</u>

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
	(in thousands)	
	\$	\$
Balance — Beginning of Year	214	86
Net earnings for the year	5,199	128
	<u>5,413</u>	<u>214</u>
Dividends	700	—
Balance — End of Year	<u>4,713</u>	<u>214</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
	(in thousands)	
	\$	\$
Working Capital (Deficiency) — Beginning of Year	(3,911)	(4,825)
Source of Funds		
From operations —		
Earnings before extraordinary item	3,075	128
Depreciation and amortization	1,095	1,176
Earnings (loss) of associated company	(5)	107
	4,165	1,411
Reduction of income taxes on application of prior years' losses	2,124	—
Sale of fixed assets	116	79
	6,405	1,490
Application of Funds		
Dividends	700	—
Additions to fixed assets — net	636	576
	1,336	576
Net Increase	5,069	914
Working Capital (Deficiency) — End of Year	1,158	(3,911)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1978

1. Accounting Policies

(a) Bullion and concentrates

Consistent with industry practice, the company records as revenue the estimated realizable value of bullion and concentrates awaiting settlement, in transit and on hand.

(b) Depreciation and amortization

Depreciation of plant, buildings, equipment and townsite, and amortization of mine properties, are provided at rates designed to write off the capital costs associated with each mine over its estimated productive life. Generally the straight-line method is used. Development expenditures are written off as incurred.

2. Investments

Investments include the following:

	<u>1978</u>	<u>1977</u>
	<u>\$</u>	<u>\$</u>
Shares in associated companies — at cost (quoted market value — \$14,415,000)	6,956,000	6,956,000
Shares in and advances to an associated company at cost adjusted by the company's equity in income or losses since the date of investment	320,000	315,000
Other shares at cost (quoted market value \$279,000)	<u>475,000</u>	<u>475,000</u>
	<u>7,751,000</u>	<u>7,746,000</u>

At December 31, 1978 the investments included 214,710 shares of Noranda Mines Limited with a quoted market value of \$7,836,915 and 400,000 shares of Kerr Addison Mines Limited with a quoted market value of \$4,650,000.

3. Capital Stock

The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid, in whole or in part, out of 1971 capital surplus on hand (as defined in the Income Tax Act).

During the year, 8,670 Class A shares were converted to Class B shares.

4. Income Tax Loss Carry-Forward

At December 31, 1978 the company has losses available for carry-forward amounting to approximately \$4,000,000 which may be applied against taxable incomes of the years 1979 to 1981.

5. Statutory Information

The aggregate direct remuneration paid or payable to the seven directors amounted to \$10,200. Three of the seven officers of the company are directors. No remuneration is paid to officers other than for services as directors.

The aggregate direct remuneration paid or payable to the five highest paid employees amounted to \$158,514.

6. Pension Plan

As at December 31, 1978 the company's unfunded obligation under its pension plan with respect to past service is estimated at \$75,000. The unfunded balance will be absorbed against income over the next twelve years.

EFFECTS OF INFLATION

The erosion of corporate financial strength due to inflation is very real, but the measurement of that erosion is difficult. Numerous studies by accounting and other organizations around the world have yet to produce a generally acceptable method of measuring the impact. A committee appointed by the Ontario Government to study the problem recommended in 1977 an approach that attempts to measure the effects of inflation on the funds generated by a business. This approach indicates the amount hypothetically available, from the year's operations, for distribution to shareholders or expansion after allowing for inflation in calculating the funds required to maintain the business; after allowing for the higher cost of replacing inventories and fixed assets.

Application of this method to Pamour's 1978 results, using a Statistics Canada business index, produces the following statements:

Funds generated from operations and extraordinary item (from statement of changes in financial position)		\$6,289,000
Deduct the funds required to finance original cost of productive assets		<u>1,095,000</u>
Amount available, on an historical accounting basis, for distribution, reinvestment or expansion		5,194,000
Deduct provision for increased cost of maintaining operating capacity in our inflationary environment:		
To replace inventories at higher prices	684,000	
For plant, machinery and equipment at higher prices	<u>483,000</u>	<u>1,167,000</u>
Leaves: funds hypothetically available from the year's operations for distribution, investment or expansion		<u>\$4,027,000</u>

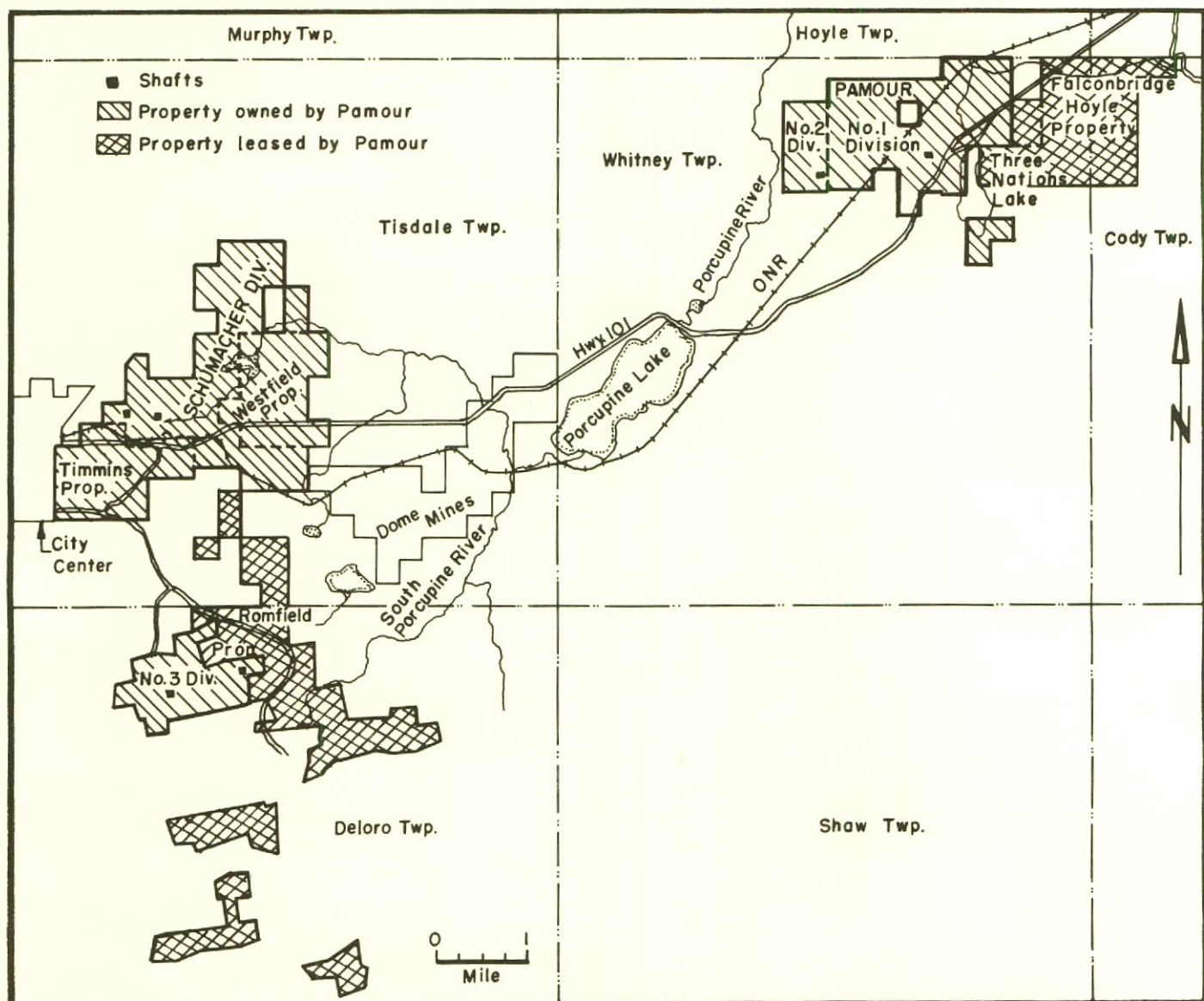
Given the level of inflation Canada has been experiencing, \$2,262,000 (\$1,095,000 plus \$1,167,000) should have been spent to maintain the business.

What in fact happened in 1978 was the expenditure of \$520,000 (net) on fixed assets, \$6,028,000 to reduce short term debt, \$700,000 as dividends to shareholders — all resulting in the dispersal of the \$6,289,000 generated and a reduction in working capital of \$959,000.

By this measure, Pamour sacrificed the spending required to maintain its business in order to strengthen its financial position, but must eventually make up this shortfall if its productive capacity is not to be eroded. It is essential that the company spend a considerable amount on exploration and development in the immediate future to compensate for curtailed expenditures in prior years due to the limited working capital position.

This statement is intended to provide perspective and involves many statistical estimates. 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.

It should also be noted that the \$1,167,000 figure shown in the statement could be interpreted as indicating the amount by which Pamour's 1978 earnings were overstated due to the ravages of inflation. Earnings are taxed without adequate recognition being given to this overstatement.



Map of Porcupine Mining Area Showing Locations of Pamour Porcupine Mines Properties in Timmins

MAP OF PAMOUR PORCUPINE MINES AREA

