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Brenda Mines Ltd.

1989 Annual Report

noranda group

brenda

Mine Office:
P.O. Box 420, Peachland, B.C.

Transfer Agent and Registrar:
Royal Trust Company,
1177 West Hastings Street, Vancouver, and
Royal Trust Tower, King Street,
Toronto, Canada

Annual Meeting:
May 10, 1990, 12:00 noon, Turner Room,
Hyatt Regency, Vancouver, B.C.

Brenda Mines Ltd.

Directors:

B. O. Brynelsen	Vancouver, B.C.
J. M. Gordon*	Toronto, Ont.
K. C. Hendrick	Toronto, Ont.
G. H. Montgomery*	Vancouver, B.C.
R. H. Ostrosser*	Calgary, Alta.
A. Powis	Toronto, Ont.
H. B. Simpson	Kelowna, B.C.
H. R. Whittall*	Vancouver, B.C.

Officers:

Chairman of the Board	B. O. Brynelsen
President	J. M. Gordon
Secretary	B. H. Grose
Treasurer	A. R. Thomas
Comptroller	M. C. Proctor
Assistant Treasurer	B. C. Bone

*Members of Audit Committee

The reclamation program includes the use of a helicopter to seed the tailings dam.

Directors' Report to the Shareholders

A net loss of $9.4 million or $1.93 per share resulted from lower revenue generated during the year, compared to net earnings of $14.6 million or $3.00 per share in 1988.

The copper and related $U.S. exchange forward sale program was instituted in late 1987 to provide insurance for the mining of the ore underlying the south wall of the pit. The copper price used to value production averaged $0.95 per pound, down from $1.45 the previous year, while the realized molybdenum price averaged $3.21 per pound, down slightly from $3.45 in 1988.

Income from the Australian Timor Sea oil and gas investment increased due to steady oil prices and higher liftings from the Jabiru field, which continued to produce satisfactorily. The Challis field commenced production in December, 1989.

Ore from the stockpiles augmented pit ore during the year to offset operational delays. This also reduced the amount of material to be removed later for reclamation purposes. Operating cost per ton at $3.99 was up 14% from 1988 due primarily to the deferral of the south wall waste removal costs in 1988. In addition, some 500,000 tons of overburden and waste material was removed from the top of the south wall to relieve pressure. Both copper and molybdenum ore grades were lower.

Copper and molybdenum sales amounted to 34.9 million pounds and 7.4 million pounds respectively. The molybdenum inventory was further reduced to 2.4 million pounds. The spot moly price varied from a high of $U.S. 4.00 per lb. and ended the year at $U.S. 2.50. Copper inventory was 4.7 million pounds.

Ore reserves were reduced to 7.2 million tons at year end. Dependent on metal prices and ground conditions, the ore is expected to be mined out approximately at mid year 1990. Preparations for this had been commenced in 1987, and programs were established to minimize the effects of the closure on the employees. Reclamation plans have been developed, and approval from the various government agencies is in progress.

Mineral exploration in British Columbia and the Northwestern United States was carried out through the joint ventures with Noranda Exploration and Vanderbilt Gold Corporation. A joint venture agreement was entered into with Minnova Inc. encompassing the Okanagan Valley region. These programs absorbed $3.1 million during the year. While none of the prospects were developed to the advanced stage, exploration on several will be continued. The company is actively reviewing acquisition opportunities, and has the capability of funding a major mining project.

Subsequent to the pre-feasibility study prepared for the Lang Bay kaolin joint venture project with Fargo Resources, work on the property ceased, and it was rehabilitated. The Bearcub feldspar project north of Vernon, B.C. will require further market evaluation.

The Business Development Group provided support to exploration and acquisition activities, as well as doing metallurgical and analytical laboratory work for Noranda Minerals Inc. on the Montanore and New World properties in Montana. The Process Technology Division generated earnings of $154,000 from revenue of $1.5 million. Somewhat in excess of half of the available time was spent on projects for Noranda Minerals Inc., with the remainder on projects for various clients in Canada and the United States. The close relationship was maintained with the universities of Alberta and British Columbia.

Messrs. Alfred Powis and H. Richard Whittall, Directors since 1968 and 1973, respectively, will not be standing for re-election to the Board at the upcoming Annual Meeting. The Directors wish to record their appreciation for the wise counsel provided throughout their long periods of service to the company.

The dedicated efforts of the mine personnel and those in the Business Development and Exploration Groups are much appreciated by the Directors, and we wish to acknowledge this.

On behalf of the Board,

JM Gordon

J. M. Gordon,
President

February 20, 1990

Management Discussion and Analysis

COMPARISON OF EARNINGS – 1989 VS 1988

Overview

The company incurred a net loss of $9.4 million or $1.93 per share in 1989, compared with net earnings of $14.6 million or $3.00 per share in 1988. Major factors contributing to the 1989 loss were lower copper grades, higher operating costs, higher depreciation and amortization, and lower realized prices for copper and molybdenum.

Mining and milling operations

Net revenues from the mine declined by $23.3 million or 34% from 1988 to 1989 as a result of both volume and price changes. Although the tons milled were 2% higher in 1989, the grades were slightly lower for molybdenum and 11% lower for copper, leading to declines in accountable copper production of 10% and molybdenum of 3%, respectively. The molybdenum price, on an f.o.b. mine basis, declined by 7% while the gross price used to value copper production declined by $Cdn. 0.50 per lb. or 34% from 1988 as a result of the forward selling program.

A decision was made in late 1987 to add an extra year to the mine life by spending $6 million during 1988 to strip waste from the south wall of the open pit in order to mine additional ore lying at the foot of the wall. A forward sales program was instituted at the same time to ensure the mine did not lose money as a result of the stripping and mining project. Unfortunately, the normal relationship between spot and future prices was distorted through 1988 and 1989 by very strong spot prices, with the result that the contracts which matured could only be rolled forward at a considerable cost. Although additional contracts were sold at opportune times, the result of the forward sales of copper and related currency was to effectively hedge 80% of the 1989 and 1990 copper production at $Cdn. 0.95 per lb.

Treatment and distribution charges, which largely relate to the copper concentrate, declined from 1988 to 1989 by about 10%, in line with the reduced copper volume.

Cost of production at the mine increased by $7.7 million or 19% over 1988. A major factor in the increase was that the continued costs of the south wall stripping program early in the year were expensed, since production from that area would commence later within the same year, whereas in 1988 these costs had been deferred. Other contributors to the increase were the higher tonnage milled, longer hauls from the pit bottom, poor weather conditions early in the year which affected road conditions in the pit, the costs of removal of 500,000 tons of overburden from the top of the south wall to improve pit wall stability, the completion of the stockpiling of 1,000,000 tons of ore for processing during the 1990 spring break-up, and raising of the saddle dam in the tailings area.

Depreciation and amortization at the mine more than doubled due to the commencement of the amortization of the $6.0 million of south wall stripping costs which had been deferred in 1988. Mineral exploration expense increased from $3.2 million in 1988 to $5.3 million in 1989 due to the expensing of $1.2 million of previously deferred costs on the kaolin project, which proved to be uneconomic, to a full year's activities in the joint venture with Vanderbilt Gold Corporation in the U.S.A., and to the new joint venture in the Okanagan area with Minnova Inc.

The activities of the Business Development Group, although increasing and maturing, are not yet significant enough to constitute a separate business segment, and its results are thus included with those of the mining and milling operations.

Oil and gas operations

The Canadian oil and gas operations were sold effective April 1, 1988, and the 1988 comparative numbers accordingly include the first quarter results for those operations plus the full year's operations from Australia. The effect of the first quarter 1988 Canadian operations is disclosed in note 10 to the financial statements.

As a result of having a full year's production from the steady Jabiru field, revenue from the Australian oil operations increased by $1.8 million or 83% from 1988, reflecting the increased share of crude sales from 179,000 bbls in 1988 to 340,000 in 1989. The average sale price for crude in $U.S. was essentially the same in 1989 as in 1988. Operating costs increased by $0.8 million due to the higher volumes, and the 1989 operating profit increased by $1.0 million from 1988.

Investment income and taxes

Interest and other income declined by $2.2 million from 1988 to 1989 because the preferred shares of Noranda Forest Inc. were not purchased until October 1, 1988 and prior to that date, all the company's surplus cash was earning interest. The offset is in dividend income, which has increased by $3.7 million over 1988. In aggregate, the net investment income increased by $1.5 million as a result of higher interest rates and higher average balances of cash and short-term investments.

The effective tax recovery for 1989 amounts to only 21% of the loss before taxes, whereas in 1988, the effective tax provision was 40% of earnings before taxes. Note 11 to the financial statements reconciles these numbers to the statutory income tax rates of the two years. The reason for the low recovery in 1989 lies in the absence of "reasonable certainty" that there will be sufficient taxable income in the future for the company to use up all available deductions, including the recovery against Canadian income tax of the Australian income tax paid on the profitable oil operations in that jurisdiction. In the absence of reasonable certainty, the 1989 accounting recovery is limited to taxes that can actually be recovered in cash as a result of the 1989 loss, and this recovery is $5.1 million lower than it would have been if reasonable certainty of future profitability, on a tax basis, existed.

FINANCIAL POSITION AND CHANGES IN FINANCIAL POSITION

In spite of the loss for the year, the company's financial position remains very strong. Working capital amounted to $99.4 million at the end of 1989, up from $97.8 million at the end of 1988. Included in working capital at the end of 1989 was $72.7 million of cash and short-term investments, compared to $64.1 million at the end of 1988. The company had no debt at either year end. The long-term assets are not significant in relation to the working capital. The only long-term liability is the provision for mine closure costs which amounts to $13.6 million at the end of 1989 compared to $9.8 million at the end of 1988.

Cash from operating activities amounted to $15.3 million in 1989, only slightly lower than $16.0 million in 1988 despite a significant difference in earnings. The non-cash charges against earnings were higher in 1989 because of the higher depreciation and amortization charges noted earlier. There was a reduction in non-cash working capital of $7.0 million in 1989, compared with an increase of $4.2 million in 1988, with the difference largely attributable to changes in margin requirements against the forward copper positions at the two year ends. 1988 cash flow was affected negatively by $3.7 million of prior years' income tax reassessments.

Cash used for investing activities totalled $6.1 million in 1989 compared with an inflow of $11.6 million in 1988. Mineral exploration expenditures increased by $0.9 million for the reasons noted earlier. Additions to oil and gas properties of $1.7 million in 1989 related to the Challis field installations while the $5.9 million in 1988, together with the exploration costs of $1.0 million, were largely the spending by the Canadian operations in the first quarter. Significant items in 1988 were the $4.8 million investment in Vanderbilt, $6.8 million spent on the south wall stripping and kaolin projects, and the $34.3 million proceeds on sale of the Canadian oil and gas operations.

There were no shares issued in 1989. In 1988, the share capital increase amounting to $0.5 million resulted from the final issuance of shares under a 1988 flow-through program. The profitable 1988 operations permitted dividend payments in that year of $0.50 per share totalling $2.4 million. In 1989, a dividend of $0.10 per share or $0.5 million was paid in the first quarter due to the strong fourth quarter 1988 performance. No further payments were made due to the losses.

FUTURE PROSPECTS

Ore reserves at the mine are expected to be exhausted early in the third quarter of 1990, but wall movements during the spring break-up and/or further reductions in the molybdenum price could conceivably force an earlier closure.

As noted above, approximately 80% of forecast 1990 copper production has effectively been hedged at $Cdn. 0.95 per lb., so the company's 1990 results will be largely unaffected by minor changes in spot prices for copper.

The earnings for the Australian operations should exceed those of 1989 due to the inclusion of a full year's production from the Challis field, which came into production in December, 1989.

Following closure of the mine, the receivables and concentrate inventories will be converted to cash within about a six-month period, and the company's cash position should increase to the $90.0 to $100.0 million level by the end of 1990.

The company is actively seeking mining opportunities and has the financial capability of funding a major project should one be discovered or acquired. Current plans include the spending of about $4.0 to $5.0 million a year on mineral exploration.

By the time of the closure in mid 1990, a total of $15.5 million for estimated mine closure costs will have been charged against earnings, but not specifically funded. The estimate of $15.5 million includes provisions for employee severances, shut-down and holding costs, removal of buildings, stores obsolescence and reclamation costs, net of recoveries from sale of equipment. Reclamation costs cannot be estimated precisely because definitive plans have not yet been filed with governmental officials, and because the appropriate technology is not certain. Thus, the provision remains an estimate and is subject to adjustment as definitive plans are made in 1990 and subsequent years.

Mining Division

Mine Production Statistics		1989	1988
Waste removed	Tons	3,456,902	6,499,932
Ore milled	Tons	12,745,598	12,440,831
Ore milled per calendar day	Tons	34,824	33,991
Ore milled per operating day	Tons	34,919	34,084
Copper content of ore	% Cu	0.161	0.180
Copper recovery	%	88.16	89.01
Copper concentrates produced	Tons	67,339	72,033
Copper concentrate grade	% Cu	26.80	27.75
Molybdenum content of ore	% Mo	0.034	0.035
Molybdenum recovery	%	84.10	84.89
Molybdenum concentrates produced	Tons	6,408	6,588
Molybdenum concentrate grade	% Mo	56.34	56.36

Milled tonnage was an all time high. Copper production was as expected, while molybdenum production was lower due to disappointing ore grades.

Poor weather conditions prevailed for a good portion of the year and this affected pit operations adversely. A very cold February was followed by well above average snowfall in March. A wet spring and fall not only resulted in poor road conditions, but also had a detrimental effect on the pit slope stability.

Approximately 500,000 tons of overburden and old dump material was removed from the top of the south wall over the summer months. This, in combination with a flattening of the wall slopes and an extensive dewatering program, had a beneficial effect on the stability in that area. However, problems still persisted in the south-west corner of the pit.

By year end a stockpile of approximately 1,000,000 tons of ore had been built up. This material will be reclaimed in the spring of 1990 when adverse mining conditions can be expected.

The lower than expected ore grades affected the metallurgical results, however the recoveries for copper and molybdenum at 88.2% and 84.1% were still very good considering these grades.

Equipment availability in the concentrator was excellent at 97.2%, and it is gratifying to see that these availabilities can be achieved notwithstanding the age of the equipment.

The operating costs for 1989 averaged $3.99 per ton milled. The total cost of production was $50.7 million or $2.4 million higher than planned, as a result of the record tonnage milled. Also contributing to the higher costs was the additional material removed from the south wall for stability reasons. Furthermore, the cost of raising the saddle dam in the tailings area was $400,000.

Preparations for the mine closure continued with full scale seeding of the tailings dam and beach as well as the rock piles. The results were very encouraging. Tentative closure plans will be ready for submission to the government authorities for their approval before the end of the first quarter in 1990. Completion of these plans was delayed as it was necessary to gain a better understanding of the chemistry of molybdenum leaching. In this regard several discussions with government agencies were held during the year and a general outline of our plans was also presented in the surrounding communities. Public mine tours were re-instituted during the summer and these proved extremely popular as almost 1,500 people participated.

Employee relations were very good and a new collective agreement was concluded after only six days of negotiating. An Industrial Adjustment Program to help employees prepare for the impending closure was initiated in late 1987 with the assistance of the local union and the federal and provincial governments. Participation in the various counselling and training sessions offered under this program remains at a very high level.

The active work force was down from 406 to 395 by year end.

The safety record for the first quarter was extremely poor with nine compensable injuries. A concerted effort was made to improve the situation, and results for the remainder of the year were much better.

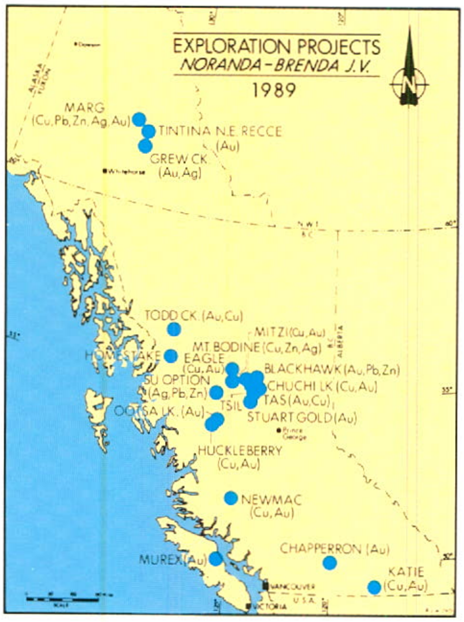
Everyone performed very well under difficult conditions, especially in the open pit, and I offer my sincere thanks for the hard work and support throughout 1989.

E. Brokx
Mine Manager

February 20, 1990

New vegetation growing on the tailings dam, resulting from the seeding program.

Exploration Report



Exploration activity increased in 1989, with the major portion of the work performed by others on a joint venture or consulting agreement basis and absorbing $3.1 million.

At the beginning of the year, exploration funding was directed toward a high proportion of grass roots projects, mostly for vein type gold deposits. During the year, the focus was shifted to bulk tonnage targets containing copper/gold/moly.

Twenty distinct properties were investigated by the Noranda Exploration/Brenda Joint Venture (Brenda 44%) during the year at a cost to Brenda of $1.9 million. At year-end, eight of the twenty projects were of the open pittable type. Eight of the ten properties to be funded in 1990 will be for bulk tonnage open pit deposits.

The Minnova/Brenda Joint Venture (Brenda 49%) explored eight properties during the year at a cost to the company of $610,000. Four properties from 1989 will be funded in 1990. Two new properties to be added in 1990 are open pit copper/gold prospects.

Brenda's 50% share of expenditures by the Vanderbilt/Brenda Joint Venture amounted to $US 508,000 on eight properties and a General Recce program. The open pit copper/moly project at Mazama, Washington, will continue to be funded in 1990. The Big Mike heap leachable oxide copper project in Nevada is still in the General Recce program. It could become a project if environmental concerns are resolved. Future exploration efforts will be focused toward bulk tonnage properties that have the potential to be put into production in two years.

The Rayfield River copper/gold bulk tonnage prospect will be funded in 1990. Initial drill results for copper and gold at Rayfield indicate widespread low-grade mineralization which appears to increase in grade with depth. Rayfield is 100% owned by Brenda.

The Bearcub Feldspar/Silica Marketing Report has been received from Kilborn Engineering. A decision will be made in 1990 as to whether this property will progress to the production stage.

R. M. Weeks
Manager – Exploration

February 20, 1990

Exploration work on the Rayfield River project, Clinton Mining District of B.C.

Metal Markets

Copper

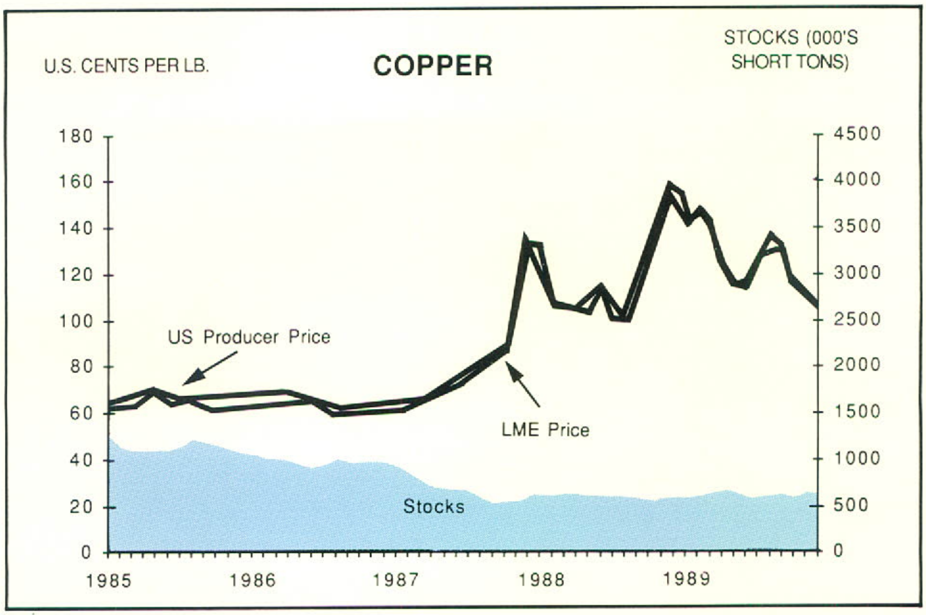
Western World Balance ('000 ST)

	1987 Year	1988 Year	1989 Year
Supply	8,505	9,040	9,277
Demand	8,881	9,063	9,212
Stocks	590	567	632

Consumption of refined copper achieved record levels for the fourth consecutive year. Demand was strong from all market areas though some weakness appeared towards year end in the North American automobile and construction industries.

The supply of copper increased as important new and reactivated production commenced in Portugal, Australia and the United States. A series of production dislocations in North and South America and Papua New Guinea limited the increase in supply so terminal market stocks remained low. Reflecting the erratic supply situation, prices were volatile and averaged US$ 1.28 per pound on the London Metal Exchange.

The outlook for the first half of 1990 is for a small deficit between supply and demand of refined copper as consumption, especially in the construction sectors of Western Europe and the Far East, remains at high levels.



Molybdenum

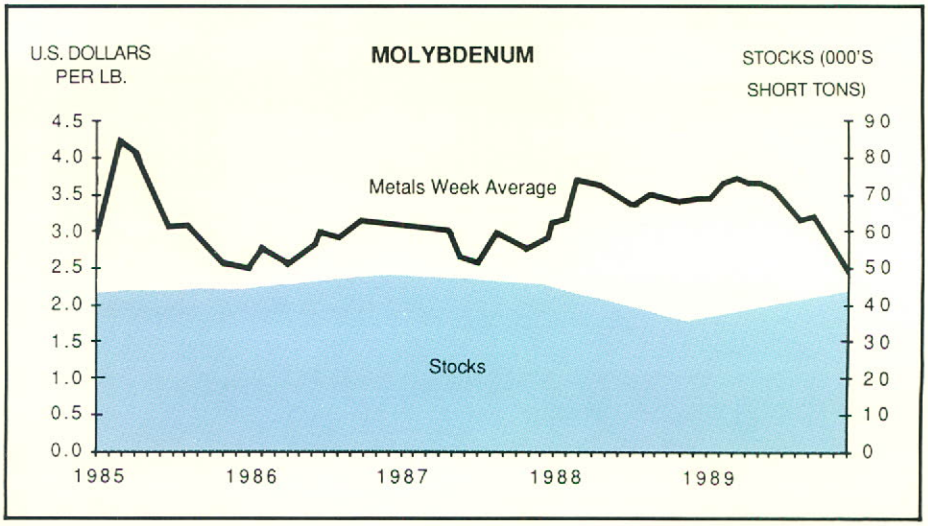
Western World Balance ('000 ST)

	1987 Year	1988 Year	1989 Year
Supply	83	87	112
Demand	85	96	104
Stocks	45	36	44

Western World supply rose sharply as primary mines reacted to higher molybdenum prices and by-product producers maximized copper output. U.S. production accounted for some 65% of the increase.

Demand, driven principally by stainless steel, continued to strengthen as the capital goods sector remained buoyant. All major markets with the exception of Japan experienced significant increases in consumption resulting in near record high Western World demand for the year.

Prices peaked early in the year around US$ 3.85/lb and dropped steadily as it became clear that stocks would continue to rise. Merchant prices reached a low around US$ 2.50/lb at year end. However, since then, mine cutbacks and production problems have resulted in a recovery to the US$ 3.00/lb range.



Business Development Group

Brian Knapp on the right, Gordon Macauley middle, Instrumentation Technologists with the Process Technology Division, and Ron Bradburn, Manager, Business Development Group, on the left.

During 1989 the Business Development Group continued to explore and evaluate new business opportunities for the company, including the Lang Bay kaolin joint venture and the Bearcub feldspar deposit.

The Lang Bay joint venture with Fargo Resources Inc. to develop its kaolin deposit near Powell River, British Columbia, was terminated after the feasibility study revealed unacceptable financial returns. Expenditures on this project totalled $1.4 million.

Evaluation of the Bearcub deposit continued. Exploration has indicated sufficient reserves and metallurgical testing shows that marketable feldspar, mica and silica concentrates can be produced. Marketing evaluation is being carried out.

Assistance was rendered to the Exploration Division in the form of metallurgical and financial evaluation of several properties. A number of new technologies in the areas of mineral processing, water treatment, and waste management were examined for investment potential.

A metallurgical and analytical laboratory facility was developed as an extension to the services currently offered by the Process Technology Division. Initial projects concentrated on opportunities within Noranda Minerals Inc., most notably its New World Project in Montana and Minnova Inc.'s Chu Chua deposit in B.C.

Process Technology Division

While financial goals were achieved, 1989 was largely a year of consolidation for the Process Technology Division. Efforts were directed at developing business procedures, training personnel, and establishing a marketing plan to provide a strong foundation for future growth.

Net earnings were $154,000 on revenues of $1.5 million as compared to earnings of $269,000 on revenues of $1.2 million for the same period in 1988. The reduction in net earnings is largely due to an increased commitment to research and development and the costs associated with consolidation.

Project locations were diverse including a gold mine in California, a copper mine in Arizona, a polymetallic mine in New Brunswick, and a copper-moly deposit located in China.

Research and development, a key to the future, continued with the development of an expert system for the copper flotation circuit at the Brenda mine. The successful implementation of an advanced control strategy, whose acronym is MOCCA, at the Golden Giant Mine of Hemlo Gold Mines Inc., holds commercially promising possibilities.

In keeping with its established policy, the Division cooperated closely with both the University of Alberta and University of British Columbia in a number of areas. The MOCCA project arose from the relationship with the former while the writing of a handbook on process control for plant operators is progressing with the latter. This project is jointly funded by the British Columbia Science Council and MITEC. Staff taught a final year control course at UBC and agreed to a similar participation with the University of Alberta in early 1990.

A key component of the 1989 business strategy was the formulation of a marketing plan. As part of this effort, the concept of forming strategic alliances with related industrial partners was initiated. While the Division brings a unique collection of demonstrated skills in process development and control, the potential partners provide more extensive marketing skills and facilities.

The future strategy remains to be one of controlled growth with the expansion of services offered and the diversification into other related industries. With the continued dedication and commitment of everyone, these goals will be achieved.

R. Bradburn

R. G. Bradburn
Manager – Business Development
February 20, 1990

Brenda Mines Ltd.
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet

As at December 31

Assets	***1989***	*1988*
	(in thousands)	
Current assets:		
Cash	**$ 484**	$ 1,056
Short-term investments (note 2(c) and (d))	**72,230**	63,000
Accounts receivable	**10,283**	11,915
Income taxes receivable	**2,379**	
Inventories (note 3)	**13,549**	17,340
Prepaid expenses and margin deposits (note 2(e) and 12)	**5,570**	20,578
Total current assets	**104,495**	113,889
Investment in Vanderbilt Gold Corporation	**4,838**	4,838
Oil and gas properties (note 4)	**3,573**	2,779
Property, buildings and equipment (note 5)	**4,243**	7,705
Other assets (note 6)	**2,212**	7,351
	$119,361	$136,562

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	**$ 5,047**	$ 6,993
Taxes payable		9,142
Total current liabilities	**5,047**	16,135
Provision for mine closure costs (note 8)	**13,600**	9,800
	18,647	25,935
Shareholders' equity:		
Capital stock (note 9) –		
Authorized:		
100,000,000 preferred shares without nominal or par value		
100,000,000 common shares without nominal or par value		
Issued and outstanding:		
4,887,242 common shares	**14,350**	14,350
Retained earnings	**86,364**	96,277
Total shareholders' equity	**100,714**	110,627
	$119,361	$136,562

See accompanying notes

On behalf of the Board:

B. Brynelsen
Director

J. Gordon
Director

Consolidated Statement of Earnings

Years ended December 31

	1989	1988
	(in thousands)	
Revenue from sale of concentrates	$ 63,708	$85,165
Change in inventory at estimated realizable value	(3,228)	270
	60,480	85,435
Less treatment and distribution charges	14,535	16,236
	45,945	69,199
Revenue from sale of oil and gas	3,902	5,226
	49,847	74,425
Cost of production	49,363	42,544
Depreciation and amortization	8,540	4,749
Oil, gas and mineral exploration expense	5,356	4,194
Mine closure expense (note 8)	3,800	3,800
Administration and general expense	2,608	3,308
	69,667	58,595
Operating income (loss)	(19,820)	15,830
Gain on sale of Canadian oil and gas properties (note 2(h))		2,104
Interest and other income	3,173	5,401
Dividend income (note 2(d))	4,777	1,075
	7,950	8,580
Earnings (loss) before taxes	(11,870)	24,410
Income and other taxes (note 11)	(2,446)	9,782
Net earnings (loss)	$ (9,424)	$14,628
Net earnings (loss) per share	$(1.93)	$3.00

Consolidated Statement of Retained Earnings

Years ended December 31

	1989	1988
	(in thousands)	
Retained earnings, beginning of year	$96,277	$84,093
Dividends	(489)	(2,444)
Net earnings (loss)	(9,424)	14,628
Retained earnings, end of year	$86,364	$96,277

(See accompanying notes)

Consolidated Statement of Cash Flows

Years ended December 31

	1989	1988
	(in thousands)	
Operating Activities		
Net earnings (loss)	$ (9,424)	$ 14,628
Adjustments for items not affecting cash:		
Depreciation and amortization	8,540	4,749
Deferred income taxes		(729)
Mine closure	3,800	3,800
Gain on sale of oil and gas properties		(2,104)
Other	28	(607)
Change in non-cash working capital related to operations	6,964	(4,224)
Oil, gas and mineral exploration	5,356	4,194
Prior period adjustment (note 13)		(3,658)
Cash provided by operating activities	15,264	16,049
Investing Activities		
Additions to oil and gas properties, net of grants	(1,659)	(5,909)
Oil and gas exploration	(33)	(951)
Mineral exploration	(4,122)	(3,243)
Proceeds on disposal of Canadian oil and gas properties		34,272
Additions to property, buildings and equipment	(281)	(1,111)
Proceeds from sale of property, buildings and equipment		176
Investment in Vanderbilt Gold Corporation		(4,838)
Additions to other assets	(22)	(6,798)
Cash provided by (used in) investing activities	(6,117)	11,598
Financing Activities		
Issue of common shares		459
Cash provided by financing activities		459
Dividends	(489)	(2,444)
Increase in cash position	8,658	25,662
Cash position, beginning of year	64,056	38,394
Cash position, end of year	$72,714	$64,056

Cash position comprises cash and short-term investments.

See accompanying notes

Auditors' Report

To the Shareholders of
Brenda Mines Ltd.

We have examined the consolidated balance sheet of Brenda Mines Ltd. as at December 31, 1989 and 1988 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our examinations were 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1989 and 1988 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 applied on a consistent basis.

Ernst & Young
Chartered Accountants

Vancouver, Canada,
January 12, 1990.

Notes to Consolidated Financial Statements

Years ended December 31, 1989 and 1988

1. Summary of significant accounting policies

Principles of consolidation

The accompanying financial statements consolidate the accounts of Brenda Mines Ltd. and its wholly owned subsidiaries, Brenda Inc. and Brenda Marketing Inc. (to date of disposition, see note 2(h)).

Foreign currency translation

Current assets and liabilities in foreign currency have been translated into Canadian dollars at the rate of exchange prevailing at year end. Other balance sheet items are translated at historical rates. Transactions during the year are translated at exchange rates prevailing at the date of the transaction. Exchange gains or losses relating to current items are included in earnings.

Inventories

Concentrate is valued at estimated net realizable value. Stores inventories are valued at the lower of average cost and replacement cost.

Long-term investment

Long-term investment in companies that are not subject to significant influence are recorded at cost.

Oil and gas properties

The company follows the successful efforts method of accounting for its oil and gas properties. Acquisition costs of oil and gas properties together with costs of drilling and equipping successful wells are capitalized. Shut-in well costs are capitalized pending commencement of production. Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and dry holes are charged to expense.

Depreciation and amortization

Depreciation of property, buildings and equipment and amortization of deferred mine development costs are calculated on a straight line basis up to June 30, 1990. Additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Capitalized costs of proven oil and gas properties, production equipment and gathering systems are amortized on the unit of production method based on estimated recoverable reserves.

Deferred exploration costs

Mining exploration costs are charged against current earnings unless they relate to properties from which a production result is reasonably certain.

Income taxes

The company follows the tax allocation method of accounting for income and resource taxes. Taxes not currently payable, as a result of claiming for tax purposes amounts different from those recorded in the accounts, are charged against current earnings.

Investment tax credits are credited to related assets or expenses in the year if their realization is reasonably assured.

Pension costs

The company has two pension plans which cover substantially all employees. The company follows the accrued benefit actuarial method and best estimate assumptions to value benefit obligations.

Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employee groups. Current service costs are expensed in the period. Market related asset values are determined on a five-year average basis.

2. Related party transactions

Noranda Inc. owns 69% (1988 – 50.1%) of Brenda Mines Ltd. The company participates in a number of transactions with Noranda and its affiliated companies (the Noranda Group). Details of significant transactions with the Noranda Group are set out below:

(a) The Noranda Group markets substantially all mine products and is responsible for collection of proceeds. For these services, $547,000 of commissions were paid during 1989 (1988 – $520,000). As at December 31, 1989 amounts totalling $7,418,000 (1988 – $8,752,000) were due through the Noranda Group from third parties.

(b) The Noranda Group acts as manager and provides technical and administrative services to the company. During the year $385,000 (1988 – $390,000) was paid for technical and administrative services.

(c) The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis. Interest charges and credits are at market rates. At December 31, 1989 the Company had invested $22,230,000 (1988 – $13,000,000) in the pool. Net interest earned related to pool investment amounted to $1,638,000 for 1989 (1988 – $4,296,000).

(d) Included in short-term investments is the company's investment of $50,000,000 in 2,000,000 Floating/Adjustable Rate Cumulative Redeemable Class A Preferred Series 1 shares of Noranda Forest Inc. which were acquired in 1988. The Investment is carried at cost, which approximates market value. At the year end, $1,225,000 (1988 – $1,075,000) of dividends were receivable and $4,777,000 (1988 – $1,075,000) of dividends were included in income for the year.

(e) The company has $372,000 (1988 – $20,514,000) on deposit with a member of the Noranda Group to meet margin requirements for copper sales commitments (see note 12).

(f) During 1988 the Noranda Group purchased natural gas in the amount of $5,500,000 from the company. At December 31, 1988 no amounts were due in respect of these sales.

(g) During 1988 Noranda Inc. acquired 29,478 common shares through the company's flow-through program (see note 9) for cash consideration of $547,000.

(h) During 1988 the company sold a portion of its Canadian oil and gas properties and its wholly-owned subsidiary, Brenda Marketing Inc., to a member of the Noranda Group resulting in a gain of $1,695,000 which together with a gain of $409,000 on the sale of its remaining Canadian oil and gas properties has been recorded in earnings for 1988.

3. Inventories

	1989	*1988*
	(in thousands)	
Concentrate	**$ 9,410**	$12,638
Stores	**4,139**	4,702
	$13,549	$17,340

4. Oil and gas properties

Oil and gas properties, at cost less accumulated depreciation and amortization are as follows:

	1989	1988
	(in thousands)	
Productive properties	$ 100	$ 100
Productive drilling	859	597
Tangible production equipment	4,134	2,737
	5,093	3,434
Less accumulated depreciation and amortization	1,520	655
	$ 3,573	$ 2,779

5. Property, buildings and equipment

Property, buildings and equipment, at cost less accumulated depreciation and amortization are as follows:

	1989	1988
	(in thousands)	
Buildings, equipment and related facilities	$58,193	$58,004
Mobile equipment	14,304	14,263
	72,497	72,267
Less accumulated depreciation	68,254	64,562
	$ 4,243	$ 7,705

6. Other assets

	1989	1988
	(in thousands)	
Deposits	$ 232	$ 210
Deferred exploration costs		1,201
Deferred mine development costs	1,980	5,940
	$ 2,212	$ 7,351

7. Pension plans

The company has two pension plans, participation in which is available to substantially all employees. The hourly employees are members of a negotiated plan to which the company contributes amounts specified by the collective agreement.

The most recent actuarial reports for the pension plans, which were based on projections of interest, employees' compensation levels and length of service to the time of retirement, indicate that the approximate present value of accrued benefits at December 31, 1989 was $8,256,000 (1988 – $7,084,000). The pension fund assets at market related values at December 31, 1989 were $9,708,000 (1988 – $8,962,000).

8. Mine closure

The mine is currently estimated to reach the end of its economic life in 1990. Total costs associated with the mine closure are estimated to be $15,500,000. These costs are being provided for on a straight line basis over the remaining life of the mine. A total of $13,600,000 of this amount has been provided up to December 31, 1989 (1988 – $9,800,000).

9. Capital stock

During 1988 the company issued 32,998 common shares for $614,000 as flow-through shares to finance mineral and gas exploration in Canada.

As a result of this issue $155,000 has been recorded as a reduction of exploration and development expenditures in 1988.

10. Segmented information

The company operates in two industries, mining and milling in British Columbia, and oil production in Australia. In 1988 the company's activities also included oil and gas production in Canada (see note 2(h)).

Information regarding industry segments is set out below:

	1989	*1988*
	(in thousands)	
Revenue from sales:		
Mining and milling	**$ 45,945**	$ 69,199
Oil and gas	**3,902**	5,226
Total revenue	**$ 49,847**	$ 74,425
Segment operating profit (loss):		
Mining and milling	**$ (22,252)**	$ 14,151
Oil and gas	**2,432**	1,679
	(19,820)	15,830
Gain on sale of Canadian oil and gas properties		2,104
Interest revenue (expense) and other income	**3,173**	5,401
Dividend income	**4,777**	1,075
Income and other taxes	**2,446**	(9,782)
Net earnings (loss)	**$ (9,424)**	$ 14,628
Depreciation and amortization:		
Mining and milling	**$ 7,675**	$ 3,634
Oil and gas	**865**	1,115
	$ 8,540	$ 4,749
Identifiable assets:		
Mining and milling	**$ 39,788**	$ 69,481
Oil and gas	**4,480**	3,025
General corporate assets	**75,093**	64,056
	$119,361	$136,562
Capital expenditures:		
Mining and milling	**$ 281**	$ 1,111
Oil and gas	**1,659**	5,909
	$ 1,940	$ 7,020

The company's 1989 and 1988 sales of copper concentrate were to Japan and molybdenum concentrate were to Europe. The Canadian oil and gas properties contributed revenues of $3,095,000 in 1988, resulting in an operating profit of $233,000 in 1988.

11. Income and other taxes

(a) Income and resource tax expense (recovery) consists of:

	1989	*1988*
	(in thousands)	
Current	**$(2,446)**	$10,511
Deferred		(729)
	$(2,446)	$ 9,782

(b) Income and other taxes vary from the amount that would be computed by applying the combined federal and provincial income tax rate of approximately 42.8% (1988 – 46.5%) for the following reasons:

	1989	*1988*
	(in thousands)	
Expense (recovery) based on earnings before taxes and extraordinary items	**$(5,080)**	$11,350
Increase (decrease) in taxes resulting from:		
Non-taxable dividend income	**(2,044)**	(499)
Resource allowance and current depletion net of non-deductible government royalties and resource taxes	**(515)**	(1,755)
Timing differences not recognized for accounting purposes	**4,238**	21
Foreign taxes paid	**826**	
Non-taxable gain on disposition of oil and gas properties		(876)
Other	**129**	1,541
Income and other taxes	**$(2,446)**	$ 9,782

At December 31, 1989 the company had accumulated income and resources tax timing differences of approximately $4,470,000 (1988 – $227,000) and foreign business income tax credits of approximately $1,103,000 (1988 – $277,000) available to reduce taxable income in future years.

The potential income tax benefits of these items has not been recognized in the accounts as realization is not reasonably assured.

12. Commitments

In late 1987, coincident with the decision to extend the life of the mine by an additional year through mining of ore underlying the south wall of the open pit, a forward selling program for copper and U.S. dollars was commenced. This program was modified and extended during 1988 and 1989 with the result that, for accounting purposes, approximately 80% of 1989 and 1990 copper production was hedged at a price of $Cdn. 0.95 per lb.

As at December 31, 1989, the company has committed to sell 9,900 tons of copper at an average price of $U.S. 1.10 per lb. for delivery over the eight-month period ended August 31, 1990, and has deposited $372,000 to meet margin requirements associated with its future copper delivery commitments. In addition, a deferred cost of $5,048,000 as at December 31, 1989, representing the timing difference between the realization of hedging transactions and their recognition in the accounts, will be amortized over 1990 copper production.

As at December 31, 1988, the company had committed to sell 16,620 tons of copper at an average price of $U.S. 0.81 per lb. for delivery over the fifteen-month period ended March 31, 1990, had committed to sell $U.S. 28,500,000 at an exchange rate of $Cdn. 1.30 over the eight-month period ended August 31, 1989 and had deposited $20,514,000 to meet margin requirements associated with its future copper delivery commitments.

13. Prior period adjustment

In 1988 income tax reassessments were issued by Revenue Canada, Taxation against the company claiming $3,658,000 in taxes and interest for the 1977-1980 taxation years. The company has been denied a portion of its resource and depletion allowances which management believes are validly claimed and has objected to the reassessment.

Financial History* — $000's

Earnings

	1980	1981	1982	1983	1984	1985	1986	1987	1988	**1989**
Net value of production	77,293	39,126	46,295	34,826	31,439	21,977	62,666	71,617	74,425	**49,847**
Cost of production	33,422	37,258	38,091	34,172	25,270	14,914	41,570	43,884	42,544	**49,363**
Depreciation and amortization	3,120	4,280	4,985	4,000	4,205	4,288	8,254	7,552	4,749	**8,540**
Exploration expense	4,369	3,450	1,802	1,429	1,606	3,877	3,037	2,678	4,194	**5,356**
Administration and general expense	2,037	2,160	1,994	2,597	4,063	3,349	2,784	3,620	3,122	**2,466**
Mine closure expense	–	–	–	–	–	–	3,000	3,000	3,800	**3,800**
Municipal and sundry taxes	1,204	1,592	1,889	1,921	1,597	715	462	154	186	**142**
	44,152	48,740	48,761	44,119	36,741	27,143	59,107	60,888	58,595	**69,667**
Operating income (loss)	33,141	(9,614)	(2,466)	(9,293)	(5,302)	(5,166)	3,559	10,729	15,830	**(19,820)**
Investment and other income less interest expense	8,704	1,776	(10,243)	(704)	(3,714)	(1,781)	(2,072)	2,241	8,580	**7,950**
Income and other taxes	(15,246)	12,028	5,690	7,000	2,560	344	32	(7,118)	(9,782)	**2,446**
Extraordinary items	–	–	–	–	–	–	–	10,305	–	**–**
Net earnings (loss)	26,599	4,190	(7,019)	(2,997)	(6,456)	(6,603)	1,519	16,157	14,628	**(9,424)**

Financial Position

	1980	1981	1982	1983	1984	1985	1986	1987	1988	**1989**
Capital employed –										
Non-cash working capital	25,907	33,952	37,678	28,218	22,154	13,265	18,963	28,106	33,698	**26,734**
Investment in associated companies	73,312	82,149	63,950	63,950	63,950	63,950	63,950	–	–	**–**
Oil and gas properties, net	21,628	29,211	29,443	29,832	26,812	25,124	24,966	26,240	2,779	**3,573**
Property, buildings and equipment, net	22,119	27,069	23,905	21,887	20,231	18,466	13,425	11,420	7,705	**4,243**
Other investments and assets	215	215	215	215	215	215	215	553	12,189	**7,050**
	143,181	172,596	155,191	144,102	133,362	121,020	121,519	66,319	56,371	**41,600**
Capital sources –										
Short-term borrowings (cash)	37,803	62,863	56,509	53,073	50,805	43,086	38,161	(38,394)	(64,056)	**(72,714)**
Shareholders' equity	92,408	96,850	90,691	87,694	81,238	76,895	80,164	97,984	110,627	**100,714**
Other	12,970	12,883	7,991	3,335	1,319	1,039	3,194	6,729	9,800	**13,600**
	143,181	172,596	155,191	144,102	133,362	121,020	121,519	66,319	56,371	**41,600**

Cash Flows

	1980	1981	1982	1983	1984	1985	1986	1987	1988	**1989**
Operating activities	25,719	(4,797)	(4,404)	7,236	4,419	11,336	9,468	14,148	16,049	**15,264**
Investing activities –										
Oil and gas properties, net	(6,239)	(7,889)	(1,529)	(1,523)	(274)	(2,100)	(3,316)	(6,355)	28,363	**(1,659)**
Property, buildings and equipment, net	(4,335)	(8,924)	(524)	(848)	(271)	100	60	(699)	(935)	**(281)**
Exploration	(4,369)	(3,450)	(1,802)	(1,429)	(1,606)	(3,877)	(3,037)	(3,016)	(5,057)	**(4,155)**
Investment in associated companies	(13,171)	–	14,613	–	–	–	–	70,814	–	**–**
Other investments and assets	–	–	–	–	–	–	–	–	(10,773)	**(22)**
	(28,114)	(20,263)	10,758	(3,800)	(2,151)	(5,877)	(6,293)	60,744	11,598	**(6,117)**
Financing activities –										
Issue of common shares	–	–	–	–	–	2,260	1,750	1,663	459	**–**
Dividends	(6,253)	–	–	–	–	–	–	–	(2,444)	**(489)**
	(6,253)	–	–	–	–	2,260	1,750	1,663	(1,985)	**(489)**
Increase (decrease) in cash position	(8,648)	(25,060)	6,354	3,436	2,268	7,719	4,925	76,555	25,662	**8,658**

Statistics

	1980	1981	1982	1983	1984	1985	1986	1987	1988	**1989**
Tons milled (000's)	10,061	11,243	10,455	9,022	6,734	3,307	11,224	11,344	12,441	**12,746**
Number of employees	474	463	439	105	105	404	401	418	421	**411**

*Data for the years 1980 to 1986 have been restated from amounts originally reported to reflect the appropriate share of prior years' adjustments made in 1988, 1986 and 1982.

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