Annual Report 1986

brenda

Brenda Mines Ltd.

noranda group

Brenda Mines Ltd.

Registered Office: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

Directors

William Allan	Oakville, Ont.
Bernard O. Brynelsen	Vancouver, B.C.
John M. Gordon	Toronto, Ont.
John A. Hall	Toronto, Ont.
Gordon H. Montgomery	Vancouver, B.C.
Alfred Powis	Toronto, Ont.
Horace B. Simpson	Kelowna, B.C.
H. Richard Whittall	Vancouver, B.C.

Officers

Chairman	Bernard O. Brynelsen
President	John M. Gordon
Secretary	B. H. Grose
Treasurer	E. K. Cork
Comptroller	D. H. Ford
Assistant Treasurer	B. C. Bone

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

Transfer Agent and Registrar:
Canada Trust Company,
Four Bentall Centre, Vancouver, and
110 Yonge Street, Toronto, Canada

Annual Meeting:
May 13, 1987, 11:00 a.m. King George Room,
Hyatt Regency, Vancouver, B.C.

Directors' Report to the Shareholders

After several years of losses, the Company had net earnings of $1.8 million or $0.40 per share in 1986, as compared to a restated net loss of $6.4 million, or $1.49 per share in 1985. The two periods are not comparable since the mine operated for the full year in 1986, and for only three and one-half months in 1985.

Mill throughput totalled 11.2 million tons, at an average rate of 30,750 tons per calendar day. The fourth quarter daily average throughput was 33,740 tons. Operating costs were a satisfactory $3.75 per ton milled for the year, and $3.59 for the fourth quarter. The use of the Brenda-developed Brencom mine planning program assisted in the mining of higher ore grades. The milling experience was very positive during the year, and excellent recoveries of molybdenum and copper were attained on a consistent basis.

Both molybdenum and copper concentrate production were at all time highs. The 8,650 tons of moly concentrate produced was the highest since 1971, and the 67,170 tons of copper concentrate was the highest since 1972.

Sales of molybdenum totalled 8.29 million pounds at an average price of $3.54 per pound. Sales were 86% of production, and inventory increased to 3.5 million pounds at year end, up from 2.2 million pounds at the end of the preceding year. The supply/demand balance was relatively steady during the year, with cutbacks and closures at mines in the United States being partially offset by increases in Canada and higher exports from China. Prices recovered from a low of $2.59 per pound at the end of 1985, to $2.99 in February, and increased to the $3.29-$3.40 range late in 1986. At year end, inventories of moly were valued at $3.40 per pound. Copper production exceeded target, and year-end inventories of 3.3 million pounds were valued at $0.86 per pound, compared to $0.89 per pound at the end of 1985.

London Metal Exchange (LME)/London Quotations – U.S. Currency

	1985 Average	*1986 Average*	*1986 High*	*1986 Low*	*1986 Dec. 30*
Copper $/lb.	0.65	0.62	0.66	0.59	0.61
Molybdic Oxide $/lb. Mo*	3.25	2.87	3.17	2.50	3.06
Silver $/oz.	6.13	5.47	6.31	4.85	5.29
Gold $/oz.	317.27	367.51	438.10	326.30	388.75

* *Metals Week Moly Oxide Dealer Price*

The operating strategy followed in 1986, to ensure a positive margin by low cost production, generated a cash flow of $9.5 million, and resulted in a reduction in debt of $4.9 million to $38.2 million. One of the key elements in the business strategy for 1987 will be to substantially reduce this debt, and to achieve a better utilization of the assets. The profit sharing plan, as a tangible recognition of the efforts of all employees, paid out $1.1 million, an average of $2,820 per employee.

The 1985 exploration program carried out on Brenda's behalf by Noranda Exploration was continued in 1986. Flow-through shares were again used to finance the $3.5 million program, with the emphasis on precious metal prospects. At year-end, Brenda was in joint venture with Noranda Exploration in 31 projects in the Cordillera area, with interest being either a 44% participating or a 22% Net Profits Royalty.

The Business Initiatives Group matured during the year, and was actively involved in feasibility studies in several mills for the potential use of Brenda's process control technology. In addition, the Brenda-developed oil and gas contouring program was sold to Petro-Canada for use in Thailand. The Brencom mine planning program was sold to Outokumpu in Finland, who are the European agents for further sales of the program, and a mobile sulphur melter was designed and built to process contaminated sulphur to produce a pure (99.99%) product. The prototype unit was put into service in the Wimborne area in Alberta in late December, and is operating successfully. These projects help to hone the talents of the Group, and spin-off ideas such as columnar flotation are proving to be advantageous to the efficient operation of the Brenda concentrator.

The Oil and Gas Division increased production 33% to 2.7 Bcf from 2.0 Bcf in 1985. Gross value increased to $5.5 million from $4.9 million. An aggressive approach was taken to direct sales through the newly-formed Brenda Marketing. A total of 2.1 Bcf was sold, about 37% of which was produced by Brenda Oil and Gas. Customers in Eastern Canada realized the substantial benefits provided by the full service approach taken by Brenda Marketing, particularly those smaller customers who do not have in-house expertise in the gas transportation field. The Oil and Gas Division works within a set of well-defined and understood strategic parameters, and has been very successful.

Revenue from the 1.09% interest in the Timor Sea permit area NT/P26 off the north coast of Australia started in the fourth quarter. Production from the Jabiru well amounted to 2.0 million barrels of oil during the year. A preliminary development plan for the Challis field is expected to be completed during the second quarter of 1987.

Acknowledgement

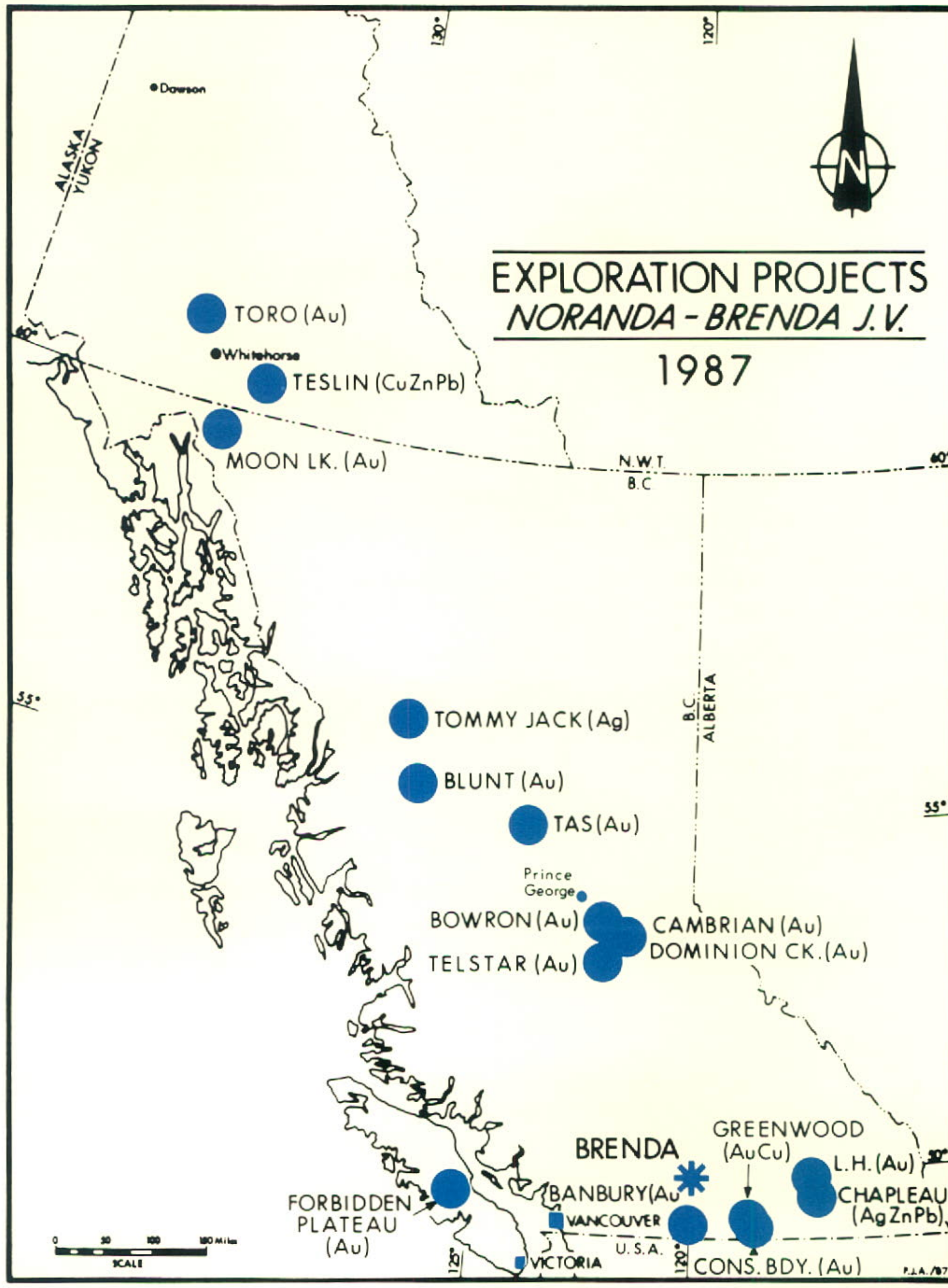
The reopening of the mining operation in late 1985 was to a large degree dependent on the positive response of the Critical Industries Commission. The successful operation in 1986, and the impact on employees, the communities and the company, is a testimonial to the foresight of the Commission.

The Directors wish to express their gratitude for the dedicated and enthusiastic efforts of the employees of both Divisions during 1986. It is their diligence that has enabled the company to report earnings for the first time since 1981, despite the existence of low prices for both metals and natural gas.

On behalf of the Board,

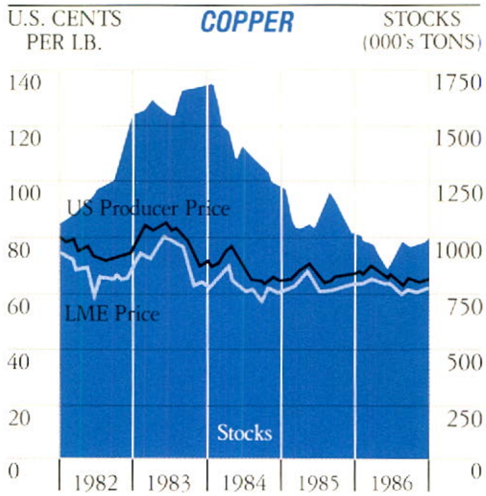
J. M. Gordon,
President.

Toronto, Canada
February 18, 1987



The Joint Venture has agreed to concentrate its exploration efforts for 1987 on the projects indicated and the directors have authorized an exploration programme of up to $1 million, to be financed by the issuance of flow-through shares.

Metal Markets



Western World Balance
'000 tons

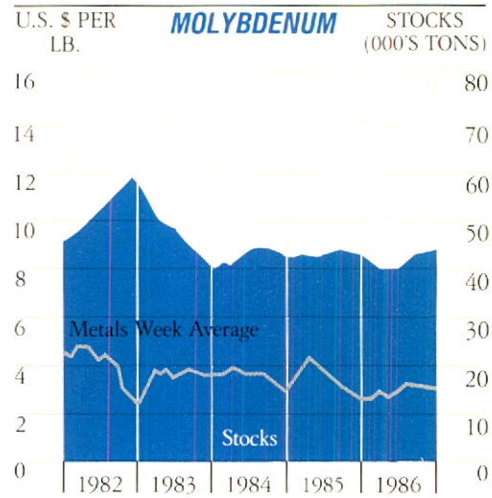
	1984 Year	1985 Year	1986 Year
Supply	8,650	8,643	8,800
Demand	9,115	8,846	8,982
Stocks	1,366	1,164	1,081

Demand in 1986 was marginally higher than 1985 and at record levels in the fourth quarter.

In the first half stocks declined 176,000 tons and prices responded moderately to just over 65 cents U.S. per pound on the London Metal Exchange in March and April. Fabricators anticipated adequate availability and maintained minimum inventories, particularly in the United States where lower wage costs were achieved under new wage agreements at producers without loss of production.

Western World supplies rose as a result of lower net exports to China and Eastern Europe and, in the seasonably weaker second half, stocks rose by 88,000 tons. The L.M.E. average price for the year was 62.3 cents, as prices weakened in the second half.

A similar seasonality of demand is expected to cause stocks, which are at historically normal levels, to decline in the first half of 1987.



Western World Balance
'000 tons Mo

	1984 Year	1985 Year	1986 Year
Supply	80	88	87
Demand	84	86	85
Stocks	43	45	47

Molybdenum demand strengthened considerably in Europe on the basis of increased capital investment by the petrochemical industry and the resultant rise in consumption of stainless steel. However, this was more than offset by declining consumption in the US and Japan and worldwide demand fell slightly to 77,000 tons.

While production from Codelco and Sierrita was down significantly and Molycorp's Goat Hill mine closed, the start-up of Butte and Endako and increased output from Brenda resulted in supply remaining close to 1985 levels.

Stocks, although rising, were largely controlled by producers and prices rose gradually over the year reflecting the close supply demand balance. However, increasing production in the latter part of the year and a slowdown in European demand resulted in prices levelling off at the end of the year in the U.S. $3.10 range. In June, the U.S. producers were able to establish a published price, currently U.S. $3.45/lb Mo, however this has not taken hold outside the U.S.

Report of the Mine Manager

Mine Production Statistics		1986	1985
Waste stripped	Tons	4,461,380	2,145,550
Ore milled	Tons	11,224,310	3,306,940
Ore milled per calendar day	Tons	30,750	9,060
Ore milled per operating day	Tons	33,110	31,200
Copper content of ore	% Cu	0.184	0.177
Copper recovery	%	90.38	88.05
Copper concentrates produced	Tons	67,170	18,300
Copper concentrates – grade	% Cu	27.84	28.21
Molybdenum content of ore	% Mo	0.048	0.047
Molybdenum recovery	%	88.39	86.55
Molybdenum concentrates produced	Tons	8,650	2,420
Molybdenum concentrates – grade	% Mo	55.45	55.56

Mill throughput during the first half of 1986 was below plan due to a combination of adverse conditions, such as weather, long hauls, shortage of personnel and some mechanical problems. However, metal production exceeded plan because of higher grades and excellent metallurgical results.

The third quarter saw a vacation closure of the operation for three weeks but, again, metal production was in excess of Plan for the same reasons.

The fourth quarter was outstanding in that the highest revenues since 1980 were received and also brought the year's production of metal to the highest tonnage ever recorded at Brenda. A concern arising from this result is that the molybdenum inventory amounted to 3.5 million pounds at year end.

The low metal prices which prevailed throughout the year detracted somewhat from this achievement but being able to report a small net profit after the long sterile period is gratifying as is the steady reduction in bank debt which resulted during the year.

The mining operation proceeded well with only occasional slight interference from weather but none from geological features. As mining continues, productivity will unavoidably suffer because of increasing depth of the pit and the consequent long hauls but this will be offset to a certain extent by better ore grades being encountered than were predicted previously. This matter is currently being addressed with geological assistance from Noranda Minerals and will necessitate some test drilling to determine the magnitude of the error.

The metallurgical results achieved in the mill department were excellent. The year-to-date recoveries for Cu and Mo of 90.38% and 88.39% respectively were the best performance ever recorded at Brenda. While there is no doubt that the good ore grade played a significant part, the continual attention to process control and high level of maintenance were also largely responsible.

The Business Initiatives Group continued to make good progress. The sulphur plant was completed and placed on stream in December. At year end it was treating approximately 50 tons of contaminated sulphur per day and work was in progress to enable that output to be doubled.

Design work on a second generation sulphur plant began near year end with a view to installing it in another suitable location.

Agreement to proceed with the process control installation at Echo Bay Mines was received and preparatory work is currently in progress.

Some assistance was also provided by the group to a small gold mine in California which consists of an underground gold placer deposit that will be mined hydraulically.

Labour relations were generally good during the year although two grievances were awaiting arbitration at year end. One disappointing result in the area of human relations was the occurrence of 14 compensable injuries. This is equivalent to a frequency of 18 per million manhours which is almost double that of 1985. In mitigation, it is pointed out that the severity is quite low at 327 since the injuries were almost all of a minor nature requiring only short periods off work.

Morale remains high and pride and loyalty in the Brenda operation are very evident. The final result of the profit-sharing plan, was of course, particularly pleasing to the workforce, amounting as it did to $1,099,850 or $2,820 per individual full share.

The number of active employees was reduced slightly during the year to 92 staff and 294 hourly employees for a total of 386, down from 394 in 1985.

Once more, and in this year probably more than ever before, it is a particular pleasure to acknowledge the hard work and enthusiasm of the entire workforce whose efforts have made the 1986 results possible. I wish to offer my personal thanks to each and every one.

G. R. Harris,
Mine Manager
February 18, 1987

Oil & Gas Division

The Oil & Gas industry worldwide went through a traumatic experience in 1986 when the price of crude oil decreased by more than 50% by mid-year. The price range for the second half of the year was U.S. $15-18 per barrel.

Brenda had anticipated the vulnerability of the crude oil price to a major adjustment and the initiation of the process to deregulate the natural gas business. Indeed Brenda was a catalyst in the deregulation process by being the first producer attempting to sell gas directly to an end-user in eastern Canada.

In 1984, Brenda had devised a strategic plan with the objective of not just surviving a major price adjustment in the oil and gas price, but to grow in such an environment. The operating results for the year indicate that this strategy is showing tangible returns.

Natural gas production was 2.7 Bcf vs. 2.0 Bcf in 1985;

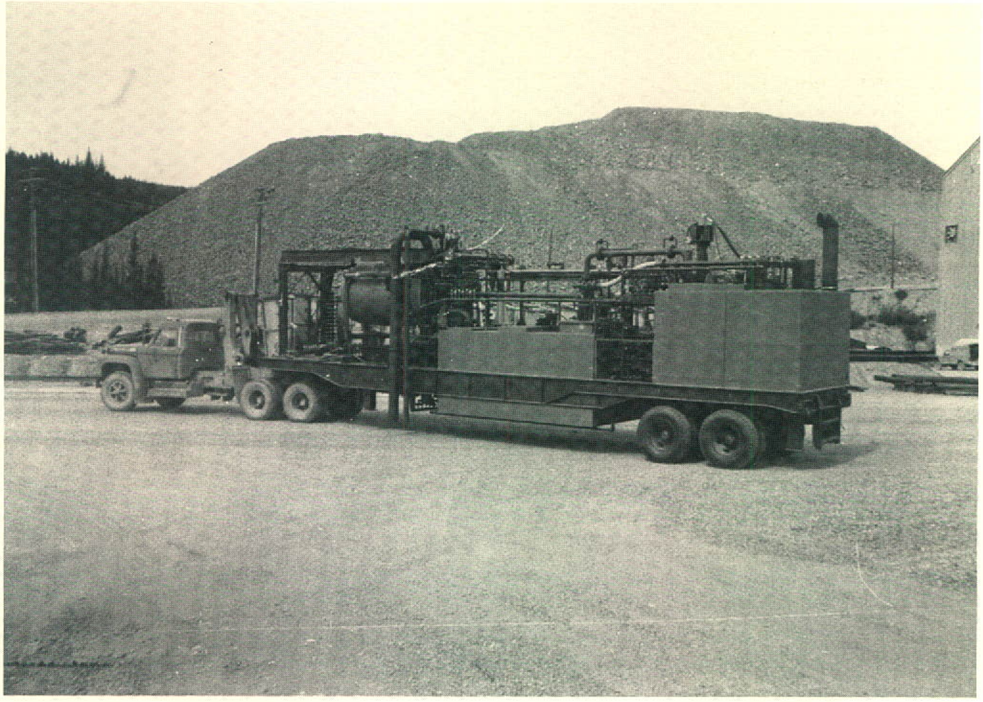
Oil production totalled 21,200 bbls. vs. 0 in 1985;

Cash flow from operations amounted to $3,500,000 vs. $3,400,000 in 1985; and marketing of gas on a direct sale basis totalled 2.1 Bcf vs. 0.4 Bcf in 1985.

Land and Exploration

Exploration activity, mainly in central Alberta, resulted in the most active exploration program undertaken since 1982. Brenda participated in the drilling of 12 wells resulting in the casing of 8 potential gas wells. Natural gas reserves at year end totalled about 44.0 Bcf consisting of 41.4 Bcf proven and 2.6 Bcf probable. Some 97% of the reserves were in Alberta with the balance in British Columbia.

Land acquisition activity slowed down in 1986 with the purchase of 12,400 net acres as compared to 15,100 net acres in 1985. Land position at year end consisted of 106,200 net acres, with 105,370 in Alberta and 830 in British Columbia.



Portable Sulphur Purification Plant.

Operations

The prime objective during 1986 was to increase sale volumes by bringing on stream shut-in gas and maximizing productivity from existing producing properties. Approximately $1,000,000 was spent during the year to accomplish this.

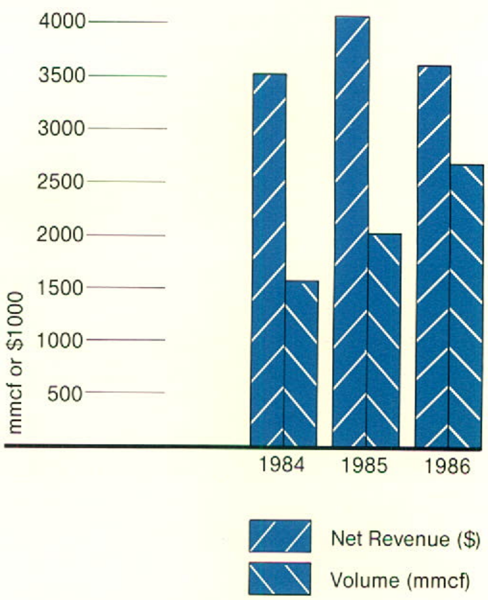
In the Greater Cache area seven wells were connected to increase deliverability in the area to approximately 16,500 mcf/day from 10,000 mcf/day. Brenda is the operator with an average interest of about 32%.

In the Clyde area six wells were connected in order to maintain deliverability at 12,000 mcf/day at very high load factors.

In the North Whitefish area, a discovery well drilled in 1983 was put on stream at a rate of 2,000 mcf/day.

In the Figure Lake area, a discovery well drilled in 1986 was put on stream. Facilities were leased, a modular plant was built, initial production rates were in excess of 4,000 mcf/day operating at 100% load factor, all with a short time between discovery and production.

Gas Production
12 months ended Dec. 31



Marketing
Brenda Marketing Inc., a wholly-owned subsidiary of Brenda Mines Ltd., was incorporated during the year with the objective of continuing the aggressive marketing effort which has been underway for the past three years. The Noranda Group has benefited from Brenda's ability to sell competitively priced natural gas to Noranda's operations which consume large amounts of natural gas.

During the year, Brenda Marketing sold 2.1 Bcf of gas to five end-users mainly in eastern Canada, and purchased approximately 0.67 Bcf from Brenda Oil & Gas or about 37% of its total purchased gas. Additional natural gas markets in Canada and the U.S.A. will also be developed.

Year 1987 Projected Environment
In 1987, the market place for natural gas will become even more competitive. The natural gas consumption rate in North America is stagnant and, consequently, as more supply comes on stream, the pressures on the price will increase. Gas price will be governed in the short term by gas to gas competition and not to any great extent by alternate fuel availability.

The aggressive marketing program initiated by Brenda should increase its momentum in 1987. This, combined with the strategic plan, should allow Brenda to function profitably in the competitive environment which is ahead.

It is customary to acknowledge the contribution of all members of the company for their efforts. This is especially true of the Oil & Gas Division where the persistency, dedication and commitment of all members of the team allowed Brenda to make great strides in 1986.

J. Balaban,
General Manager
February 18, 1987

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

Consolidated Balance Sheet

December 31

Assets	*1986*	*1985*
	(in thousands)	
Current assets:		
Accounts receivable	**$ 10,028**	$ 6,345
Inventories (note 2)	**18,492**	13,623
Prepaid expenses	**356**	644
Total current assets	**28,876**	20,612
Investment in associated company (note 3)	**63,950**	63,950
Oil and gas properties (note 4)	**24,966**	25,124
Property, buildings and equipment (note 5)	**13,425**	18,466
Other assets	**215**	215
	$131,432	$128,367

Liabilities and Shareholders' Equity		
Current liabilities:		
Bank advances (note 6)	**$ 35,161**	$ 38,086
Due to associated company (note 7)	**3,000**	5,000
Accounts payable	**5,476**	4,005
Taxes payable	**779**	
Total current liabilities	**44,416**	47,091
Provision for mine closure costs (note 8)	**3,000**	
Taxes provided not currently payable	**194**	1,039
Shareholders' equity (note 10):		
Capital stock —		
Authorized:		
5,000,000 shares without nominal or par value		
Issued and outstanding:		
4,720,587 shares (1985 — 4,505,534)	**12,228**	10,478
Retained earnings	**71,594**	69,759
	83,822	80,237
	$131,432	$128,367

(See accompanying notes to financial statements)

On behalf of the Board:

B. Brynelsen
Director

J. Gordon
Director

Consolidated Statement of Income

Years ended December 31

	1986	1985
	(in thousands)	
Gross value of concentrates produced	$66,813	$19,866
Less treatment and distribution charges	9,685	2,827
	57,128	17,039
Value of oil and gas produced	5,538	4,938
	62,666	21,977
Cost of production (note 12)	41,570	14,914
Depreciation, depletion and amortization	8,254	4,288
Oil, gas and mineral exploration expense (note 10)	3,037	3,877
Administration and general expense	2,784	3,349
Mine closure expense (note 8)	3,000	
Municipal and sundry taxes (note 12)	462	715
	59,107	27,143
Operating income (loss)	3,559	(5,166)
Interest expense	(4,349)	(4,256)
Interest and other income	859	928
Dividend income	1,734	1,734
	(1,756)	(1,594)
Income (loss) before taxes	1,803	(6,760)
Income and other taxes recovered (note 9)	32	344
Net income (loss)	$ 1,835	$ (6,416)
Net income (loss) per share	$ .40	$ (1.49)

Consolidated Statement of Retained Earnings

Years ended December 31

	1986	1985
	(in thousands)	
Retained earnings, beginning of year:		
As previously reported	$68,226	$74,869
Adjustment of prior years' income for sales tax refund	1,533	1,306
As restated	69,759	76,175
Net income (loss) for the year	1,835	(6,416)
Retained earnings, end of year	$71,594	$69,759

(See accompanying notes to financial statements)

Consolidated Statement of Changes in Cash Position

Years ended December 31

	1986	1985
	(in thousands)	
Cash from (used in) operations:		
Net income (loss)	**$ 1,835**	$ (6,416)
Adjustments for items not affecting cash:		
Depreciation and amortization	**8,254**	4,288
Surrendered leases	**221**	1,138
Recovery of taxes provided not currently payable	**(845)**	(280)
Mine closure	**3,000**	
Other	**(20)**	27
Change in non-cash working capital	**(6,014)**	7,396
Oil, gas and mineral exploration expense	**3,037**	3,877
Sales tax refund prior period adjustment		1,306
	9,468	11,336
Cash from (used for) investment activities:		
Additions to oil and gas properties, net of grants	**(3,316)**	(2,100)
Oil and gas exploration expensed	**(1,285)**	(1,617)
Mineral exploration expensed	**(1,752)**	(2,260)
Additions to property, buildings and equipment	**(141)**	(195)
Proceeds from sale of property, buildings and equipment	**201**	295
	(6,293)	(5,877)
Cash from financing activities:		
Issue of common shares	**1,750**	2,260
Borrowings repaid	**4,925**	7,719
Borrowings, beginning of year	**43,086**	50,805
Borrowings, end of year	**$38,161**	$43,086

Borrowings comprise bank advances and amounts due to associated company.

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders
of Brenda Mines Ltd.:

We have examined the consolidated balance sheet of Brenda Mines Ltd. as at December 31, 1986 and the consolidated statements of income, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 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.

Vancouver, Canada,
January 23, 1987.

Clarkson Gordon
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1986

1. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying financial statements consolidate the accounts of Brenda Mines Ltd. and its wholly owned subsidiary, Brenda Marketing Inc.

(b) 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. Transactions during the year are translated at exchange rates prevailing at the date of the transaction. Exchange gains or losses resulting from such translation are included in earnings.

(c) Inventories

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

(d) Investment in associated company

The company accounts for its investment in an associated company on the cost basis.

(e) 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.

Production equipment and gathering systems are recorded at cost. Petroleum incentive tax credits related to eligible expenditures are recorded as a reduction of exploration and development costs.

(f) Depreciation, depletion and amortization

Depreciation of property, buildings and equipment is calculated on a straight line basis over 40 months up to April 30, 1989, which is management's estimate of the remaining life of the mine. 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.

(g) 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.

(h) Pension plans

The company has various contributory pension plans which cover all employees. Current service pension costs are charged to earnings as they accrue.

2. Inventories

Inventories comprise the following:

	1986	1985
	(in thousands)	
Concentrate	**$14,287**	$ 9,114
Stores and other	**4,205**	4,509
	$18,492	$13,623

3. Investment in associated company

The company's investment in associated company consists of 2,890,390 common shares of Kerr Addison Mines Limited representing a 16.7% interest in that company. The quoted market value of these shareholdings as at December 31, 1986 was $44,078,000 (1985 – $44,801,000). The quoted market value does not necessarily represent the value of these holdings which may be more or less than that indicated by market quotations.

The investment in Kerr Addison Mines Limited is being accounted for by the cost method and because of its significance to the company, the following summarized financial information of Kerr Addison as at, and for the years ended, December 31, 1986 and 1985 is presented:

	Audited	
	1986	1985
	(in thousands)	
Financial position – December 31		
Assets:		
Current	**$113,374**	$ 58,808
Investments in associated companies (note (a))	**208,037**	251,805
Mining and smelting properties	**128,475**	10,989
Gas and oil properties	**68,242**	67,050
	$518,128	$388,652
Liabilities:		
Current	**$ 22,356**	$ 11,777
Deferred taxes and other	**46,843**	35,702
Long-term debt	**50,000**	5,000
Minority interest in Corporation Falconbridge Copper	**67,782**	
	186,981	52,479
Shareholders' equity	**331,147**	336,173
	$518,128	$388,652
Results of operations – Year ended December 31		
Earnings from operations	**$ 1,049**	$ 4,447
Loss from associated company	**(587)**	(2,225)
Minority interest in Corporation Falconbridge Copper	**(936)**	
Special items	**5,583**	236
Net income	**$ 5,109**	$ 2,458
Net income per share	**$ 0.30**	$ 0.14

Note (a): The investments consist of 7,961,281 common shares of Noranda Inc. (5.5% of Noranda's issued common shares) and 1,125,993 common shares of Anderson Exploration Ltd. (32.6% of Anderson's issued common shares).

(b): On August 27, 1986, the company acquired 49.3% of the outstanding common shares of Corporation Falconbridge Copper from Falconbridge Limited for cash of $120,119,000. The acquisition has been accounted for using the purchase method and, accordingly, the company's share of the operations of CFC have been consolidated from that date. The excess of the cost of the shares over net book value at acquisition date has been assigned to mining properties in production and under development.

A summary of assets acquired and values assigned thereto based on their fair market values at date of acquisition is as follows:

	(in thousands)
Assets acquired:	
Cash	$ 76,328
Working capital	13,531
Producing properties	34,383
Properties under development	72,113
	196,355
Less:	
Deferred income taxes	(8,544)
Minority interest	(67,692)
Total purchase price	$120,119

4. Oil and gas properties

Oil and gas properties, at cost unless otherwise noted, less accumulated depreciation, depletion and amortization are as follows:

	1986	1985
	(in thousands)	
Net profits interest in frontier areas, at net cost	**$ 73**	$ 73
Productive properties	**11,523**	11,181
Unevaluated properties	**2,910**	3,050
Productive drilling	**8,942**	8,134
Tangible production equipment and other	**11,495**	9,487
	34,943	31,925
Less accumulated depreciation, depletion and amortization	**9,977**	6,801
	$24,966	$25,124

5. Property, buildings and equipment

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

	1986	1985
	(in thousands)	
Buildings, equipment and related facilities	**$57,600**	$57,591
Mobile equipment	**13,791**	13,962
Residential land and buildings	**64**	89
	71,455	71,642
Less accumulated depreciation	**58,030**	53,197
	13,425	18,445
Mineral claims and leases, at cost less accumulated amortization		21
	$13,425	$18,466

6. Bank advances

	1986	1985
	(in thousands)	
Bank overdraft	**$ 1,261**	$ 994
Demand loan	**13,900**	5,092
Bankers' acceptances	**20,000**	32,000
	$35,161	$38,086

The company has pledged accounts receivable, inventories and shares in Kerr Addison Mines Limited as collateral for the bank advances.

7. Related party transactions

(a) Noranda Inc. owns 45.25% 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:

(i) Noranda Sales Corporation Ltd., an agent of Noranda Inc., markets substantially all mine products and is responsible for collection of proceeds. For these services, Noranda Sales was paid commissions which totalled $467,741 during 1986 (1985 – $279,113). As at December 31, 1986 amounts totalling $6,746,457 (1985 – $3,250,014) were due through the Noranda Group from third parties.

(ii) The Noranda Group acts as manager and provides technical and administrative services to the company. During the year $370,000 (1985 – $371,000) was paid for technical and administrative services.

(iii) In 1986 the company purchased approximately $310,000 (1985 – $38,000) of production supplies and services from the Noranda Group.

(iv) 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. At December 31, 1986 the company owed $3,000,000 (1985 – $5,000,000) to the pool. Interest related to pool borrowings amounted to $948,175 for 1986 (1985 – $249,869).

(v) The Noranda Group purchased natural gas in the amount of $1,107,000 from Brenda Marketing Inc. At December 31, 1986 $263,000 was due in respect of these sales.

(b) As at December 31, 1986 certain employees were indebted to the company for $468,500. Subsequent to the year end these amounts were repaid in full.

8. Mine closure

The mine is currently estimated to reach the end of its economic life in April of 1989. Total costs associated with the mine closure are estimated to be $10,000,000. These costs are being provided for on a straight line basis over the remaining life of the mine.

9. Income and resource taxes

(a) The company has non-capital losses and other timing differences aggregating approximately $10,350,000 for federal income tax purposes and $9,180,000 for provincial income tax purposes available to reduce taxable income in future years. The future tax benefits resulting from these losses and timing differences have not been recognized in the accounts as their realization is not virtually certain. The tax loss carry-forwards expire as follows:

	Federal	Provincial
1987	$4,085,000	$3,960,000
1990	$4,270,000	$1,830,000
1991	$2,267,000	$1,324,000
1992	$2,499,000	$2,614,000

(b) As at December 31, 1986 the company has estimated investment tax credits of $516,000 (1985 – $1,125,000) which are available as a deduction from future income taxes payable.

These investment tax credits expire as follows:

1987	$130,000
1990	$131,000
1991	$ 41,000
1992	$ 45,000
1993	$169,000

(c) Income and resource taxes recovered vary from the amount that would be computed by applying the combined federal and provincial income tax rate of approximately 53.8% (1985 – 52.0%) for the following reasons:

	1986	*1985*
	(in thousands)	
Expense (recovery) based on income (loss) before taxes	**$ 970**	$ (3,684)
Increase (decrease) in taxes resulting from:		
Non taxable dividend income	**(933)**	(942)
Inventory allowance	**(154)**	(236)
Resource allowance net of non-deductible government royalties and resource taxes	**(403)**	776
Mineral exploration expenses sold	**941**	676
Losses and timing differences not recognized for accounting purposes	**(467)**	3,040
Petroleum and gas revenue taxes	**4**	(52)
Other	**10**	78
	$ (32)	$ (344)

10. Share capital

During the year the company issued 215,053 (1985 – 223,534) common shares for $3,500,000 as flow-through shares to finance mineral exploration in Canada.

As a result of this issue $1,750,000 (1985 – $1,240,000) relating to the sale of exploration expenditures has been recorded as a reduction of exploration and development expenditures.

11. Segmented information

The company operates in two industries, mining and milling in British Columbia, and oil and gas exploration and development programs in Alberta and British Columbia.

Information regarding industry segments is set out below:

	1986	1985
	(in thousands)	
Value of production:		
Mining and milling	**$ 57,128**	$ 17,039
Oil and gas	**5,538**	4,938
Total revenue	**$ 62,666**	$ 21,977
Segment operating profit (loss):		
Mining and milling	**$ 4,754**	$ (4,185)
Oil and gas	**(828)**	(416)
	3,926	(4,601)
General and corporate expenses	**(371)**	(371)
Interest expense — net	**(3,490)**	(3,470)
Dividend income	**1,734**	1,734
Income and resource taxes recovered	**36**	292
Net income (loss)	**$ 1,835**	$ (6,416)
Depreciation, depletion and amortization:		
Mining and milling	**$ 5,078**	$ 1,732
Oil and gas	**3,176**	2,556
	$ 8,254	$ 4,288
Identifiable assets:		
Mining and milling	**$ 39,637**	$ 37,936
Oil and gas	**27,845**	26,481
Investments	**63,950**	63,950
	$131,432	$128,367
Capital expenditures:		
Mining and milling	**$ 141**	$ 195
Oil and gas	**3,316**	2,100
	$ 3,457	$ 2,295

The company's 1986 sales of copper concentrate were to Japan and molybdenum concentrate were to Europe.

12. Government assistance

In 1985 the company entered into an agreement with the Commissioner of Critical Industries for the Province of British Columbia which provided for reduced hydro power costs and property taxes for a period up to three years. This agreement, amongst other things, provides for reductions in the amount of assistance in the event that the company exceeds stipulated target levels of gross operating revenues.

During the year expenses were reduced by $2,083,000 (1985 — $603,000) as a result of assistance received under this agreement.

13. Contingency

In April of 1986 income tax reassessments were issued by Revenue Canada, Taxation against the company claiming $3,300,000 in taxes for the 1977-1980 taxation years. The company is being denied a portion of its resource and depletion allowances on the grounds that a portion of the company's mining profits were earned as a result of foreign processing activities. Management believes the amounts are validly claimed and is contesting the reassessment. If the company is not successful, a prior period adjustment will be made relating to the years 1977-1980.

Financial History* — $000's

Income

Income	1977	1978	1979	1980	1981	1982	1983	1984	1985	**1986**
Revenue	51,787	64,756	90,129	77,293	39,126	46,295	34,826	31,439	21,977	**62,666**
Expense – excluding interest and taxes	35,141	41,084	52,888	42,948	47,148	46,872	42,198	35,144	26,428	**58,645**
Interest expense (income), net	(577)	(940)	(1,636)	4,304	10,414	8,185	5,155	5,253	3,328	**3,490**
Municipal and sundry taxes	1,003	1,185	1,234	1,204	1,592	1,889	1,921	1,597	715	**462**
Income and production taxes (recovery)	6,897	10,592	15,579	15,030	(12,028)	(5,690)	(7,000)	(2,560)	(344)	**(32)**
Dividend income	–	–	–	–	–	955	1,757	1,734	1,734	**1,734**
Gain on disposal of marketable investments	–	–	–	–	–	–	2,888	–	–	**–**
Share of earnings (loss) in associated companies	–	–	2,438	13,300	12,575	(2,796)	–	–	–	**–**
Net income (loss)	9,323	12,835	24,502	27,107	4,575	(6,802)	(2,803)	(6,261)	(6,416)	**1,835**

Financial Position

	1977	1978	1979	1980	1981	1982	1983	1984	1985	**1986**
Capital employed –										
Non-cash working capital	20,160	23,991	26,077	28,071	36,501	40,444	31,178	25,309	16,607	**22,621**
Investment in associated companies	–	–	50,519	73,312	82,149	63,950	63,950	63,950	63,950	**63,950**
Oil and gas properties, net	6,370	7,809	15,497	21,628	29,211	29,443	29,832	26,812	25,124	**24,966**
Property, buildings and equipment, net	26,012	23,391	20,797	22,119	27,069	23,905	21,887	20,231	18,466	**13,425**
Other assets	210	210	215	215	215	215	215	215	215	**215**
	52,752	55,401	113,105	145,345	175,145	157,957	147,062	136,517	124,362	**125,177**
Capital sources –										
Short-term borrowings (cash)	(4,887)	(11,583)	29,155	37,803	62,863	56,509	53,073	50,805	43,086	**38,161**
Shareholders' equity	50,393	58,689	73,593	94,572	99,399	93,457	90,654	84,393	80,237	**83,822**
Other	7,246	8,295	10,357	12,970	12,883	7,991	3,335	1,319	1,039	**3,194**
	52,752	55,401	113,105	145,345	175,145	157,957	147,062	136,517	124,362	**125,177**

Changes in Cash Position

	1977	1978	1979	1980	1981	1982	1983	1984	1985	**1986**
Operations	19,488	22,068	46,980	25,719	(4,797)	(4,404)	7,236	4,419	11,336	**9,468**
Investment activities –										
Oil and gas properties, net	(6,370)	(1,439)	(7,920)	(6,239)	(7,889)	(1,529)	(1,523)	(274)	(2,100)	**(3,316)**
Property, buildings and equipment, net	(2,826)	(1,576)	(1,673)	(4,335)	(8,924)	(524)	(848)	(271)	100	**60**
Exploration	(4,994)	(7,818)	(19,775)	(4,369)	(3,450)	(1,802)	(1,429)	(1,606)	(3,877)	**(3,037)**
Investment in associated companies	–	–	(50,000)	(13,171)	–	14,613	–	–	–	**–**
	(14,190)	(10,833)	(79,368)	(28,114)	(20,263)	10,758	(3,800)	(2,151)	(5,877)	**(6,293)**
Financing activities –										
Issue of common shares	–	–	–	–	–	–	–	–	2,260	**1,750**
Dividends	(2,098)	(4,539)	(8,350)	(6,253)	–	–	–	–	–	**–**
	(2,098)	(4,539)	(8,350)	(6,253)	–	–	–	–	2,260	**1,750**
Decrease (increase) in short-term borrowings	3,200	6,696	(40,738)	(8,648)	(25,060)	6,354	3,436	2,268	7,719	**4,925**

Statistics

	1977	1978	1979	1980	1981	1982	1983	1984	1985	**1986**
Tons milled (000's)	10,620	11,018	10,005	10,061	11,243	10,455	9,022	6,734	3,307	**11,224**
Gas produced – Gross MMcf	–	–	–	140	564	1,551	1,473	1,577	2,037	**2,704**
Number of employees	463	470	468	474	463	439	105	105	404	**401**

*Data for the years 1977 to 1985 have been restated from amounts originally reported to reflect the appropriate share of prior years' adjustments recorded in 1986 (sales tax refund), 1982 (income tax reassessments) and 1980 (income and resource tax assessments).

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