Annual Report 1985

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 A. Hall	Toronto, Ont.
John B. Knapp	Westbank, B.C.
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 A. Hall
Vice-President	Wm. Allan
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
20 Eglinton Avenue W., Toronto, Canada

Annual Meeting:

May 7, 1986, 2:30 p.m. Seymour Room,
Hyatt Regency, Vancouver, B.C.

Directors' Report to the Shareholders

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

	1984 Average	*1985 Average*	*1985 High*	*1985 Low*	*1985 Dec. 31*
Copper $/lb.	0.63	0.65	0.69	0.62	0.64
Molybdic Oxide $/lb. Mo*	3.56	3.25	4.43	2.60	2.60
Silver $/oz.	8.14	6.13	6.75	5.45	5.80
Gold $/oz.	360.29	317.27	340.90	284.25	327.00

* *Metals Week Moly Oxide Dealer Price*

Markets for copper, molybdenum and natural gas were weaker than expected in 1985, and it is disappointing to report bad news again for the fourth year in a row. The Company had a net loss of $6.6 million, or $1.54 per share as compared to a net loss of $6.5 million, or $1.52 per share for 1984.

Although the loss for both years is similar, the mine only operated 3½ months in 1985 and reported an operating loss of $3.6 million compared to a $4.4 million loss in a 6½ month operating period for 1984. Mine costs were reduced in the fourth quarter by a refund of $1.5 million of surplus pension contributions made by the Company in prior years.

The mine, which closed in December, 1984 due to the buffeting of international competition, low metal prices and high product inventory, remained closed until September, 1985. Nevertheless, there were positive developments during this period. Foremost, was the re-opening of the mine in mid-September, the result of several factors that included: low product inventories; an improvement in market conditions with a weakening of the U.S. dollar; and very significant, lower hydro power costs. The assistance in power costs arose from negotiations held with the Critical Industries Commissioner appointed by the Government of British Columbia.

Molybdenum sales totalled 1.92 million kilograms in 1985 at a net price of $8.41 per kilo. Due to the mine closure, inventories of molybdenum declined to a level of 1 million kilograms at year-end. Molybdenum prices also deteriorated late in the year and inventories were valued at $6.50/kilo compared to $7.38/kilo at the end of 1984. Copper production was on target and year-end inventories of 1.8 million kilograms were valued at $1.96/kilo compared to $1.73/kilo the previous year.

Debt reduction is a priority and the corporate strategy of closing the mine to liquidate product inventories reduced the debt from $50.8 million at the end of 1984 to a low of $37.3 million in August. The September start-up, in association with a normal build-up of working capital, increased debt to $43.1 million at December 31st. Interest costs of $4.3 million were down $1.7 million from the previous year.

The operating cash flows generated by the mine are heavily dependent on the level of metal prices and exchange rates: a U.S. 1¢ change in the copper price or a U.S. 5¢ change in molybdenum price alters the cash flow by $0.4 million annually and a 1¢ change in the value of the Canadian dollar alters the cash flow by $0.7 million. The revenue from gold and silver, which are by-products contained in copper concentrates, approximates $5 million per year.

While generating a positive net cash flow of $1 million for the year, the Oil and Gas Division reported a net loss of $0.5 million, as a result of above normal depreciation, depletion and surrendered lease costs. Net sales volumes of 1.6 BCF were up 27% over 1984, but prices declined from an average of $2.95 to $2.65 per MCF.

The Company has maintained its 1.09% interest in the Timor Sea permit area NT/P26 off the north coast of Australia. Planned production from the "Jabiru 1A Well" in June, 1986 at a rate of 13,000 barrels per day is on schedule.

A second well described as "Challis #2" is presently being drilled some 1.5 kilometres east of the successful Challis #1 well which tested 4,688 barrels per day of oil. The new well will provide further information to evaluate the commercial potential of the Challis structure which is located some 20 kilometres south of Jabiru.

As a result of the seismic work done on NT/P26, other structures have been delineated as potential targets and further exploration drilling is scheduled to be done later in 1986.

During 1985, Brenda entered into a joint venture with Noranda to fund exploration in British Columbia and the Yukon. Flow-through shares were used to finance the program and Brenda issued 223,534 common shares to a resource partnership for funding a total of $3.5 million. An additional $2.5 million was financed by Noranda Exploration and other joint venture partners. Expenditures were 50% on precious metals, 43% on base metals and 7% other. By the end of 1985, Brenda had earned approximately 30% of Noranda's interests in all current projects in the Cordillera including a new base metal discovery in the Adams Plateau located near Kamloops, the new Boulder Creek gold discovery on Dome Mountain near Smithers and the Banbury project located near Hedley in southern British Columbia.

The formation of the Business Development Group (described separately in this report) should prove opportune for the Company. The Group has established a proven track record for solid engineering in projects completed at and away from Brenda.

Their expertise is in the new technologies that have become so necessary for achieving improved productivity and lower operating costs at operating mines. With Brenda always in a tight position for capital, members of this Group had to be right on application, because misapplication of such capital intensive technologies is almost fatal for a smaller company. The Group's success is a result of experience, selection and practical design, plus the commitment to make the innovations and applications – the new technologies – work properly from the start.

New business, human resource development and productivity are three areas of priority for the company's future success.

Acknowledgement

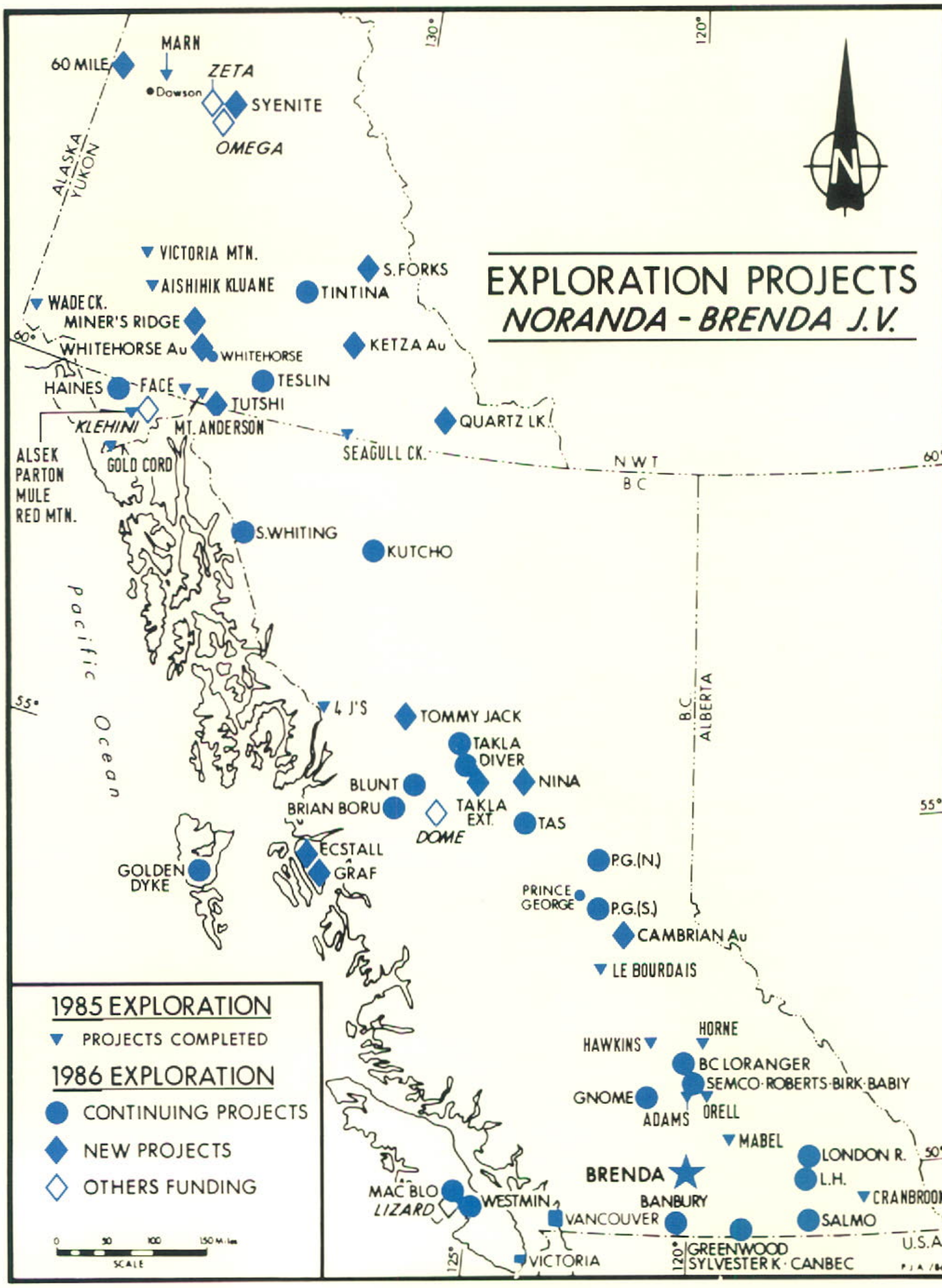
The operations were directed by Mr. William Allan, ably assisted by Mr. John Kalmet, and the Directors extend thanks to them for their splendid leadership. In fact, with these continuing difficult times for mining, the directors are somewhat amazed by the optimism and enthusiasm that exists, and congratulate Gordon Harris, Mine Manager, Jack Balaban, General manager – Oil and Gas Division, their staffs and all employees for a superior performance.

On behalf of the Board,

J. A. Hall

J. A. Hall,
President.

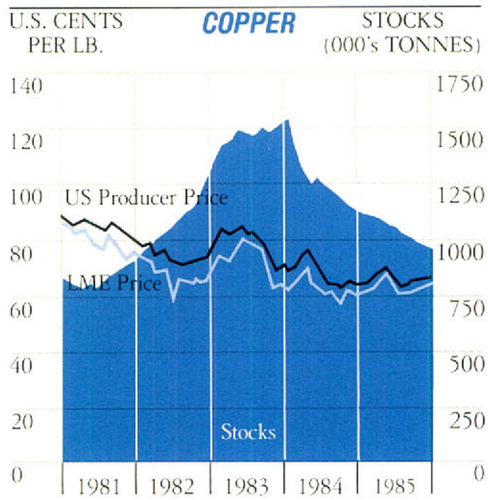
Toronto, Canada
February 18, 1986



Metal Markets

General

Although the anticipated decline in the value of the United States dollar was clearly underway by the end of the first quarter, overall economic growth was less robust in 1985 and real interest rates remained high. Demand for many metals declined during the second and third quarters and consumer inventories were held down to minimum levels.



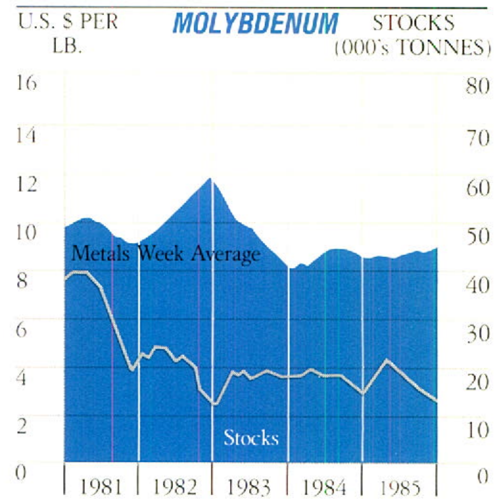
Western World Balance
'000 tonnes

	1983 Year	*1984 Year*	*1985 Est. Year*
Supply	6,997	7,135	7,044
Demand	6,797	7,518	7,209
Stocks	1,510	1,127	962

During 1985, demand fell by just over 300,000 tonnes or four percent from the record level set in 1984. The sharpest declines were in the United States and Japan. With slightly lower production and increased shipments to China, Western World Supply was also lower in 1985 and stocks declined by 165,000 tonnes. That reduction together with the larger drop in 1984 has eliminated almost all of the surplus built up during the prior two years and brought total producer and terminal market stocks back to historically normal levels.

The monthly average London Metal Exchange quotation rose by 10¢ to 69¢ U.S. per lb. in May but then declined to 63¢ in December. The average for the year was 65¢, only some 2¢ higher than in 1984 despite the lower value of the United States dollar.

With some further decline in stocks expected during the first half of 1986, the copper price started to recover in January and this gradual rise should be sustained until mid year.



Western World Balance
'000 tonnes Mo

	1983 Year	*1984 Year*	*1985 Year*
Supply	44	73	80
Demand	62	76	78
Stocks	45	42	44

Led by European and Japanese producers, molybdenum demand in 1985 remained reasonably strong for specialty and stainless steel applications.

Production was temporarily reduced early in 1985 with the closure of Anaconda's Tonopah mine and an extended summer shutdown at Amax's Climax operation. This led to a rapid escalation in market prices – with oxide levels hitting a high of approximately U.S. $4.30 lb Mo in March.

The initial positive outlook was not sustained and the lack of additional closures coupled with aggressive selling by some producers and higher-than-planned output at certain locations caused prices to again progressively deteriorate to U.S. $2.55/2.65 lb Mo by year-end.

Report of the Mine Manager

Mine Production Statistics		1985	1984
Waste stripped	Tonnes	1,950,500	4,849,433
Ore milled	Tonnes	3,006,313	6,109,067
Ore milled per calendar day	Tonnes	8,236	16,691
Ore milled per operating day	Tonnes	28,361	30,699
Copper content of ore	% Cu	0.177	0.151
Copper recovery	%	88.05	85.05
Copper concentrates produced	Tonnes	16,634	26,920
Copper concentrates – grade	% Cu	28.21	29.07
Molybdenum content of ore	% Mo	0.047	0.039
Molybdenum recovery	%	86.55	83.60
Molybdenum concentrates produced	Tonnes	2,204	3,593
Molybdenum concentrates – grade	% Mo	55.56	55.98

Mine Management Team: Left to Right: *Ron Brown, Gunner Sperlins, John Balash, John Keyes, Gordon Harris, Ron Bradburn and John Wilcox*

The mine reopened on September 15, 1985 after a shutdown of nine months' duration. The decision to reopen was based on several factors, namely:– a new mine plan which established the remaining life of the mine at 39 months by increasing grade and reducing the waste stripping, a forecast of slightly higher metal prices, negotiations with the B.C. Critical Industries Commission which resulted in a discount on electrical power cost and the willingness of the Union to extend the existing Collective Agreement to 30 June 1987 without a wage increase.

The actual decision to reopen was taken in mid-August 1985 and necessitated the immediate recall of maintenance personnel to service and refurbish the equipment in all areas of the operation after the lengthy shutdown.

During the past four years, the number of personnel in the molybdenum leaching and drying operations was reduced because the lower ore grades did not produce sufficient molybdenum concentrates to require their full-time operation. This changed towards the end of 1985 when the facilities became overtaxed because of molybdenum ore grades, about 20% above normal, necessitating a slight reduction in milled tonnage. Introduction of an additional shift on a temporary basis has remedied the situation.

Even though molybdenum production was about 20% higher than forecast during the operating period net revenues were down by some $2 million because of low metal prices.

The increase in molybdenum inventory since startup was mainly due to the refilling of the "pipeline" to our market in Europe and this having been done, it is expected that sales in 1986 will be approximately equal to production.

Every effort has been made to improve productivity and as a result the workforce has dropped from 406 at time of shutdown on December 14, 1984 to 394 persons at year end 1985, 98 of whom were salaried and 296 hourly. In January 1986, seven individuals were offered early retirement while others were reassigned to combine some jobs. Other force reductions will follow as certain parts of the operation become redundant. All of these efficiencies have been made with the realization that Brenda's plant and equipment are no longer new and strenuous efforts will sometimes be necessary to keep it operating.

Despite the lengthy shutdown and the uncertain future which faces the workforce, the employees are enthusiastic and morale remains high. The accident frequency increased slightly from 8.7 per million manhours in 1984 to 9.7 and compares very favourably with the average for B.C. of 14. In my opinion, and reflecting the high morale, some of the accidents experienced were due to individuals being over-anxious to "get the job done". Absenteeism, another measure of the high employee morale, is at a low at 2.7% from all causes.

It is a pleasure to report that the inert gas flotation system referred to in last year's report is working very well and reagent cost savings will exceed the levels necessary to justify the capital expenditure particularly as more operating experience is gained with the system. Efforts to reduce the Company's Provincial property tax assessment were successful at appeal, resulting in a refund of some $550,000. Mine operating costs continue to be excellent averaging $4.27 per tonne milled during the fourth quarter.

During the year, a small group was formed within the company, known as The Business Initiatives Group, with the objective of developing alternative sources of revenue by utilizing the expertise of Brenda's specialists.

In conclusion, I wish to acknowledge the efforts and support of all the employees at the mine operations who have made the paramount contribution to such success as has been achieved.

G. R. Harris,
Mine Manager
February 18, 1986

Oil & Gas Report

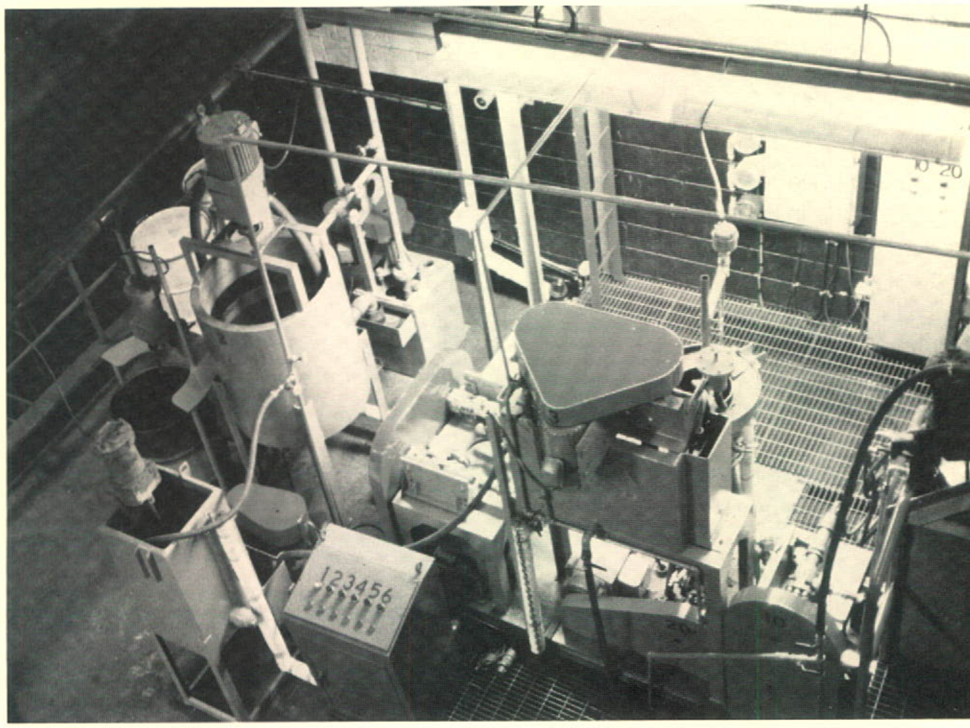
The Oil & Gas industry world wide is in a state of flux. At the end of 1985 OPEC was supplying about 16 million barrels/day as compared to about 30 million barrels/day in 1980 while western world consumption has remained fairly constant at less than 50 million barrels/day. The imbalance between supply and demand combined with OPEC's desire to retain historical market share is maintaining substantial pressure on the price of crude.

The natural gas de-regulation initiated in the U.S.A. in 1985, whereby natural gas is judged as a BTU commodity compared to a utility has had profound impact on the price. A spot market for gas has developed in the U.S.A. as a result of excess deliverability which should increase the spot market to at least a third of the total U.S.A. gas market within two years. In 1985 spot prices decreased by about $0.75/MCF to the range of U.S. $2.00/MCF in Texas.

As a result of market pressures from the U.S.A. and the Canadian government commitment to de-regulation, the Canadian gas market became partially de-regulated as of November 1, 1985, and will hopefully be de-regulated by November 1, 1986. De-regulation should allow for the potential of direct sales between producers and end users, however this is currently stalled by the hesitancy of the utilities to open up their systems.

The division's basic corporate objective is to continue to grow as a natural gas company by increasing annual cash flow and reinvesting a high proportion of these funds to obtain an adequate return on the net assets employed.

Brenda's ability to sell its commodity and control gas inventory costs is of utmost importance for vigorous future growth. An aggressive natural gas marketing effort has been underway for the past two years. Brenda's affiliation with the Noranda Group, whose Canadian operations consume large volumes of natural gas, should enhance the ability to sell competitively priced gas.



Business Development Tar Sands Pilot Plant, designed and built in the Brenda mill to test tar sands extraction.

Oil and Gas Division Management Team
Standing: Mike Zander, Ramona Robinson, Ron Gendre, Wendy Barclay, Dean Smith, Len Brink
Sitting: Kim Mikkelson, Jack Balaban, Gayle Sanders, Terry Heilman

Additional natural markets in Canada and the U.S.A. will also be developed.

Land and Exploration

Geological and exploration activities concentrated on the generation of potentially high grade gas plays. This activity resulted in Brenda enjoying its most active land acquisition year since 1981, acquiring 15,147 acres at a total cost of $1.1 million. Brenda's land position totalled 108,000 net acres at year end, a decrease of about 7,000 net acres from 1984. Three large exploratory blocks located at Clyde Lake North, acquired in 1981, were allowed to expire due to the high risk of drilling and large future capital costs to put this area on stream. Various other high risk lands were farmed out and/or allowed to expire.

Operations

A prime objective during 1985 was to increase sales volumes by bringing on stream contracted but unconnected wells and maximizing productivity from existing producing properties. Brenda's share of deliveries to the Sulpetro Sulcon II contract increased 150%, whereas gross sales to Pan-Alberta Gas Ltd. were up 31% over 1984. The total Brenda sales volumes increased during this period by only 25% due to the payout of Block 3 at Greater Cache which resulted in a reduced working interest in this area.

Capital equalization and collection of outstanding processing revenues from Clyde Lake and Florence resulted in the recovery of over $0.7 million for Brenda's account.

In order to meet projected sales increases an extensive completion and testing program was conducted in the Greater Cache Area to evaluate the wells scheduled for tie-in during 1986.

Year 1986 Projected Environment

The year 1986 appears to be a difficult and competitive year for the Canadian Oil & Gas industry. The drastic decreases in oil & gas prices will be partially off-set through changes initiated by the Federal Government resulting in the gradual phasing out of the PGRT, and through the decision of the Alberta Government to reduce Crown Royalty rates complimented by an increase in Crown Royalty rebates.

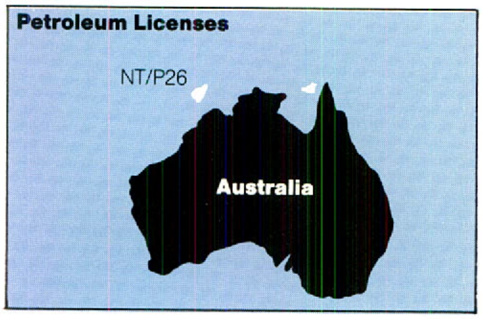
The pressure of natural gas de-regulation will increase and the current barriers to the free trade in the natural gas market will be overcome.

Brenda has anticipated the changes in the market place and is well positioned to benefit from the new exciting opportunities. Brenda plans to drill at least ten wells in 1986 to increase deliverabilities from existing producing areas. Follow up drilling on land purchased in 1985 is also planned.

I would like to thank the Brenda Oil and Gas staff for their dedication and enthusiastic effort in making things happen in a conducive and productive environment which should translate soon into tangible benefits to the shareholders.

J. Balaban,
General Manager
February 18, 1986

Brenda Off Shore Interests in Australia



Business Development Group

In May of 1985 a Business Development Group was formed in an effort to identify and pursue business opportunities relating to existing technical strengths which would enhance the company's future existence.

These technical strengths have been successfully developed and honed at Brenda over many years and have contributed to Brenda's ability to produce products of value from one of the lowest grade deposits in the world.

The concept of marketing Brenda-developed technology has been carried out for several years. For instance the licensing of molybdenum leaching technology commenced in 1978 and has contributed $2.16 million to company revenues to the end of 1985.

Some of the company's technical abilities have been marketed on a more informal basis and have only allowed for a small profit margin to date. Examples of some of the projects completed are listed below:

Mine Engineering Projects

- Mine evaluation of Grumm Deposit for Kerr Addison Mines Ltd.
- Mine evaluation of Chapada Deposit for Eluma (Brazil)
- Mine wall slope stability study for Babine Division – Noranda Inc.
- Mine evaluation of Round Mountain Deposit – Noranda Exploration

Mill Engineering Projects

- Design and start-up of Molybdenum Leach Plants for Andina, Chile; Highmont Mining, B.C. and Lornex Mining, B.C.
- Instrumentation and process control for Grey Eagle Mine of Noranda Inc.
- Instrumentation and process control for CCR Division of Noranda Inc.
- Instrumentation and process control for Hemlo Project of Noranda Inc.

Under the chairmanship of Mr. J. Balaban of the Brenda Oil and Gas Division the Business Development Group has identified five major areas which are currently being pursued.

The tar sands deposits have been recognized as an area in which Brenda's mining, mineral processing and computer skills are valuable assets. Work has been conducted in all three areas and negotiations have been in progress for some time regarding the sale of process control technology to a large tar sands company. The size and complex management structure of the various companies involved makes this a slow process.

The treatment of impure sulphur from natural gas deposits in Alberta is a second area which is being vigorously pursued. Using existing processing techniques a method has been developed which may allow the company to capitalize on a short term (5-10 years) business opportunity. A pilot scale version of the process is currently being assembled and testing is to commence in the early spring. Various oil and gas companies are being contacted regarding future commercial scale use of the process.

As a result of the successful completion of the Process Control Project at Noranda's Hemlo property various gold processing companies are being surveyed as possible future customers.

The computer evaluation and planning techniques which have been developed by the Mine Engineering Group have been actively marketed during the past year. One sale is in progress to a large Swedish mining concern and it is hoped that more will follow.

The fifth area being pursued is that of the molybdenum leaching process. Technical talks are currently underway with potential users.

Kerr Addison Mines Limited

Brenda owns 16.7 percent of the outstanding common shares of Kerr Addison Mines Limited. Dividends from this investment totalled $1.7 million in 1985.

Kerr Addison's net income for 1985 was $2.5 million, or 14 cents per share, compared to restated earnings of $16.3 million, or 95 cents per share in 1984. This reduction was due almost entirely to an $11.9 million decrease in gains from the sale of investments. Operating profits increased modestly in 1985 because of improved results for the gold mine, whereas investment income declined as a consequence of the unfavourable accounting treatment of dividends received from Noranda Inc. Earnings for Canadian Electrolytic Zinc declined by 50 percent from the previous year because of lower zinc prices and inventory write-downs caused by deteriorating market conditions.

Cash flow from operations and investments increased slightly to $17.9 million for 1985 and proceeds from the sale of investments totalled $65.1 million. Long-term debt was reduced by $35 million to a balance of $5.0 million at year-end, whereas cash and short-term notes increased by $33.3 million during the year to $36.7 million at December 31, 1985.

Dividends of $6.1 million were received during 1985 from the Company's common share investment in Noranda Inc. However, these dividends were excluded from investment income and credited to the investment account as Noranda incurred a loss for the year.

Effective December 31, 1985, Kerr Addison changed its method of accounting for oil and gas activities by dividing its North American cost centre between Canada and the United States. This change, which was applied retroactively, resulted in a $17.9 million write-off of the carrying value of the Company's interest in oil and gas assets operated by American Hunter in the United States. As a consequence, 1984 net income was reduced by $1.5 million, but 1985 earnings were not affected.

Kerr Addison is well positioned to utilize its strong financial position to increase its mineral reserve base and an active gold mining exploration program is planned for 1986. Of the $7.2 million increase in gold mineral exploration expenditures in 1985, about $4.8 million was financed by issuing flow-through common shares.

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

Balance Sheet

December 31

Assets	**1985**	1984
	(in thousands)	
Current assets:		
Accounts receivable	**$ 4,812**	$ 8,062
Inventories (note 3)	**13,623**	18,839
Prepaid expenses	**644**	220
Total current assets	**19,079**	27,121
Investment in associated company (note 4)	**63,950**	63,950
Oil and gas properties (note 5)	**25,124**	26,812
Property, buildings and equipment (note 6)	**18,466**	20,231
Other assets	**215**	215
	$126,834	$138,329

Liabilities and Shareholders' Equity		
Current liabilities:		
Bank advances (note 7)	**$ 38,086**	$ 48,805
Due to associated company (note 8)	**5,000**	2,000
Accounts payable	**4,005**	3,118
Total current liabilities	**47,091**	53,923
Taxes provided not currently payable (note 9)	**1,039**	1,319
Shareholders' equity (note 10):		
Capital stock –		
Authorized:		
5,000,000 shares without nominal or par value		
Issued and outstanding:		
4,505,534 shares (1984 – 4,282,000)	**10,478**	8,218
Retained earnings	**68,226**	74,869
	78,704	83,087
	$126,834	$138,329

(See accompanying notes to financial statements)

On behalf of the Board:

B. Brynelsen
Director

J. A. Hall
Director

Statement of Loss
Years ended December 31

	1985	1984
	(in thousands)	
Gross value of concentrates produced	**$19,866**	$30,892
Less treatment and distribution charges	**2,827**	4,346
	17,039	26,546
Value of oil and gas produced	**4,938**	4,893
	21,977	31,439
Cost of production (note 12)	**14,999**	25,401
Depreciation, depletion and amortization	**4,288**	4,205
Oil, gas and mineral exploration expense	**3,877**	1,606
Administration and general expense (note 13)	**3,349**	4,063
Municipal and sundry taxes	**715**	1,597
	27,228	36,872
Operating loss	**5,251**	5,433
Interest expense	**4,256**	6,004
Interest and other income	**(786)**	(652)
Dividend income	**(1,734)**	(1,734)
	1,736	3,618
Loss before taxes	**6,987**	9,051
Income and resource taxes recovered	**(292)**	(2,725)
Petroleum and gas revenue taxes (recovered)	**(52)**	165
	(344)	(2,560)
Net loss	**$ 6,643**	$ 6,491
Loss per share	**$ 1.54**	$ 1.52

Statement of Retained Earnings
Years ended December 31

	1985	1984
	(in thousands)	
Retained earnings, beginning of year	**$74,869**	$81,360
Net loss for the year	**6,643**	6,491
Retained earnings, end of year	**$68,226**	$74,869

(See accompanying notes to financial statements)

Statement of Changes in Cash Position

Years ended December 31

	1985	1984
	(in thousands)	
Cash from (used in) operations:		
Net loss	**$ (6,643)**	$ (6,491)
Adjustments for non-cash items:		
Depreciation and amortization	**4,288**	4,205
Surrendered leases	**1,138**	529
Recovery of taxes provided not currently payable	**(280)**	(2,016)
Loss on disposal of fixed assets	**27**	487
Change in non-cash working capital	**8,929**	6,099
Oil, gas and mineral exploration expense	**3,877**	1,606
	11,336	4,419
Cash from (used for) investment activities:		
Additions to oil and gas properties, net of grants	**(2,100)**	(274)
Oil and gas exploration expensed	**(1,617)**	(1,606)
Mineral exploration expensed	**(2,260)**	
Additions to property, buildings and equipment	**(195)**	(698)
Proceeds from sale of property, buildings and equipment	**295**	427
	(5,877)	(2,151)
Cash from financing activities:		
Issue of common shares	**2,260**	
Bank borrowings repaid	**7,719**	2,268
Bank borrowings, beginning of year	**50,805**	53,073
Bank borrowings, end of year	**$43,086**	$50,805

Bank borrowings comprise bank advances and short-term investment pool borrowings.

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders
of Brenda Mines Ltd.:

We have examined the balance sheet of Brenda Mines Ltd. as at December 31, 1985 and the statements of loss, 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.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1985 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, 1986.

Clarkson Gordon
Chartered Accountants

Notes to Financial Statements

December 31, 1985

1. Summary of significant accounting policies

(a) 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.

(b) Inventories

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

(c) Investment in associated company

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

(d) 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.

(e) Depreciation, depletion and amortization

Depreciation of property, buildings and equipment is based on the estimated service lives of the assets and is calculated using the straight-line method. 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.

The cost of mineral claims and leases is being amortized on a straight-line basis over three years, which is management's estimate of the remaining life of the mine.

Depreciation and amortization of mining property, buildings and equipment ceased for the duration of the shutdown of the mine (note 2).

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.

(f) 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.

(g) 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. Mine closure

On December 14, 1984 the company temporarily closed its mine at Peachland, British Columbia as a result of depressed metal prices and reduced molybdenum sales. Operations resumed on September 16, 1985 and the mill operated for a total of fifteen weeks in 1985 (1984 — twenty-nine weeks).

3. Inventories

Inventories comprise the following:

	1985	*1984*
	(in thousands)	
Concentrate	**$ 9,114**	$14,435
Stores and other	**4,509**	4,404
	$13,623	$18,839

4. 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, 1985 was $44,801,000 (1984 – $41,188,000). 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, 1985 and 1984 is presented:

	Audited	
	1985	*1984*
	(in thousands)	
		restated
Financial position – December31		(note (a))
Assets:		
Current	**$ 58,808**	$ 35,060
Investments in associated companies (note (b))	**251,805**	313,380
Mining assets	**10,989**	11,089
Gas and oil properties	**67,050**	65,566
	$388,652	$425,095
Liabilities:		
Current	**$ 11,777**	$ 9,105
Deferred taxes and other	**35,702**	34,261
Long-term debt	**5,000**	40,000
	52,479	83,366
Shareholders' equity	**336,173**	341,729
	$388,652	$425,095
Results of operations –		
Year ended December 31		
Earnings from operations	**$ 4,447**	$ 6,755
Loss from associated companies	**(2,225)**	(2,595)
Special items	**236**	12,114
Net income	**$ 2,458**	$ 16,274
Net income per share	**$ 0.14**	$ 0.95

Note (a): Effective December 31, 1985, Kerr Addison changed its method of accounting for oil and gas activities by dividing its North American cost centre between Canada and the United States. This change, which was applied retroactively, resulted in a $17.9 million write-off of the carrying value of the company's interest in oil and gas assets operated by American Hunter in the United States. As a consequence, 1984 net income was reduced by $1.5 millon, but 1985 earnings were not affected.

(b): The investments consist of 10,226,981 common shares of Noranda Inc. 8% of Noranda's issued common shares) and 1,125,993 common shares of Anderson Exploration Ltd. (32.6% of Anderson's issued common shares).

5. Oil and gas properties

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

	1984	*1983*
	(in thousands)	
Net profits interest in frontier areas, at net cost	**$ 73**	$ 73
Productive properties	**11,181**	11,079
Unevaluated properties	**3,050**	3,267
Productive drilling	**8,134**	7,778
Tangible production equipment and other	**9,487**	8,859
	31,925	31,056
Less accumulated depreciation, depletion and amortization	**6,801**	4,244
	$25,124	$26,812

6. Property, buildings and equipment

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

	1985	*1984*
	(in thousands)	
Buildings, equipment and related facilities	**$57,591**	$57,752
Mobile equipment	**13,962**	13,943
Residential land and buildings	**89**	182
	71,642	71,877
Less accumulated depreciation	**53,197**	51,673
	18,445	20,204
Mineral claims and leases, at cost less accumulated amortization	**21**	27
	$18,466	$20,231

7. Bank advances

	1985	*1984*
	(in thousands)	
Bank overdraft	**$ 994**	$ 1,297
Demand loan	**5,092**	7,508
Bankers' acceptances	**32,000**	40,000
	$38,086	$48,805

The company has pledged minesite concentrate, shares in Kerr Addison Mines Limited and a general assignment of book debts as collateral for the bank advances.

8. Related party transactions

Noranda Inc. owns 47.41% 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) 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 $279,113 during 1985 (1984 – $350,626). As at December 31, 1985 amounts totalling $3,250,014 (1984 – $5,860,225) were due through the Noranda Group from third parties.

(b) Noranda Inc. acts as manager and provides technical and administrative services to the company. During the year $278,087 (1984 – $210,581) was paid for technical and administrative services.

(c) In 1985 the company purchased approximately $38,000 (1984 – $510,000) of production supplies and services from the Noranda Group.

(d) 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, 1985 the company owed $5,000,000 (1984 – $2,000,000) to the pool. Interest related to pool borrowings amounted to $249,869 for 1985 (1984 – $225,572).

9. Income and resource taxes

(a) The company has non-capital losses and other timing differences aggregating approximately $13,083,000 for federal income tax purposes and $10,551,000 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	$3,850,000	$2,560,000
1990	$4,270,000	$2,984,000
1991	$2,267,000	$1,637,000
1992	$2,696,000	$3,370,000

(b) As at December 31, 1985 the company has estimated investment tax credits of $1,125,000 (1984 – $1,384,000) which are available as a deduction from future income taxes payable.

These investment tax credits expire as follows:

1986	$797,000
1987	$130,000
1990	$131,000
1991	$ 41,000
1992	$ 26,000

(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 52.0% for 1985 and 1984 for the following reasons:

	1985	1984
	(in thousands)	
Recovery based on loss before taxes	**$ 3,780**	$ 4,792
Increase (decrease) in taxes recovered resulting from:		
Non taxable dividend income and investment gains	**945**	902
Inventory allowance	**236**	314
Resource allowance net of non-deductible government royalties and resource taxes	**(776)**	(484)
Losses not recognized for accounting purposes	**(3,815)**	(2,945)
Other	**(78)**	146
	$ 292	$ 2,725

10. Share capital

During the year the company issued 223,534 common shares for $3,500,000 as flow through shares to finance mineral exploration in Canada.

As a result of this issue approximately $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:

	1985	1984
	(in thousands)	
Value of production:		
Mining and milling	**$ 17,039**	$ 26,546
Oil and gas	**4,938**	4,893
Total revenue	**$ 21,977**	$ 31,439
Segment operating profit (loss):		
Mining and milling	**$ (4,412)**	$ (5,044)
Oil and gas	**(416)**	(343)
	(4,828)	(5,387)
General and corporate expenses	**(371)**	(211)
Interest expense — net	**(3,470)**	(5,352)
Dividend income	**1,734**	1,734
Income and resource tax	**292**	2,725
Net loss	**$ (6,643)**	$ (6,491)
Depreciation, depletion and amortization:		
Mining and milling	**$ 1,732**	$ 2,335
Oil and gas	**2,556**	1,870
	$ 4,288	$ 4,205
Identifiable assets:		
Mining and milling	**$ 36,403**	$ 45,799
Oil and gas	**26,481**	28,580
Investments	**63,950**	63,950
	$126,834	$138,329
Capital expenditures:		
Mining and milling	**$ 195**	$ 698
Oil and gas	**2,100**	274
	$ 2,295	$ 972

The company's 1985 production of copper concentrate was exported to Japan and molybdenum concentrate was exported to Europe.

12. Government assistance

During the year the British Columbia Government enacted Bill 31-1985, The Critical Industries Act. Under the terms of the Act the company negotiated an agreement, through the Commissioner of Critical Industries, with the British Columbia Hydro and Power Authority to receive hydro power at reduced rates for a period of up to three years. During 1985 operating expenses were reduced by $603,000 as a result of this agreement.

13. Pension plan

During 1985 the company received a refund of $1,489,000 of surplus funds from the company's salaried employee pension plan and this amount was credited against administration and general expense. A surplus of $987,000 remained in the plan as at December 31, 1985.

14. Comparative figures

Certain of the 1984 comparative figures have been reclassified to conform with the financial statement presentation adopted in 1985.

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