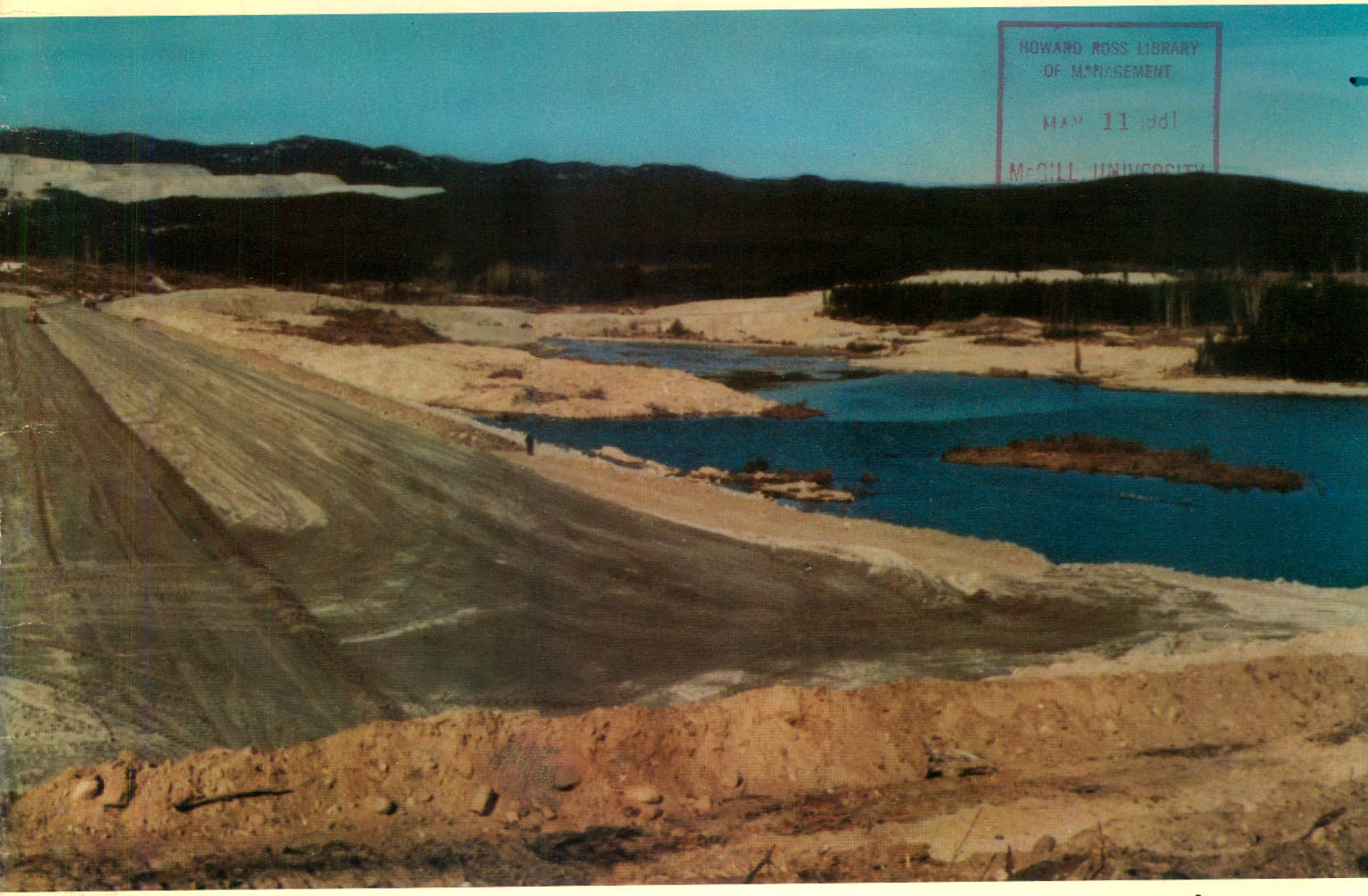
brenda

annual report 1980



BRENDA MINES LTD.

noranda group

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

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

DIRECTORS

Bernard O. Brynelsen	Vancouver, B.C.
John A. Hall	Toronto, Ont.
John B. Knapp	Kelowna, B.C.
William James	Toronto, Ont.
Morris M. Menzies	Vancouver, B.C.
Gordon H. Montgomery	Toronto, Ont.
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 and General Manager — Mining Operations	John B. Knapp
Vice-President — Oil & Gas	V. C. Wright
Secretary	B. H. Grose
Treasurer	E. K. Cork
Comptroller	D. H. Ford

MINE OFFICE: P.O. Box 420, Peachland, B.C.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
701 West Georgia Street, Vancouver, and
20 Eglinton Avenue W., Toronto, Ontario

ANNUAL MEETING: June 8, 1981, 10:30 a.m.
Hotel Vancouver, Vancouver, B.C.

COVER: Saddle dam construction in tailings area with open pit in background.

The upper picture shows the material selection for the dam i.e. coarse, filter blanket and an impervious clay core, while the lower one illustrates the great broadness of the structure.

Photographs by: Klohn Leonoff, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

EARNINGS

In last year's report the Directors stated they were reasonably optimistic that 1980 results would stand comparison with those achieved in 1979. However, even though earnings compared favourably, 1980 was not a banner year. It should be noted that the source for earnings was also quite different as 1980 reflects the 38.2% ownership in Frenswick Holdings Limited for the whole year.

Earnings of $27.0 million or $6.40 per share surpassed the restated earnings of $24.5 million or $5.73 per share for 1979. Frenswick contributed $13.3 million compared with $2.4 million. Earnings from the mine dropped to $14.8 million from $26.2 million in 1979. Factors which adversely affected the company include production difficulties, low molybdenum sales, weaker metal prices and unprecedented high interest rates.

Payable metal production totalled 9.0 million kilograms of copper in concentrate and 2.3 million kilograms of molybdenum in concentrate compared to 10.3 million kilograms and 2.5 million kilograms respectively in 1979. Prices in 1980 averaged $2.33 per kilogram for copper and $24.69 per kilogram for molybdenum compared to $2.38 and $25.50. The payable precious metal production was 8,500 grams of gold and 5.0 million grams of silver, valued at nearly $5.0 million compared to $4.4 million last year.

A 33-day strike reduced mine production in 1979, and in 1980 operations were shut down during July to repair a major mechanical failure of the primary crusher. The loss in earnings attributable to the shutdown was $3.8 million.

Low grades and varied quality of mill feed tested the concentrator operations to the fullest during the year. The stockpile had higher oxidation and further development of the open pit encountered a higher proportion of mineralized gouge or clay-like material. There remains just under 10 million metric tons on stockpile and in the ore reserve inventory some 30% could be gouge. The instrumentation installed in recent years and computerized control aided metal recoveries, but as shown in the General Manager's Report, the recoveries were lower than in 1979. The sands/slimes separation and subsequent flotation step scheduled for completion this summer are expected to further improve the recovery of metals from both the gouge and oxidized stockpile mill feed.

PRODUCTION

Production costs increased $6.6 million or 24.5%. The July shutdown is reflected in this rise but the increase was due mainly to the continuing escalation of the cost of wages, energy and maintenance supplies. Unit operating costs averaged $3.99 per tonne milled for the year versus $3.27 per tonne in 1979. The fourth quarter showed improvement at $3.43. Capital expenditures of $4.5 million by the mine included certain major additions, such as the saddle dam to extend the tailings area, natural gas pipeline, mainshaft for the primary crusher and initial expenses for the sands/slimes separation. The value of warehouse stores increased slightly to $5.4 million. Exploration expenses were lower as oil and gas exploration was reduced to $3.2 million from $18.8 million.

At year-end the inventory of concentrates was valued at $2.22 per kilogram for copper and $23.50 per kilogram for molybdenum compared to $2.55 and $27.00 at December 31, 1979. The quantity of copper in inventory was 1.61 million kilograms down 53.4%, whereas the quantity of molybdenum was 1.45 million kilograms up 186.6%. The molybdenum market deteriorated in the second half with the growing impact of the recession on the steel industry in Europe. As a result, Brenda's sales were only 1.34 million kilograms compared to 2.84 million kilograms in 1979. The increased quantity of molybdenum in inventory was financed by an increase in bank advances to $38 million from $29 million in 1979. Interest cost was $4.6 million. Brenda still has considerable borrowing power and remains in a flexible position as to financing.

DIVIDENDS

The dividend normally payable in December for the fourth quarter was omitted because of the lower cash position and poor outlook for molybdenum sales. Dividends of 50¢ per share were paid in each of the first three quarters to total $1.50 per share compared with $1.95 in 1979.

OIL AND GAS

The Oil and Gas Division spent $10.5 million on exploration and development in 1980 and expenditures will be near the same level in 1981. A highlight was the revenue of $238,000 from initial gas sales.

The exploration results continued at a good success rate in Alberta and British Columbia. After a number of disappointing delays in securing approval for gas exports, it appears that Brenda will at last begin to have some significant sales. Cash operating income is budgeted for $1.4 million in 1981.

The taxation changes and pricing schedules proposed for oil and gas in the October 28th Federal Budget are highly unlikely to bring about energy self-sufficiency in Canada in the foreseeable future. The measures will contribute to further deterioration of an investment climate already plagued by rapidly rising costs and a restricted market for gas sales. Both the 8% revenue tax (actually a 12-15% tax on operating income) and the consumer tax on natural gas are particularly hard for small Canadian companies like Brenda, which are engaged primarily in exploration and development of natural gas reserves. Brenda's oil and gas planned expenditures in 1981 cannot be reduced appreciably due to prior commitments and the dire need to take advantage of some gas sales. However, unless some relief on the Federal government's proposals is obtained during 1981, serious consideration will have to be given to reducing even further our oil and gas exploration program, which has had considerable success and was providing a useful diversification for Brenda's shareholders.

OUTLOOK

Capital expenditures for both divisions are budgeted at $18.0 million in 1981. Expenses of $12.0 million in the first quarter will include a new shovel, the sands/slimes separation, and our share for gas facilities at Clyde and Mitsue. These expenditures are justified by increased revenue and early payback. The mining operations' near-term objective is to reduce unit costs through increased production and to improve metal recoveries. The oil and gas operation is diverting more expenditures towards development and facilities to put gas reserves on stream as markets become available. The primary objective, in spite of the Federal energy program, is to make the oil and gas operation self-supporting as soon as possible.

It was evident from this year's financial results that Brenda's mine products, namely, copper and molybdenum, are subject to specific segments of the business cycle. In addition, because the ore is low grade, it is necessary to sell the total output of concentrate in order to generate sufficient cash flow. Gold and silver stimulated the metal markets in 1980 but copper price and molybdenum demand were under pressure during the second half of the year. The market outlook for our mine products is for improvement in the second half of 1981 and continuing stronger in 1982.

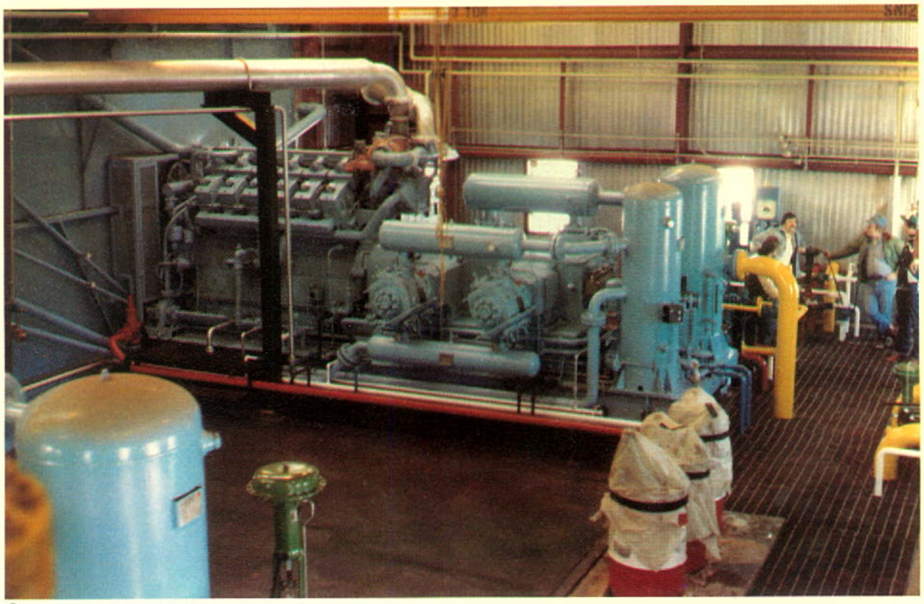
The Directors wish to express their appreciation to all employees for their dedicated efforts during the year.

On behalf of the Board,

J. A. Hall

President

Toronto, Canada,
February 25, 1981



Compressor

Flaring gas

Laying gathering line

GENERAL MANAGER'S REPORT

To the President and Directors:

Herewith follows my report covering mining operations for the year ended December 31, 1980. Please note that all tonnages are quoted in metric units, and the 1979 comparison figures have been converted to metric equivalents.

Statistical		1980	1979
Waste stripped	Tonnes	9,116,000	8,248,800
Ore milled	Tonnes	9,126,860	9,075,723
Ore milled per calendar day	Tonnes	24,937	24,865
Copper content of ore	% Cu	0.128	0.144
Copper recovery	%	80.67	82.30
Molybdenum content of ore	% Mo	0.033	0.036
Molybdenum recovery	%	75.05	77.55
Copper concentrates produced	Tonnes	32,390	36,673
Copper concentrate grade	% Cu	29.03	29.25
Molybdenum concentrates produced	Tonnes	4,106	4,496
Molybdenum concentrate grade	% Mo	55.75	56.41

A total of 18.2 million tonnes of material were handled by the pit forces during the year. Of this amount, 9.1 million tonnes were delivered to the concentrator from the pit and the low grade stockpile. No additions were made to the stockpile, and after milling 1.7 million tonnes the balance remaining stands at 9.9 million tonnes.

Early cancellation of the 1980 diamond drilling program became necessary, and as a result no further testing of the fringe areas of the pit could be completed. The ore reserves declined by the tonnage milled and at December 31 were calculated at 130 million tonnes grading 0.146% copper and 0.032% molybdenum.

Pit walls were generally stable during 1980 with few minor exceptions. Daily monitoring of sensitive areas continues as a precaution, and progress was made on the instrumented continuous monitoring system now under development.

The average grade of ore was lower as a result of the development of lower grade fringe areas which are being incorporated into the main pit.

Tonnage treated in the concentrator equalled that of the previous year, but fell short of expectations due to equipment failure. A serious breakdown of the primary crusher occurred in March, but temporary repairs kept the machine in operation until the end of June when it was no longer possible to continue crushing. The entire crusher-concentrator complex was shut down for most of the month of July pending manufacture of the necessary replacements.

Brenda's repair crews exhibited great skill and ingenuity in keeping the crusher in operation for the additional three months, and in completing the numerous repairs safely and efficiently under less than ideal conditions.

Metal recoveries were lower in 1980, due partly to the lower head grades and partly to the increased amounts of stockpiled ore treated. The low grade stockpile, built up when the material was of questionable value, has now oxidized and become difficult to treat and produces significantly lower metal recoveries. Improvement in recovery should result from revised flotation circuits now being installed and which should be completed in time for the 1981 summer season of stockpile ore milling.

The reduced demand for molybdenum resulted in increased interest in the Brenda leaching system for the production of more saleable concentrates. Two additional plants have been designed, and are under construction to start operation during 1981. Brenda will receive a small royalty on this production.

A natural gas pipeline to the mine was completed in October, and the use of oil for the production of process steam, plant heating, and concentrate drying has been discontinued.

Mineral exploration in the region of the mine and the two B.C. joint ventures were continued, but reported nothing of significance. The Idaho joint venture on a molybdenum prospect has now been dropped after an unsuccessful season.

The work force at December 31 consisted of 120 salaried and 348 hourly-rated employees. Students continue to be employed during their school breaks to assist with seasonal work and to relieve full-time employees for vacation.

The Collective Agreement with Local 7618, United Steelworkers of America, was valid throughout 1980 and Company-Union relations and employee relations were good. A policy of no lay-offs during the crusher emergency was well received, although the average 40-hour work week was temporarily reduced to 32 hours per week during the shutdown period. The agreement expires October, 1981.

A safety awareness among employees and the efforts of the safety committees were successful in reducing the accident frequency well below the average frequency of recent previous years.

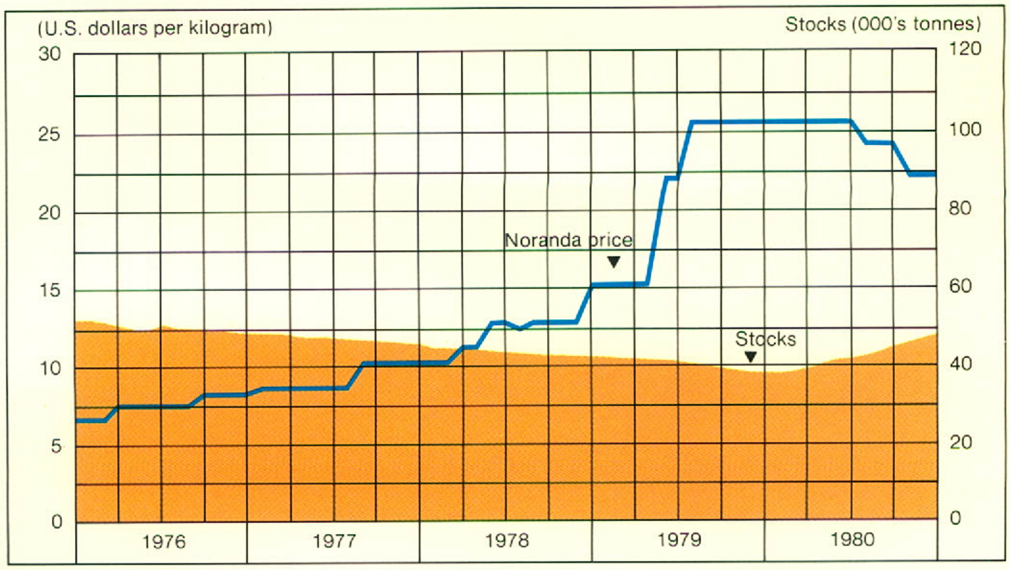
It is a pleasure to acknowledge and record the continuing efforts and contributions of the staff and all employees throughout the year.

Respectfully submitted,

J. B. Knapp
Vice-President and General Manager

METAL MARKETS

The relatively high level of demand for most metals at the end of 1979 continued through the early months of 1980 then declined as the year progressed, reflecting depressed automotive production and housing starts in North America. Prices dropped, particularly in the second half, and at year-end were, in many cases, below levels required to justify investment in new capacity.



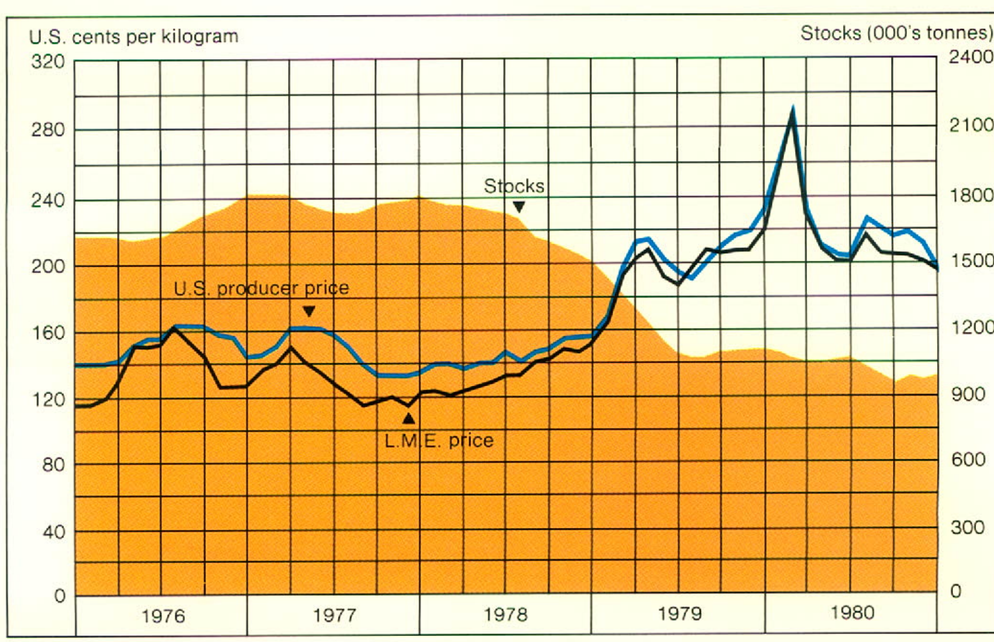
MOLYBDENUM

Western World Balance — '000,000 kg

	1978	1979	1980
Supply	88	91	95
Demand	90	93	85
Year-end Stocks	44	43	52

The combination of full production from Western World sources and the sharp contraction in demand for molybdenum by the alloy steel industry in the second half resulted in a significant increase in producer inventories, very limited purchasing in the fourth quarter by consumers, and price weakness. The price for molybdic oxide produced by Brenda was reduced from U.S. $25.50 to $22.27 per kilogram by year-end, with merchant prices for limited quantities at a 15% discount.

Currently the shift in inventories from consumers back to producers is about completed and demand should improve slowly throughout 1981.



COPPER

Western World Balance — '000 tonnes

	1978	1979	1980
Supply	6,911	7,110	7,061
Consumption	7,213	7,509	7,179
Year-end Stocks	1,511	1,112	994

Copper supply in 1980 was reduced by 315,000 tonnes due to the U.S. copper strike. This resulted in a further drawdown in stocks and was the principal reason for better than expected prices during the second half of the year.

London Metal Exchange quotations peaked at U.S. $3.17 per kilogram in the first quarter but fell steadily during the latter part of the year, reaching a low of $1.74 and was $1.90 at year-end. These levels are well below prices required to justify new production and as demand improves in the early 1980's, there should be substantial price improvement.

The closure of the Anaconda smelter and refining facilities in Montana increased the availability of copper concentrate for offshore markets and resulted in higher charges for custom smelting and refining.

OIL AND GAS

Exploration and development expenditures during the year in Alberta and British Columbia were $10.5 million, comprising $6.1 million on seismic and drilling, $2.1 million for land acquisition and $2.3 million for production facilities. Cumulative expenditures since 1977 have been $29.3 million.

On the major joint exploration program with Sulpetro Limited, earning expenditures have been completed on 16 of the 25 project areas. Remaining earning expenditures will be completed in 1981 but optional drilling on several projects will extend into 1982. This program to date has resulted in 10 new gas discoveries and significant extensions on 4 other gas accumulations.

The multi-project joint exploration program with Marline Oil Corporation which commenced in late 1979 was completed at year-end. This program resulted in 8 new gas discoveries.

Brenda participated in 64 exploratory wells. 40 were completed as shut-in gas producers and 24 were abandoned, a success ratio of 62.5%.

Net land holdings at year-end were 48,970 hectares. Of the approximate 22,260 net hectares added, 12,140 hectares were acquired at Crown sales and 10,120 hectares were earned by expenditures on joint exploration programs.

Gas reserves at December 31, 1980 were established by an independent consultant as follows (in billions of cubic metres):

	Gross Before Deduction of Royalty Interests	Net of Royalty Interests
Proven	0.826	0.555
Probable	0.121	0.084
Proven plus Probable	0.947	0.639

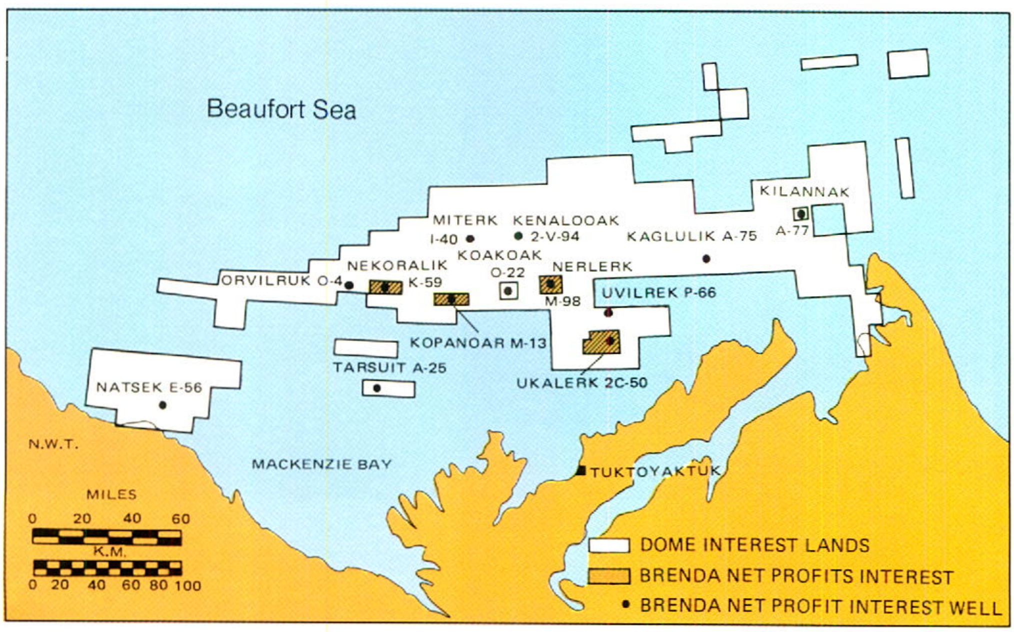
Gas sales commenced at Amisk and Granlea in Southern Alberta. Brenda interest production from these areas averaged 0.025 million cubic metres per day. Total operating cash income for the year was $0.2 million.

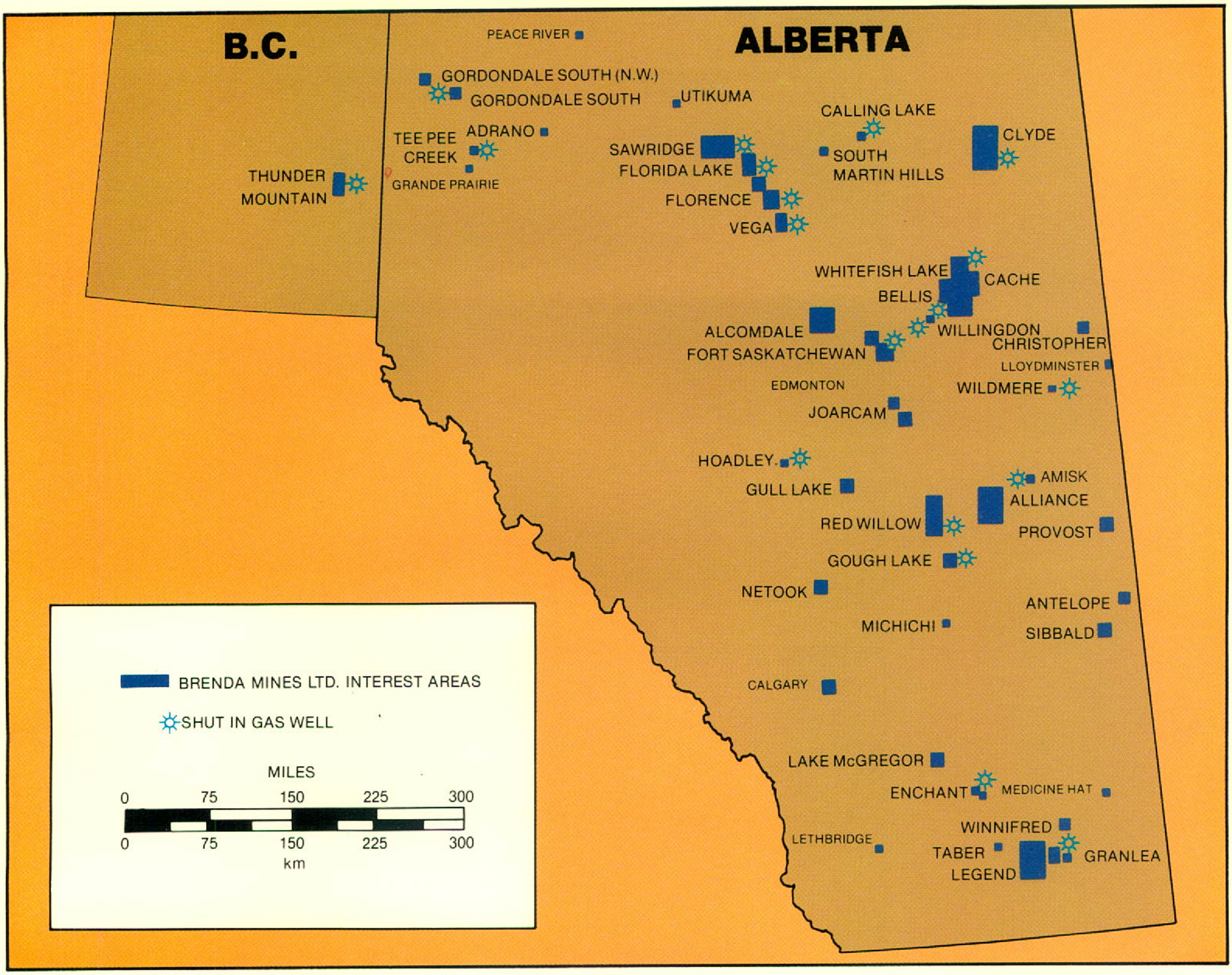
Brenda-operated gas production facilities were completed at Greater Cache (Vilna Plant) and construction started on Sulpetro-operated facilities at Clyde and Mitsue (Florence-Vega). All three projects are expected to go on production in 1981 under Pan Alberta export contracts. Brenda's initial share of this new production will be approximately 0.141 million cubic metres per day.

On the 202,340 hectare offshore petroleum permit in the British Virgin Islands, acquired jointly by Brenda and Noranda Exploration Company in 1979, an approximate 400 kilometre seismic survey was carried out. Brenda and Noranda have been joined on this project by Weeks Petroleum Limited, a company specializing in international offshore exploration. The B.V.I. permit is now held 25% Brenda, 25% Noranda Exploration and 50% Weeks Petroleum.

Brenda and Noranda Exploration in turn have each acquired a respective 1¾% and 1½% interest from two Weeks offshore permits, to the north and northwest of Australia, comprising 1.7 million and 1.3 million hectares in total.

No further investments were made in the Beaufort Sea. However, Brenda holds a net profits interest in all 1980 wells resulting from the transactions in prior years. The 1980 drilling season was limited by adverse ice conditions and none of the 5 drilling wells reached projected total depth. Kopanoar 2I-44 (the stepout from the Kopanoar M-13 oil discovery), Koakoak 0-22 and Orvilruk 0-3 were suspended just short of the objective zones and will be finished early in the 1981 drilling season. Drilling was started on Kenalooak 2J-94 and Kilannak M-77. These wells also will be taken to total depth in 1981. Tarsuit A-25, drilled in 1979, was completed and tested at flow rates up to 127 cubic metres of oil per day.





BRENDA NET PROFIT INTERESTS — BEAUFORT SEA

Well and Surrounding 405 hectares	Brenda Net Profit Interest — %	Status at 12/ 31/80
Kopanoar M-13	1.2540	2,066 cubic metres/D oil well
Nektoralik K-59	1.0000	175 cubic metres/D oil well
Ukalerk 2C-50	1.0833	2.4 million cubic metres/D Gas Well
Tarsiut A-25	.5642	127 cubic metres/D oil well
Nerlerk M-98	1.3999	Waiting on production test
Kopanoar 21-44	1.0657	Partially drilled
Koakoak 0-22	.3287	Partially drilled
Kenalooak 2V-94	.7286	Partially drilled
Kilannak A-77	.7286	Partially drilled
Orvilruk 0-3	.3999	Partially drilled
Natsek E-56	.3166	Suspended at 2,743 metres
Miterk I-44	.3999	Location
Uvilruk P-66	.3999	Location
Kaglulik A-75	.3999	Location

In addition Brenda holds a 1% net profit interest in the following entire blocks:
Nektoralik — 10,400 hectares, Kopanoar — 10,453 hectares, Ukalerk — 15,533 hectares, Nerlerk — 10,419 hectares.

BALANCE SHEET

(With comparative figures for 1979)

($000)	1980	1979
ASSETS		
Current assets:		
Accounts receivable from associated companies	$ 6,291	$ 16,174
Inventories of concentrates and stores (Note 1)	43,551	29,399
Prepaid expenses	103	96
Total current assets	49,945	45,669
Investment in associated company (Note 2)	73,312	50,519
Oil and gas properties (Note 3)	21,628	15,497
Property, buildings and equipment (Note 4)	22,119	20,797
Other assets	215	215
	$167,219	$132,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank advances (Note 5)	$ 37,803	$ 29,155
Accounts payable	6,968	6,212
Income and resource taxes (Note 6)	14,769	13,128
Total current liabilities	59,540	48,495
Taxes provided not currently payable	12,970	10,357
Shareholders' equity:		
Capital stock (Note 7)	8,218	8,218
Retained earnings, per accompanying statement	87,614	66,875
	95,832	75,093
Less the company's pro rata interest in its shares held by the associated company (Note 2)	(1,123)	(1,248)
Total shareholders' equity	94,709	73,845
	$167,219	$132,697

On behalf of the Board:

J. A. Hall
Director

B. Brynelsen
Director

See accompanying notes to financial statements.

STATEMENT OF EARNINGS

(With comparative figures for 1979)

($000)	1980	1979
Gross value of concentrates produced	$83,493	$97,817
Less smelter and distribution charges	6,438	7,688
	77,055	90,129
Value of gas produced	238	–
	77,293	90,129
Cost of concentrate production	33,555	26,950
Administration and general expense	2,037	1,714
Municipal and sundry taxes	1,204	1,234
Depreciation, depletion and amortization	3,120	4,483
Exploration expense:		
Mineral	1,175	943
Oil and gas	3,194	18,832
	44,285	54,156
Operating income	33,008	35,973
Interest and other income	306	2,199
Deduct interest expense	4,592	543
	(4,286)	1,656
Earnings before income and resource taxes	28,722	37,629
Income and resource taxes	15,030	15,579
	13,692	22,050
Share of after tax profit in associated company	13,300	2,438
Net earnings for the year	$26,992	$24,488
Earnings per share	$6.40	$5.73

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

(With comparative figures for 1979)

($000)	1980	1979
Retained earnings, beginning of year:		
As previously reported	$68,813	$51,221
Adjustments of prior years' income and resource taxes (Note 10)	1,938	484
As restated	66,875	50,737
Net earnings for the year	26,992	24,488
	93,867	75,225
Dividends paid	6,253	8,350
Retained earnings, end of year	$87,614	$66,875

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

(With comparative figures for 1979)

($000)	1980	1979
Working capital (deficiency), beginning of year	$ (2,826)	$35,840
Source of funds:		
Operations:		
Earnings	26,992	24,488
Depreciation and amortization	3,120	4,483
Taxes provided not currently payable	2,613	2,062
Share of earnings less dividends of associated company	(9,496)	(1,767)
Other	—	11
	23,229	29,277
Application of funds:		
Investment in associated company	13,171	50,000
Purchase of property, buildings and equipment	4,335	1,673
Purchase of oil and gas properties	6,239	7,920
Dividends paid	6,253	8,350
	29,998	67,943
Net decrease in working capital	6,769	38,666
Working capital (deficiency), end of year	$ (9,595)	$ (2,826)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1980

1. Accounting policies:

   Foreign currencies:

   Current assets in foreign currency have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1980.

   Inventories:

   Copper and molybdenum concentrates are valued at estimated realizable value. Stores are valued at lower of cost or replacement cost.

   Exploration and development costs:

   Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and dry hole costs are charged to expense.

   The initital acquisition costs of oil and gas properties together with the costs of drilling and equipping successful wells (other than wells in remote frontier areas) are capitalized.

   Depreciation and amortization:

   Depreciation of property, buildings and equipment is based on the estimated service lives of the assets 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 over fifteen years.

   Capitalized costs of oil and gas properties and drilling and equipping wells are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant and equipment based on the estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

   Taxes on income:

   The company follows tax allocation procedures in recording charges for taxes on income. 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. Deferred income and resource taxes, resulting from inventories being valued at cost for tax purposes, are included in current liabilities.

2. Investment in associated company:

   The investment in the associated company, 3,324,822 common shares of Frenswick Holdings Ltd. (1979 – 2,631,579), represents 38.2% of the outstanding common shares (1979 – 38.2%) and was purchased for cash (see Note 5). Frenswick owns 36.3% of the outstanding common shares of Zinor Holdings Limited the principal asset of which is a 21.2% interest in the common shares of the company's parent, Noranda Mines Limited.

   The investment in Frenswick Holdings Ltd. has resulted in reciprocal shareholdings such that part of the purchase price is deemed for accounting purposes to be a repurchase by the company of an interest in its own shares. Accordingly, each of the number of shares issued, the dollar amount of shareholders' equity and dividends paid have been reduced to reflect the company's pro rata interest in its own shares. See Note 7.

3. Details of oil and gas properties, at cost unless otherwise noted, less depreciation and amortization are as follows:

	1980	1979
	($000)	
Net profits investments in frontier areas, at net cost	$ 73	$ 116
Productive properties	11,303	11,303
Unevaluated properties	3,491	1,390
Productive drilling	4,513	2,445
Tangible production equipment	2,587	228
Work in process	—	247
	21,967	15,729
Less depreciation, depletion and amortization	339	232
	$21,628	$15,497

4. Details of property, buildings and equipment, at cost, less accumulated depreciation and amortization are as follows:

	1980	1979
	($000)	
Buildings, equipment and related facilities	$50,779	$46,891
Mobile equipment	10,742	10,713
Residential land and buildings	304	306
	61,825	57,910
Less accumulated depreciation	39,810	37,240
	22,015	20,670
Mineral claims and leases, at cost less accumulated amortization	104	127
	$22,119	$20,797

5. Bank advances:

	1980	1979
	($000)	
Bank overdraft	$ 1,208	$ 720
Demand loan, with interest at bank prime rate (December 31, 1980 — 18,252)	26,595	18,435
Bankers' Acceptances	10,000	10,000
	$37,803	$29,155

The demand loan is secured by the investment in the common shares of Frenswick Holdings Ltd.

6. Income and resource taxes:

Current income and resource taxes payable include deferred income taxes of approximately $12,909,000 (1979 — $7,317,000).

7. Capital stock:

Authorized 5,000,000 shares without nominal or par value.

	1980	1979
	(Number of Shares)	
Issued	4,282,000	4,282,000
Less pro rata interest in its shares held by the associated company	64,230	71,381
	4,217,770	4,210,619

8. Commitments:

At December 31, 1980 the company was committed to the purchase and construction of fixed assets of $7,500,000. Approved expenditures for oil and gas exploration and development amount to $6,450,000.

9. Remuneration of directors and senior officers:

The aggregate direct remuneration paid to the directors and senior officers of the company, as defined by the B.C. Company Act, amounted to $270,061 (1979 – $215,575).

10. Adjustment of prior years' income taxes:

As a result of income and resource tax assessments applicable to the years 1976 to 1979, the balance of retained earnings at January 1, 1980 has been adjusted by the cumulative amount by which income and resource taxes as at that date had been incresed; $1,454,000 of the adjustment is applicable to 1979 and has been charged to income for that year. The remainder is applicable to years prior to January 1, 1979 and the balance of retained earnings at that date has been adjusted accordingly.

11. Comparative figures:

Certain of the 1979 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1980.

12. Related party transactions:

The company has entered into a sales agency agreement with Noranda Sales Corporation Ltd., an agent of Noranda Mines Limited which owns 50.86 percent of Brenda Mines. Under the terms of this agreement, Noranda Sales is responsible for selling all mine products and for collection of the proceeds. For these services, Noranda Sales was paid commissions which totalled $646,767 during 1980.

As at December 31, 1980 amounts totalling $4,469,259 were due through Noranda Sales from third parties. From this amount sales commissions totalling $49,661 are deductible. These outstanding balances are current and normal under the terms of the sales agency agreement.

During the year copper concentrates representing 15.5 percent of the 1980 production and valued at $3,323,000 were sold to Noranda Mines Ltd. at rates or terms not less favourable than those available from third parties.

Noranda Mines Limited acts as manager and provides technical assistance and services to the company. During the year $287,000 was paid to reimburse Noranda for these services.

During the year the company purchased approximately $1,798,000 of production supplies and services from related parties.

13. Industry segments:

	Copper & Molybdenum Mining & Milling Operations		Oil & Gas Operations		Totals	
	1980	1979	1980	1979	1980	1979
	($000)		($000)		($000)	
Revenue:						
Sales to customers outside the enterprise:						
– Domestic	$ 3,323		238		3,561	
– Export	73,732	90,129			73,732	90,129
Total revenue	$77,055	90,129	238		77,293	90,129
Earnings:						
Segments operating profit (loss) before the following	$17,769	32,802	49	(136)	17,818	32,667
Share of after tax profit in associated company					13,300	2,438
Exploration expense (net of tax)					(2,083)	(11,587)
Net operating profit					29,035	23,518
Net interest income (expense), after tax					(2,043)	970
Net earnings					$ 26,992	24,488
Assets:						
Total assets	$71,672	66,559	22,461	13,619	94,133	82,178
Current liabilities (excluding debt)	(19,803)	(18,531)	(2,160)	(809)	(21,963)	(19,340)
	$51,869	48,028	20,301	14,810	72,170	62,838
Investment in associate					73,312	50,519
Net assets employed					$145,482	113,357
Other data:						
Capital expenditures	$ 4,467	1,673	6,281	7,920	10,748	9,593
Depreciation and amortization	$ 3,013	4,251	107	232	3,120	4,483

The company's exported copper concentrates are sold to Japan while molybdenum concentrates are sold throughout Europe.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Brenda Mines Ltd. as at December 31, 1980 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and 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.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Vancouver, British Columbia, Canada
January 17, 1981

DISTRIBUTION OF REVENUE

$000's	Apr. 1, 1970 Dec. 31, 1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Revenue – net	51,510	27,067	40,958	41,006	32,757	40,910	52,371	65,818	92,328	77,599
Wages and benefits paid	7,951	4,657	4,599	6,264	7,095	8,282	9,431	10,742	11,448	13,399
Depreciation and depletion	6,089	3,667	3,678	4,040	3,983	4,115	4,391	4,231	4,483	3,120
Energy, supplies, services and other business costs	23,601	13,812	12,168	14,744	15,042	15,689	16,332	18,414	17,759	26,785
Exploration written off	–	–	–	–	–	–	4,994	7,818	19,775	4,369
Preproduction expenditures	10,091	5,767	1,442	–	–	–	–	–	–	–
Pre-tax profits	3,778	(836)	19,071	15,958	6,637	12,824	17,223	24,613	38,863	29,926
Provided for payments to governments	1,395	684	2,336	7,563	4,031	7,334	7,743	11,185	16,813	16,234
Profit (loss) after taxes	2,383*	(1,520)	16,735	8,395	2,606	5,490	9,480	13,428	22,050	13,692
Share of after-tax profits in associated company	–	–	–	–	–	–	–	–	2,438	13,300
Earnings (loss)	2,383	(1,520)	16,735	8,395	2,606	5,490	9,480	13,428	24,488	26,992
Re-invested in the business	2,383	(1,520)	16,735	8,395	2,606	4,933	7,382	8,889	16,138	20,739
Dividends paid	–	–	–	–	–	557	2,098	4,539	8,350	6,253

Before extraordinary item – foreign exchange gain realized on conversion of long term debt – $1,424,000

Statistics										
Tonnes milled (000's)	14,002	8,621	8,045	8,664	9,116	10,048	9,634	9,995	9,076	9,127
Number of employees	393	396	405	433	439	442	463	470	464	467
Gross capital employed (historical $000's)	80,357	94,612	92,553	82,052	92,390	94,484	104,594	111,833	175,396	208,283

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