

GUNNAR MINES LIMITED

23rd annual report

for the year ended December 31, 1956





AERIAL VIEW OF PROPERTY

GUNNAR MINES LIMITED

(INCORPORATED UNDER THE LAWS OF THE PROVINCE OF ONTARIO)

COVER PHOTOGRAPH: OPEN PIT OPERATION

23rd annual report

1956

CAPITAL	Authorized 5,000,000 Issued 3,331,465
BOARD OF DIRECTORS	GILBERT A. LaBINE, O.B.E., LL.D. - - - - - Toronto, Ont. CHARLES L. LaBINE - - - - - Toronto, Ont. JULES R. TIMMINS, O.B.E., LL.D., D.Sc. - - - - - Montreal, Que. MURDOCK A. MacPHERSON, Q.C. - - - - - Regina, Sask. JAMES HOUSTON - - - - - Toronto, Ont. J. H. SHEPHERD - - - - - Toronto, Ont. JOSEPH S. LaBINE - - - - - Toronto, Ont.
EXECUTIVE OFFICERS	GILBERT A. LaBINE, O.B.E. - - - - - President JOSEPH S. LaBINE - - - - - Vice-President THOMAS P. O'CONNOR, Q.C. - - - - - Secretary EDWARD J. DEVEREAUX - - - - - Treasurer and Assistant Secretary J. S. McFADDEN, C.A. - - - - - Chief Accountant
MINE MANAGER	J. N. BOTSFORD
AUDITORS	Messrs. P. S. Ross and Sons, Toronto, Ont.
TRANSFER AGENT AND REGISTRARS	Crown Trust Company, Toronto, Ont.
TRANSFER AGENT	Empire Trust Company, New York, N.Y.
SOLICITORS	Messrs. Carrick, O'Connor, Coutts and Rogers, Toronto, Ont.
BANKERS	Imperial Bank of Canada, Toronto, Ont.
HEAD OFFICE	Suite 702, 25 Adelaide Street West, Toronto, Ont.
MINE OFFICE	Uranium City, Sask.

ANNUAL MEETING

May 16th, 1957, 10:30 A.M. (Toronto Time)
Sheraton Room, King Edward Hotel, Toronto, Ont.

President's Report

April 9, 1957.

TO THE SHAREHOLDERS:

Your Directors have pleasure in presenting the Annual Report of your Company, together with that of your Mine Manager, financial statements and the auditors' report for the year 1956.

Operating Revenue and Costs:

Commercial production was attained by March 1, and in the 10-month period ended December 31, 1956, the Company earned a net profit, after all charges, of \$6,601,288.42, which is the equivalent of \$1.98 per share issued. In addition to the revenue from the sale of uranium concentrate earned in the 10 months of commercial operation, amounting to \$13,540,213.90, the Company sold \$958,806.50 of concentrate during the conclusion of the tune-up period in January and February 1956, so that the total revenue for the calendar year amounted to \$14,500,000.00. The production revenue during the tune-up period was deducted from the accumulated deferred mine development expenditures and a certificate has been received from the Taxation Division of the Department of National Revenue confirming that the income derived from the present mining and milling operation is exempt from Federal Income Tax for the 3-year period commencing March 1, 1956.

Net revenue per ton milled of \$33.32 was consistent with our original estimates. The total operating costs, that is, mining, milling, administrative, Provincial Royalty and interest expense of \$11.13 per ton are lower than we had anticipated and the average number of tons milled per day of 1,328 exceeded our estimate. In short, operating results have been most gratifying in this memorable year in the history of your Company.

Provision for depreciation and amortization of development expenses have been computed conservatively on the basis of the shorter of the life of the asset or the life of the present indicated ore reserves. The preliminary statement of estimated earnings for 1956, mailed to registered shareholders on 31st January, 1957, showed depreciation computed on the value of the assets as at February 29, 1956. Due to the substantial increase in the fixed assets during 1956, it was subsequently decided to compute depreciation on the value of the assets as at December 31, 1956. It was also decided to defer that portion of the cost of waste removal that represented the waste in excess of the average waste to ore ratio. As a result of the waste deferment, the profit before write-offs was increased and as a result of the increased write-offs, the net profit was decreased.

Source and Application of Funds:

In addition to the profit from operations before write-offs of \$9,000,000.00, funds were realized from the sale of investments amounting to \$205,000.00 and from the exercising of share warrants amounting to \$364,000.00. As a consequence of the mill and housing expansion programme, the inauguration of the water transport department and the high initial expenditures associated with both the open pit and underground mine development, capital and development expenditures remained at a very high level. An analysis of the application of funds during 1956 would show the following:

Debentures:

Principal amount of debentures redeemed October 1, 1956	\$ 2,500,000.00	
Debentures purchased in anticipation of the \$4,250,000.00 of debentures to be redeemed on October 1, 1957	631,000.00	\$ 3,131,000.00

Capital Assets:

Buildings	\$ 1,699,000.00	
Plant and equipment	1,632,000.00	
Automotive equipment	253,000.00	
Tug and barges	474,000.00	
Yards and roads	221,000.00	
Furniture and fixtures	98,000.00	
Progress payments on equipment	327,000.00	\$ 4,704,000.00

Mine Development Expenses:

Shaft sinking	265,000.00	
Deferment of waste removal	204,000.00	\$ 469,000.00
Inventory of Supplies		\$ 533,000.00

The full benefits from the increased production should be reflected in the 1957 operating statements. Capital expenditures for 1957 should not exceed \$1,500,000.00.

Ore Reserves and Grades Milled:

Declassification of information relating to tonnage and grade of uranium ore now permits us to inform you of these details pertaining to your Gunnar uranium "A" orebody. During the 10 months of commercial operation, March 1st to December 31st inclusive, the grade of ore delivered to the treatment plant for that full period averaged 3.83 pounds U_3O_8 per ton and for the last six months of the period the grade averaged 4.15 pounds per ton. Following the completion of the diamond drilling programme of the "A" area in 1953, calculations made by both company and independent engineers estimated the orebody then to be 4,000,000 tons to a vertical depth of 900 feet. The grade of this tonnage was estimated to contain approximately 4 pounds U_3O_8 per ton. This tonnage is considered to be fully proven ore. Subsequent mining in the open pit has supplied additional tonnages of lower grade material.



VIEW OF PIT LOOKING SOUTH

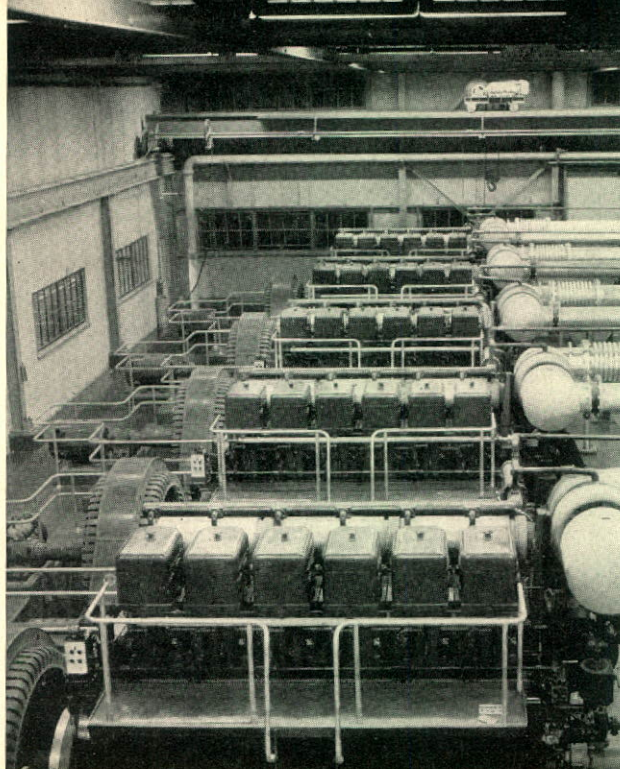
No exploratory diamond drilling or underground development was conducted during the year. Consequently proven ore reserves were approximately 3,500,000 tons by December 31, 1956.

Although it is not the policy of your company to project ore beyond its proven limits, it seems quite apparent that additional ore reserves can readily be established as required.

The "A" orebody is known by diamond drilling to continue at a depth of 1,000 to 1,100 feet underground and almost certainly persists considerably below these horizons. You will note in the Mine Manager's report that the production shaft was completed to a depth of 1,240 feet some two years ahead of the original schedule. In the same period great emphasis was placed upon gearing the entire project to optimum efficiency. These tasks were considered to rate higher priority than adding to ore reserves in the first year of production.

In the year 1957 it is expected that exploration and development will add appreciable tonnages to reserves from within the "A" orebody. The chances of locating entire new orebodies similar to the "A" orebody offer intriguing possibilities.

POWER HOUSE
DIESEL ENGINES



Additional Contract:

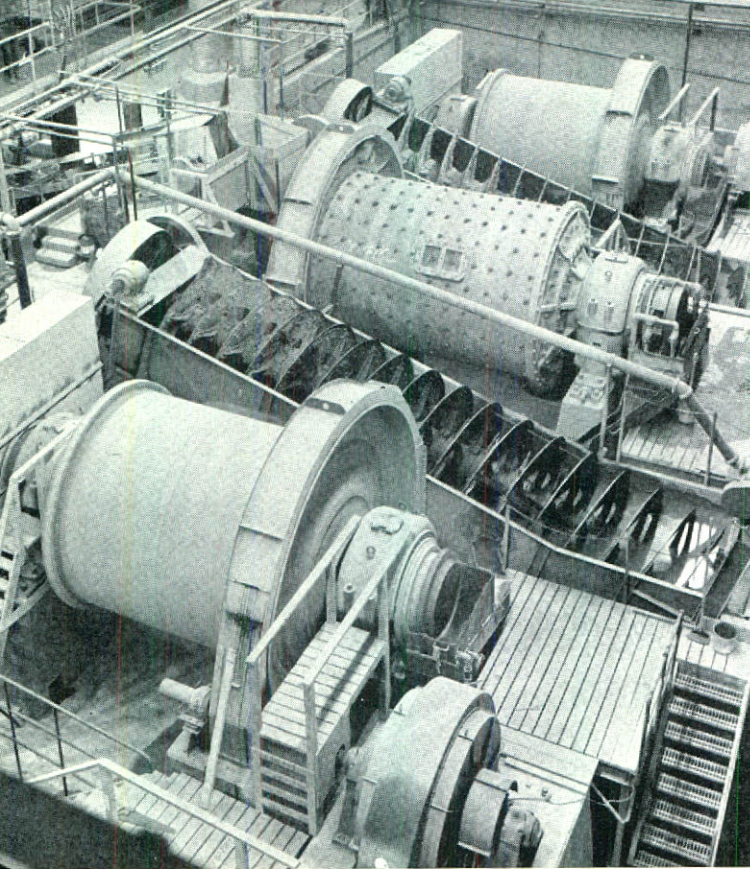
As reported previously, in addition to the original contract covering \$76,950,000.00 of uranium concentrate, the company has received a letter of intent from Eldorado Mining and Refining Limited to purchase an additional amount of concentrate equal to the estimated additional production at the rated capacity of the plant up to 31st March, 1962. The contract covering this further sale will be finalized when the company is in a position to determine, with reasonable certainty, the underground costs involved in mining this additional ore.

Outlook for Uranium:

The future of uranium has never looked brighter. Apart from Government needs, industry requirements are mounting as research discovers new applications for atomic energy uses. The atomic power reactor race is on, now that atomic energy is finding its place in the competitive industrial market, and, the fact is, that uranium is still the key material in atomic energy and will remain so in the foreseeable future.

Labour:

In August last, a labour agreement was completed with the A. F. of L. for a period of three years. Our association with the Union has been most pleasant.



ROD AND BALL MILL GRINDING UNITS



TAILINGS DISCHARGING FROM MILL FILTERS

Outside Properties:

Some 50 new mining claims were acquired by your exploration staff in Julien and Lamarck Townships in Northern Quebec. These holdings shall be explored during the coming season.

Further metallurgical research work is now being conducted on the chrome ore from your properties in the Bird River Area of Manitoba.

Leases on the original gold properties at Beresford Lake, Manitoba, were allowed to lapse.

All other properties were retained in good standing.

Your Directors wish to record their appreciation of the loyal and competent services of the management, staff and the employees throughout the year.

On behalf of the Board,

GILBERT A. LaBINE,
President.



Mine Manager's Report

January 31st, 1957.

The President and Directors,
Gunnar Mines Limited,
702 - 25 Adelaide St. West,
TORONTO, Ontario.

Gentlemen:

I submit herewith for your consideration a report covering the development and production work completed on the ED-BON and the ARCH groups of claims situated on St. Mary's Channel, Lake Athabasca, Saskatchewan, for the period January 1st to December 31st, 1956.

OPEN PIT

All open pit work in 1956 was devoted to ore and waste rock removal. Total waste rock removed amounted to 1,317,075 tons and the total new ore removed amounted to 444,450 tons. There were 459,643 tons of ore delivered to the primary crusher, the additional 15,193 tons being drawn from the stockpile. Stockpiled ore at the year end amounted to 20,488 tons. Determination of the boundaries of the open pit at elevation 700 was completed, all ore and waste rock was removed from the bench at elevation 670, and a major portion of the ore and waste was removed from the bench at elevation 640 at the close of 1956. The permanent haulage road was advanced to an elevation of 630 feet, and arrangements were in hand for the immediate advancement of this haulage road to elevation 610 feet.

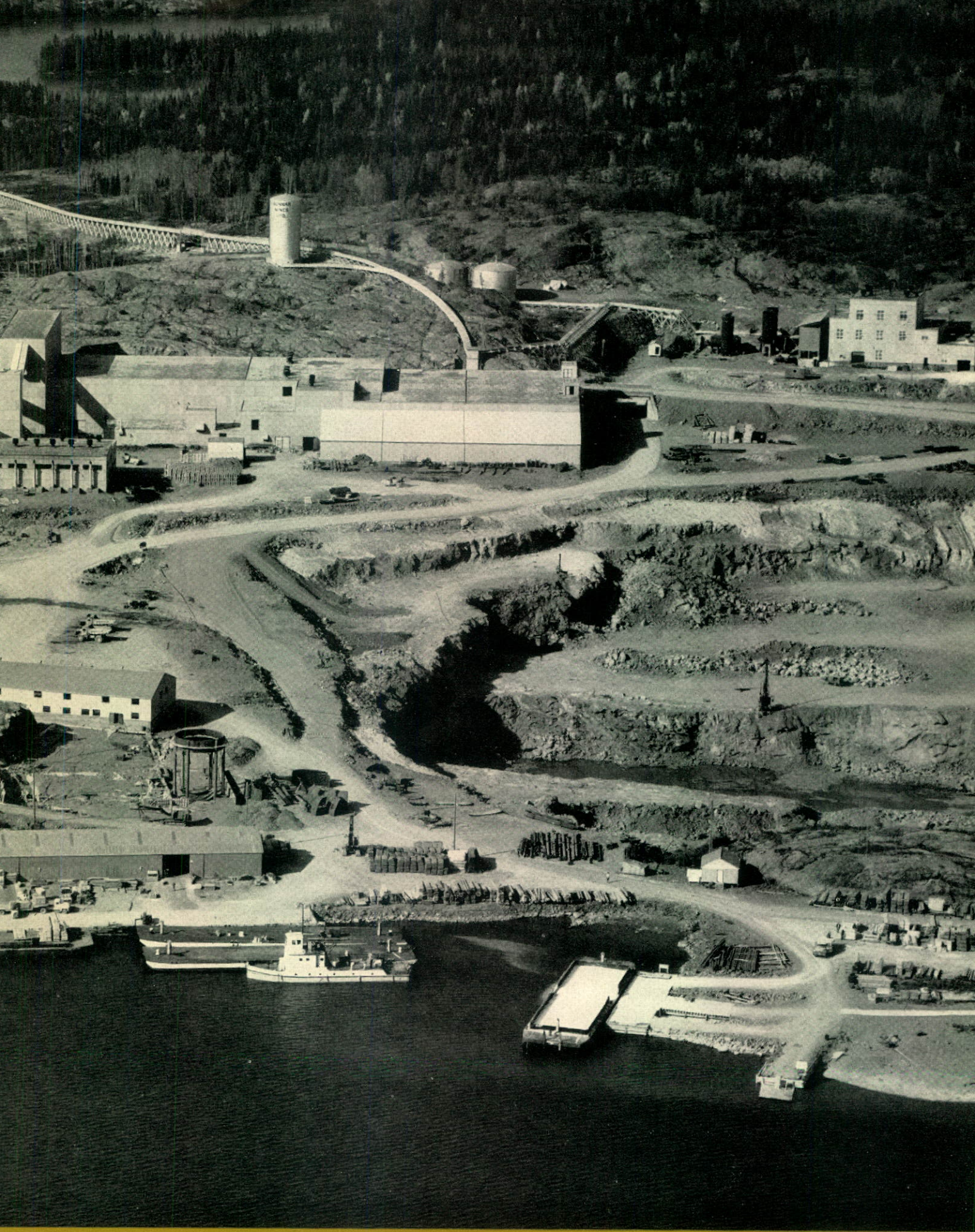
Original open pit calculations gave a waste to ore ratio of 2.4 : 1, and intensive waste removal was necessary during the first eighteen months of pit operation in order to maintain the proper balance of waste to ore removal. This balance has been well maintained, and our pit calculations now indicate a waste to ore ratio of 1.49 : 1.

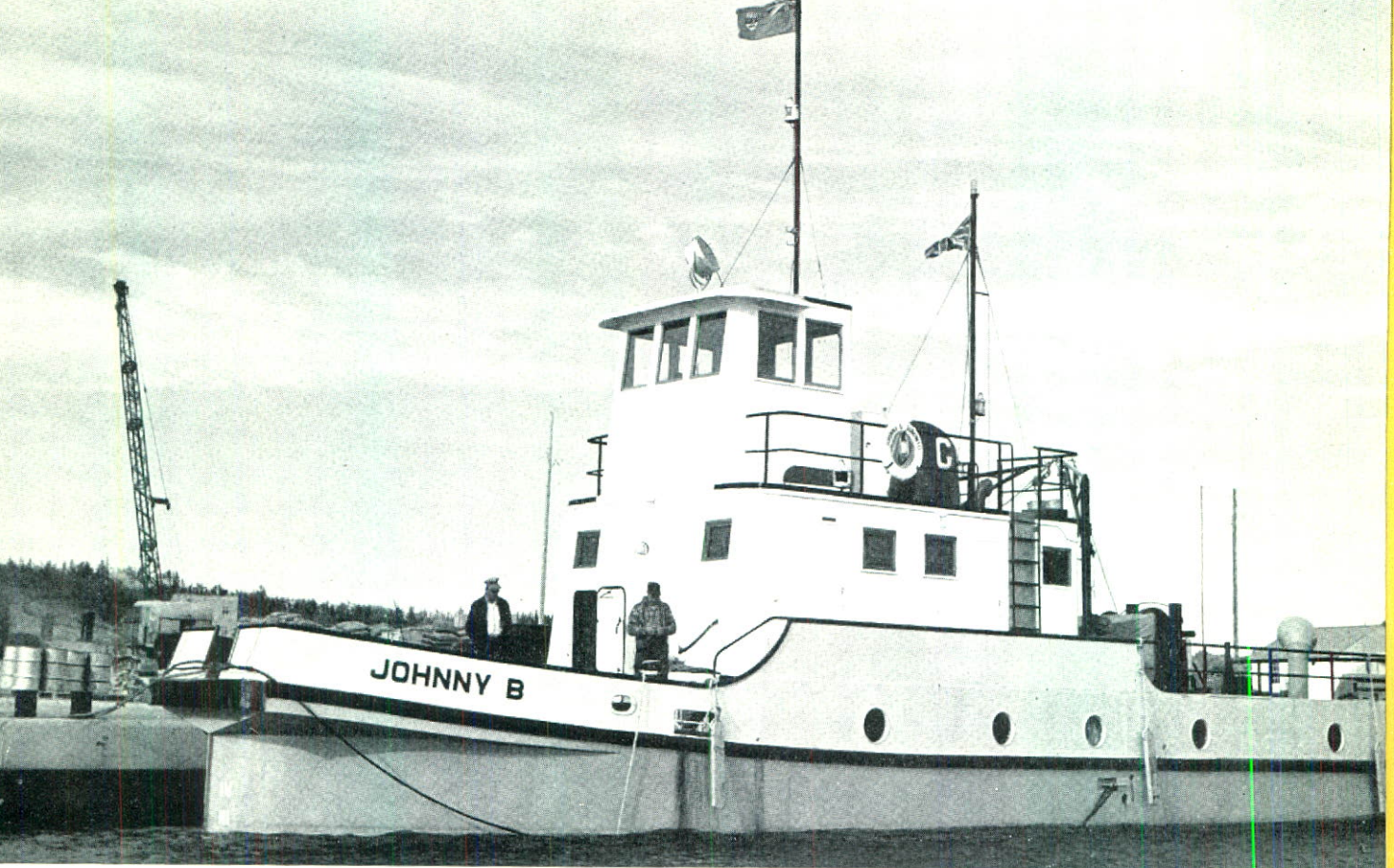
During the summer of 1956 two new 22-ton Euclid trucks and one new 3-cubic yard Marion shovel were added to the open pit equipment in order to maintain our scheduled tonnage programme.

UNDERGROUND DEVELOPMENT

The three-compartment vertical shaft was completed in mid-summer to a depth of 1,242.5 feet, with levels being established at 150-foot intervals. Eight stations and a loading pocket were cut, coincidental with the shaft sinking operation. No horizontal development work was done pending completion of the permanent headworks. A 125-foot steel headframe, completed with two 1,000-ton rock bins, was erected and closed in before the end of the year. A 120-inch by 60-inch double-drum electric hoist was







NEW TUG LAUNCHED IN SEPTEMBER, 1956

installed in a separate hoist room building. All necessary underground mining equipment was delivered to the property during the summer of 1956. Underground development work and exploration will commence early in 1957 following final completion of electrical controls on the hoist and the installation of permanent doors and insulation to the shaft house and bin house.

EXPLORATION

There was no diamond drilling nor exploratory test work completed during this period. A surface geiger survey was carried out on the ARCH group of claims during the summer, with readings being taken at 25-foot intervals on 50-foot centres over an area of approximately 40 acres. This survey was made to complete a geological mapping programme of this group. Results of this survey indicate that consideration should be given to some surface diamond drilling at a later date. All claims continue to remain in good standing.

TREATMENT PLANT

Following a six-month tune-up period of operation, the treatment plant was put on a regular production basis on March 1st, 1956. The mill gave very satisfactory service in the treatment of 451,632 dry tons of ore with indicated results of average leaching

extraction 94.93%, soluble recovery 97.54%, and an overall recovery of 91.41% throughout the year.

Certain equipment and plant additions were made during the year in order to provide for the treatment of at least 1,650 tons of ore per day early in 1957. A good many of these additions are now completed and in operation, while others are well under way and will be completed within the next three months. This expansion programme involved the installation of a new 42-inch gyratory crusher, two 20-foot by 20-foot leachers, three string discharge filters, a clarification filter, a precipitation tank, and additional pumping capacity. An additional 65-ton acid plant is being installed to supplement the present 100-ton sulphuric acid unit.

CONSTRUCTION

The construction programme in addition to the mine and mill expansion, included the installation of a second 200 H.P. oil-fired steam boiler, the construction of a 64-man bunkhouse, two staff dwellings, a 16-suite apartment building, fourteen houses for employees and a new school building to provide educational facilities for public and high school grades. A shopping and community centre building was in the process of construction, and it is expected that this will be in operation in the early spring of 1957. All utility services were extended to these additional buildings.

TRANSPORTATION

During the year the Gunnar-Nesbitt Aviation Company continued to provide a very efficient contact between the mine property and Edmonton. In 1956 there was a total of 3,326 passengers and 2,290,909 pounds of freight and baggage transported between Edmonton, McMurray, Beaverlodge Airport and Gunnar Airport.

In the early spring of 1956 the Gunnar Water Transport Division was formed in order to alleviate the water transport situation, and assure delivery of necessary freight from Waterways, Alberta to the Gunnar Dock. This resulted in the purchasing of three new all-steel tanker barges, and a steel diesel tug which were launched during the period July 9th to September 3rd, 1956. The actual tug operation commenced September 7th and was credited with the movement of 3,530 tons of bulk petroleum products and cargo freight during the balance of the season. Total water freight receipts during the 1956 summer freighting season amounted to 40,421 tons. Plans for the handling of deck cargo freight during the 1957 season were put into effect by the acquisition of land in the town of McMurray adjoining the Clearwater River, and preliminary work was completed on the installation of the freight handling area and warehouse, ramp, and loading dock. Plans were also completed for the purchase of three additional all-steel tanker barges during the early spring of 1957.

It is with great appreciation that I record the excellent co-operation of the Company staff and crew at the mine and the valuable assistance given by our consultants in the operations during the year. I also wish to thank the President and Directors for their very generous support and assistance.

Respectfully submitted,

J. N. BOTSFORD,

Mine Manager.

Balance sheet

GUNNAR

● assets

Current Assets:

Cash on hand and in banks	\$ 1,031.44	
Refinery settlements outstanding on concentrates sold under contract	2,128,280.50	
Other accounts receivable	91,033.53	\$ 2,220,345.47
Demand notes from employees for purchase of capital stock — secured		175,500.00

Investments, at cost:

Marketable securities (quoted market value \$153,970.00)	\$ 208,342.02	
Other unlisted securities	87,741.68	296,083.70

Deferred and prepaid items:

Inventory of supplies, at cost	\$ 3,243,501.26	
Prepaid insurance, expenses and deposits	84,810.91	
Mine development expenses, less amortization	4,696,433.38	
Debenture discount and expense, less amortization	674,933.75	8,699,679.30

Capital assets, at cost:

Mining claims, properties and leases	\$ 1,175,415.37	
Buildings, plant and equipment	\$ 18,138,447.95	
Less: Accumulated depreciation	2,252,627.30	15,885,820.65
		17,061,236.02
		<u>\$ 28,452,844.49</u>

AUDITORS' REPORT

Gunnar Mines Limited,
Toronto, Ontario.

We have examined the balance sheet of Gunnar Mines Limited as at December 31, 1956 and the related statements of revenue and expenditure for the ten months ended on that date, and of surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

MINES LIMITED

AS AT DECEMBER 31, 1956

● liabilities

Current Liabilities:

Bank overdraft		\$ 1,081,229.48	
Accounts payable and accrued charges		1,127,817.58	
Accrued interest on debentures		206,294.24	
5% Sinking Fund Debentures, maturing October 1, 1957	\$ 4,250,000.00		
Less: Debentures purchased by company	631,000.00	3,619,000.00	\$ 6,034,341.30
5% Sinking Fund Debentures, maturing October 1, 1958-60			12,750,000.00

Capital and Surplus:

Capital stock:

Authorized, 5,000,000 shares of \$1.00 each par value		\$ 5,000,000.00	
Issued and fully paid:			
Balance, December 31, 1955	3,295,115 shares	\$ 3,295,115.00	
Issued during year in consideration for cash and surrender of stock purchase warrants	36,350 shares	36,350.00	
	3,331,465 shares	\$ 3,331,465.00	
Less: Discount on shares, net		714,548.76	
		\$ 2,616,916.24	
Surplus, as attached		7,051,586.95	9,668,503.19
			<u>\$ 28,452,844.49</u>

Approved on behalf of the Board:

G. A. LaBINE, Director.

J. S. LaBINE, Director.

The attached notes are an integral part of this balance sheet.

THE SHAREHOLDERS

In our opinion the accompanying balance sheet and related statements of revenue and expenditure and of surplus present fairly the financial position of the company as at December 31, 1956 and the results of its operations for the year ended on that date.

Toronto, Ont., March 7, 1957.

P. S. ROSS & SONS,
Chartered Accountants.

Notes to Balance Sheet

AS AT DECEMBER 31, 1956

1. In accordance with the provisions of the indentures under which the 5% Sinking Fund Debentures and the Stock Purchase Warrants attaching thereto have been issued, the Company has made the following covenants:
 - (a) to reserve out of its authorized capital stock a sufficient number of shares to satisfy the rights of purchase should the holders of all such Warrants exercise the same in full. On the basis of the capital structure of Company as constituted at the date of the issuance of the debentures, 780,000 shares were so reserved. Of this total 40,610 shares have been issued to December 31, 1956 on the exercising of Warrants leaving 739,390 shares reserved as at that date.
 - (b) that after January 1, 1957 it will not declare or pay any dividends on its capital stock unless, after payment thereof, the Company's net current assets (as defined in the Trust Indenture) will not be less than \$6,000,000.00.
 - (c) to pay to the Trustee by way of a sinking fund for the retirement of Debentures on or before October 1 in each of the years 1957 to 1959 inclusive an amount or amounts sufficient in the aggregate to retire \$4,250,000.00 principal amount of Debentures. Provision is made for the redemption of Debentures through the Trustee, in whole or in part, prior to maturity at rates of premium on a descending scale varying from 4% to $\frac{1}{2}$ of 1%, and in addition the company is permitted to purchase debentures in the market or by private contract, provided that the prices at which such debentures may be purchased shall not exceed the then current redemption price plus costs of purchase.
2. The Company has received a certificate from the Taxation Division of the Department of National Revenue confirming that the income derived from mining operations at its Lake Athabaska property is exempt from federal income tax for the three year period commencing March 1, 1956.

Statement of Revenue and Expenditure

FOR THE TEN MONTH PERIOD ENDED DECEMBER 31, 1956

Revenue:

Sale of uranium concentrate	\$ 13,540,213.90	
Income from investments	8,680.14	\$ 13,548,894.04

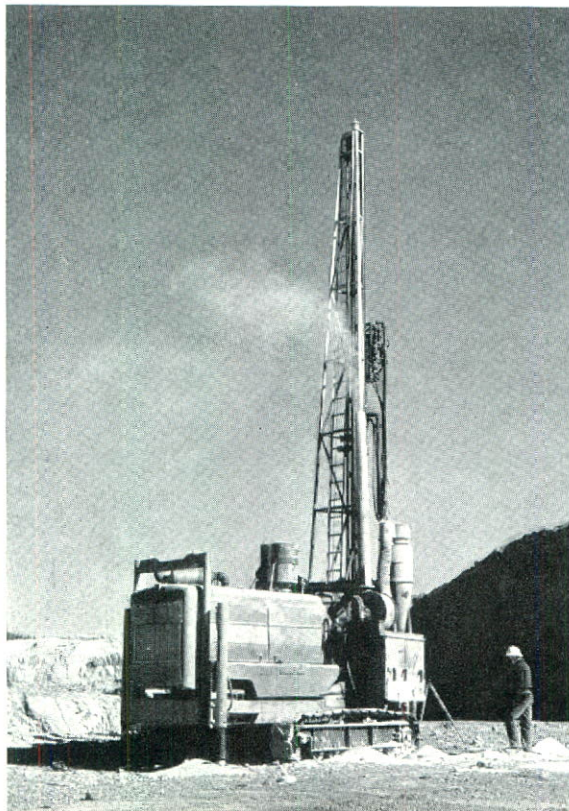
Operating expenses:

Mining and milling	\$ 3,030,895.68	
Administrative	135,260.03	3,166,155.71
Operating profit before deducting the undernoted items		\$ 10,382,738.33
Province of Saskatchewan mining royalty	\$ 621,937.68	
Interest on loan and debentures	715,343.48	
Premium on debentures purchased	19,168.75	1,356,449.91
		\$ 9,026,288.42
Provision for depreciation	\$ 1,825,000.00	
Amortization of mine development expenses	450,000.00	
Amortization of debenture discount and expense	150,000.00	2,425,000.00
Net profit transferred to surplus account		\$ 6,601,288.42

Statement of Surplus

FOR THE YEAR ENDED DECEMBER 31, 1956

Balance, January 1, 1956		\$ 504,626.33
Add:		
Net profit, March 1, to December 31, 1956	\$ 6,601,288.42	
Profit on sale of investments	140,684.65	
	\$ 6,741,973.07	
Less: Abandoned mining property written off	195,012.45	6,546,960.62
Balance, December 31, 1956		\$ 7,051,586.95



LARGE ROCK DRILL
USED IN OPEN PIT WORK

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