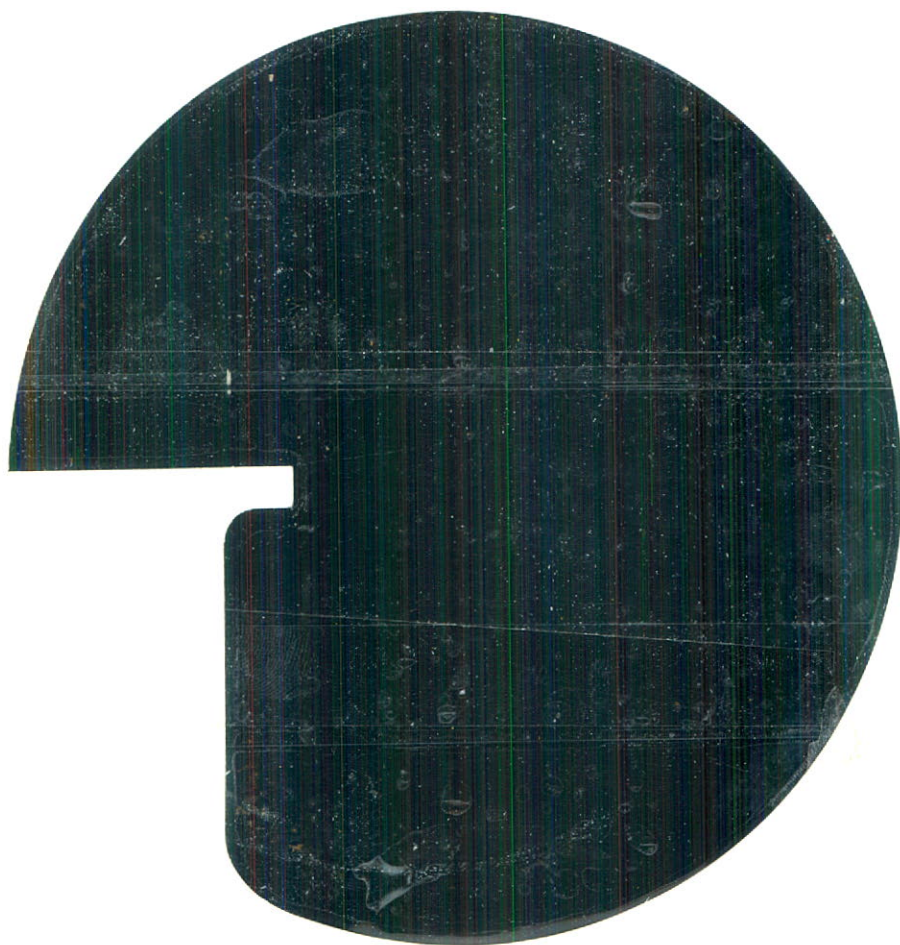


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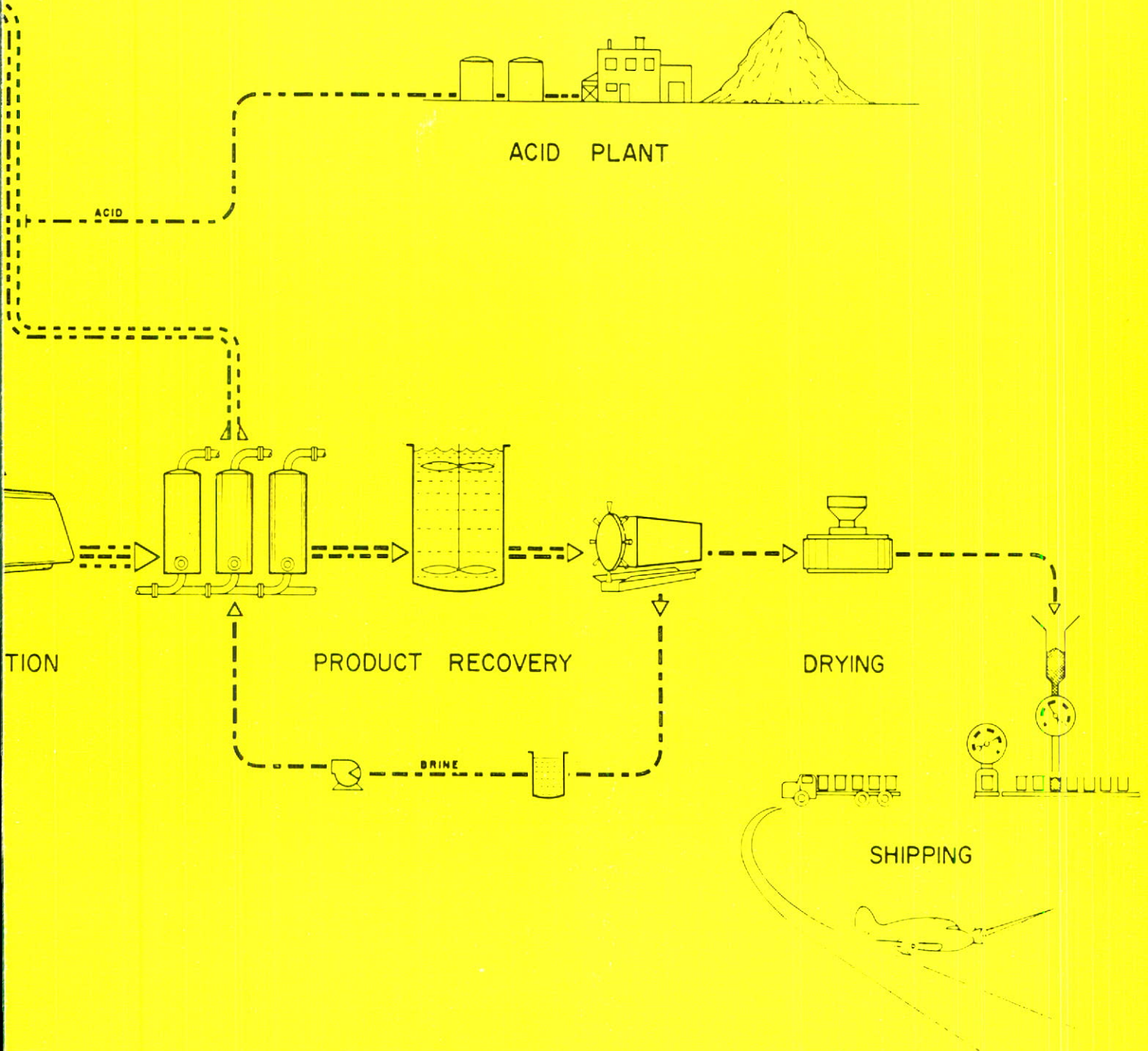


ANNUAL REPORT
22ND

F O R T H E Y E A R E N D E D D E C E M B E R 3 1 , 1 9 5 5

GUNNAR MINES LIMITED

FLOW DIAGRAM



Officers and Directors

22nd
ANNUAL REPORT
For the YEAR 1955

CAPITAL Authorized 5,000,000 shares Issued 3,295,115

BOARD OF DIRECTORS

GILBERT A. LaBINE, O.B.E.	- - - - -	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
CHARLES L. LaBINE	- - - - -	Vice-President
JOSEPH S. LaBINE	- - - - -	Assistant to the 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 AGENTS
AND REGISTRARS** Crown Trust Company, Toronto, Ont.

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 10th, 1956, 10:30 A.M. (Toronto Time)
Tudor Room, Royal York Hotel, Toronto, Ont.

GUNNAR MINES LIMITED

(Incorporated under the Laws of the Province of Ontario)

President's Report

April 5, 1956.

TO THE SHAREHOLDERS:

Your Directors submit herewith the Annual Report of your Company which includes the Mine Manager's Report, the Balance Sheet as at December 31, 1955, certified by the Company's auditors, and the related Statement of Pre-operating Mine Development and Administrative Expenditures for the fiscal year.

The activities of your Company during 1955 were confined to its uranium development in Northern Saskatchewan, where the main phase of the construction programme was completed on schedule.

Expansion Programme

Your directors confidently approved an ambitious expansion programme calling for an expenditure of \$3,500,000.00 immediately after the completion of the original project. Studies carried out by the mining and metallurgical departments along with due consideration of the present income tax regulations, led to the conclusion that an increase in rated capacity to 1,650 tons/day would be the most economic operation. We estimate that all capital expenditures in connection with this expansion will be completed this year and that the increase in the rated mill capacity will be reached early in 1957 to provide more than two years of increased production under the tax free period provision. This, plus the inclusion as a current liability of the October 1, 1956 \$2,500,000.00 redemption of 5% Sinking Fund Debentures, resulted in a deficit working capital at December 31, 1955, of \$3,500,000.00. The current high earnings of your Company under normal operating conditions should rapidly correct our working capital position.

The expansion programme, which is in addition to the shaft sinking operation, includes a gyratory crusher, a second acid plant, certain modifications to the leaching



An aerial view.

section of the mill, some addition to open pit equipment, and an expansion of townsite facilities to provide proper amenities for the staff and working force in the area. The inauguration of a transportation system capable of handling a portion of our requirements of freight was undertaken early in 1956 as an insurance against unfavourable conditions on the water route.

Much of this expansion programme will be offset by tax savings due to increased earnings during the three-year tax exempt period. A substantial amount of the investment in our transportation system will be recovered during the next five years out of freight charges formerly paid to the commercial carrier. Although the townsite development programme will be larger than originally contemplated 50% has now been completed and paid for. Here again a substantial amount of the capital cost of this programme will be recovered by way of rent from companies leasing space to provide services to our employees.

Operating Revenue and Costs

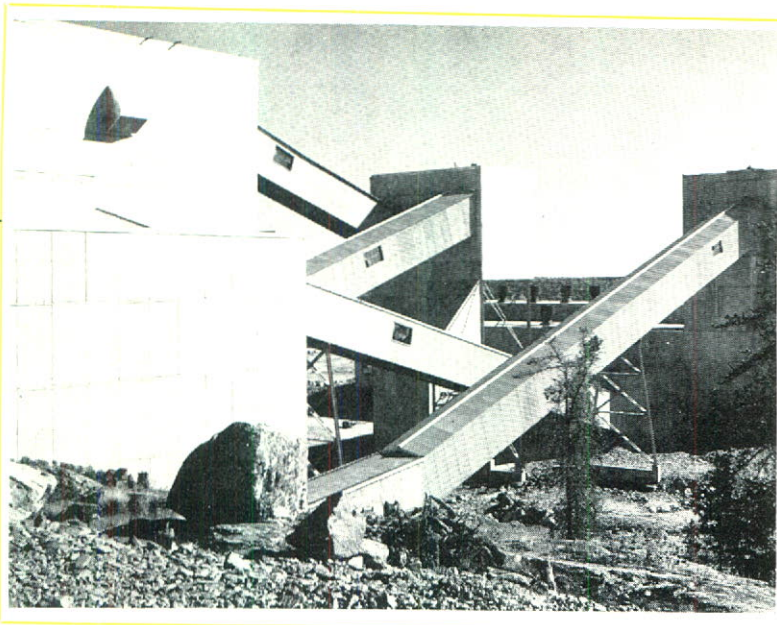
The production revenue of \$1,900,000.00 shown in the Statement of Pre-operating Mine Development and Administrative Expenditures is the revenue earned during our tune-up production from September 1 to December 31, 1955. At this much lower than normal tonnage we earned a net profit of \$500,000.00 after allowing for all expenses other than write-offs. Production at full tonnage commenced on March 1 of 1956, and I am pleased to say that the revenue for that month was \$1,250,000. When the increase in mill capacity is attained our gross monthly operating revenue should exceed \$1,500,000.00 and approach \$1,750,000.00

Based on experience to date, total operating costs per ton during 1956 will be less than the original estimate of \$14.80 per ton. Our unit costs should show the economy of increased production for subsequent years.

Source and Application of Funds

In 1955, in addition to our operating revenue, funds were received from:

The trustee of the project fund	\$7,450,000.00
Sale of investments	150,000.00
Reduction in demand notes from employees	74,700.00
Exercise of share warrants	42,600.00
Dividends on investments	13,000.00



PRESIDENT'S REPORT cont'd

A view of the refinery and crushing plant.

In addition to the expenditures on pre-operating mine development and administrative expenses of \$3,900,000.00, the details of which have been given in the financial statements, funds were spent in 1955 on:

Buildings	\$2,100,000.00
Plant and equipment	2,400,000.00
Automotive equipment	300,000.00
Furniture and fixtures	125,000.00
Inventory	1,100,000.00

General

On January 1, 1955, the assets of the aircraft division were sold to Gunnar-Nesbitt Aviation Limited in exchange for an 80% interest in the new Company. Operating experience has shown that freight can be landed at our property at a much lower cost than originally estimated.

Outside properties in Manitoba, Ontario and Quebec were retained in good standing. Nothing new of significance was added to our holdings during the year.

The resignation of your General Manager, Mr. James Houston, in the early part of the year was regretfully accepted by your Board. His valuable experience and counsel is still available to your company as he consented to remain as a director.

It is with deep regret that we record the death of Mr. A. Harrison Gilmour, a director of the Company, in August last.

Great credit is due to the Mine Manager, J. N. Botsford, who acted as general contractor for the overall project, to A. H. Ross, Manager of the Metallurgical Division and their respective staffs and consultants who successfully designed and constructed a proto-type plant in Canada under sub-arctic conditions.

On behalf of the Board,

Philip LaBine

President.

Mine Manager's Report

Uranium City, Saskatchewan
January 31, 1956.

The President and Directors,
Gunnar Mines Limited,
Suite 702,
25 Adelaide Street West,
Toronto, Ontario.

Gentlemen:

I submit herewith for your consideration a report covering the operations for the period January 1st to December 31st, 1955, inclusive, on your property situated at Crackingstone Point, St. Mary's Channel, Lake Athabasca, Saskatchewan. All the work as outlined in this report was completed on the ED-BON group of claims. The only work completed on the ARCH claims during the year was the geological mapping of the surface outcrops. These claims continue to remain in good standing.

EXPLORATION

There was no diamond drilling or exploratory test work completed on the property during this period. Early in the year arrangements were made with other mining companies in the immediate district for an aerial photographic survey of the Crackingstone Point area, and this photographic work, which included all of the Gunnar claims, was completed in early June. Our geological staff completed detailed surface mapping of both the ED-BON group and the ARCH group of claims during the summer season.

OPEN PIT DEVELOPMENT

The open pit development continued on a steady basis throughout the year, with the balance of the overburden amounting to 130,053 cubic yards, being removed by tractors and scrapers, draglines and trucks, and hydraulic monitors. This makes a total of 352,944 cubic yards of overburden, other than rock, removed from the open pit area. The bench at elevation 700 was completely developed and all ore and waste rock down to this elevation was removed, and the bench at elevation 670 was well established. Any ore encountered in this development work was stockpiled. The surveyed waste rock removed from the pit amounted to 845,489 tons. The permanent 60-foot haulage roads to the main crushing plant and to the main waste dump were completed with a finished crushed stone grade. The first open pit ore was delivered to the crushing plant on August 4, 1955. Towards the close of the year, plans were made for the complete overhaul of the two shovel units and the Euclid trucks during the tune-up period of the mill, and the overhaul of the first shovel commenced at the end of November.

MINE MANAGER'S REPORT continued

Such an overhaul procedure was planned to provide maximum service from the open pit equipment when the mill assumed regular and full production. Preliminary development work of the open pit does not allow for the regularity of operations which will be in effect when the pit reaches full and regular production, and this preliminary development incurs certain extra expenditures. However, costs to date have indicated there should be no difficulty in attaining the original planned open pit mining costs.

UNDERGROUND DEVELOPMENT

Completion of the originally planned construction program of 1954 within the schedule of time and cost estimates made possible the advancement of the sinking of the underground shaft by one year. Plans were made early in the year for the commencement of this operation during the summer of 1955. This three-compartment vertical shaft, consisting of a large cage compartment, a large skip compartment and a manway compartment, was proposed to be sunk to a vertical depth of 1,157 feet with an additional 108 feet of sump to allow for future shaft deepening, with the establishment of eight levels with lip pockets and a main loading pocket. This shaft was collared on August 29th and the collar was completed to a depth of 62 feet by September 21st. Following this shaft collar excavation, a 75-foot timber headframe for shaft sinking purposes, and a 4-foot double drum shaft sinking hoist were installed and shaft sinking under a separate contract was resumed on December 16th. Plans called for the completion of this shaft work in the early summer of 1956, and the erection and installation of a 125-foot steel headframe with two steel ore bins and a 120" x 60" electric hoist.

TREATMENT PLANT

The installation of all necessary equipment in the crusher house, mill, acid plant, and power house buildings was completed during the spring and early summer of 1955. The power plant was ready for operation on May 1st, the first rock was sent to the crushing plant for a test run on August 4th, the acid plant was in full operation on August 8th, and first feed was sent to the rod and ball mills in No. 1 unit of the mill on August 23rd. The first can of precipitate was produced on September 9th, and the first shipment of precipitate was made on September 29th. The official opening of the treatment plant took place on October 21st. Results from the treatment of ore to date have indicated that extraction and recovery are fully up to expectations and that costs of treatment will be well within estimates. A product is being produced which meets all specifications in every respect.

A test run made during the tune-up period has indicated that with the addition of a larger primary crushing unit, two leaching agitators, some increased pumping capacity, and an addition to the acid plant, the tonnage treated can be increased by 32% and plans are now under way for the installation of this additional equipment during the summer of 1956. The

fifth Diesel engine was installed in the power house during the summer and this is now in operation in anticipation of this increase. I wish to record full credit to our metallurgical staff for their excellent development and planning of the flow sheet of this treatment plant which has operated in such a successful manner.

CONSTRUCTION

In addition to the completion of the treatment plant, a lodge, thirteen staff dwellings, a sixteen suite apartment, twenty houses for hourly rated employees, and an airport administration building and dwelling were erected. A mine change house and dry with a capacity for 300 men and a temporary sinking headframe and hoistroom were also completed and the site for the new steel headframe and permanent hoist house was prepared. An addition to the general store and a three-sheet curling rink were also constructed and placed in operation.

Additional fuel storage tanks were erected during the year to provide a capacity of 1,610,000 gallons of fuel oil and 70,000 gallons of gasoline.

Water freight receipts during the navigation season, which extended from June 5th until October 27th, amounted to 26,579 tons. During the year Gunnar-Nesbitt Aviation Limited transported 2,716 passengers and 1,972,022 pounds of air freight between Edmonton, McMurray, Beaverlodge, and the Gunnar airstrip.

GENERAL

Other general work during the year involved the hauling of 15,000 cubic yards of gravel, the construction of two new explosives storage magazines, the extension of water, steam and sewage lines to all parts of the plant and all residences in the townsite and the establishment of local electric transmission lines and roads to service all buildings on the property.

I wish to record with great appreciation the excellent cooperation of the Company's staff and crew at the mine, the valuable assistance given by our Consultants and engineering firms, and the efficient completion of the construction program by the sub-contractors. I also wish to express my thanks to the President and Directors for their very generous support and assistance.

Respectfully submitted,

J. N. BOTSFORD,

Mine Manager.

ASSETS**Current Assets:**

Cash on hand and in banks	\$	1,507.74	
Refinery settlements outstanding on concentrates sold under contract		614,612.50	
Other accounts receivable		47,401.52	\$ 663,521.76

Demand notes from employees for purchase of capital stock — secured			195,300.00
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Investments, at cost:

Marketable securities (quoted market value \$358,765.60)	\$	271,283.87	
Other unlisted securities		89,279.12	360,562.99

Deferred and prepaid items:

Inventory of supplies, at cost	\$	2,710,464.07	
Prepaid insurance, expenses and deposits		126,689.17	2,837,153.24

Capital assets, at cost:

Mining claims, properties and leases	\$	1,362,327.82	
Buildings	\$	5,135,012.36	
Plant and equipment		6,779,166.48	
Automotive equipment		1,062,945.68	
Furniture and fixtures		254,122.90	
	\$	13,231,247.42	
Less: Allowance for depreciation		393,481.00	

Undistributed costs and deposits	\$	12,837,766.42	
		203,510.78	13,041,277.20
			14,403,605.02

Pre-operating mine development and administrative expenditures			4,712,131.66
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Debenture discount and expense			824,933.75
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\$ 23,997,208.42

AUDITORS' REPORT

Gunnar Mines Limited,
Toronto, Ontario.

We have examined the balance sheet of Gunnar Mines Limited as at December 31, 1955 and the related statement of pre-operating mine development and administrative expenditures for the year ended on that date. Our examination included a general review of the accounting procedures and such

Toronto, Ont., March 9, 1956.

ES LIMITED

THE SHEET

BER 31, 1955

LIABILITIES

Current Liabilities:

Bank overdraft	\$ 464,048.05	
Accounts payable, trade	673,822.47	
Accrued charges and other accounts payable	264,193.12	
Salaries and wages	90,933.69	
Accrued interest on debentures	246,428.52	
5% Sinking Fund Debentures, maturing October 1, 1956	2,500,000.00	\$ 4,239,425.85

5% Sinking Fund Debentures, maturing October 1, 1957-60		17,000,000.00
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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, 1954, 3,290,855 shares	\$ 3,290,855.00
Issued during year in consideration for cash and surrender of stock purchase warrants, 4,260 shares	4,260.00

3,295,115 shares	\$ 3,295,115.00
Less: Discount on shares, net	1,041,958.76

\$ 2,253,156.24

Surplus:

Balance, January 1, 1955	\$619,397.00
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Deduct:

Adjustment to write down investments in and advances to mining companies to estimated realizable value	\$190,436.87	
Less: Profit on sale of investments	62,619.20	127,817.67

\$491,579.33

Add: Dividends received	13,047.00	504,626.33	2,757,782.57
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\$ 23,997,208.42

Approved on behalf of the Board:

G. A. LaBINE, Director.

J. H. SHEPHERD, Director.

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

TO THE SHAREHOLDERS

tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of pre-operating mine development and administrative expenditures present fairly the financial position of the company as at December 31, 1955 and the results of its operations for the year ended on that date.

P. S. ROSS & SONS,
Chartered Accountants.



A power shovel loads a Euclid ore truck, which will carry 25 tons.

Notes to Balance Sheet as at December 31, 1955

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:

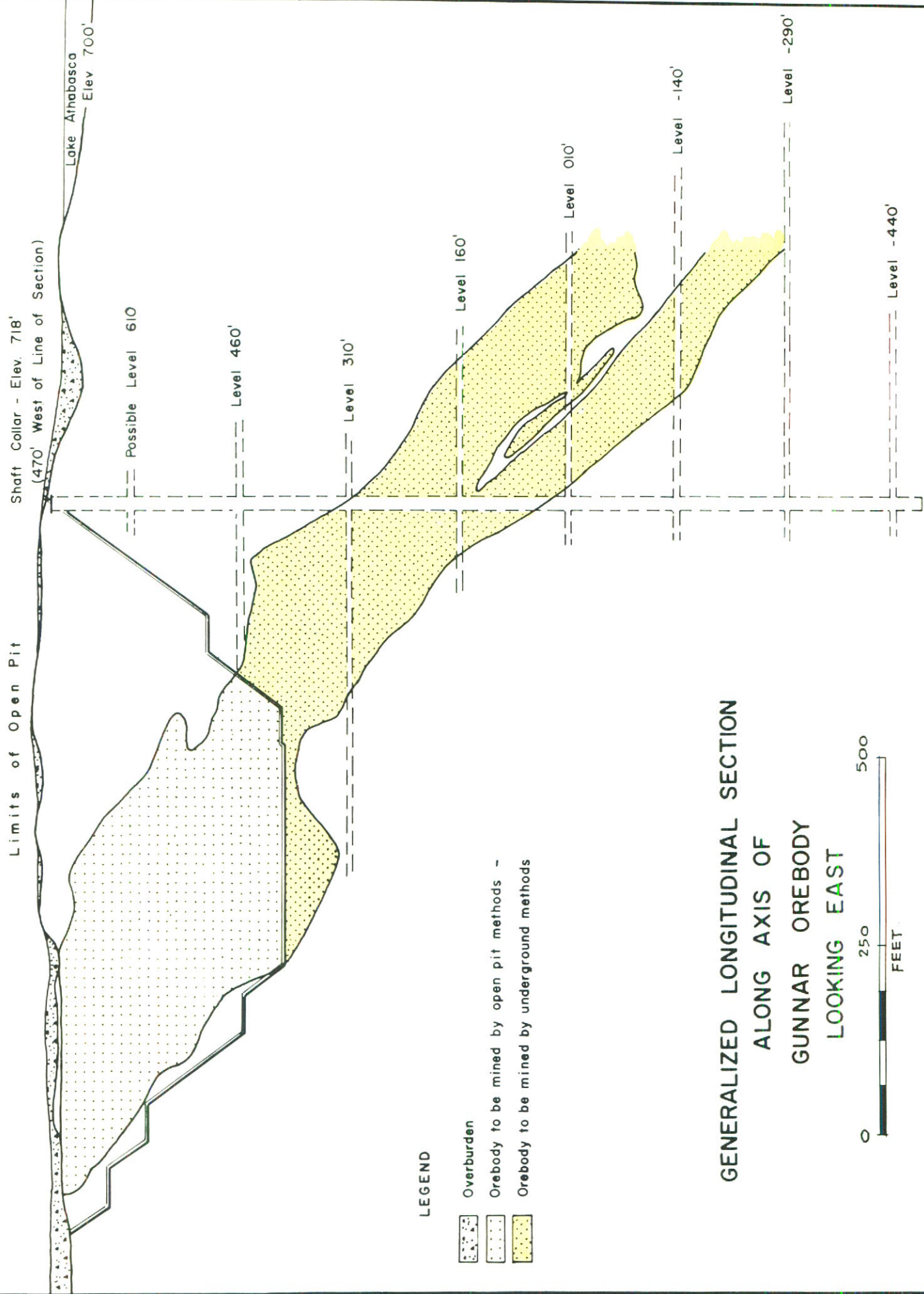
- (a) to reserve out of its authorized capital stock a sufficient number of shares to satisfy the rights of purchase should the holders of all such Warrants exercise the same in full. On the basis of the capital structure of the Company as constituted at the date of the issuance of the debentures, 780,000 shares were so reserved. Of this total 4,260 shares were issued during 1955 on the exercising of Warrants leaving 775,740 shares reserved at December 31, 1955.
- (b) that it will not declare or pay any dividends on its capital stock prior to January 1, 1957 and thereafter only if, 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, 1956 an amount or amounts sufficient in the aggregate to retire \$2,500,000.00 principal amount of Debentures, and on or before October 1 in each of the years 1957 to 1959 inclusive to pay in like manner an amount or amounts sufficient in the aggregate to retire \$4,250,000.00 principal amount of Debentures. Provision is also made for the redemption of Debentures, in whole or in part, prior to maturity at rates of premium on a descending scale varying from 5% to $\frac{1}{2}$ of 1%.

GUNNAR MINES LIMITED

STATEMENT OF PRE-OPERATING MINE DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 1955

	Balance January 1, 1955	Expenditure for the year	Balance December 31, 1955
Mine development—Lake Athabaska:			
Exploration, diamond drilling, etc.	\$ 518,895.63	\$ 11,290.45	\$ 530,186.08
Airport	290,563.91	138,933.96	429,497.87
Yards and roads	149,958.02	116,182.59	266,140.61
General	17,462.51	106,029.29	123,491.80
Open pit	313,233.82	915,082.70	1,228,316.52
Shaft	-----	62,928.49	62,928.49
Milling operations	-----	555,958.19	555,958.19
Mine administrative and general	688,608.21	862,776.10	1,551,384.31
Depreciation of automotive equipment (note)	-----	58,448.27	58,448.27
	<u>\$ 1,978,722.10</u>	<u>\$ 2,827,630.04</u>	<u>\$ 4,806,352.14</u>
Deduct: Miscellaneous income	23,238.53	39,794.63	63,033.16
	<u>\$ 1,955,483.57</u>	<u>\$ 2,787,835.41</u>	<u>\$ 4,743,318.98</u>
Metallurgical	106,195.44	58,808.86	165,004.30
Head office	212,964.94	172,065.72	385,030.66
Interest on loans and debentures—net	454,023.07	895,713.72	1,349,736.79
	<u>\$ 2,728,667.02</u>	<u>\$ 3,914,423.71</u>	<u>\$ 6,643,090.73</u>
Deduct: Production revenue	-----	1,990,183.50	1,990,183.50
	<u>\$ 2,728,667.02</u>	<u>\$ 1,924,240.21</u>	<u>\$ 4,652,907.23</u>
Other projects	59,023.43	201.00	59,224.43
	<u><u>\$ 2,787,690.45</u></u>	<u><u>\$ 1,924,441.21</u></u>	<u><u>\$ 4,712,131.66</u></u>

NOTE: The accounts for the year 1955 include depreciation provided on automotive equipment in the amount of \$183,258.04. Of this total the depreciation accumulated from September 1, 1955, the date of commencement of milling operations, is reflected as a separate item of expense as set out above.



GUNNAR

