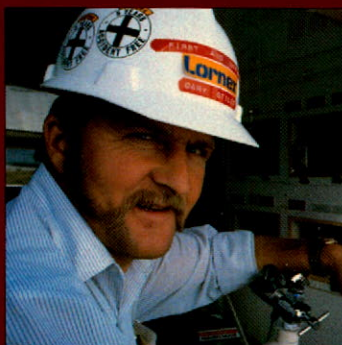
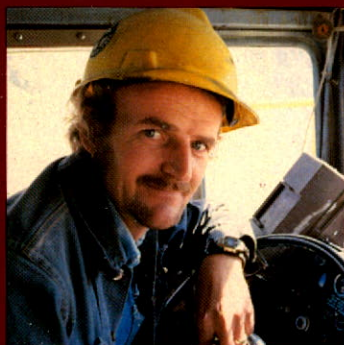


# LORNEX

Annual Report  
1979





# Lornex Mining Corporation Ltd.

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## Directors

G. R. Albino, Mississauga, Ontario  
R. D. Armstrong, Don Mills, Ontario  
J. G. Edison, Toronto  
A. Fujisaki, Tokyo, Japan  
R. E. Hallbauer, Vancouver  
D. L. Hiebert, Vancouver  
L. H. Hunter, Logan Lake, B.C.  
N. B. Keevil, Jr., Vancouver  
D. S. R. Leighton, Banff, Alberta  
A. F. Lowell, Islington, Ontario  
H. A. Pakrul, Mississauga, Ontario  
J. Van Netten, Willowdale, Ontario  
*Honorary Director*  
E. H. Lorntzen, Vancouver

## Officers

R. D. Armstrong, *Chairman and  
Chief Executive Officer*  
G. R. Albino, *President and  
Chief Operating Officer*  
L. H. Hunter, *Vice-President,  
General Manager*  
J. Van Netten, *Treasurer*  
C. W. M. Burge, *Secretary*  
J. R. MacDonald, *Controller*

## Head Office

580 Granville St., Vancouver

## Mine Office

P.O. Box 1500, Logan Lake, B.C.

## Auditors

Coopers & Lybrand, Vancouver

## Registrar and Transfer Agent

National Trust Company, Limited,  
Vancouver

## Shares Listed

Vancouver Stock Exchange

## The Annual General Meeting

11:00 a.m., Thursday, April 24, 1980  
Shuswap Lake Room,  
The Four Seasons Hotel,  
791 West Georgia Street,  
Vancouver, B.C.

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Cover: Faces from among the  
growing workforce at the  
Lornex copper/molybdenum  
mine in the Highland Valley  
of British Columbia.

# Directors' Report to the Shareholders

Net earnings for the year 1979 were \$57.6 million (\$6.96 per common share) compared to \$14.4 million (\$1.74 per common share) in 1978. The earnings were the highest in the Corporation's history and represent an increase of approximately 300% over the previous year. Dividends totalling \$16.5 million were paid in 1979. These comprised a dividend of \$0.20 per common share paid on May 30, 1979 and a dividend of \$1.00 per common share plus an extra dividend of \$0.80 per common share paid on November 29, 1979. The last of the capital bank loan repayments (U.S. \$25 million) was made by mid-1979. A program to expand the mining and milling capacity of Lornex by about 68% at a cost of approximately \$160 million was begun late in 1979.

## Financial Position

The increase in net earnings in 1979 was due primarily to improved prices for molybdenum and copper, both including higher foreign exchange gains; silver prices were also higher.

The gross revenue price per payable pound of molybdenum averaged \$16.65 in 1979 as compared to \$4.36 in 1978 while the gross revenue price per payable pound of copper averaged \$1.06 in 1979 as compared to \$0.73 in the previous year. The original sales agreement for molybdenum expired June 30, 1979 and new agreements with more favorable terms were negotiated for deliveries through the year 1980. Copper production was virtually unchanged and molybdenum production was about 11% higher than in the previous year. The combined result of volume and price changes was that net revenue from mine production increased to \$190.6 million in 1979 from \$88.1 million in 1978.

## Operations

The tonnage of ore milled increased slightly in 1979 and, although mill recovery was higher, production of copper in concentrate decreased slightly because the mill head grade was lower. More molybdenum in concentrate was produced than in the previous year because of higher recovery and improved mill head grade.



Lornex mine's first Family Day attracted some 2,000 visitors. Aside from free hot dogs, pop and coffee, there were displays of giant, 200-ton-capacity dump trucks like the one dominating picnic area in photo, smaller 120-ton trucks, highly-mobile dart loaders, a rescue demonstration and, of course, horseshoe throwing and foot races.



The average cost per ton of ore milled (excluding amortization and depreciation) increased to \$2.65 in 1979 from \$2.30 in 1978 primarily because the total quantity of ore and waste material handled in mining operations in 1979 was higher by 2.9 million tons, additional work was carried out in raising tailings dams and the cost of energy, materials and labor continued to escalate. The average number of employees was 762 in 1979, slightly higher than the average of 747 last year.

Comparative operating data for the years 1979 and 1978 follows:

	1979	1978
Tons of ore milled (thousands)	17,776	17,557
Average tons milled per operating day	48,701	48,100
Average mill head grade		
– copper	0.432%	0.446%
– molybdenum	0.017%	0.016%
Average mill recovery		
– copper	90.2%	89.5%
– molybdenum	75.1%	71.6%
Payable metal in concentrate produced (thousands)		
– copper (pounds)	134,194	135,422
– molybdenum (pounds)	4,436	3,985
– silver (ounces)	487	507
Pounds of payable metal in concentrate delivered (thousands)		
– copper	129,632	134,621
– molybdenum	4,541	4,110

### Capital Expenditures

Net capital expenditures in 1979 were \$8.7 million; it is expected that they will be significantly higher in 1980 as a result of the expansion program previously announced. In addition to normal equipment replacements, expenditures totalling \$4.3 million were incurred in connection with the expansion program for design engineering, progress payments for major items of equipment and site work to permit major construction to



Most Lornex employees live in nearby Logan Lake. The community's facilities include a shopping plaza, well-stocked library, school, hotel, recreation centre and medical clinic. More housing will be built to accommodate the additional employees necessitated by the

expansion of Lornex operations. Included will be a 55-unit apartment building, 95 detached houses, and lots for 50 mobile homes.

start early in 1980; an additional \$33.6 million had been committed as at December 31, 1979.

Expansion of the Corporation's mining and milling complex was approved by the board of directors on October 22, 1979. The new facilities will include a third slightly larger semi-autogenous mill line, a new crusher and ore conveyor system, 18 new 170-ton trucks, three new 22-cubic yard shovels, an additional tailings line and other related facilities, including additional housing at Logan Lake. The resultant increase in the production capacity will be about 68%. The project is scheduled for completion in mid-1981 and is expected to cost approximately \$160 million; it will be financed from general funds of the Corporation supplemented by temporary bank borrowings if necessary. The expanded plant will be one of the world's most modern and efficient mining and milling operations. A molybdenum leach plant will also be installed at a cost of approximately \$6.6 million. When the expansion is completed it is expected that 325 additional people will be employed at Lornex on a long term basis; this represents a capital cost of almost \$500,000 for each new job created.

#### **Marketing**

Originally all of Lornex's copper concentrate production was sold to a Japanese group of six smelting companies and three trading companies. Under the terms of a new agreement negotiated in September 1979 this group will continue to purchase about two-thirds of the Corporation's current copper concentrate production. This contract extends to 1989. The key terms for the sale of substantial additional quantities of copper concentrates to be produced from the expanded mine and mill facilities have been agreed to with two other major buyers for terms of five years.

Approximately two-thirds of the molybdenum in concentrates that will be produced during the period July 1, 1979 to December 31, 1980 has been contracted for by a Canadian company on a pricing formula related to published dealer prices for molybdc oxide. Most of the balance of the molybdenum production during the period will be converted to molybdc oxide under a toll conversion agreement and the oxide product sold through a sales agent.

#### **Ore Reserves**

Proven ore reserves at December 31, 1979 were estimated to be 448.5 million tons with an average grade of 0.407% copper and 0.014% molybdenum.

#### **Labor Agreements**

The current collective agreement between the Corporation and its production, maintenance, office and technical employees expires on June 30, 1980. The unions involved in the construction of the Corporation's expansion will be negotiating new agreements with the Construction Trade Council during the second quarter in 1980.

#### **Directors**

Mr. J. Ian Crookston, a financial consultant and a Director of Rio Algom Limited, will stand for election to the Board of Directors at the Annual General and Extraordinary General Meeting on April 24, 1980. Amalgamated Brameda-Yukon Limited which holds approximately 20% of the issued capital of Lornex is entitled to have up to three nominees on the Board. Mr. D.L. Hiebert will not present himself for re-election as a Director and Hon. Robert Andras, P.C. will stand for election as a Director in his stead.

#### **Appreciation**

The year 1979 was the most successful in the Corporation's history. The directors wish to record their appreciation of the efforts of all of the Lornex people who made this achievement possible.

On behalf of the Board of Directors of Lornex Mining Corporation Ltd.

R.D. Armstrong,  
Chairman and  
Chief Executive Officer

G.R. Albino,  
President and  
Chief Operating Officer

Vancouver, B.C.,  
February 26, 1980

# Auditors' Report to the Shareholders

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We have examined the statement of financial position of Lornex Mining Corporation Ltd. as at December 31, 1979, 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 corporation as at December 31, 1979 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, British Columbia  
February 4, 1980.

COOPERS & LYBRAND  
Chartered Accountants



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The principal accounting policies followed by Lornex Mining Corporation Ltd. are summarized hereunder:

## **Revenue from Mine Production and Valuation of Concentrates Awaiting Shipment**

Production is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price; concentrates awaiting shipment are also valued on this basis. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1979 inventories of 27.7 million payable pounds of copper and 0.2 million payable pounds of molybdenum contained in concentrates awaiting shipment were valued as described above.

## **Conversion of United States Currency**

The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets and long term liabilities at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

## **Mine Supplies**

Mine supplies are valued at average cost.

## **Depreciation and Amortization**

Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

## **Income and Mineral Resource Taxes**

The Corporation provides for deferred income and mineral resource taxes on all significant timing differences which represent the tax effects of revenue and expense items reported for tax purposes in periods different than for accounting purposes. Investment tax credits claimed for federal income tax purposes are treated as a reduction of the current year's income tax expense. This reduction amounted to \$0.6 million in 1979 (\$2.1 million in 1978).

# Statement of Financial Position

(Thousands of dollars)

**Lornex Mining Corporation Ltd.**  
(Incorporated under the laws of British Columbia)

<b>December 31</b>	<b>1979</b>	<b>1978</b>
<b>Current Assets:</b>		
Cash and short term deposits . . . . .	\$ 77,344	\$ 7,936
Accounts and settlements receivable and prepaid expenses . . . . .	9,156	8,974
Concentrates awaiting shipment . . . . .	26,406	17,154
Mine supplies . . . . .	<u>10,394</u>	<u>9,882</u>
Total . . . . .	<u>123,300</u>	<u>43,946</u>
Less:		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities . . . . .	14,649	9,186
Income and mineral resource taxes . . . . .	<u>52,094</u>	<u>7,554</u>
Total . . . . .	<u>66,743</u>	<u>16,740</u>
<b>Working Capital</b> . . . . .	<u>56,557</u>	<u>27,206</u>
Plant and equipment (note 2) . . . . .	102,374	105,937
Construction in progress, at cost . . . . .	4,338	-
Mining properties and preproduction expenditures (note 3) . . . . .	<u>34,719</u>	<u>36,388</u>
	<u>141,431</u>	<u>142,325</u>
<b>Total assets less current liabilities</b> . . . . .	<u>197,988</u>	<u>169,531</u>
Deduct:		
Long term debt (note 4) . . . . .	1,071	25,448
Deferred income and mineral resource taxes . . . . .	<u>53,925</u>	<u>42,141</u>
	<u>54,996</u>	<u>67,589</u>
<b>Excess of assets over liabilities</b> . . . . .	<u>\$142,992</u>	<u>\$101,942</u>
<b>Ownership evidenced by:</b>		
Capital Stock (note 5)		
Authorized –		
9,500,000 common shares, par value of \$1.00 each		
4,500,000 Class A shares, par value of \$1.00 each		
Issued –		
8,268,762 common shares (8,266,562 shares in 1978) . . . . .	\$ 8,269	\$ 8,267
Premium less discount on shares issued for cash (includes \$17		
premium on shares issued under stock option plan in 1979		
and \$41 in 1978) . . . . .	3,317	3,300
Retained earnings . . . . .	<u>131,406</u>	<u>90,375</u>
Total . . . . .	<u>\$142,992</u>	<u>\$101,942</u>

Approved on behalf of the Board:  
J.G. Edison, Director  
R.D. Armstrong, Director

# Statement of Earnings

(Thousands of dollars)

Lornex Mining Corporation Ltd.

<b>Year Ended December 31</b>	<b>1979</b>	<b>1978</b>
<b>Revenue:</b>		
Net revenue from mine production .....	<b>\$190,572</b>	\$ 88,096
Investment and other income .....	<u>3,607</u>	<u>829</u>
	<b>194,179</b>	88,925
<b>Expenses:</b>		
Operating costs .....	<b>47,058</b>	40,425
Administrative and general expenses .....	<b>9,941</b>	8,603
Amortization and depreciation .....	<u>9,544</u>	<u>9,264</u>
	<b>66,543</b>	58,292
Operating profit .....	<b>127,636</b>	30,633
Interest on long term debt .....	<u>1,739</u>	<u>4,769</u>
Earnings before taxes .....	<b>125,897</b>	25,864
Income and mineral resource taxes		
– Current .....	<b>58,093</b>	5,660
– Deferred .....	<u>10,235</u>	<u>5,850</u>
	<b>68,328</b>	11,510
<b>Net earnings for the year</b> .....	<b>\$ 57,569</b>	\$ 14,354
<b>Net earnings per share</b> .....	<b>\$ 6.96</b>	\$ 1.74

# Statement of Retained Earnings

(Thousands of dollars)

<b>Year Ended December 31</b>	<b>1979</b>	<b>1978</b>
Balance, beginning of year .....	<b>\$ 90,375</b>	\$ 77,674
Add net earnings for the year .....	<u>57,569</u>	<u>14,354</u>
	<b>147,944</b>	92,028
Deduct dividends on common shares .....	<u>16,538</u>	<u>1,653</u>
Balance, end of year .....	<b>\$131,406</b>	\$ 90,375

# Statement of Changes in Financial Position

(Thousands of dollars)

Lornex Mining Corporation Ltd.

Year Ended December 31	1979	1978
<b>Source of Funds:</b>		
Operations		
Net earnings for the year . . . . .	\$ 57,569	\$ 14,354
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation . . . . .	9,544	9,264
Deferred income and mineral resource taxes . . . . .	<u>10,235</u>	<u>5,850</u>
Total funds from operations . . . . .	77,348	29,468
Prepaid royalties recovered . . . . .	<u>1,549</u>	<u>965</u>
	<u>78,897</u>	<u>30,433</u>
<b>Disposition of Funds:</b>		
Expenditures on plant and equipment and construction		
in progress (net) . . . . .	8,657	4,406
Dividends paid . . . . .	16,538	1,653
Repayment of bank loans (1979 – U.S. \$25,000; 1978 – U.S. \$24,000) . . . . .	<u>24,351</u>	<u>23,377</u>
	<u>49,546</u>	<u>29,436</u>
<b>Increase in Working Capital . . . . .</b>	<b>29,351</b>	<b>997</b>
<b>Working Capital, beginning of year . . . . .</b>	<b><u>27,206</u></b>	<b><u>26,209</u></b>
<b>Working Capital, end of year . . . . .</b>	<b><u>\$ 56,557</u></b>	<b><u>\$ 27,206</u></b>

December 31, 1979

**1. Accounting Policies**

The information on page 7 presents a summary of certain accounting policies and is an integral part of these financial statements.

**2. Plant and Equipment**

	<u>1979</u>	<u>1978</u>
Plant and equipment at cost . . . . .	\$149,372,285	\$145,339,718
Less accumulated depreciation . . . . .	46,999,022	39,403,236
	<u>\$102,373,263</u>	<u>\$105,936,482</u>

**3. Mining Properties and Preproduction Expenditures**

	<u>1979</u>	<u>1978</u>
Mining properties at cost . . . . .	\$ 1,233,179	\$ 1,233,179
Less accumulated amortization . . . . .	289,027	251,698
	<u>944,152</u>	<u>981,481</u>
Preproduction expenditures at cost . . . . .	45,898,837	46,191,501
Less accumulated amortization . . . . .	12,123,838	10,784,616
	<u>33,774,999</u>	<u>35,406,885</u>
	<u>\$ 34,719,151</u>	<u>\$ 36,388,366</u>

**4. Long Term Debt**

	<u>1979</u>	<u>1978</u>
Bank loans due August 15, 1981 (U.S. \$25,000,000) . . . . .	\$ -	\$ 24,350,982
Housing loans . . . . .	1,071,306	1,097,475
	<u>\$ 1,071,306</u>	<u>\$ 25,448,457</u>

The housing loans generally carry interest rates varying from 8<sup>3</sup>/<sub>4</sub>% to 11<sup>3</sup>/<sub>4</sub>%.

**5. Capital Stock**

At December 31, 1979, 30,000 common shares were reserved for issue under a Stock Option Plan; during the year 2,200 common shares were issued for \$18,740 cash under the plan.

**6. Commitments and Contingent Liabilities**

- (a) Rio Algom has agreed to supervise and manage the business of the Corporation until December 1, 1984. The 1979 management fee was \$594,000, the 1980 fee will be \$1,000,000 and the fee for future years is to be escalated in accordance with a formula based on published government indices and subject to a maximum based on a percentage of the earnings before taxes.
- (b) The Corporation has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for \$3,522,661 until December 31, 1982; the cost of the buyback declines by 5% per annum thereafter.
- (c) Estimated total cost to complete approved capital expenditures at December 31, 1979 was approximately \$168,214,000 of which \$33,701,000 was committed.

**7. Remuneration of Directors and Senior Officers**

The aggregate direct remuneration paid or payable by the Corporation to the Directors and Senior Officers of the Corporation was \$391,280 in respect of the year ended December 31, 1979. In addition, amounts, charged to earnings in prior years in respect of discretionary deferred bonus awards, totalling \$13,336 became payable to those individuals during 1979.

<b>Five Year Review</b> (Thousands of dollars)	<b>1979</b>	1978	1977	1976	1975
Net revenue from mine production . . . . .	<b>\$190,572</b>	\$ 88,096	\$ 75,449	\$ 82,940	\$ 51,043
Investment and other income . . . . .	<b>3,607</b>	829	1,495	1,503	842
	<b>194,179</b>	88,925	76,944	84,443	51,885
Operating costs . . . . .	<b>47,058</b>	40,425	39,788	33,572	25,141
Administrative and general expense . . . . .	<b>9,941</b>	8,603	7,564	6,913	5,677
Amortization and depreciation . . . . .	<b>9,544</b>	9,264	9,072	8,002	5,917
	<b>66,543</b>	58,292	56,424	48,487	36,735
Operating profit . . . . .	<b>127,636</b>	30,633	20,520	35,956	15,150
Interest expense . . . . .	<b>1,739</b>	4,769	5,139	5,990	6,988
	<b>125,897</b>	25,864	15,381	29,966	8,162
Income and mineral resource taxes . . . . .	<b>68,328</b>	11,510	7,600	14,063	7,536
Net earnings . . . . .	<b>\$ 57,569</b>	\$ 14,354	\$ 7,781	\$ 15,903	\$ 626

**Production Data:**

Tons of ore milled (000's) . . . . .	<b>17,776</b>	17,557	17,065	17,016	12,893
– Per operating day . . . . .	<b>48,701</b>	48,100	46,753	46,877	38,259
Copper in concentrate (pounds – 000's) . . . . .	<b>134,194</b>	135,422	141,111	145,712	107,160
Molybdenum in concentrate (pounds – 000's) . . . . .	<b>4,436</b>	3,985	3,795	3,769	3,084
Silver (ounces – 000's) . . . . .	<b>487</b>	507	556	501	376

**Financial Data:**

Per share of common stock					
– Net earnings . . . . .	<b>\$ 6.96</b>	\$ 1.74	\$ 0.94	\$ 1.93	\$ 0.08
– Dividends . . . . .	<b>\$ 2.00</b>	\$ 0.20	–	–	–
– Equity . . . . .	<b>\$ 17.29</b>	\$ 12.33	\$ 10.80	\$ 9.86	\$ 7.93
Long term debt (000's) . . . . .	<b>\$ 1,071</b>	\$ 25,448	\$ 48,851	\$ 62,263	\$ 66,952
Shareholders' equity (000's) . . . . .	<b>\$142,992</b>	\$101,942	\$ 89,194	\$ 81,343	\$ 65,238
Common shares outstanding (000's) . . . . .	<b>8,269</b>	8,267	8,261	8,253	8,226
Capital expenditures (000's) . . . . .	<b>\$ 8,657</b>	\$ 4,406	\$ 18,584	\$ 17,115	\$ 2,794



