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Seventh Annual
Report to the Stockholders
of
Consolidated Chollar Gould
&
Savage Mining Company

For the Year Ending
December 31, 1939

San Francisco, Calif.,
March 11, 1940.

*To the Shareholders of
Consolidated Chollar Gould &
Savage Mining Company:*

Transmission of the 1939 Annual Report and financial statement has been delayed, due to the fact that the completion of installation of a new crushing unit and slime plant and concentrating tables at the Company's properties at Gold Hill, Nevada, during the latter months of 1939 and during January and February of 1940, overtaxed the Superintendent's office and the accounting personnel.

Your Board of Directors submit herewith a report covering the operations of your Company for the calendar year 1939. A copy of the Auditor's Financial Statement appears in the following pages. The Superintendent's Annual Report is too long to be included, but is available to shareholders of record at the office of the Company.

At the last meeting of the shareholders on March 31, 1939, Managing Director Barton called attention to the fact that during the ensuing year it would be necessary to do considerable development and preparation work in the mine, and to replace the crushing plant and add a slime treatment and concentrating unit. As was expected, and as reflected by the 1939 Balance Sheet, these additions and replacements required heavy capital expenditures.

During the latter part of 1938, 1939, and in January and February of 1940, the following was accomplished:

| | |
|--|--------------|
| Installation of a 75 ton per hour new crushing unit, at a cost of..... | \$24,323.32 |
| Installation of a new slime plant capable of treating 200 tons of slime per day, at a cost of..... | 70,682.01 |
| Installation of an 8-table concentration section and miscellaneous equipment, at a cost of..... | 21,196.39 |
| Total | \$116,202.72 |

Your Company's mill and plant is now a completely integrated cyanide unit rated at 400 tons capacity per day, currently handling a daily tonnage in excess of this figure.

Since the inception of your Company's operations in 1933, the mill has been four times enlarged, successively as follows:

| | | |
|---------|----------------------------|-----------------------------------|
| 1932 | Original installation..... | 50 tons flotation |
| 1934 | enlarged to..... | 100 tons flotation |
| 1936 | enlarged to..... | 250 tons flotation |
| 1938-39 | enlarged to..... | 300 tons flotation and cyanide |
| 1939-40 | enlarged to..... | 400 tons complete cyanidation |

The 1939-40 additional installations were financed without aid from the shareholders and without dilution of their share equity. The necessary financing was accomplished through Directors' (and two shareholders') loans, partially secured, and machinery company lease contract credit.

During the past year, extensive underground development work was carried on in both the Chisholm and Overman Shaft Area. In the Chisholm Shaft Area the development work consisted of extending the ore bodies laterally on the various levels and putting up of numerous raises in preparation for top slicing, as distinguished from the conventional square setting and back fill methods. Top slicing is now under way and is proving highly satisfactory both in lowering mining costs and in maintenance of mill heads. This area should yield not less than 100 tons per day of ore having a value of \$8.50 per ton.

An immediate development of importance is the 400 L Raise which is being put up from a point 750 feet south of the Chisholm Shaft on the 404 South Drift. This work has a threefold purpose.

1. The raise, when holed through, will afford a much-needed second exit;
2. Greatly improve ventilation, thereby increasing labor efficiency and the life of the timbers;
3. This raise will diagonally crosscut the ore zone on its upward course to the surface, and may prove the presence of an ore body near enough the surface to be mined by power shovel.

During the past year, sand and slime tailings aggregating 51,691 tons and of an aggregate value of \$112,947.16 have been impounded for re-processing in the new mill from which a recovery of approximately 95% will be made. In addition thereto, there is impounded for future processing considerable sand and slime tailings tonnage from former years operation.

On February 1, 1940, a new lease was obtained from Sutro Tunnel Coalition Inc., which is a wholly owned subsidiary of the Comstock Tunnel & Drainage Co., permitting surface (power shovel) mining from the Imperial Pit, in close proximity to the Company's mill. It is anticipated that the yield from this source will be at least 300 tons per day.

The Superintendent's report for the year 1939 contains the following operation schedule for the year 1940, which has been approved by your Board of Directors and, so far as concerns plant operation, has been in effect since February 1, 1940. The assay values used by the Superintendent are based on actual figures from last year's operations, and are believed to be conservative.

"MONTHLY OPERATING SCHEDULE

| | <u>Tons</u> | <u>Assay</u> | <u>Content</u> |
|------------------|-------------|--------------|----------------|
| Underground..... | 3,000 | \$8.50 | \$25,500.00 |
| Surface..... | 9,000 | 2.82 | 25,380.00 |
| Total..... | 12,000 | 4.24 | 50,880.00 |
| Recovery..... | 90% | 3.82 | 45,792.00 |

COSTS:

| | | |
|-------------------------|------------|-------------|
| General..... | \$3,000.00 | |
| Mining Underground..... | 12,000.00 | |
| Mining Surface..... | 4,500.00 | |
| Milling..... | 11,000.00 | |
| Plant..... | 250.00 | \$30,750.00 |

Anticipated Net Operating Revenue per Month.....\$15,000.00

RECOMMENDATIONS:

PROPOSED DEVELOPMENT PROGRAM FOR 1940

1. Drive the Overman 701 WXC and 709 SXC to position and connect with the Chisholm Shaft workings and the New York Shaft upper levels.
2. Drive the 404 South Drift off the Chisholm Shaft southerly to explore the old Caledonia Shaft Area and the intersection of the Comstock and Silver City vein systems.
3. Reopen the Knickerbocker Shaft.
4. Return a sufficient quantity of tailings during the summer months to load the slime plant to capacity.
5. Install a low-pressure boiler to heat solution in the mill, and pregnant sumps as an aid to dissolution of values and settlement of slime during the cold season".

It is not anticipated that any further capital expenditures of consequence will be required to maintain the mill and plant at capacity operation for the current and ensuing years. It is anticipated that the underground development mining and a continuance thereof will assure a reasonably long life to the Company's operations, although no precise long range estimate can be made thereof at this time.

Some general observations concerning the capital structure of your Company may be of interest to the shareholders. Reference to previous annual reports will disclose that your Company was organized on February 25, 1933, with an authorized capital of 1,000,000 shares for the purpose of consolidating into one corporation three constituent predecessor companies known, respectively as Gould & Curry Mining Company; Savage Gold & Silver Mining Company and Chollar Gold & Silver Mining Company, and to acquire the mining properties of Bulion Gold & Silver Mining Company. The three predecessor constituent companies had issued and outstanding a total of 640,284 assessable shares of \$1.00 par value each, which were surrendered for 320,142 non-assessable shares of your Company's \$1.00 par value stock on the basis of one new share for each two old shares. Since then your Company has issued an additional 259,379 shares, from which it derived a net total of \$289,855.92 which was applied to working capital, plant acquisition and general corporate purposes. As of the date of this report, your Company has a total of 579,521 shares of \$1.00 par value issued and outstanding. The shareholdings of your Directors and the changes, if any, in the amount thereof since the last annual meeting of the shareholders, are as follows:

| <i>Name of Director</i> | <i>Number of Shares</i> | <i>Increase or Decrease</i> | |
|-------------------------|-----------------------------|-----------------------------|-------|
| Sidney W. Fish | 147,655 | ----- | ----- |
| Thomas V. Barton..... | 9,392 | ----- | ----- |
| Albert E. Kern | 8,878 | ----- | ----- |
| E. K. Potter | 8,000 | ----- | ----- |
| William A. Boekel | 18,468 | 500 | |

In addition to the foregoing tabulation, there should be added the following:

Sidney W. Fish, as the legal guardian of his minor son Sidney Stuyvesant Fish, is the owner of 11,760 shares;
 Grace M. Barton, the wife of Director Thomas V. Barton, is the owner of 26,199 shares;
 Herva C. Boekel, the wife of Director William A. Boekel, is the owner of 800 shares.

At the last meeting of the Board of Directors, held on February 13, 1940, the Annual Meeting of the shareholders was deferred to May 31, 1940. On that date a Special Meeting of the shareholders will be held for the election of directors, official notice of which will be given to you at a later date. It was deemed advisable by your Board of Directors

to defer the meeting to such later date in order to have available at the shareholders' meeting a more detailed progress report concerning the operations of the new plant, and mine and surface operations, which will have been under way by that time for almost three months.

Your directors feel that the year 1939-40 has brought to a satisfactory conclusion a necessarily slow development of plant and property extending over a period of years, and that the year 1940-41, on its foundation of indicated adequate ore reserves and efficient plant, will show a satisfactory financial return on work done.

Respectfully submitted by order of the Board of Directors.

SIDNEY W. FISH,
President,

WILLIAM A. BOEKEL,
Secretary.

JOHN CUMMINGS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

RUSS BUILDING
SAN FRANCISCO

March 4, 1940

*Board of Directors,
Consolidated Chollar Gould &
Savage Mining Company,
1122 Kohl Building,
San Francisco, California.*

Gentlemen:

In accordance with instructions, we have made an examination of the books and records of the Consolidated Chollar Gould & Savage Mining Company, for the year ended December 31, 1939 (which examination supplements previous examinations made by us), and in connection therewith, the following statements are submitted:

EXHIBIT

- A—Balance Sheet, as of December 31, 1939;
- B—Revenue and Expense Statement—January 1, 1939 to December 31, 1939.

GENERAL COMMENTS

Consolidated Chollar Gould & Savage Mining Company is a corporation organized under the Laws of the State of California, with an authorized capital stock of 1,000,000 shares, of the par value of \$1.00 each. Prior to the year 1939, the company issued 579,521 shares of its capital stock and had a liability to issue 27½ shares. There was no change in the amount of issued capital stock during the year 1939.

The changes in the Balance Sheet accounts of Consolidated Chollar Gould & Savage Mining Company during the year 1939, may be summarized as follows:

| | | |
|--|--------------|----------------------|
| <i>Increase in Assets or Decrease in Liabilities</i> | | \$184,529.62 |
| Increase in Buildings, Machinery & Equipment | \$103,870.47 | |
| Total Additions | \$105,660.47 | |
| Less: Amounts Charged to Depreciation Reserve | 1,790.00 | |
| Increase in Development..... | 17,407.96 | |
| Increase in Impounded Tailings..... | 63,251.19 | |
| <i>Less: Decrease in Assets or Increase in Liabilities and Valuation Reserves.....</i> | | 233,503.88 |
| Decrease in Current Assets..... | \$ 13,142.74 | |
| Increase in Liabilities | 168,737.65 | |
| Increase in Reserve for Depletion..... | 37,220.96 | |
| Increase in Reserve for Depreciation .. | 14,402.53 | |
| Depreciation—1939 | \$ 16,192.53 | |
| Less: Charges Against Reserve | 1,790.00 | |
| Net Loss—As Per Profit and Loss Statement | | <u>\$ 48,974.26*</u> |

*Italics denote red ink.

The Profit and Loss Statement shows a profit of \$4,439.23 before deducting Depreciation and Depletion. After deducting Depreciation in the amount of \$16,192.53, and Depletion in the amount of \$37,220.96, a loss was shown of \$48,974.26.

The company milled 96,090 tons of Ore during the year, of which 51,691 tons of Tailings were impounded for further treatment in the future. The direct cost applicable to the impounding of such Tailings was capitalized and is shown on the attached Balance Sheet under the caption "Tailings Impounded in 1939", in the amount of \$63,251.19.

The increase in buildings, machinery and equipment during the year 1939 is represented in the most part by the erection of a Crushing Plant and a Slime Plant. These new Plants were not completed in 1939 so the operating statement does not reflect the operating results of these Plants.

The increase in Liabilities is primarily due to the erection of the Crushing Plant, the Slime Plant and to the Cost of Impounded Tailings.

The Depletion Reserve is set up on the basis of 15% of the net receipts from the sale of Concentrates and Bullion, less certain Royalties

and Marketing Costs. This basis of Depletion has no relation to the actual depletion of the mine, but in the absence of definite information as to the extent of the ore bodies, a scientific basis cannot be formulated. Therefore, the "percentage depletion basis" which, with certain limitations, is permissible for income tax purposes, has been used in the preparation of the attached Balance Sheet and Revenue and Expense Statement.

All expenses of the company have been properly vouchered and approved by responsible officers or employees of the company. The accounting records of the company are, in our opinion, accurately and efficiently maintained.

We wish to acknowledge the courteous cooperation received during our examination.

JOHN CUMMINGS & Co.,
Certified Public Accountants.

By JOHN CUMMINGS,
Certified Public Accountant.

CERTIFICATE OF EXAMINATION

We have made an examination of the Balance Sheet of Consolidated Chollar Gould & Savage Mining Company, as of December 31, 1939, and of the related Revenue and Expense Statement for the year ended that date. In connection therewith we made a review of the accounting methods, and examined or tested accounting records of the company and other supporting facts, in the manner and to the extent we considered appropriate, in view of the system maintained.

In our opinion, based upon such examination, the accompanying Balance Sheet as of December 31, 1939, and the Income and Expense Statement for the year ended that date, fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the period under review, its financial position at December 31, 1939, and the results of its operations for the year ended that date.

JOHN CUMMINGS & Co.,
Certified Public Accountants.

By JOHN CUMMINGS,
Certified Public Accountant.

San Francisco, California,
March 4, 1940.

CONSOLIDATED CHOLLAR GOULD & SAVAGE MINING COMPANY—

| ASSETS | | |
|---|----------------|-----------------------|
| CURRENT ASSETS | | \$ 29,788.87 |
| Cash on Hand and in Bank..... | \$ 2,178.32 | |
| Accounts Receivable—On Sale of Bullion & Concentrates | 13,019.01 | |
| Accounts Receivable—Sundry Debtors—Less Reserve | 1,123.94 | |
| Inventories — Materials and Supplies — At Cost | 13,467.60 | |
| | | <hr/> |
| MINING RIGHTS & PROPERTIES AND IMPROVEMENTS | | 1,124,043.22 |
| American Flat Properties: | | |
| Real Estate—At Cost..... | \$ 22,822.75 | |
| Development — At Appraisal Value 12/31/32, Plus Cost of Subsequent Expenditures | 786,915.60 (a) | |
| Buildings, Machinery & Equipment..... | 152,635.00 | |
| Cost | \$220,288.70 | |
| Less Reserve for Depreciation | 67,653.70 | |
| | | <hr/> |
| Crushing Plant and Slime Plant — Under Construction—At Cost..... | 96,483.68 (b) | |
| Tailings Impounded in 1939—At Estimated Cost | 63,251.19 (c) | |
| Investment in Comstock Tailings Disposal Company | 1,930.00 (d) | |
| | | <hr/> |
| | | \$1,124,038.22 |
| Miscellaneous Mining Rights — Properties—Nominal Value | 5.00 | |
| | | <hr/> |
| OTHER ASSETS | | 2,569.68 |
| Deposits | \$ 1,050.00 | |
| Furniture & Fixtures—At Cost..\$ 2,349.82 | | |
| Less: Reserve for Depreciation.. 830.14 | 1,519.68 | |
| | | <hr/> |
| INTANGIBLE ASSETS | | 52,887.68 |
| Stock Discount | \$ 13,810.60 | |
| Stock Sales Commissions..... | 39,077.08 | |
| | | <hr/> |
| | | <u>\$1,209,289.45</u> |

EXHIBIT "A"—BALANCE SHEET (as of December 31, 1939)

LIABILITIES, CAPITAL AND SURPLUS

| | | |
|---|--------------|-----------------------|
| ACCOUNTS PAYABLE—TRADE CREDITORS | \$ | 36,577.12 |
| CONTRACTS PAYABLE—ON EQUIPMENT PURCHASES | | 32,850.00 |
| NOTES PAYABLE—BANKS | | 21,225.60 |
| NOTES PAYABLE — OFFICERS, DIRECTORS & STOCKHOLDERS | | 89,000.00 |
| NOTES PAYABLE—OTHERS | | 49,852.12 |
| ACCRUED LIABILITIES | | 36,987.03 |
| Accrued Payroll | \$ | 5,006.83 |
| Accrued Taxes | | 4,325.00 |
| Accrued Royalties | | 25,163.90 |
| Accrued Interest | | 2,491.30 |
| RESERVE FOR DEPLETION—15% OF RECEIPTS FROM SALE OF PRODUCTS..... | | 213,351.93 |
| CAPITAL STOCK, SURPLUS AND DEFICIT..... | | 729,445.65 |
| Capital Stock—Authorized..1,000,000 Shs. of \$1.00 Par Value | | |
| Capital Stock—Issued | 579,521 Shs. | \$ 579,521.00 |
| Liability to Issue Stock | 27½ Shs. | 27.50 |
| Premium on Sale of Capital Stock..... | | 89,900.60 |
| Unrealized Appreciation Arising From Revaluation of Capital Assets..... | | 115,100.90 |
| | | 784,550.00 |
| Less: <i>Deficit</i> | | 55,104.35* |
| <i>Deficit</i> —January 1, 1939 ..\$ 6,130.09* | | |
| Net Loss—1939—As Per Exhibit "B"..... | | 48,974.26* |
| | | <u>\$1,209,289.45</u> |

**Italics* denote red ink.

(a) Made Up Of:

| | |
|--------------------------------------|---------------------|
| Appraised Value 12/31/32..... | \$425,840.57 |
| Expenditures—1/1/33 to 12/31/38..... | 343,667.07 |
| Expenditures—1939 | 17,407.96 |
| | <u>\$786,915.60</u> |

(b) Crushing Plant and Slime Plant under Construction—Not in Operation at 12/31/39.

(c) This item represents the portion of expenditure made in 1939 which was allocated to the cost of 51,691 tons of tailings impounded for further treatment in the future.

(d) This item represents a prorata contribution with other operators in a joint tailings disposal operation.

CONSOLIDATED
CHOLLAR GOULD & SAVAGE MINING COMPANY

EXHIBIT "B"

REVENUE AND EXPENSE STATEMENT
January 1, 1939 to December 31, 1939

| | | |
|--|---------------------|----------------------|
| TONS OF ORE MILLED | | 96,090 |
| MINE REVENUE | | <u>\$270,716.06</u> |
| Revenue from Sales of Bullion and Concentrates | \$272,146.76 | |
| Less: Smelter Charges..... | <u>1,430.70</u> | |
| MINE OPERATING EXPENSES | | 254,959.96 |
| Mining Expense..... | \$106,417.60 | |
| Hauling | 27,187.55 | |
| Milling Expense | 90,260.14 | |
| Marketing Expense | 3,550.21 | |
| Royalties Expense | 19,026.11 | |
| Mine Overhead Expense | <u>8,518.35</u> | |
| GROSS MINE OPERATING PROFIT..... | | \$ 15,756.10 |
| OTHER EXPENSES | | 11,316.87 |
| General Overhead Expense | \$ 11,729.35 | |
| Loss on Sale of Equipment..... | 10.00 | |
| | <u>\$ 11,739.35</u> | |
| Less: Miscellaneous Earnings..... | <u>422.48</u> | |
| NET PROFIT — BEFORE DEPRECIATION AND DEPLETION..... | | \$ 4,439.23 |
| DEDUCT: DEPRECIATION ON BUILDINGS, MACHINERY AND EQUIPMENT | | 16,192.53 |
| NET LOSS—BEFORE DEPLETION | | \$ 11,753.30* |
| ADD: DEPLETION—15% OF NET PROCEEDS FROM SALE OF PRODUCT..... | | <u>37,220.96</u> |
| NET LOSS—FOR YEAR 1939—AS PER EXHIBIT "A" | | <u>\$ 48,974.26*</u> |

The Ore Milled includes 51,691 tons of tailings which have been impounded for further treatment in the future when additional equipment is installed. The direct costs applicable to the impounding of such tailings has been capitalized and are not reflected in the above Revenue and Expense Statement.

*Italics denote red ink.