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(309)
Item 10

1940

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

For the Year Ending
December 31, 1940

San Francisco, Calif.,
March 27, 1941.

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

Your Board of Directors submit herewith a brief report covering the operations of your Company for the calendar year 1940, together with a copy of the Auditor's Financial Statement for the same period.

Your Directors feel that the year 1940 was one of the most important in the history of your Company; that although liabilities were increased the expenditures could be considered as capital expenditures and would accrue to the future benefit of the operation for many years to come.

A total of 1593.5 feet of new work was driven during the period. Further underground work was suspended December 31, 1940, as the ore developed could be subsequently mined by power shovel at an 80% reduced cost. Consequently since January 1, 1941, your management has adopted a complete change in mining operations. This was not brought about suddenly but over many years of underground development which to date has proven the presence of a very extensive ore body over 250 feet in width and of unknown length. During this development period it has been the chief effort of the engineering department to project the work upward in an effort to bring this ore body close enough to the surface to make mining by power shovel economically possible. This objective was gained in May 1940 when raises put up in the ore had reached a point approximately 100 feet from the surface. It was not, however, until June 12, 1940 that actual stripping operations to uncover this ore body began resulting in the removal of approximately 500,000 yards during the year at a cost of 12¢ a yard. The first phase of this work could be accurately described as a crosscut in the form of an open pit 540 feet long at right angles to the vein, 250 feet wide and attaining a maximum depth of 125 feet. This section produced 45,303 tons of ore having a gross content value of \$155,000.00 without yet connecting with the upraises previously mentioned. The gratifying results of this work called for a much more extensive stripping program being put into action, the results of which will be reported later.

Calculations of tonnages from eight compiled cross-sections through this area embracing a block of ground from the Overman-Seg-Belcher Line to the Caledonia-North American Shafts—1230 feet—and from the surface to the horizon of our Chisholm Shaft Sixth Level—480 feet—net the following results:

Available Ore.....	2,941,442.4 tons
Less 30% Safety Factor.....	882,432.7 tons
Net Available Reserve.....	2,059,009.7 tons
Less, 1940, Total Mined.....	45,303
	2,013,706.7 tons
Ratio of Estimated Waste Yardage to Net This Ore Tonnage.....	5.07:1
Cost of Stripping per Ton of Ore.....	\$.60
Mining Cost per Ton.....	.30
Blasting, etc.....	.06
	\$0.96

As a further check against the ore tonnage shown we may consider the 45,000 tons of \$3.42 material mined in 1940 as a conservative block-average. This tonnage was obtained from a length of 50 feet, 250 feet in width and 50 feet high. Since the known height of our ore body is 400 vertical feet that 50-foot length should then produce 8 x 45,000 or 360,000 tons, neglecting sub-ore zones. If we now reduce the indicated length of the ore body to 40%, or from 1230 to 500 feet, we would have ten 50-foot-long blocks, each containing 360,000 tons, or 3,600,000 tons total of \$3.42 minimum grade. Allowing a 50% safety factor we are able to eliminate marginal ore by selective methods thereby reducing the indicated tonnage by 1,800,000 tons automatically increasing content value and allowing us to arrive at an apparently safe figure of 1,800,000 tons of ore at \$3.34 per ton.

Under usual mining methods large portions of this ore body would have to be left as too low-grade to be of commercial value. Under the method now being used the present indicated head value should yield a net operating profit in excess of \$2.50 a ton, and although the area mentioned is only a very small portion of the Company's holdings, it indicates a satisfactory operation for over ten years.

It may be interesting at this time to review the various stages of development which prompted the present type of operation. During the last five years over 8,000 feet of underground work has been driven in raises, drifts and crosscuts at a cost of \$164,614.00 making it possible to calculate tonnage and values and estimate actual results with a fair degree of accuracy.

During the same period our gross production amounted to \$1,956,586.00 which amount was put back into our operation making the present program possible and is substantially reflected in development and plant acquisition and installation.

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The new 200 ton slime plant was put in service January 15, 1940 and the table concentration section, replacing flotation, was started up January 25th, but the plant was not completed or accepted by your Company until February 16th of the same year.

The flow sheet of the completed plant is "all-cyanidation" and consists of primary and secondary crushing in open circuit to ¾ inch; ball mill grinding in solution to minus 40-mesh; gravity concentration of sulphide minerals; separation of sand and slime; regrounding the concentrate to 325 mesh and agitation in solution; sand leaching and slime treatment by continuous counter current decantation.

On a total of 132,064 tons of ore milled the recovery by actual production for 1940 was 78.7% of heads which is much below our present ratio of extraction. This can be attributed to the three months delay in completing plant installation.

A total of 20,940.5 man-shifts of eight hours were worked during the year, which resulted in only eighteen injuries causing disability for more than the remainder of the day of occurrence. This record has resulted in reducing our Workmen's Compensation rates 33 ⅓%.

Three claims, the Angels East Annex, Merrillite and Merrillite North Annex, Recorder's Numbers 13565, 13564 and 13566 respectively were added to the Company's list of unpatented mining claims and a parcel of ground listed as "part of" Lot 29 Range 8 Block D was obtained by purchase.

Under a Lease and Option dated April 20, 1940, the Company sold parts of Caledonia USS4599, Altos 9, 10 and 11, Caledonia Annex and USS49B Front to the Dayton Consolidated Mines Company, constituting about 800 feet on the strike of the Silver City Vein for a consideration of \$75,000.00 payable within three years.

At a Special Meeting of your Board of Directors held March 24, 1941 it was decided to forego the calling of the Annual Meeting of the Shareholders which otherwise would be held on the last Friday of March, and in lieu thereof and as in several previous years, to hold a Special Meeting of the Shareholders at a later date for the election of Directors. This will enable the management to come to a more mature conclusion as to the effect on 1941 operations of the existing Federal and State tax laws as well as the effect of proposed or pending amendments thereto. In the meantime, the engineering department of your Company is making studies to determine the scope and ratio of development stripping to actual power-shovel mining to be done this year so as best to minimize taxes while at the same time maintaining an effective and maximum operations program.

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Based on present tax laws it appears that fundamentally your Company occupies a most favorable position from an excess profit tax angle having in the past made very large capital expenditures even prior to the consolidation which will greatly reduce and may even to a large degree eliminate the excess profit tax.

Respectfully submitted by order of the Board of Directors.

SIDNEY W. FISH,
President.

JOHN CUMMINGS & CO.

CERTIFIED PUBLIC ACCOUNTANTS

RUSS BUILDING
SAN FRANCISCO

March 18, 1941

*Board of Directors,
Consolidated Chollar Gould &
Savage Mining Company,
1122 Kobl 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, 1940 (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, 1940;

"B"—Revenue and Expense Statement—January 1, 1940 to December 31, 1940;

"C"—Summary of Changes in Accounts During the Year 1940.

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 1940, the Company issued 579,521 shares of its capital stock and had a liability to issue $27\frac{1}{2}$ shares. There was no change in the amount of issued capital stock during the year 1940.

Exhibit "A" sets forth the financial condition of the Company at December 31, 1940, and Exhibit "C" shows the changes in the various Balance Sheet Accounts during the year 1940, which statements, together with the footnotes thereon are, we believe, self-explanatory.

The Revenue and Expense Statement (Exhibit "B") shows a profit of \$22,574.10 before deducting Depreciation and Depletion. After deducting Depreciation in the amount of \$24,068.77 and Depletion in the amount of \$51,404.73, a loss was shown of \$52,899.40.

The Depletion Reserve is set up on the basis of 15 percent of the net receipts from sale of bullion and concentrates, 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 companies 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.

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CERTIFICATE OF EXAMINATION

We have made an examination of the Balance Sheet of Consolidated Chollar Gould & Savage Mining Company, as of December 31, 1940, 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, 1940, and the Revenue 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, 1940, 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 18, 1941.

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CONSOLIDATED CHOLLAR GOULD & SAVAGE MINING COMPANY

ASSETS

CURRENT ASSETS.....		\$	7,200.09	\$	34,758.35
Cash on Hand and in Banks.....					
Accounts Receivable—On Sale of Bullion & Concentrates.....			10,221.75		
Accounts Receivable—Sundry Debtors—Less Reserve.....			2,282.25		
Inventories—Materials & Supplies—At Cost.....			15,054.26		
MINING RIGHTS & PROPERTIES AND IMPROVEMENTS.....				1,188,623.91	
<i>American Flat Properties</i>					
Real Estate—At Cost.....		\$	23,822.75		
Capital Development—At Appraised Value 12/31/32, Plus Cost of Subsequent Expenditures, to 12/31/38.....			769,507.64 (a)		
Deferred Development—Cost of Expenditures 1/1/39 to 12/31/40, Applicable to Future Operations.....			95,865.36 (b)		
Plant, Buildings, Machinery & Equipment Cost.....			234,241.97		
Less: Reserve for Depreciation.....			87,372.31		
Tailings Impounded—At Estimated Cost—Investment in Constock Tailings Disposal Company.....			63,251.19 (c)		
			1,930.00 (d)		
Miscellaneous Mining Rights & Properties—Nominal Value.....			\$1,188,618.91		
			5.00		
LEASE & OPTION CONTRACT—DAYTON CONSOLIDATED MINES CO. LESS DEFERRED COMMISSION IN CONNECTION THEREWITH.....				48,123.11	
OTHER ASSETS.....				1,702.99	
Deposits.....		\$	250.00		
Furniture & Fixtures.....			1,452.99		
Cost.....			\$2,531.91		
Less Reserve for Depreciation.....			1,078.92		
INTANGIBLE ASSETS.....				52,887.68	
Stock Discount.....		\$	13,810.60		
Stock Sales Commissions.....			39,077.08		
				\$1,326,096.04	

*Italics denote red ink.

NOTES:
(a) This Amount Made Up Of:
Appraised Value 12/31/32.....\$423,840.57
Expenditures—1/1/33 to 12/31/38.....343,667.07
\$769,507.64

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—EXHIBIT "A"—BALANCE SHEET (As of December 31, 1940)

LIABILITIES, CAPITAL & SURPLUS

ACCOUNTS PAYABLE—TRADE CREDITORS.....		\$	83,559.50
CONTRACTS PAYABLE—ON EQUIPMENT PURCHASES.....			20,366.21
NOTES PAYABLE—BANKS.....			16,000.00
NOTES PAYABLE—OFFICERS, DIRECTORS & STOCKHOLDERS.....			121,500.00
NOTES PAYABLE—OTHERS.....			44,031.33
ACCURED LIABILITIES.....			51,212.98
Accrued Payroll.....		\$	3,543.70
Accrued Taxes.....			4,132.62
Accrued Royalties.....			32,377.23
Accrued Interest—Officers, Directors & Stockholders.....			10,257.43
Accrued Interest—Others.....			902.00
TOTAL LIABILITIES.....			\$ 336,670.02
DEFERRED CREDIT—In re. Lease & Option Contract.....			48,123.11
<i>Dayton Consolidated Mines Co.</i>			
RESERVE FOR DEPLETION—15% of Net Receipts from Sale of Products.....			264,756.66
CAPITAL STOCK, SURPLUS AND DEFICIT.....			676,546.25
Capital Stock Authorized—1,000,000 Shs. of \$1.00 Par.....			
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 (in 1933).....			115,100.90
Less: Deficit.....			\$ 784,550.00
Deficit—January 1, 1940.....\$55,104.35*			108,003.75*
Net Loss—1940—As per Exhibit "B".....			52,899.40*
			\$1,326,096.04

NOTES (Continued):

(b) This Amount Made Up Of:
Expenditures—during 1939.....\$ 17,407.96
Expenditures—during 1940.....94,766.48
\$112,174.44
Less: Amount Charged to Operations in 1940.....16,309.08
\$ 95,865.36

(c) This Item Represents the Portion of Expenditures made in 1939 which was allocated to the Cost of 51,691 Tons of Tailings Impounded for Further Treatment in the Future. No Portion of These Tailings were Used During 1940.
(d) This Item Represents a Pro rata Contribution With Other Operators in a Joint Tailings Disposal Operation.

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CONSOLIDATED
CHOLLAR GOULD & SAVAGE MINING COMPANY

EXHIBIT "B"
REVENUE AND EXPENSE STATEMENT
January 1, 1940 to December 31, 1940

TONS OF ORE MILLED.....	132,064	
MINE REVENUE.....	\$364,312.68	
Sale of Bullion & Concentrates.....	1,976.91	
Less: Mint and Smelter Charges.....		19,011.20
Receipts from Lessees.....	\$ 21,108.63	
Gross Receipts.....	2,097.43	
Less: Expense.....		\$381,346.97
TOTAL REVENUE.....		328,911.83
MINE OPERATING EXPENSES.....		
Mining Expense.....	\$135,522.48	
Hauling.....	8,710.65	
Milling Expense.....	149,824.96	
Marketing Costs.....	2,297.25	
Royalties Expense.....	17,340.33	
Mine Overhead Expense.....	15,216.16	
GROSS MINE PROFIT.....	\$ 52,435.14	
OTHER EXPENSES.....		29,861.04
Interest.....	\$ 14,260.59	
General Overhead Expense.....	16,091.06	
Loss on Sale of Equipment.....	173.62	
Less: Miscellaneous Earnings.....	\$ 30,525.27	
	664.23	
NET PROFIT—BEFORE DEPRECIATION AND DEPLETION.....	\$ 22,574.10	
DEDUCT: DEPRECIATION ON BUILDINGS, MACHINERY & EQUIPMENT.....		24,068.77
NET LOSS—BEFORE DEPLETION.....	\$ 1,494.67*	
ADD—DEPLETION.....	51,404.73	
NET LOSS—1940—AS PER EXHIBIT "A".....	\$ 52,899.40*	

*Italics denote red ink.

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CONSOLIDATED
CHOLLAR GOULD & SAVAGE MINING COMPANY

EXHIBIT "C"
SUMMARY OF CHANGES IN ACCOUNTS
During Year 1940

INCREASE IN ASSETS OR DECREASE IN LIABILITIES.....	\$ 4,969.48 (a)	\$ 89,450.87
Increase in Current Assets.....	1,000.00 (b)	
Increase in Real Estate (Right of Way) & Equipment.....	4,841.90 (c)	
Increase in Deferred Development.....	78,457.40 (d)	
Increase in Furniture & Fixtures.....	182.09	
LESS: DECREASE IN ASSETS OR INCREASE IN LIABILITIES AND VALUATION RESERVES.....		142,350.27
Decrease in Deposits.....	\$ 800.00	
Increase in Liabilities.....	70,178.15 (e)	
Increase in Reserves for Depreciation.....	51,404.73	
Increase in Reserves for Depreciation.....	19,967.39 (f)	
INCREASE IN DEFICIT—(OR NET LOSS)		\$ 52,899.40*

*Italics denote red ink.

NOTES:		
(a) Increase in Cash.....	\$ 5,021.77	
Increase in Accounts Receivable—Sundry.....	1,158.31	7,766.74
Increase in Inventories.....	1,586.66	2,797.26
Less: Decrease in Accounts Receivable—Mint & Smelter.....		\$ 4,969.48
Net Increase in Current Assets.....		\$12,845.90
(b) Purchase Price of Right of Way from Receiver of Virginia and Truckee Railway.....		8,004.00
(c) Total Additions.....		
Less: Cost of Equipment Sold.....	\$ 3,729.00	
Selling Price.....	4,101.38	
Charged to Depreciation Reserves.....	173.62	
Loss on Sales.....		\$ 4,841.90
Net Increase in Plant, Buildings, Machinery & Equipment.....		\$94,766.48
(d) Total Increase During 1940.....		16,309.08
Less: Amount Charged to Operations (Mining Expense).....		\$78,457.40
Net Increase.....		\$46,982.38
(e) Increase in Accounts Payable—Trade Creditors.....		\$32,500.00
Increase in Notes Payable—Officers, Directors & Stockholders.....		14,225.97
Increase in Accrued Liabilities.....		\$93,708.33
Less:		
Decrease in Contracts Payable.....	\$12,483.79	
Decrease in Notes Payable—Banks.....	5,225.60	23,530.18
Decrease in Notes Payable—Others.....	5,820.79	\$70,178.15
Net Increase in Liabilities.....		\$24,068.77
(f) Total Depreciation for 1940.....		4,101.38
Less: Depreciation on Equipment Sold in 1940.....		\$19,967.39
Net Increase in Reserves.....		

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