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SUNSHINE MINING COMPANY
1981 ANNUAL REPORT

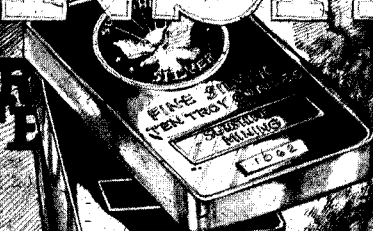
101
Silver Peak 79

BURGIN

SILVER
DOLLAR
SUNSHINE
CONSOLIDATED

SUNSHINE

SILVER
SYNDICATE



16 to 1

BIG CREEK

APEX

D. K. ...

SUNSHINE MINING COMPANY

THE COMPANY

Sunshine Mining Company is a rapidly expanding silver and precious metals concern dedicated to the enhancement of its shareholders' investment and the benefit of its employees through an aggressive program including broadening of its mining assets base and vertical integration into the refining, minting and marketing of precious metals.

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SUNSHINE MINING COMPANY

SELECTED FINANCIAL DATA (A)

(Dollar Amounts in Thousands Except Per Share Data)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
Net operating revenues	\$ 20,616	\$ 7,204	\$23,645	\$16,450	\$10,504
Income (loss) from continuing operations ...	(1,174)	(4,963)	5,483	1,019	(559)
Income (loss) from continuing operations per share (B)					
Primary	(.07)	(.30)	.40	.07	(.04)
Fully diluted ....			.38		
Total assets	157,625	115,357	99,714	59,563	60,202
Long-term obligations (excluding current portion)	59,175	57,500	16,638	18,100	22,137
Cash dividends per share common stock (C) .....	.30	.40	.16	.08	.06
Shares of common stock used for per share computations (B) ...	17,104,000	16,532,000	13,682,000	14,325,000	14,325,000

(A) Reclassified to exclude discontinued operations.

(B) Income (loss) from continuing operations per share is based on the weighted average number of shares outstanding in each year after giving retroactive effect to the 5-for-2 stock split in 1980. Fully diluted earnings per share in 1979 assumes conversion of the 6½% subordinated debentures issued in 1969, and reduction of related interest and amortization expense, net of taxes. No potential dilution of earnings per share would result for any other year from conversion of the outstanding subordinated debentures.

(C) Cash dividends per share are based on dividends paid to Sunshine's shareholders after adjustment for the stock split as enumerated in Note B.

DIVIDEND AND MARKET INFORMATION*

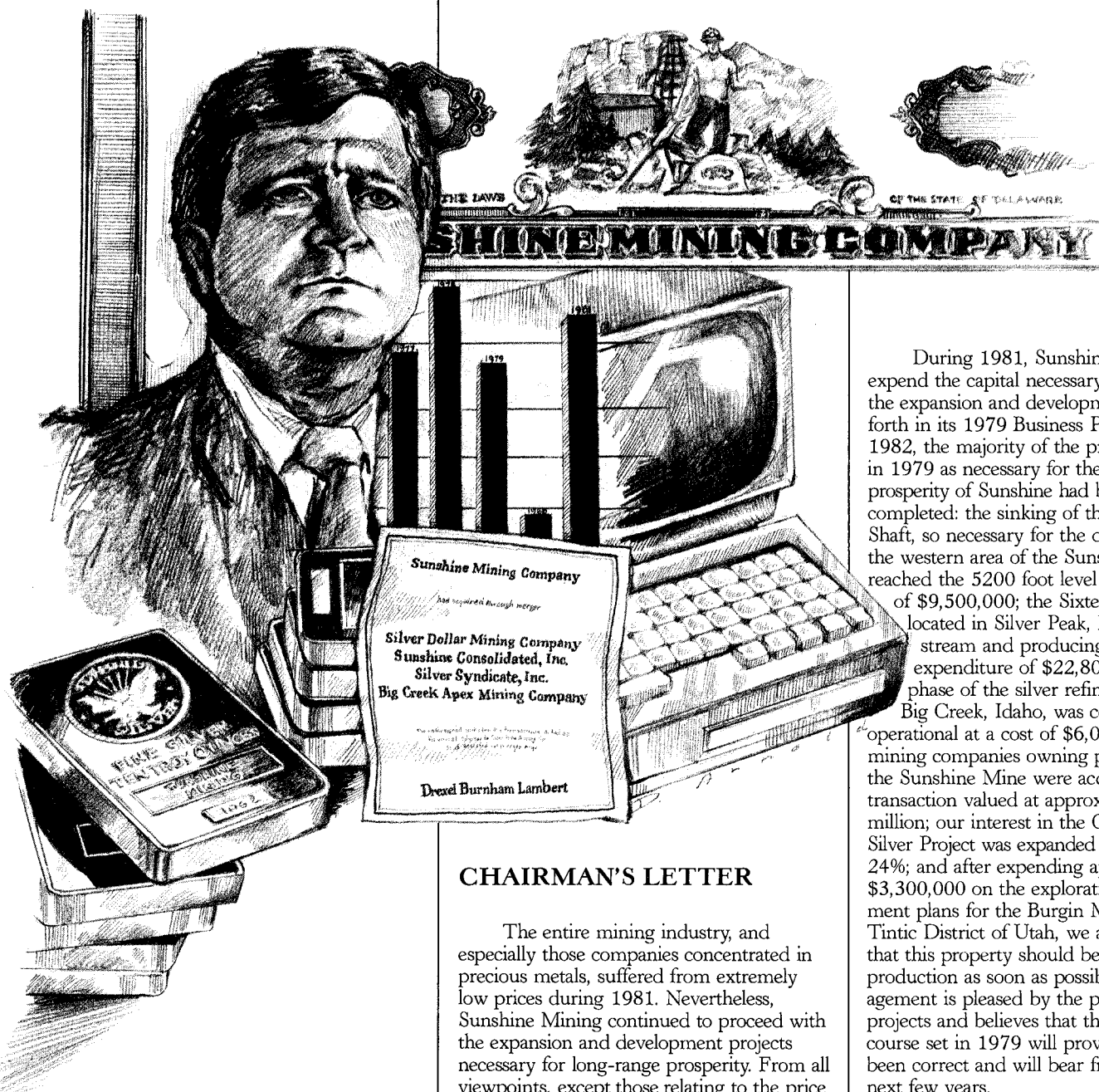
	1981	1980	1979	1978	1977
Dividends					
Cash Per Share					
First Quarter	\$.10	\$.10	\$.04	\$.02	\$.02
Second Quarter .....	.10	.10	.04	.02	.02
Third Quarter .....	.10	.10	.04	.02	.02
Fourth Quarter	—	.10	.04	.02	—
Total	\$.30	\$.40	\$.16	\$.08	\$.06
Market Price, New York Stock Exchange (High-Low)					
First Quarter	\$18.5 - 12.8	\$16.5 - 9.0	\$ 7.0 - 4.0	\$5.3 - 4.6	\$6.5 - 4.4
Second Quarter	15.3 - 10.5	14.4 - 9.5	6.7 - 5.1	5.2 - 4.7	6.2 - 5.3
Third Quarter	12.1 - 9.1	26.3 - 11.6	8.9 - 5.3	5.4 - 4.8	6.0 - 4.9
Fourth Quarter	10.6 - 8.0	24.6 - 15.1	14.3 - 6.4	5.6 - 3.6	5.7 - 4.5
Approximate number of shareholders of record March 11, 1982	28,000				

SILVER DATA**

Production Tonnage (Tons)	109,700	28,500	97,100	113,500	87,000
Silver Production (Ounces)	2,311,600	509,800	2,009,600	2,821,800	2,145,000
Proven and Probable Reserves (Ounces) ..	39,307,000	33,350,000	25,630,000	24,811,000	24,544,000
Price Range of Silver					
High	\$16.45	\$48.70	\$34.45	\$6.32	\$4.98
Low	7.95	10.80	5.92	4.81	4.31

*Adjusted for the 5-for-2 stock split in March 1980.

**Data reflecting Sunshine Mining Company's proportionate interest in the mine properties.



CHAIRMAN'S LETTER

The entire mining industry, and especially those companies concentrated in precious metals, suffered from extremely low prices during 1981. Nevertheless, Sunshine Mining continued to proceed with the expansion and development projects necessary for long-range prosperity. From all viewpoints, except those relating to the price structure of our primary product, your Company entered 1982 in a stronger position than at any time in its corporate history.

Losses for 1981 amounted to \$(1,174,000) or \$(.07) per share. Revenues for the year amounted to \$20,616,000. The average price for silver during 1981 was \$10.52 per ounce contrasted to \$20.63 per ounce for 1980. Of course our primary asset, the Sunshine Mine located in Kellogg, Idaho, was closed due to an eight-month strike during 1980, and the benefits of those high prices were lost to your Company in 1980.

All metal prices fell dramatically during 1981, but the price decline for silver, proportionately, was greater than that of most other metals. There were a number of reasons for this price decline during 1981, but foremost was a decision by the United States Government to dispose of the 139 million ounces of silver in the strategic stockpile. Please refer to the section entitled "Silver Report" on page 10 for a detailed discussion.

During 1981, Sunshine continued to expend the capital necessary to complete the expansion and development projects set forth in its 1979 Business Plan. As of early 1982, the majority of the projects identified in 1979 as necessary for the long-range prosperity of Sunshine had been substantially completed: the sinking of the Number 12 Shaft, so necessary for the development of the western area of the Sunshine Mine, had reached the 5200 foot level at a capital cost of \$9,500,000; the Sixteen-to-One Mine located in Silver Peak, Nevada, was on stream and producing after a capital expenditure of \$22,800,000; the first phase of the silver refinery located at Big Creek, Idaho, was complete and operational at a cost of \$6,000,000; four mining companies owning properties within the Sunshine Mine were acquired in a transaction valued at approximately \$50 million; our interest in the Consolidated Silver Project was expanded to approximately 24%; and after expending approximately \$3,300,000 on the exploration and development plans for the Burgin Mine in the East Tintic District of Utah, we are convinced that this property should be placed in production as soon as possible. Your management is pleased by the progress of these projects and believes that the corporate course set in 1979 will prove to have been correct and will bear fruit in the next few years.

It is especially pleasing to welcome to our corporate family approximately 5,000 new shareholders who previously were holders of the securities of the Silver Dollar Mining Company, Silver Syndicate, Inc., Sunshine Consolidated, Inc. and Big Creek Apex Mining Company. We expect that the acquisition of these properties will lead to enhanced mining and accounting economics, better planning and development of our immensely valuable asset . . . the Sunshine Mine. Although the effort to acquire these companies was protracted and marred by costly litigation, we are pleased by the ultimate outcome and welcome the future contribution of the personnel and stockholders of these acquired companies.

During 1981, the Sunshine Mine returned to its historic position as the number one silver producer in the United States. Ore grade mined during 1981 averaged 20.6 ounces of silver per ton of ore and produced a total of 4,144,700 ounces of silver. This return to production excellence

is directly due to the successful efforts of the supervisory staff at the Sunshine Mine in improving labor-management relations, productivity and mine maintenance.

Your Company owns ore reserves of all categories that contain slightly in excess of one hundred fifty million ounces of silver. Through acquisition and development our production capabilities are rapidly expanding and during 1982 your Company has the capacity to produce twice as much silver as it produced in 1981. For the first time in its history, Sunshine owns meaningful gold ore reserves.

Utilizing the same conceptual approach as oil and gas companies in valuing their reserves, the management of your Company estimates that the future value of the ore reserves of the Sunshine Mining Company was approximately \$350,000,000. In this estimate, we have attributed no value to Sunshine's twenty-five percent carried interest in the approximately 840 square mile Ambler River Prospect located in Alaska. Anaconda is the major owner and operator of this project, and the gross value of the minerals contained for Sunshine's interest in these leases amounts to \$695,000,000.

Nineteen hundred eighty-two will be the year in which the majority of the objectives set forth in the 1979 Business Plan will be completed. Also, judging from the first few weeks of this year, 1982 will be a year of extreme difficulties for the metal mining industry in the United States. At prevailing price levels, only a very few metal mines in the United States will operate at a profit! Our steps to become a vertically integrated precious metals company will continue to stabilize revenues and earnings to some extent; but, unless cost of production is below the price received for the metals that we (and others) mine, our long-range future may involve the entry into other natural resource business areas. Nevertheless, we must not forget that metal prices run in cycles and that current price levels are near, or at, the bottom of a price cycle. When silver prices recover to more normal levels, Sunshine will be positioned to take maximum advantage of the opportunity.

Although we readily admit that the future contains many uncertainties, your Company has the capital, the assets and the management to look forward to the future with confidence. Our job is to maximize the investment return to our shareholders, and

we have the tools to do that job. Thank you for giving us that opportunity.

A special thanks to the past directors who retired during 1981; their contribution and support was exceedingly valuable during the past formulative years. And a special welcome to our new directors, Fred Humphreys of Boise, Idaho and Raymond Dempsey of Philadelphia, Pennsylvania. We look forward to the vision and the expertise that these gentlemen will lend to Sunshine's direction in the ensuing years.

Thank you again for your continued support.



G. Michael Boswell
Chairman, President and
Chief Executive Officer



OPERATIONS REVIEW

Sunshine's two major operating properties are located in Kellogg, Idaho, and Silver Peak, Nevada. The Sunshine Mine at Kellogg has been since the 1930's America's leading producer of silver, a title it resumed in 1981 following an eight-month work stoppage in 1980. The Sixteen-to-One Mine in Silver Peak underwent extensive underground development and above-ground construction and improvement during 1981, preparatory to start-up of mining and milling in early 1982.

Mining methods differ substantially between the Sunshine and the 16-to-1 mines. Economics (ore grade), ground conditions, the lay of the ore deposit (geology), and other more esoteric factors dictate the way in which silver is extracted from a property. At Sunshine, the "cut-and-fill" stopping method is employed, whereby ore is removed by blasting from excavations, called stopes, in the vein, dropped down a chute, loaded into an ore car, trammed by electric locomotive to the shaft, and hoisted to the surface. 16-to-1 mining involves a "blast-hole shrink" procedure with ore trammed out aboard four-ton, rubber-tired, diesel loaders along inclined ramps to the surface. Ore blasted from successively higher levels will accumulate in draw-points at the bottom level of the mine at a much faster rate than it can be withdrawn or milled, which means ore extraction and milling may proceed for some time after mining costs have ceased.

Extraction costs per ton at the 16-to-1 are expected to be approximately one-third what they are at the more labor-intensive Sunshine Mine. While lower ore grade at the 16-to-1 somewhat offsets this cost advantage, per-ounce extraction cost should run approximately 33 percent less than at Sunshine.

SUNSHINE MINE OPERATIONS

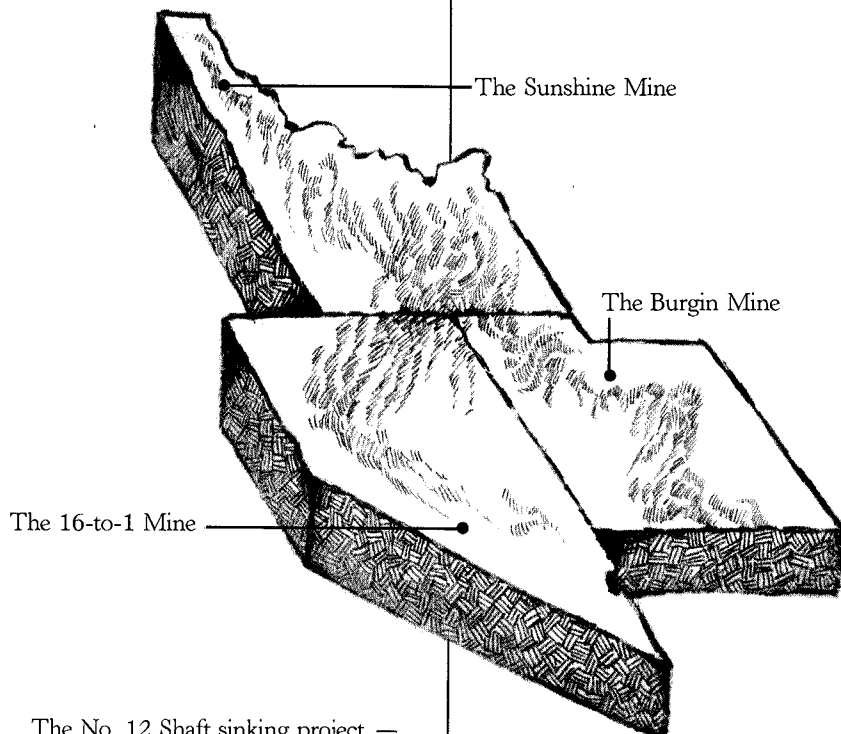
Silver recovered from underground mining operations at the Sunshine Mine totaled 4,050,627 ounces during 1981, with an additional 94,105 ounces of silver recovered from low-grade material on the surface. The Sunshine Mine led the United States in silver production during 1981.

A total of 51 stopes on various levels from the 3100 level to the 5400 level contributed to 1981 production of 197,154 tons of ore, at an average grade of 20.61 ounces per ton. While in any given month, between 30 and 40 stopes were in operation, this flexibility of mining areas made a significant contribution to 1981's excellent production. To take full advantage of this increased flexibility, a Grade Control Committee consisting of the Production Superintendent and members of the Geology and Engineering staffs was established and empowered to reduce ore dilution by narrowing or closing marginal stopes.

In spite of a depressed market for silver, the Company undertook numerous major underground development projects during 1981. Some 2,612 feet of drift were driven, the most in three years. Development also included 359 feet of raising, 1,105 feet of boreholes, and 8,280 feet of diamond drilling.

Six new stopes above the 3700 level were developed during 1981, with another eight planned for 1982. Substantial operating economies will be realized because ore generally will be transferred directly to the Jewell Shaft rather than first through the No. 10 Shaft, resulting in less handling. Several previously-mined areas in this vicinity were the site of rehabilitation during 1981. They include the No. 5 Shaft area on the 3700 level, the No. 4 Shaft area between the 3100 and 3700 levels, and the Yankee Girl Vein between the 3100 and 3700 levels. Geologic data indicate several million ounces of silver in pillars and previously uneconomic reserves in this region of the mine. These areas should contribute 16.2 percent of the total 1982 production.

OPERATIONS AREA



The No. 12 Shaft sinking project — 1981's major capital improvement program at the Sunshine Mine — advanced 793 vertical feet to the 5048 depth during the year. The target depth of 5235 feet was reached early in 1982. Lateral advance included drifting on the 4000, 4800, and 5000 levels and development of stations on the 4400, 4600, 4800, and 5000 levels. The shaft should enter production during the second quarter of 1982. No. 12 Shaft will reduce dependence on the No. 10 Shaft, allow increased mining in the Copper Vein, facilitate development of the Yankee Girl and Silver Syndicate veins at depth, and enhance efficiency in the transporting of men, materials, and ore.

The 5000 level Copper Vein drift, which will connect No. 10 and No. 12 shafts, advanced 778 feet in 1981 and was 1,842 feet from its objective at year-end. When completed, the drift will allow mining of the Copper Vein between the 5000 and 4800 levels. Projections indicate a potential of seven stopes from this drift, which should intercept the No. 12 Shaft by September, 1982.

SUNSHINE SILVER REFINERY

The dore' processing component for the 16-to-1 material at the Sunshine silver refinery was 80% complete by the end of 1981 and commenced operation in March of this year. The completion schedule for the total refinery has been re-allocated to 1983 due to deterioration in silver prices. To date, total expenditures on the refinery project have amounted to \$6 million and the refinery is producing approximately 3,500 ounces of .999 fine silver per day and approximately 300 ounces of pure gold per month.

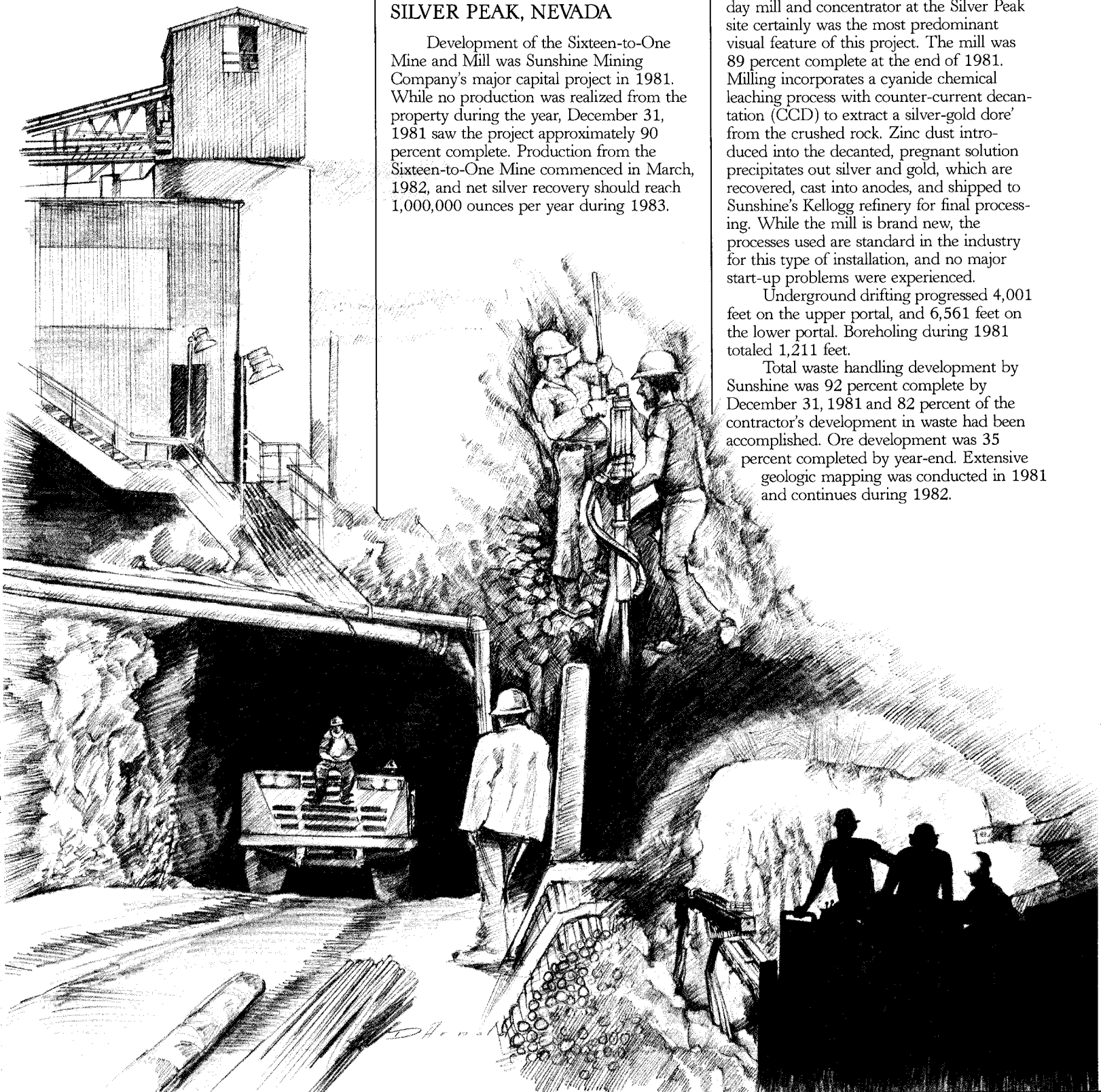
SIXTEEN-TO-ONE MINE, SILVER PEAK, NEVADA

Development of the Sixteen-to-One Mine and Mill was Sunshine Mining Company's major capital project in 1981. While no production was realized from the property during the year, December 31, 1981 saw the project approximately 90 percent complete. Production from the Sixteen-to-One Mine commenced in March, 1982, and net silver recovery should reach 1,000,000 ounces per year during 1983.

Construction of a new 500 ton-per-day mill and concentrator at the Silver Peak site certainly was the most predominant visual feature of this project. The mill was 89 percent complete at the end of 1981. Milling incorporates a cyanide chemical leaching process with counter-current decantation (CCD) to extract a silver-gold dore' from the crushed rock. Zinc dust introduced into the decanted, pregnant solution precipitates out silver and gold, which are recovered, cast into anodes, and shipped to Sunshine's Kellogg refinery for final processing. While the mill is brand new, the processes used are standard in the industry for this type of installation, and no major start-up problems were experienced.

Underground drifting progressed 4,001 feet on the upper portal, and 6,561 feet on the lower portal. Boreholing during 1981 totaled 1,211 feet.

Total waste handling development by Sunshine was 92 percent complete by December 31, 1981 and 82 percent of the contractor's development in waste had been accomplished. Ore development was 35 percent completed by year-end. Extensive geologic mapping was conducted in 1981 and continues during 1982.



Exploration, development, and assays reveal both ore reserves and ground conditions to be as expected when the project began. Silver reserves totaled 9,512,748 ounces at the end of 1981, with 36,729 ounces of gold. These reserves are based on an average ore grade of 7.77 opt silver and .03 opt gold on 1,224,292 tons. Sunshine is entitled to 66-2/3 percent of revenues (100% of revenues until total investment, plus interest, has been recovered) from the property, as per its lease with Mid-Continent Mining Company.

On-site housing at Silver Peak for employees and their families, a new dry house, and a new office building were substantially completed during 1981.

SIXTEEN-TO-ONE 1981 HIGHLIGHTS

Production: None

Development

Drifting: 10,562 ft.

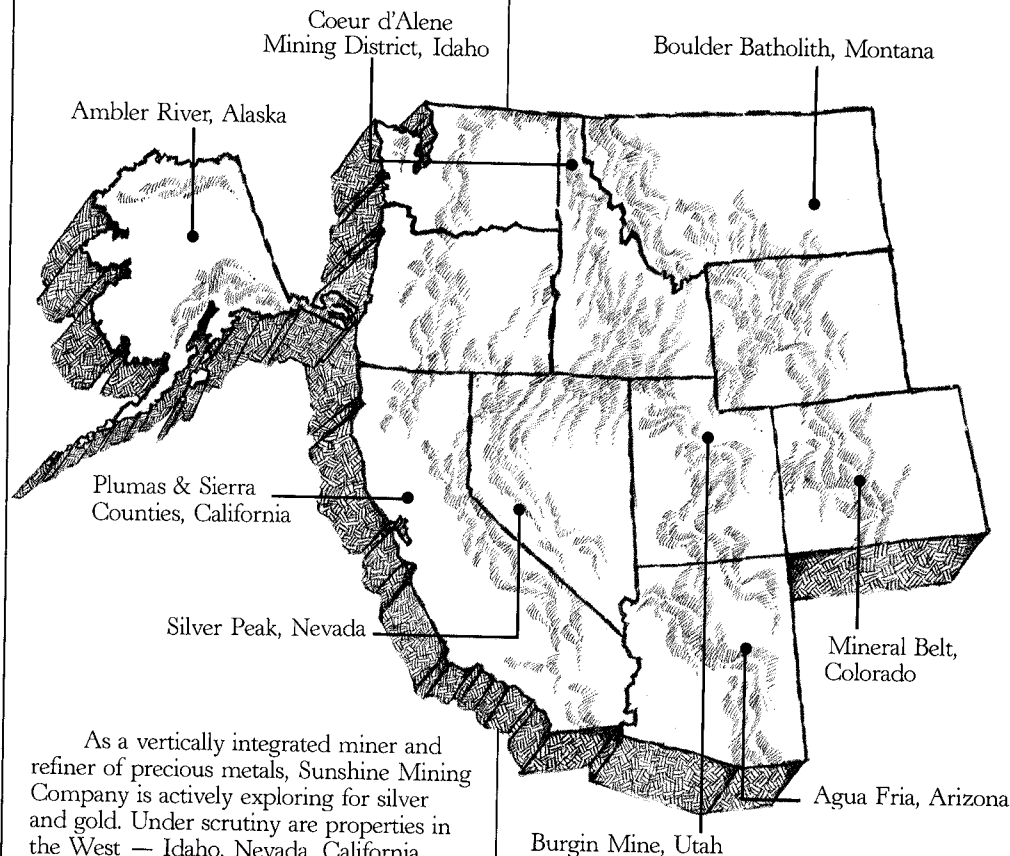
Boreholing: 1,211 ft.

Ore Reserves (Dec. 31, 1981)

Silver: 9,512,748 oz.

Gold: 36,729 oz.

EXPLORATION



As a vertically integrated miner and refiner of precious metals, Sunshine Mining Company is actively exploring for silver and gold. Under scrutiny are properties in the West — Idaho, Nevada, California, Arizona, Montana, Utah, Colorado, and Alaska. Property evaluation commences from internal study by the Department of Geology, by overtures from mining property holders, from geologic data extant in literature covering mining districts, and from our interest in properties adjacent to, or nearby, our own operations.

The goal of exploration, of course, is to locate and develop economic ore reserves which are the lifeblood of a mining company. Sunshine is deeply committed to this search. What follows are summaries of some of our more significant exploration activities during 1981.

BURGIN MINE, EAST TINTIC DISTRICT, UTAH

The Burgin property is one of Sunshine's most extensive, and most promising, exploration projects. The focal point of our evaluation is directly adjacent to the Burgin Mine, formerly operated by Kennecott and now leased to Sunshine by Chief Consolidated. Sunshine exercised its option on a 50-year lease of some 1,387 acres at the site calling for a net smelter royalty payment to Chief of 7.5 percent after expenses are recouped, should production commence.

During 1981, five rotary exploratory holes were drilled by Sunshine, with four of them revealing high grades of mineralization and identifying three major orebodies: the Main Burgin, Eureka Standard, and Middle Fault. Four holes were diamond drilled beyond their rotary depths. Previously unknown mineral deposits were also discovered at depths below what was considered to be the extent of the mineralization.

A headframe was constructed by Sunshine at the Apex No. 2 Shaft and some 1,000 vertical feet of the shaft were rehabilitated during 1981. The shaft will be used for underground exploration as our evaluation program progresses.

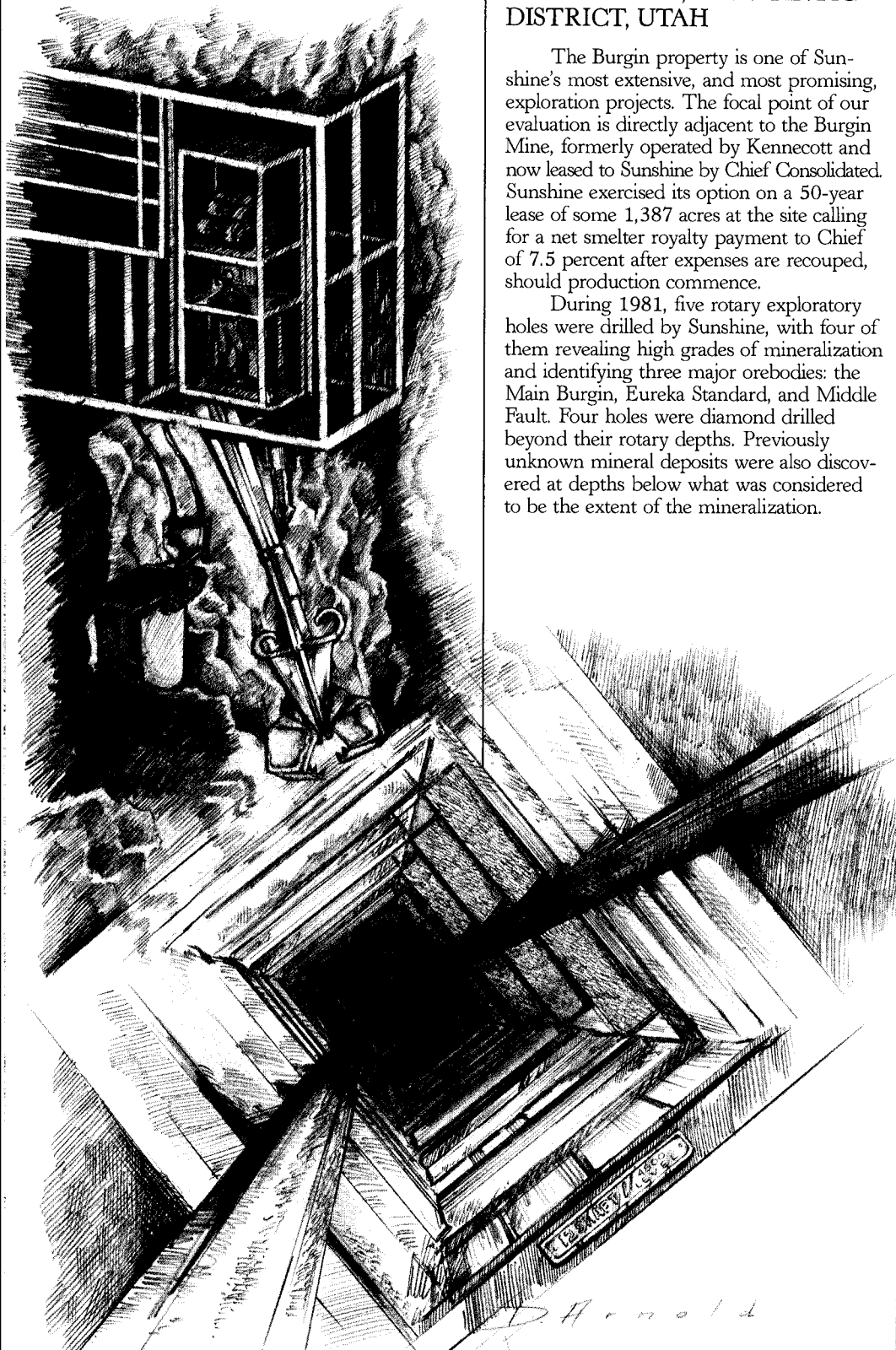
Based on data developed during 1981, Sunshine estimated year-end probable and possible reserves to be as follows:

	<u>1981</u>	<u>1980</u>
Tons:	1,741,224	1,623,224
Grade:		
Silver	12.80 opt (22,284,597 oz.)	12.35 opt
Lead	16.14% (281,046 tons)	16.26 percent
Zinc	6.85% (119,233 tons)	7.12 percent

CONSOLIDATED SILVER (SILVER SUMMIT MINE) COEUR D'ALENE DISTRICT, IDAHO

The Consolidated Silver property consists of 1,233 acres of owned mining claims and 288 acres of leased claims and lies adjacent to the Sunshine Mine in the Coeur d'Alene Mining District's Silver Belt. A deep shaft exploration project at Consolidated was launched during 1980, and some limited projection from the property occurred during 1981. In the first quarter of 1982, Hecla Mining Company, the operator, halted production and curtailed shaft development to one shift per day as a response to lower metal prices. The property is expected to return to production as metal prices, particularly silver, improve.

During 1981, the Silver Summit Shaft was deepened from the 4596 level to the 4952 level for a total of 356 feet. Additionally, rehabilitation work was performed underground and to the 300 ton-per-day mill. Sunshine's interest in the venture increased from 11.8 percent to 23.9 percent on December 30, 1981, as a result of the merger with Silver Dollar.





ALLIED SILVER-LEAD COEUR D'ALENE DISTRICT, IDAHO

Sunshine entered into a 40-year renewable lease agreement during 1981 with Allied Silver-Lead, a property adjacent to the western boundary of the Lucky Friday Mine in Mullan, Idaho, a major silver producer. Sunshine is committed to spend \$1,300,000 during the next five years exploring or developing the Allied property. A single exploratory hole diamond drilled to the 4250-foot level on the Allied property encountered encouraging mineralization. Directional and rotary drilling are planned for Allied during 1982. Sunshine's agreement with Allied calls for Sunshine to receive 65 percent of net profits from any production after Sunshine's costs have been recovered.

PLUMAS & SIERRA COUNTIES, CALIFORNIA

Sunshine now has a general partnership participatory interest in a placer gold property located in Plumas and Sierra Counties, California. Old workings dug mainly between 1870 and World War I revealed ancient, buried tertiary channels that could be mined by underground drift mining techniques. A limited drilling program was conducted during 1981 and further evaluation of the site is planned for 1982. The property has potential for developing several thousand feet of gold-bearing channel gravels, in one or two such buried channels which lie beneath 800 to 1000 feet of volcanic rock and later sand, gravel, and clays.

AMBLER RIVER DISTRICT, ALASKA

Groundwork was performed during the summer on Sunshine's several hundred claims in the Ambler District in the Western Brooks Range. A major evaluation program is scheduled for 1982 to locate and define exploitable gold reserves.

OTHER PROJECTS

Sunshine maintains an active, on-going exploration program on its operating properties in Kellogg and Silver Peak. The Company's objective at the Sunshine Mine is to provide sufficient reserves to assure another five to ten years of operation. The Sunshine Mine has operated on a five-to-ten-year reserve basis since the 1930's. Properties adjacent to and near the Sunshine and Sixteen-to-One mines also undergo evaluation from time to time. Elsewhere, exploration and study are underway by Sunshine in the Greater Coeur d'Alene District and Pearl District of Idaho (silver, gold, and base metals), the Colorado Mineral Belt (silver and gold), Agua Fria, Arizona (gold), the Boulder Batholith in Montana (silver and gold), and in the west coast of Africa (gold).

THE SUNSHINE BULLION COMPANY

In September 1981, Sunshine formed a joint venture with The Metal Arts Company (a New York based mint) for the production and marketing of investment quality silver bullion. In December, The Sunshine Bullion Co. began marketing one troy ounce silver medallions, and early in 1982, it introduced ten ounce and one hundred ounce precision die-struck bars. The joint venture presently has over 30 independent retail investment bullion dealers and several substantial financial institutions throughout the United States engaged in marketing Sunshine's silver pieces. The joint venture expects to expand its marketing program to other countries during 1982.

SILVER REPORT



The prices of silver and gold were severely depressed during 1981. Interest rates remained at near historic highs during the year.

	High/ Date	Low/ Date	Average for Year
Silver (per ounce)	\$16.45/ Jan. 6	\$7.95/ Dec. 29	\$10.52
Gold (per ounce)	\$599.25/ Jan. 6	\$391.25/ Aug. 4	\$459.68
Prime Interest Rate	21½%/ Jan. 1	15¾%/ Dec. 2	18.8%

The gold-to-silver ratio for the year averaged 44 to 1, but was as high as 36 to 1 when the highest prices for the year were attained in January and the ratio was as low as 51 to 1 in November. As of this writing the approximate price for silver is \$7.14 per ounce, while gold sells at approximately \$332 per ounce. Today's gold-to-silver ratio is approximately 46 to 1 and the prime rate is quoted at 16%.

A number of circumstances occurring in concert placed severe pressure on silver prices during 1981:

- The overhang-fear created by the clumsy attempts to sell the nation's strategic silver stockpile and the specter that large individual holdings accumulated in late 1979 and 1980 would have to be dumped on the market.
- The continuing oversupply situation created as a result of the high prices during 1979 and 1980 bringing very substantial amounts of secondary silver to the market.
- The very real downturn in industrial activity coupled with high interest costs.

Although there continued during 1981 to be a surplus of primary produced and secondary silver over total industrial demand, this surplus was dramatically less than that which was experienced during 1980. Additionally, primary silver production from mines was relatively static to the production for 1980. U.S. mine production was apparently only slightly in excess of 37 million ounces, several million ounces less per annum than that produced during 1977 through 1980.

The shortfall or primary deficit of silver production from mines in relation to industrial needs during 1981 is believed to have aggregated approximately 140 million ounces. Furthermore, at current market prices, or even prices ranging to approximately \$20 per ounce, it is not believed that secondary silver from melting coins or from old scrap will flood into the market as it did during the 1979 through 1980 period. The surplus created by the flow of secondary silver and the overhang of silver stocks which was experienced during 1979/1980 was almost totally absorbed by the market during 1981.

It is our feeling that currently the silver market is simply sitting around and recovering, slowly but surely, from the massive hangover which resulted from the 1979/1980 binge. In business and investment, it is easy to fall into the trap of drawing long-term conclusions from short-term happenings. Falling prices carry their own momentum and depression feeds upon itself. However, the idea that silver prices have gone into a slump from which there will be no recovery may well go down in history as one of its great misconceptions. The shortfall between industrial consumption and primary production is real and is significant. Although we do not believe that dramatic price increases will be experienced in the near term, we remain convinced that the long-range outlook for silver prices is upward and that the fundamental factors are bullish.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1981 RESULTS COMPARED TO 1980 RESULTS

Mining revenue increased \$13,412,000 from \$7,204,000 in 1980 to \$20,616,000 in 1981, with a comparable increase in mining costs of \$11,504,000 from \$7,671,000 in 1980 to \$19,175,000. As a result, the gross profit increased \$1,908,000 from a loss of \$467,000 in 1980 to a profit of \$1,441,000 in 1981. These increases are mainly due to an increase in silver production from 1980 to 1981, Sunshine's share being 1,801,830 ounces. However, the lower silver prices more than offset this improved productivity. Production in 1980 was affected by the labor strike at the Sunshine Mine which began in March 1980 and lasted approximately eight months.

Exploration, general and administrative expenses decreased \$1,009,000 (15%) from \$6,636,000 in 1980 to \$5,627,000 in 1981. The decrease of \$298,000 (24%) in exploration expenses was primarily a result of the Burgin and Silver Peak projects moving from the exploration stage in 1980 to the development stage in 1981. General and administrative expenses decreased \$711,000 (13%) due to the reduction of administrative staff and lower expenses associated with stockholder meetings and solicitation. Such shareholder expenses were capitalized in 1981 to the extent they related to the merger with Silver Dollar Mining Company, Sunshine Consolidated, Inc., Silver Syndicate, Inc. and Big Creek Apex Mining Company.

The increase in other income (expense) of \$277,000 (13%) from \$2,140,000 in 1980 to \$2,417,000 in 1981 is a result of less mine litigation expense in 1981 offset somewhat by higher interest expense due to an increase in long-term debt.

1980 RESULTS COMPARED TO 1979 RESULTS

Mining revenue decreased \$16,441,000 (70%) from \$23,645,000 in 1979 to \$7,204,000 in 1980. Mining costs decreased \$4,071,000 (35%) from \$11,742,000 to \$7,671,000. The resulting gross margin decreased from a profit of \$11,903,000 in 1979 to a loss of \$467,000 in 1980. The reduction in profitability was the result of a labor strike at the Sunshine Mine which began on March 15, 1980, and lasted approximately eight months. Sunshine's share of silver production in 1980 was only 509,770 ounces as compared to 2,009,605 ounces in 1979.

Exploration, general and administrative expenses increased \$2,980,000 (82%) from \$3,656,000 in 1979 to \$6,636,000 in 1980. Exploration expenses increased \$892,000 (237%) as a result of a much more active exploration program primarily devoted to the delineation of reserves at the Burgin Mine. General and administrative expenses increased \$2,088,000 (64%) primarily because of the costs related to the sale of Sunshine's manufacturing operations, the redemption of Sunshine's 6½% convertible subordinated debentures, two shareholder meetings and as a result of inflation. Legal fees also increased as a result of the costs associated with the settlement of certain outstanding legal disputes.

Other income (expense) improved from a net expense of \$383,000 in 1979 to income of \$2,140,000 in 1980. This improvement was primarily the result of the investment of proceeds from Sunshine's Silver Indexed Bonds at interest rates which exceeded the 8½% coupon rate on the Silver Indexed Bonds.

No income tax credit was recorded in 1980 because the utilization of operating loss carryforward is not assured. At the time taxable income is realized in the future the loss carryforward will be applied and a tax credit will be recorded.

LIQUIDITY AND CAPITAL RESOURCES

In 1981, Sunshine's liquidity decreased primarily as a result of capital expenditures (\$35,747,000) and payment of cash dividends (\$5,128,000). This decreased liquidity was offset somewhat by an increase in long-term debt (\$1,675,000) and sales of discontinued operations (\$1,432,000). Sunshine has access to a \$17,000,000 line of bank credit to meet liquidity requirements for 1982.

The ratio of Sunshine's total liabilities to equity improved during 1981 from 1.4:1 to 1:1 as a result of the issuance of Sunshine shares in connection with the merger with Silver Dollar Mining Company, Sunshine Consolidated, Inc., Silver Syndicate, Inc. and Big Creek Apex Mining Company.

THE EFFECTS OF CHANGING PRICES

Inflation has had an impact on Sunshine's operating costs in 1981, and it is expected inflation will continue to increase operating costs in 1982. Sunshine's labor contracts provide for cost of living adjustments based on changes in government-provided price indices. As Sunshine's labor rates and cost of living provisions are comparable to others in the mining industry, no loss of competitive position should result from these adjustments, although total costs are expected to increase with inflation.

Most of Sunshine's revenues are from sales of silver concentrates. There are many factors that influence the price of silver. Changes in the supply and demand for silver, worldwide economic and political conditions and speculative activity in the silver market all cause fluctuations in silver prices. Volatility in the price of silver would cause substantial fluctuations in the revenues of Sunshine. However, Sunshine expects silver prices and, therefore, revenue to increase over time.

December 31, 1981 and 1980
(Dollar Amounts in Thousands)

[illegible]

December 31, 1981 and 1980
(Dollar Amounts in Thousands)

LIABILITIES

	1981	1980
Current liabilities:		
Notes payable, bank (Note 6)	\$ 1,529	
Current portion of long-term debt (Note 7)	4,025	
Accounts payable:		
Trade	5,296	\$ 2,737
Other	1,036	585
Accrued expenses:		
Payroll, vacation and severance	1,307	1,412
Federal and state income taxes	1,602	1,432
Interest	703	788
Pension (Notes 1G and 10)	599	856
Other	2,075	326
Total current liabilities	18,172	8,136
Long-term debt (Note 7)	59,175	57,500
Other long-term liabilities	2,219	
Deferred income taxes (Note 1F)	1,077	1,672
	<u>80,643</u>	<u>67,308</u>
Litigation (Note 11)		

STOCKHOLDERS' EQUITY

Common stock, par value \$.50 per share, authorized 50,000,000 shares; 22,925,484 shares issued at December 31, 1981 and 17,289,349 shares issued at December 31, 1980 (Notes 8, 9 and 12)	11,463	8,645
Capital surplus	76,598	32,976
Retained earnings (Note 7)	<u>1,879</u>	<u>8,181</u>
	89,940	49,802
Less:		
Treasury stock, at cost; 249,926 shares at December 31, 1981 and 236,854 shares at December 31, 1980 (Note 12)	1,980	1,753
Net unrealized loss on noncurrent marketable equity securities (Note 3)	10,267	
Foreign currency translation adjustment	<u>711</u>	
	76,982	48,049
Total liabilities and stockholders' equity	<u>\$157,625</u>	<u>\$115,357</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF OPERATIONS

For the years ended December 31, 1981, 1980 and 1979
(Dollar Amounts in Thousands Except Per Share Data)

	1981	1980	1979
Mining revenue	\$20,616	\$ 7,204	\$23,645
Mining costs	19,175	7,671	11,742
Gross profit (loss)	1,441	(467)	11,903
Exploration expenses, including depreciation and amortization	970	1,268	376
General and administrative expenses	4,657	5,368	3,280
	5,627	6,636	3,656
Income (loss) from continuing operations before other income (expense) and income taxes	(4,186)	(7,103)	8,247
Other income (expense):			
Interest expense	(3,556)	(2,944)	(3,998)
Interest income	5,949	6,134	2,796
Miscellaneous, net	24	(173)	951
Tender expenses (Note 17)			(920)
Mine litigation expense (Note 11)		(877)	788
	2,417	2,140	(383)
Income (loss) from continuing operations before income taxes	(1,769)	(4,963)	7,864
(Provision) credit for income taxes (Notes 1F and 13) .	595		(2,381)
Income (loss) from continuing operations .	(1,174)	(4,963)	5,483
Discontinued operations (Note 18):			
Income from discontinued operations, less income taxes of \$1,592			2,815
Gain on disposal of discontinued oil and gas operations, less income taxes of \$1,704			3,363
Net income (loss)	<u>\$(1,174)</u>	<u>\$(4,963)</u>	<u>\$11,661</u>
Per common share:			
Primary:			
Continuing operations	\$(.07)	\$(.30)	\$.40
Discontinued operations .....			.20
Gain on disposal of discontinued operations .....			.25
Net income (loss)	<u>\$(.07)</u>	<u>\$(.30)</u>	<u>\$.85</u>
Fully diluted:			
Continuing operations			\$.38
Discontinued operations .....			.17
Gain on disposal of discontinued operations .....			.20
Net income			<u>\$.75</u>
Weighted average shares outstanding	<u>17,104,000</u>	<u>16,532,000</u>	<u>13,682,000</u>
Cash dividends per share	<u>\$.30</u>	<u>\$.40</u>	<u>\$.16</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1981, 1980 and 1979
(Dollar Amounts in Thousands)

	1981	1980	1979
Source of funds:			
Income (loss) from continuing operations	\$ (1,174)	\$ (4,963)	\$ 5,483
Items not requiring outlay of funds:			
Depreciation, depletion and amortization	2,784	1,038	770
Deferred income taxes	(595)		715
From discontinued operations			2,815
From disposal of discontinued operations			3,363
Total funds from operations	1,015	(3,925)	13,146
Proceeds from issuance of silver-indexed bonds, net of \$3,525 in issue costs		53,975	
Issuance of common stock	46,440	70	3,200
Increase in long-term debt	1,675		
Increase in other long-term liabilities	535		
Issuance of common stock warrants			43
Conversion of 6½% subordinated debentures, net of \$450 in discount and issue costs in 1980		17,071	767
Decrease in equity of discontinued operations	1,432	15,064	12,755
Gain on the sale by Sunshine Holdings of the company's common stock			222
Decrease in investments			361
Decrease of investments in and note receivable from affiliate	182	930	
Sale of treasury stock		10,492	
Other, net		166	5
Decrease in working capital	39,491		
	<u>\$ 90,770</u>	<u>\$ 93,843</u>	<u>\$ 30,499</u>
Application of funds:			
Purchase of companies, excluding working capital of \$3,445:			
Property, plant and equipment	\$ 46,248		
Marketable equity securities	1,992		
Other	(1,488)		
Purchase of property, plant and equipment, net	35,747	\$ 10,975	\$ 3,778
Decrease in long-term debt		16,638	1,463
Cash dividends	5,128	6,803	2,209
Investment in and note receivable from affiliate			6,541
Increase in long-term notes receivable	372	13,070	770
Purchase of treasury shares	227	38	11,078
Increase in investments	2,517	16,429	
Other, net	27	90	
Increase in working capital		29,800	4,660
	<u>\$ 90,770</u>	<u>\$ 93,843</u>	<u>\$ 30,499</u>
Increase (decrease) in working capital:			
Cash and cash investments	\$ (40,722)	\$ 20,160	\$ 16,693
Accounts and notes receivable	13,680	(24,308)	15,727
Inventories	(3,318)	3,915	(126)
Net assets of discontinued operations	(95)	(11,194)	11,400
Refundable income taxes	1,086	(17)	(430)
Deferred income tax benefit			(783)
Prepaid expenses	(86)	136	472
Current portion of long-term debt	(4,025)	726	774
Accounts payable	(3,010)	10,985	(8,125)
Accrued expenses	277	1,009	(2,971)
Other current liabilities	(1,749)	209	208
Notes payable, bank	(1,529)	28,179	(28,179)
	<u>\$ (39,491)</u>	<u>\$ 29,800</u>	<u>\$ 4,660</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 1981, 1980 and 1979
(Dollar Amounts in Thousands)

(Note 12)

	Common Stock		Capital Surplus	Retained Earnings
	Shares	Amount		
Balances, December 31, 1978	14,346,757	\$ 7,173	\$12,150	\$10,495
Net income				11,661
Conversion of debentures	104,596	53	714	
Sale of common stock warrants			43	
Acquisition of J. H. Rayner (Holdings), Ltd.	400,000	200	3,000	
Gain on sale by Sunshine Holdings of the company's common stock			222	
Cash dividends, \$.16 per share				(2,209)
Balances, December 31, 1979	14,851,353	7,426	16,129	19,947
Net loss				(4,963)
Conversion of debentures	2,427,059	1,214	15,750	
Gain on sale of treasury stock			1,032	
Exercise of employee stock options	10,937	5	65	
Cash dividends, \$.40 per share				(6,803)
Balances, December 31, 1980	17,289,349	8,645	32,976	8,181
Net loss				(1,174)
Exercise of employee stock options	50,365	25	334	
Conversion of debentures	2,077	1	14	
Issuance of stock for purchased businesses ..	5,583,693	2,792	43,274	
Cash dividends, \$.30 per share				(5,128)
Balances, December 31, 1981	<u>22,925,484</u>	<u>\$11,463</u>	<u>\$76,598</u>	<u>\$ 1,879</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. INDUSTRY SEGMENT

The company is currently involved in one industry segment which is the mining of precious metals. Currently, all concentrates are sold to one smelter (see Note 18).

B. MINING REVENUES

Mining revenues are recorded as concentrates are shipped to the smelter based on average prices during the month. At the time the actual price and ore content are determined, the company records an adjustment to provide for the actual revenues realized from the shipment. These adjustments can result in material changes from period to period if substantial changes in the price occur between the time of shipment and the time of pricing. The company has from time to time sold silver contracts in the futures markets in order to hedge against price fluctuations. The period between shipment of concentrates and final settlement is approximately four months.

C. INVENTORIES

Inventories are stated at lower of cost (principally first-in, first-out) or market.

D. INVESTMENTS

Investments are carried at the lower of aggregate cost or market.

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Gain or loss on retirement or disposal is reflected in operations. Maintenance and repairs are charged to operating costs as incurred.

Depreciation of property and equipment is provided on the straight-line or declining-balance method at rates based on the estimated lives of the applicable assets. In general, depletion of mine properties is computed on the basis of units extracted in relation to the estimated reserves.

Substantially all exploration costs are charged to income as incurred. Costs of major mine development projects, including interest, are capitalized and amortized in relation to the estimated ore reserves.

NOTES TO FINANCIAL STATEMENTS, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. INCOME TAXES

Deferred income taxes are provided for the estimated income tax effect of timing differences between financial and taxable income (see Note 13).

Investment and job tax credits are accounted for as a reduction of income tax expense in the year earned.

G. EMPLOYEE RETIREMENT PLANS

Pensions are provided under trustee plans covering most of the employees of the company. Actuarially computed pension costs, including provision for amortization of past service costs over ten to twenty years, are currently funded.

2. INVENTORIES:

Inventories consist primarily of mining supplies. Inventory at December 31, 1980 includes approximately \$3,600,000 of silver concentrate awaiting shipment to the smelter.

3. INVESTMENTS:

Investments are comprised of the following:

	1981	1980
Mining and other natural resource companies	\$21,393,000	\$17,134,000
Other securities	292,000	42,000
	21,685,000	17,176,000
Net unrealized loss on investments	10,267,000	
	<u>\$11,418,000</u>	<u>\$17,176,000</u>

The investments in mining and other natural resource companies are principally in shares of companies holding either undeveloped mineral claims or rights in the vicinity of the Sunshine Mine. The company makes no representation that the market values could be realized in the event of sale of these holdings. At December 31, 1980, the aggregate market value of investments exceeded the aggregate cost by approximately \$895,000.

4. INVESTMENT IN AFFILIATE.

In July 1979, the company acquired all of the outstanding stock of J. H. Rayner (Holdings) Limited, a London based commodities firm ("Rayner"), for 400,000 shares (as adjusted for the five-for-two stock split) of the company's common stock valued at \$3,200,000 at the date of acquisition. The terms of the purchase agreement provide for an adjustment to the purchase price based upon the difference between net book value of Rayner at September 30, 1980 and the \$3,200,000, but limited to \$2,000,000, to be either paid in cash or received by the company in notes.

In August 1980, the company filed suit attempting to rescind the purchase agreement (see Note 11). Additionally, in 1980 Rayner was reorganized and discontinued certain of its operations. In October 1981, liquidators were appointed to dispose of the discontinued operations of Rayner.

If the company is unsuccessful in its attempts to rescind the purchase agreement, realization of its investment will be through the adjustment to the purchase price as provided in the purchase agreement and through the continuing operations of Rayner.

Since the company is attempting to rescind the acquisition or otherwise dispose of Rayner, the investment is considered temporary and accordingly is reflected at cost, which, in the opinion of management, is not in excess of net realizable value.

The financial position and results of operations from continuing operations of Rayner for the years ended September 30, 1981 and 1980 are summarized as follows:

	1981	1980
Current assets	\$11,078,000	\$21,881,000
Other assets	1,461,000	523,000
Total assets	<u>\$12,539,000</u>	<u>\$22,404,000</u>
Current liabilities	\$10,129,000	\$21,702,000
Stockholders' equity	2,410,000	702,000
Total liabilities and stockholders' equity	<u>\$12,539,000</u>	<u>\$22,404,000</u>
Revenues	<u>\$21,234,000</u>	<u>\$ 7,051,000</u>
Net income	<u>\$ 1,151,000</u>	<u>\$ 564,000</u>

NOTES TO FINANCIAL STATEMENTS, Continued

5. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are summarized as follows:

	1981	1980
Land	\$ 474,000	\$ 288,000
Mine development costs	21,392,000	9,689,000
Buildings and equipment	40,083,000	16,205,000
Leasehold improvements	413,000	433,000
Mineral interests	46,248,000	
	<u>\$108,610,000</u>	<u>\$26,615,000</u>

During the years ended December 31, 1981 and 1980, the company capitalized interest costs of \$1,570,000 and \$465,000, respectively.

The company provides for depreciation of fixed assets on the straight-line or double-declining-balance method at rates based on the estimated useful lives of the respective assets. The principal rates used are as follows:

Buildings	1.67% to 12.50%
Equipment .....	.8.50% to 33.33%

6. NOTES PAYABLE, BANK:

Notes payable, bank at December 31, 1981 consist of various notes with interest rates ranging from 13% to 17.6%, collateralized by certificates of deposit totaling \$1,100,000.

7. SHORT-TERM AND LONG-TERM DEBT:

The maximum and average amounts of short-term debt outstanding during the year ended December 31, 1981 were \$6,700,000 and \$842,000, respectively, and for the year ended December 31, 1980 were \$23,000,000 and \$8,583,000, respectively. The weighted average interest rates were 17.3% and 15.9% for the years ended December 31, 1981 and 1980, respectively. The maximum and average amounts of borrowings were computed based upon month-end balances. The weighted average interest rate was computed by dividing interest incurred on the borrowings by the average outstanding indebtedness.

The company has a \$17,000,000 line of credit with an interest rate of 104% of prime (prime at December 31, 1981 was 15¾%) plus .4% of which \$5,700,000 was outstanding at December 31, 1981. A commitment fee of one-half of one percent is charged on the unused portion of this line of credit. Borrowings under the line are due thirteen months from the date the lender cancels the loan agreement.

The remainder of long-term debt outstanding at December 31, 1981 and 1980 consists of 8½% silver-indexed bonds, \$30,000,000 (less current portion of \$2,100,000) due April 15, 1995 and \$27,500,000 (less current portion of \$1,925,000) due December 15, 1995. Capitalized bond issue costs of \$3,667,000 are being amortized over the life of the bonds. Each \$1,000 face bond is payable at maturity or redemption at the greater of \$1,000 or a specified market price of 50 ounces of silver (the "Indexed Principal Amount"). If the Indexed Principal Amount is greater than \$1,000, the company at its option may deliver silver to bondholders electing to accept silver in satisfaction of the Indexed Principal Amount.

Bonds may be redeemed in 1985 and thereafter at the discretion of the company, assuming certain conditions are met. Annual sinking fund requirements commencing on issue anniversary dates in 1982 require the company to call 7% of the original issue. Face amount of bonds called but declining redemption will be added to the amount called in subsequent years, limited to 14% per year of adjusted original issue.

The indenture relating to the bonds provides certain restrictions on the payment of cash and stock dividends, issuance of additional silver-related securities, and purchases of treasury stock. All of retained earnings was available for payment of cash dividends and purchase of treasury stock at December 31, 1981. The company may issue additional silver-related securities backed by up to 1,510,000 ounces of silver at December 31, 1981.

The minimum amount of qualified reserves, as defined and required by the indenture at December 31, 1981, was approximately 11,500,000 ounces. The amount of total qualified reserves at December 31, 1981 was approximately 21,925,000 ounces.

The bonds are collateralized by 7.254% interest in the annual mining production of the Sunshine Mine subject to certain limitations.

NOTES TO FINANCIAL STATEMENTS, Continued

8. ACQUISITION OF COMPANIES:

On December 30, 1981, the company issued 5,583,693 shares of common stock in exchange for all the outstanding common stock of Silver Dollar Mining Company, Sunshine Consolidated, Inc., Silver Syndicate, Inc. and Big Creek Apex Mining Company. The total purchase price of \$50,197,000 represents the fair value of the company's securities of \$46,066,000 and cash payments of \$4,131,000 and was allocated to assets acquired based on their estimated fair market values. The transaction was accounted for as a purchase as of December 31, 1981, and therefore the results of operations for the companies prior to that time are not included in the statements of operations and retained earnings. The pro forma combined results of operations of the companies for the years ended December 31, 1981 and 1980 as though the companies had been acquired as of January 1, 1980 are as follows:

	1981	1980
Operating revenues	<u>\$27,196</u>	<u>\$10,669</u>
Net loss	<u>\$ (4,460)</u>	<u>\$ (2,792)</u>
Net loss per share	<u>\$(.20)</u>	<u>\$(.13)</u>

9. STOCK OPTIONS AND WARRANTS:

The shareholders ratified on March 10, 1980 the sale of warrants to purchase 1,062,500 shares of the company's common stock to three key officers of the company and approved in principle the adoption of a nonqualified stock option plan covering certain other key members of management. The warrants, which were issued for a total cash consideration of \$42,500 (\$.04 per share), entitle the holders to purchase the related shares of the company's common stock at \$7.508 per share any time prior to December 31, 1982. On February 23, 1982, the term of the warrants was extended and will expire on August 31, 1985. The market price of the company's common stock on the date the warrants were sold was \$6.25 per share.

The stock option plan covers a total of 500,000 shares of the company's common stock. The option price may not be less than 100% of the market price on the date granted. Options are exercisable at 25% per year beginning one year after the date of grant. The company has previously granted options to purchase a total of 396,500 shares at prices ranging from \$6.25 to \$23.125 per share. During 1981 the company granted options to purchase an additional 34,500 shares at prices ranging from \$12.00 to \$13.50 per share. During the years ended December 31, 1981 and 1980 the company canceled 12,500 and 17,000 stock options, respectively. The effect of the warrants and options has not been included in the computation of net loss per share for 1981 and 1980 as the effect would be antidilutive nor has it been included in the computation of net income per share for 1979 since the dilution is immaterial. In connection with the stock option plan, the company has implemented a loan guarantee program for certain key employees. At December 31, 1981 approximately \$309,000 has been guaranteed by the company pursuant to this program.

10. EMPLOYEE RETIREMENT PLANS:

Pension expense for the years 1981, 1980 and 1979 was \$599,000, \$856,000 and \$706,000, respectively.

Based on the latest actuarial valuations (January 1, 1981), the actuarially computed value of vested and nonvested benefits of the plans assuming a rate of return of 7% was \$6,108,000 and \$700,000, respectively; net assets available for benefits were \$8,778,000.

11. LITIGATION:

The company is involved in certain litigation including but not limited to the following:

a. In 1965 an action was instituted against the company which claimed that the company removed certain ore from property owned by the company and Silver Surprise, Inc. ("Surprise") as tenants in common. The company was successful in defending against this suit in the trial court. On March 4, 1976, the Court of Appeals of the State of Washington reversed the judgment of the trial court. The case was remanded to the trial court to determine the amount of damages. On January 7, 1977, the Supreme Court of the State of Washington affirmed the divided decision of the Court of Appeals.

On March 26, 1979 the company reached an agreement with the board of directors of Surprise whereby the company would issue 687,500 shares of its common stock to acquire the assets of Surprise and Surprise would dismiss the suit against the company. Accordingly, the company reversed a provision for loss on the litigation totaling \$1,150,000 (less applicable deferred income taxes of \$598,000) which was charged to income in 1976. This agreement is subject to approval by the shareholders of Surprise. As of February 24, 1982 Surprise has refused to perform in accordance with the terms of the agreement and the stockholders of Surprise have not approved its provisions.

NOTES TO FINANCIAL STATEMENTS, Continued

11. LITIGATION (Continued):

The company is consulting with counsel with respect to the failure of Surprise to consummate the transaction. The preliminary view of such counsel is that Surprise may be in breach of the agreement and that certain of its officers and agents may have caused Surprise to commit such breach. Depending on the results of such consultation, the company may seek to recover damages from Surprise and such other persons.

b. On August 27, 1980, a lawsuit was filed by Sunshine and its subsidiary, RANN Trading Company Limited ("RANN"), against Iran Industries Corporation Limited ("Iran Industries"), seeking to rescind a stock purchase agreement between Sunshine, RANN and Iran Industries executed in June of 1979. Pursuant to that agreement, RANN acquired all of the stock of J. H. Rayner (Holdings) Limited ("Rayner") and its subsidiaries. The suit alleges misrepresentations and breaches of warranty regarding the financial condition of Rayner. In addition to rescission and recovery of the stock, the suit seeks damages in an amount in excess of \$1,000,000, resulting from Sunshine's performance under the stock purchase agreement.

In December 1980, Iran Industries filed an amended answer and counterclaim generally denying the allegations of Sunshine's complaint and alleging various breaches of contract arising out of the stock purchase agreement, breach of fiduciary duty with regard to the management of Rayner, fraud and claims for an accounting, indemnity and attorneys' fees. Discovery is currently being taken in this action. Sunshine believes the counterclaims are without merit.

c. In 1975, Hecla Mining Company filed a cross claim alleging breach of warranty of title resulting from cross conveyances made when the companies created the Unit Area in 1958. The claim was tried in 1981, and in January 1982, the court entered a judgment entitling Hecla to a 16.63% interest in an area previously owned jointly by Sunshine and Silver Syndicate, Inc. and \$1,120,000 for ores previously mined from such area. The company has filed motions to amend the findings of fact and conclusions of law and is seeking a new trial. The company contends that the court should reform the deed to conform the same to the intent of the parties which was established at the trial. In the event the court does not grant the company's requested relief, the company intends to appeal the matter to the Supreme Court of the State of Idaho and believes that it will ultimately prevail.

12. COMMON STOCK TRANSACTIONS:

In June 1979 the company acquired 1,465,695 shares of its own common stock for the treasury. In December 1979 the company sold 2,574,500 treasury shares for approximately \$21,883,000 and the company issued to the purchaser an option to purchase an additional 1,250,000 shares held as treasury stock for \$10,625,000. The transaction resulted in a gain on the sale of treasury stock of approximately \$222,000, which was credited to capital surplus. The option to purchase 1,250,000 additional shares (from treasury) was exercised on January 21, 1980 resulting in a gain on the sale of treasury stock of \$1,032,000 which has also been credited to capital surplus.

On March 12, 1980 the company effected a five-for-two stock split and recapitalization of common stock from \$.05 to \$.50 par value. The company purchased 2,794 fractional shares for the treasury in connection with the recapitalization. In 1981 and 1980, 2,077 and 2,427,059 shares, respectively, were issued at \$7.216 upon conversion of \$17,524,000 of the company's 6½% convertible debentures which were called for redemption on April 11, 1980. Employees and officers purchased 50,365 shares of common stock at prices ranging from \$6.25 to \$13.60 per share and 10,937 shares at prices ranging from \$6.25 to \$6.90 per share under the terms of the company's stock option plan during the years ended December 31, 1981 and 1980, respectively. On December 30, 1981, the company issued 5,583,693 shares of common stock in exchange for all the outstanding shares of Silver Dollar Mining Company, Sunshine Consolidated, Inc., Silver Syndicate, Inc. and Big Creek Apex Mining Company (see Note 8).

13. (PROVISION) CREDIT FOR INCOME TAXES:

(Provision) credit for income taxes includes:

	December 31,	
	1981	1979
Federal	\$595,000	\$(2,122,000)
State		(259,000)
	<u>\$595,000</u>	<u>\$(2,381,000)</u>

NOTES TO FINANCIAL STATEMENTS, Continued

13. (PROVISION) CREDIT FOR INCOME TAXES (Continued):

The amounts of current and deferred income taxes included in the above (provision) credit are:

	December 31,		
	1981	1980	1979
Current			<u>\$(1,177,000)</u>
Deferred:			
Mine development costs	<u>\$(5,297,000)</u>	<u>\$(1,506,000)</u>	<u>(1,075,000)</u>
Unrealized hedging (gains) losses	1,221,000	1,157,000	(3,056,000)
Estimated loss on litigation			(646,000)
Deferred income on installment sales	161,000	27,000	(179,000)
Excess tax over book loss carryforward	4,572,000	346,000	3,809,000
Other	<u>(62,000)</u>	<u>(24,000)</u>	<u>(57,000)</u>
Total deferred	<u>595,000</u>	<u>—</u>	<u>(1,204,000)</u>
Total (provision) credit	<u>\$ 595,000</u>	<u>—</u>	<u>\$(2,381,000)</u>

The tax (provisions) credits differ from the statutory federal tax rate for the following reasons:

	December 31,		
	1981	1980	1979
Federal tax rate	46%	46%	(46%)
Statutory depletion			14
State taxes			(1)
Investment tax credits			2
Utilization of loss carryforward not assured		(46)	
Deferred tax credits reversing beyond the carryforward period	(12)		
Other			1
Effective rate	<u>34%</u>	<u>—</u>	<u>(30%)</u>

The amount of income tax credit for the year ended December 31, 1981 represents deferred tax credits which will reverse during the carryforward period. The accompanying financial statements for the year ended December 31, 1980 do not reflect an income tax benefit because all remaining deferred tax credits would reverse beyond the carryforward period existing at that date.

At December 31, 1981, the company had carryforwards for tax purposes expiring as follows:

	Net Operating Loss	Capital Loss	Investment Tax Credit
1985		\$1,200,000	
1994	\$ 5,400,000		
1995	5,200,000		\$121,000
1996	10,400,000		140,000

The company had net operating loss carryforwards for financial reporting purposes at December 31, 1981 of \$367,000 and \$4,400,000 expiring in 1996 and 1995, respectively. Investment tax credit carryforwards for financial reporting purposes are the same as reported for tax purposes.

14. RENT EXPENSE:

Rent expense aggregated \$155,000 in 1981, \$159,000 in 1980 and \$156,000 in 1979, principally for motor vehicles and real property. The company has no significant long-term noncancelable leases.

15. MANAGEMENT INCENTIVE BONUS:

Bonuses included in the statements of operations for 1981, 1980 and 1979 total approximately \$128,000, \$218,000 and \$265,000, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

16. QUARTERLY FINANCIAL DATA (Unaudited):

The following is a tabulation of the quarterly results of operations for the years ended December 31, 1981, 1980 and 1979 (in thousands except per share amounts):

	Three Months Ended			
	Mar 31	Jun 30	Sep 30	Dec 31
1981:				
Revenues	\$8,660	\$ 3,768	\$4,193	\$3,995
Gross profit (loss)	2,491	(720)	(29)	(301)
Provision (credit) for income taxes	1,181	(569)	(466)	(741)
Net income (loss) before extraordinary credit	1,770	(851)	(700)	(1,393)
Extraordinary (charge) credit	1,181	(569)	(466)	(146)
Net income (loss)	2,951	(1,420)	(1,166)	(1,539)
Per share:				
Income (loss) before extraordinary credit	\$.10	\$ (.05)	\$ (.04)	\$ (.08)
Net income (loss)	.17	(.08)	(.07)	(.09)
1980:				
Revenues	\$8,802	\$(1,132)	\$ 422	\$ (888) (a)
Gross profit (loss)	5,384	(2,512)	(1,025)	(2,314)
Provision (credit) for income taxes	1,557	(1,088)	(469)	
Net income (loss)	2,768	(1,896)	(2,074)	(3,761)
Per share	\$.18	\$ (.11)	\$ (.12)	\$ (.22)
1979:				
Revenues	\$4,851	\$ 4,638	\$6,095	\$8,061
Gross profit	2,058	1,889	3,165	4,791
Provision for income taxes	373	348	556	1,104
Discontinued operations	790	4,582	229	577
Net income	1,533	5,181	2,322	2,625
Per share:				
Continuing operations	\$.05	\$.04	\$.16	\$.16
Net income	.11	.37	.18	.20

(a) The \$888 net charge to revenues for the three months ended December 31, 1980 is the result of an adjustment to the estimate of unsettled mining revenues for the year ended December 31, 1980.

17. TENDER EXPENSES:

Tender expenses for the year ended December 31, 1979 were incurred in connection with negotiations and litigation concerning proposed merger offers and a tender offer by Hunt International Resources Corporation for shares of common stock of the company.

18. DISCONTINUED OPERATIONS:

OIL AND GAS OPERATIONS:

In June 1979, the company exchanged cash and its oil and gas properties for 1,465,695 shares of its own common stock owned by Hunt International Resources Corporation. The transaction resulted in a gain on disposal of the oil and gas properties of \$3,363,000 after income taxes of \$1,704,000. The sales price assigned to the oil and gas properties was based on the estimated fair value of the properties as evidenced by independent engineering reports.

MANUFACTURING OPERATIONS

On February 9, 1980, the company sold its manufacturing operations to certain individuals, most of whom were officers, directors or employees of the company for \$11,400,000 cash and \$13,200,000 in an unsecured subordinated promissory note with interest at 14% and due December 31, 1989. The sales price was determined after negotiations with the purchasers and evaluation by independent consultants. In addition, the company retained certain fixed assets and an undivided interest in accounts receivable valued in the aggregate at \$5,200,000, of which \$1,527,000 and \$3,228,000 were disposed of in 1981 and 1980, respectively, resulting in total amounts paid to the company and assets retained equaling \$29,800,000.

**REPORT OF
INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS**

To the Board of Directors and Stockholders of Sunshine Mining Company:

We have examined the balance sheets of Sunshine Mining Company as of December 31, 1981 and 1980 and the related statements of operations, changes in stockholders' equity and changes in financial position for the years ended December 31, 1981, 1980 and 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Sunshine Mining Company at December 31, 1981 and 1980 and the results of operations and changes in financial position for the years ended December 31, 1981, 1980 and 1979, all in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Dallas, Texas
February 24, 1982

CORPORATE INFORMATION

EXECUTIVE OFFICES

Sunshine Mining Company
500 Plaza of the Americas-South
Dallas, Texas 75201
(214) 748-9872

OPERATIONS OFFICES

Sunshine Mine
P.O. Box 1080
Kellogg, Idaho 83837
(208) 783-1211

16-to-1 Mine
P.O. Box 97
Silver Peak, Nevada 89047
(702) 937-2282

Burgin Mine
P.O. Box 130
Eureka, Utah 84628
(801) 433-6977

Sunshine Bullion Corporation
P.O. Box 1878
Grand Central Post Office
New York, NY 10163
212/308-0700
800/221-1979

**REGISTRAR AND
TRANSFER AGENT**

National Bank of Commerce (common stock)
P.O. Box 568
Dallas, Texas 75221

Continental Illinois National Bank and
Trust Co. (Silver Indexed Bonds)
30 North La Salle Street
Chicago, Illinois 60693

AUDITORS

Coopers & Lybrand
5000 First International Building
Dallas, Texas 75270

**REQUESTS FOR 10-K
REPORT**

Sunshine Mining Company's 1981 annual report on Form 10-K, filed with the SEC, is available without charge to Sunshine security holders by addressing such requests to:

Sunshine Mining Company
500 Plaza of the Americas-South
Dallas, Texas 75201
Attention: Sharon K. Huston
Assistant Secretary

**ANNUAL MEETING
OF SHAREHOLDERS**

The next annual meeting of shareholders will be held at 3 p.m., local time, Friday, May 14, 1982 in the Banquet Room of The Station House, 1100 Erie Main Street, Tonopah, Nevada 89049.

DIRECTORS & OFFICERS

DIRECTORS

G. Michael Boswell
Chairman of the Board, President and Chief Executive Officer of the Company

David E. Crandall
President, PPA Industries, Inc.

Raymond C. Dempsey
Chairman and President
Fidelcor, Inc. and The Fidelity Bank

Claude T. Fuqua, Jr.
Business Consultant

E. Viet Howard
Executive Vice President of the Company and President,
Sunshine Mining and Minerals Division

Fred C. Humphreys
President
Idaho First National Bank

OFFICERS & MANAGEMENT PERSONNEL

G. Michael Boswell
Chairman of the Board, President and Chief Executive Officer of the Company

E. Viet Howard
Executive Vice President of the Company and President, Sunshine Mining and Minerals Division

David H. Jardine
Senior Vice President, Treasurer and Chief Financial Officer

Harry B. Ireland Jr.
Vice President, Secretary and General Counsel

William Anderson
Vice President, Sunshine Mining and Minerals Division

Robert H. Peterson
General Manager, Kellogg Operations

Leon N. Barr
Manager, Metallurgy, Kellogg Operations

Allan R. Young
Resident Manager, Silver Peak Operations

Gary L. Ojala
Manager, Exploration, Sunshine Mining and Minerals Division

Melvin E. Bernhart
Assistant Treasurer and Manager of Administration, Kellogg Operations

Michael P. Huss
Manager, Marketing, Sunshine Mining and Minerals Division

Melvin E. Jaynes
Manager, Security Services, Sunshine Mining and Minerals Division

Andy G. Kannegaard
Mine Superintendent, Sunshine Mine

Donald C. Long
Chief Geologist, Sunshine Mine

Leon J. Munyan
Chief Engineer, Sunshine Mine

Sharon K. Huston
Assistant Secretary

Kelli Kleckner
Assistant Treasurer

Gaye K. Henderson
Assistant and Acting Controller

SUNSHINE MINING COMPANY

500 Plaza of the Americas • South

Dallas, Texas 75201