

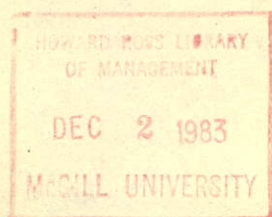
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SPOONER

MINES AND OILS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED
JUNE 30th 1974



SPOONER MINES AND OILS LIMITED

Head Office: Suite 916
111 Richmond Street West
Toronto, Ontario M5H 2G4

Petroleum Division P.O. Box 7307
Mailing Address: Postal Station "E"
Calgary, Alberta T3C 0K0

Directors: Maxwell Bruce, Q.C.
F. D. Corman
V. N. Harbinson
A. G. Matthew
J. E. Prothro, Q.C.
D. C. Vickers

Officers: V. N. Harbinson
Chairman of the Board & President
F. D. Corman
Vice-President
D. C. Vickers
Secretary
A. G. Matthew
Treasurer
R. A. Shaw
Assistant Secretary
S. D. Epp
Assistant Treasurer

Transfer Agent and Registrar: Crown Trust Company
Toronto, Ontario

Legal Counsel: Manning, Bruce, Macdonald & Macintosh
Toronto, Ontario

Auditors: Thorne Riddell & Co.
Toronto, Ontario

Share Listing: The Toronto Stock Exchange

SPOONER MINES AND OILS LIMITED

Director's Report

TO THE SHAREHOLDERS

Your Directors are pleased to present the Annual Report of the Company which includes the financial statements and Auditors' Report for the year ended June 30, 1974.

MINING

Consolidated Durham Mines & Resources Limited

During the year, operations continued to show significant financial and technical improvements. In May 1974 Consolidated Durham arranged for a line of credit in the amount of \$1,200,000 with a Canadian chartered bank. These funds were utilized primarily to pay off deferred creditors. At the present rate of production and current antimony prices, it is anticipated that Consolidated Durham will be debt free early in 1975.

Production for the year amounted to 3,733 metric tons of concentrate grading 65.67% Sb (antimony contained). Ore reserves in the Hibbard Zone above the 500 foot horizon and including the lower grade east extension, currently stand at 155,225 tons grading 4.63% antimony. A parallel structure called the Prout Zone contains an additional 41,259 tons grading 2.42% antimony after allowances for dilution. A diamond drilling programme is currently underway to test the Hibbard Zone along strike and at depth. Initial drilling which is on widely spaced centres has indicated the persistence of this structure both east and west of the Hibbard Ore Zone and drilling to date has indicated an additional 46,695 tons grading 5.03% east of the present workings and above the present fourth level horizon. Drilling is continuing to depth and along strike in that direction. During the forthcoming year, additional emphasis is to be placed on exploration and development work in an effort to establish further reserves.

Under the Spooner-Consolidated Durham management agreement, Spooner receives 15% of the net income from the Durham operations. These funds which are now being paid have greatly enhanced the affairs of the Company. In addition, Spooner holds 390,625 shares of Consolidated Durham and holds an option on 750,000 shares at \$1.00 per share.

MINING EXPLORATION

Exploration in association with Parnasse Company, Inc., a wholly-owned subsidiary of La Societe

Miniere et Metallurgique de Penarroya of France, is continuing on properties optioned from the Southern Pacific Land Company located in Western U.S.A. Of significance, the Company together with Parnasse, has entered into an agreement with Phelps Dodge Corporation of New York covering claims in Lander County, Nevada, U.S.A. in which your Company holds a 25% interest. This agreement provides that Phelps Dodge may acquire a 51% interest in the property.

Imperial Oil Enterprises Ltd. (a wholly-owned subsidiary of Imperial Oil Limited) continues its exploration programme on a jointly-owned property in the Hopes Advance Bay area of Northern Quebec. At this time, Imperial has expended funds in excess of \$470,000 thereby earning a 75% interest in the property.

The Company continues to hold approximately 146,350 shares of NBU Mines Limited which Company has a 33% interest in Sturgeon Lake Mines Limited. Construction and development on the Sturgeon Lake property, which is jointly owned by NBU and Falconbridge Copper Limited has now been completed, and the property is in production.

OIL AND GAS

The Company retains its holdings in the Canadian Arctic and various areas of Alberta. The recent price increase for oil in Alberta has significantly enhanced revenue from this area.

Options on 153,300 shares of Canada Geothermal Oil Ltd. have been exercised or abated by the Company during the past year and the shares subsequently sold resulted in a net profit of \$98,255. The Company continues to hold options on 152,700 shares of Canada Geothermal at \$1.03 per share, exercisable on instalment terms until September 23, 1976.

On behalf of the Board,

V. N. HARBINSON

Chairman of the Board & President

Toronto, Ontario
December 13, 1974

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Balance Sheet — June 30, 1974

(with comparative figures at June 30, 1973)

ASSETS		1974	1973
Current assets			
Cash.....	\$	10,197	
Accounts receivable.....		302,441	\$ 43,852
Marketable securities, at cost (quoted market value, 1974, \$7,112; 1973, \$7,900).....		8,987	8,987
Deposits and prepaid expenses.....		1,000	5,586
		<u>322,625</u>	<u>58,425</u>
Deferred accounts receivable			
Consolidated Durham Mines & Resources Limited.....			372,359
Interest in and advances to other companies (note 1).....		513,565	523,867
Oil and gas interests (notes 2 and 6).....		<u>105,662</u>	<u>148,655</u>
Other assets and deferred expenditures			
Mining claims (notes 3 and 6).....		79,000	126,040
Exploration and administrative expenditures deferred (note 6).....		312,159	357,691
Office equipment and vehicle, at cost less accumulated depreciation.....		<u>2,642</u>	<u>4,817</u>
		<u>393,801</u>	<u>488,548</u>
		<u>\$1,335,653</u>	<u>\$1,591,854</u>

LIABILITIES

Current liabilities			
Bank advances and loans secured by marketable securities, shares in another company and by assignment of accounts receivable.....	\$	75,000	\$ 91,400
Accounts payable and accrued liabilities.....		151,908	267,484
Note payable—10%.....			73,000
		<u>226,908</u>	<u>431,884</u>

SHAREHOLDERS' EQUITY

Capital stock (note 4)			
Authorized—8,500,000 shares without par value			
Issued —8,014,788 shares.....		4,050,059	4,050,059
Deficit.....		<u>2,941,314</u>	<u>2,890,089</u>
		<u>1,108,745</u>	<u>1,159,970</u>
		<u>\$1,335,653</u>	<u>\$1,591,854</u>
Contingent liabilities (note 9)			

Approved by the Board:

V. N. HARBINSON, Director

F. D. CORMAN, Director

SPOONER MINES AND OILS LIMITED

Statement of Exploration and Administrative Expenditures Deferred **year ended June 30, 1974**

(with comparative figures for 1973)

	1974	1973		
Exploration				
Southern Pacific project—25% interest (note 7).....	\$ 19,251	\$ 33,262		
Western U.S.A. area general project—50% interest.....		12,860		
Sicily project.....		205		
General exploration.....	10,500	2,764		
	29,751	49,091		
Administrative and general expenses.....	92,130	90,675		
Expenditures for the year.....	121,881	139,766		
Balance deferred at beginning of year.....	357,691	451,460		
	479,572	591,226		
Deduct amounts written off.....	167,413	233,535		
Balance deferred at end of year.....	<u>\$ 312,159</u>	<u>\$ 357,691</u>		
	Balance June 30, 1973	Expenditures during year	Written off during year	Balance June 30, 1974
Summary				
Southern Pacific project—25% interest.....	\$ 292,908	\$ 19,251		\$ 312,159
Western U.S.A. area general project—50% interest	58,000		\$ 58,000	
Sturgeon Lake project—40% interest.....	6,783		6,783	
General exploration.....		10,500	10,500	
Administrative and general expenses.....		92,130	92,130	
	<u>\$ 357,691</u>	<u>\$ 121,881</u>	<u>\$ 167,413</u>	<u>\$ 312,159</u>

Statement of Oil and Gas Operations **year ended June 30, 1974**

(with comparative figures for 1973)

	1974	1973
Sales of crude oil and natural gas.....	\$ 43,825	\$ 32,924
Deduct		
Royalties.....	9,028	5,272
Production expenses.....	13,123	12,537
Administrative expense.....	2,434	9,322
Depletion of lease costs and development expenditures (note 2).....	1,545	776
Depreciation of production equipment.....	1,883	1,933
	28,013	29,840
	15,812	3,084
Royalties received less depletion of \$436 in 1974 and \$395 in 1973.....	1,950	1,203
Profit from oil and gas operations.....	\$ 17,762	\$ 4,287

SPOONER MINES AND OILS LIMITED

Statement of Income year ended June 30, 1974

Revenue		
Management fees (net) (note 8).....	\$ 16,900	
Profit from oil and gas operations.....	17,762	
Interest earned.....	72,896	
Income before undernoted items.....		\$ 107,558
Exploration and administrative expenditures written off.....	167,413	
Mining claims written off.....	47,040	
Unproductive oil and gas lease costs, development expenditures and production equipment written off.....	41,542	
Loss on sale of equipment.....	1,043	
	257,038	
Less profit on sale of marketable securities.....	98,255	158,783
Loss for the year.....		\$ 51,225
Loss per share.....		\$ 0.06

Statement of Deficit year ended June 30, 1974

(with comparative figures for 1973)

	1974	1973
Deficit at beginning of year.....	\$2,890,089	\$2,591,694
Add:		
Loss for the year.....	51,225	
Exploration and administrative expenditures written off.....		233,535
Mining claims written off.....		24,200
Unproductive oil and gas lease costs, development expenditures and production equipment written off.....		25,701
Cost of shares written down to nominal value.....		19,246
	51,225	302,682
	2,941,314	2,894,376
Deduct:		
Profit from oil and gas operations.....		4,287
Deficit at end of year.....	\$2,941,314	\$2,890,089

SPOONER MINES AND OILS LIMITED

Statement of Source and Application of Funds year ended June 30, 1974

(with comparative figures for 1973)

	1974	1973
Source of funds		
Income before undernoted items as shown on statement of income.....	\$ 107,558	
Profit from oil and gas operations.....		\$ 4,287
Add depreciation and depletion not requiring current outlay of funds.....	3,864	3,324
	111,422	7,611
Issue of shares of capital stock.....		99,373
Decrease in deferred accounts receivable reclassified as current assets in 1974	372,359	21,900
Proceeds from sale of shares in other companies.....	163,662	
	647,443	128,884
Application of funds		
Oil and gas interests.....	2,413	6,474
Interest in and advances to other companies.....	55,105	10,300
Exploration and administrative expenditures less depreciation of \$1,132 (1973, \$1,659).....	120,749	138,107
	178,267	154,881
Increase (decrease) in working capital position.....	469,176	(25,997)
Working capital deficiency at beginning of year.....	373,459	347,462
Working capital (deficiency) at end of year.....	\$ 95,717	\$ (373,459)

Auditors' Report

To the Shareholders of
Spooner Mines and Oils Limited

We have examined the balance sheet of Spooner Mines and Oils Limited as at June 30, 1974 and the statements of income, oil and gas operations, exploration and administrative expenditures deferred, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1974 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
September 17, 1974

THORNE RIDDELL & Co.
Chartered Accountants

SPooner MINES AND OILS LIMITED

Notes to Financial Statements — June 30, 1974

1. Interest in and advances to other companies

	1974	1973
(a) Consolidated Durham Mines & Resources Limited*		
390,625 shares at cost (quoted market value at June 30, 1974 — \$304,688)	\$125,000	\$125,000
Shares in Canada Geothermal Oil Ltd.		
10,000 shares, at cost.....		10,300
Shares in NBU Mines Limited		
87,480 escrowed shares.....	34	34
58,870 shares, at cost (quoted market value at June 30, 1974 — \$182,497) }		
Shares in New Quebec Mining and Exploration Limited		
447,000 shares, at cost less \$7,000 forfeited on option to purchase.....	366,488	366,488
480,000 escrowed shares, at nominal value.....	1	1
Shares in and advances to wholly-owned subsidiary companies, at nominal value		
Spooner Mines and Oils (Australia) N.L.....		1
Spooner Minerals Inc.....		1
Other shares, at cost or less.....	8,586	8,586
Advances to other companies.....	13,456	13,456
	<u>\$513,565</u>	<u>\$523,867</u>

*Because of the large number of shares held in Consolidated Durham Mines & Resources Limited, the amount that may be realized on disposal of these shares may be more or less than the quoted market value.

The company holds an option to purchase additional shares of Consolidated Durham (see note 8).

- (b) Under terms of an agreement dated April 5, 1973, the company was granted an option to purchase 306,000 shares of Canada Geothermal Oil Ltd. at \$1.03 per share, with a maximum number of shares to be purchased during each period as follows:

	Number of shares under option	Number of shares exercised and/or abated	Balance of shares under option at June 30, 1974
April 5 to September 23, 1973.....	92,200	92,200	
September 24, 1973 to September 23, 1974...	92,200	61,100	31,100
September 24, 1974 to September 23, 1975...	92,200		92,200
September 24, 1975 to September 23, 1976...	29,400		29,400
	<u>306,000</u>	<u>153,300</u>	<u>152,700</u>

The company exercised its option to purchase 63,500 shares under this agreement to June 30, 1974, all of which were sold for a net profit of \$38,687. In addition, the company abated on its option to purchase 89,800 shares available under the agreement, for a total consideration of \$59,570.

2. Oil and gas interests

	1974	1973
(a) Oil and gas leases, at cost.....	\$ 41,118	\$ 59,920
Development expenditures deferred.....	124,711	147,134
Production equipment, at cost.....	81,695	80,257
	<u>247,524</u>	<u>287,311</u>
Less depletion and accumulated depreciation.....	194,087	191,317
	<u>53,437</u>	<u>95,994</u>
Royalty interest, at cost less depletion.....	2,969	3,405
Participation in Arctic Oil exploration, at cost.....	49,256	49,256
	<u>\$105,662</u>	<u>\$148,655</u>

SPooner MINES AND OILS LIMITED

Notes to Financial Statements — June 30, 1974 (continued)

- (b) Under letter agreements dated February 10 and 24, 1972 with Yukon Geothermal Co. Ltd. and Canada Geothermal Oil Ltd. the company and Noble Mines & Oils Ltd., having provided collateral for certain petroleum and natural gas exploration permits held by Yukon Geothermal and Canada Geothermal and having arranged equity financing for Canada Geothermal, jointly received a right to a gross overriding royalty of 0.3% of all production from the permits covered in the agreement with Yukon Geothermal and an undivided 3 1/3% working interest in the permits covered in the agreement with Canada Geothermal.

Where oil and gas reserve figures are available, depletion has been provided on the unit of production method at rates calculated to amortize the lease costs and development expenditures in the proportion production bears to estimated reserves of oil and gas. Where reserve figures are not available, amortization has been determined arbitrarily.

Unproductive oil and gas lease costs and applicable deferred development expenditures are written off when it is determined that the lease area is of no further interest to the company.

3. Mining claims

	1974	1973
(a) Ungava Bay, Province of Quebec.....	\$ 79,000	\$ 79,000

Under an agreement dated December 19, 1969 the company purchased 1,192 claims for \$79,000 cash and the vendor is to receive further consideration of 10% of the proceeds to which the company is entitled in the event the company sells part or all of these claims. Pursuant to an agreement dated February 1, 1970 Imperial Oil Enterprises Ltd. agreed to undertake an exploration program on these claims. The company has been notified by Imperial Oil Enterprises Ltd. that as of June 30, 1974, 1,089 of the claims have lapsed and that it has spent \$477,943 on this exploration program thereby earning a 75% interest in the joint property.

Spooner is required, at the request of Imperial Oil to pay its proportionate share of exploration programs in excess of \$400,000. Failure to participate in such expenditures reduces their interest by 1% for each \$10,000 of non-participation until it reaches a minimum of 10%. The agreement provides that, under certain circumstances, such abated interest is recoverable by Spooner.

To date no such request for payment has been received.

(b) Sturgeon Lake Area, Province of Ontario.....		47,040
	<u>\$ 79,000</u>	<u>\$126,040</u>

4. Capital stock

No shares were issued during the year ended June 30, 1974.

During the year ended June 30, 1973, the company issued shares of its capital stock as follows:

133,500 shares for services rendered.....	\$ 99,373
17,944 shares allotted in April, 1972 for mining claims.....	19,200
<u>151,444</u>	<u>\$118,573</u>

Options

- (a) At June 30, 1974 employees held options on 5,000 shares at \$1.25 per share expiring on June 24, 1980.

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements — June 30, 1974 (continued)

- (b) Under various agreements dated December 18, 1970 and March 30, 1971, the company has, in consideration for services rendered to the company as its fiscal agents during the three years ended December 31, 1973, granted options on 99,000 shares of its capital stock exercisable as follows:

<u>Number of shares</u>	<u>Exercisable at</u>	<u>On or before</u>
41,666	\$2.05 per share	December 31, 1974
28,667	\$2.30 per share	December 31, 1975
28,667	\$2.55 per share	December 31, 1976
<u>99,000</u>		

5. Income taxes

The company has costs of oil and gas interests, mining exploration expenditures and depreciation available for tax purposes in future years in excess of the total of costs and expenditures deferred in the accounts at June 30, 1974 of approximately \$911,000 and loss carry forwards of approximately \$166,000 are available up to 1976 in determining taxable income.

6. Recovery of costs

At June 30, 1974 exploration expenditures amounting to \$312,159 and the cost of participation in oil and mining exploration projects amounting to \$105,662 have been deferred with the intention that they should be amortized along with the cost of mining claims by charges against income from future oil and mining operations. The recovery of these costs is dependent, therefore, upon the obtaining of adequate financing and the development of economic oil and mining operations.

7. Deferred exploration — Southern Pacific project

In conjunction with a prior joint venture on a 50/50 basis between the company and Noble Mines & Oils Ltd., an agreement dated April 1, 1970 was entered into between the company and Parnasse Delaware Company, Inc., an American subsidiary of Societe Miniere et Metallurgique de Penarroya of Paris, France, for the exploration and development of certain leasehold interests and other adjoining acreage held under the Southern Pacific project. Parnasse, which is to manage the project, earned a 50% interest in the project by spending U.S. \$80,000 on an exploration program in this area. The company's interest, together with the interest of Noble, has been reduced to 50% in total. To maintain their joint interest, the company and Noble must pay their 50% share of agreed exploration expenditures in excess of U.S. \$80,000.

In the event that the company and Noble elect not to pay their share of these costs, their percentage interest is reduced accordingly until it reaches 10% in total, at which time such interest is maintained for them by Parnasse.

Subsequent to June 30, 1974, under an agreement dated July 15, 1974, the company together with Parnasse, has granted Phelps Dodge Corporation an undivided 51% interest in certain leases and mining claims held in the Southern Pacific project in consideration of Phelps Dodge expending \$475,000 on exploration work on the property as follows:

\$ 75,000 on or before July 15, 1975
150,000 on or before July 15, 1976
225,000 on or before July 15, 1977
325,000 on or before July 15, 1978
475,000 on or before July 15, 1979

Upon Phelps Dodge expending \$475,000, the company is required to contribute to the cost of further exploration work in relation to its interest. If the company elects not to contribute its proportionate share

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements—June 30, 1974 (continued)

of such exploration work, its interest in the property may, under certain circumstances, be reduced to a reserved $3\frac{3}{4}\%$ non-participating net proceeds royalty, including the 50% interest therein of Noble Mines & Oils Ltd.

This agreement may be terminated by either party upon giving written notice to the other party of its intention to do so and by the occurrence of certain events as set out in the agreement.

8. Management contract and operations

- (a) Under an agreement dated July 8, 1970 respecting the antimony property at Lake George, New Brunswick, Spooner is to provide:
 - (i) pre-production management and arrange financing in consideration for an option on 750,000 shares of Consolidated Durham Mines & Resources Limited capital stock at \$1.00 per share, exercisable on or before July 8, 1975.
 - (ii) operating management after the commencement of production at cost plus 15% of net profits, as defined, from the operations for a period of five years from such date, renewable for a further five years at Spooner's option.
- (b) During the year the company commenced operations as a mine management company and accordingly has prepared a statement of income. As a result certain items of income and expense have been charged or credited to operations which were previously charged or credited directly to deficit.

9. Contingent liabilities

- (a) The company has executed a guarantee for the bank indebtedness of Consolidated Durham Mines & Resources Limited up to a maximum of \$1,200,000. The company has pledged 145,800 shares of NBU Mines Limited as security for this guarantee. At June 30, 1974, this indebtedness amounted to \$1,094,000 and subsequently has been reduced to \$694,000 at September 17, 1974.
- (b) An action was commenced in the Supreme Court of Ontario on February 20, 1969 by Ursa Polaris Developments Corporation against all parties in a syndicate of which the company was a member, and which sold its assets to Musko Mines Limited for shares. In the opinion of the company's counsel, the action is without merit and the company, as well as the other defendants, is defending the action. The plaintiff has taken no steps towards trial since September 12, 1969.
The cost of shares of Musko Mines Limited have been written off.
- (c) Actions were commenced in the Supreme Court of Ontario on September 8, 1972 and April 30, 1973 by two former employees of the company. The company is defending both suits and, in the opinion of the company's counsel, it has good defences thereto.

10. Other statutory information

	1974	1973
Number of directors.....	6	6
Aggregate remuneration of directors as directors.....	Nil	Nil
Number of officers.....	6	7
Aggregate remuneration of officers as officers, including consulting fees.....	\$9,000	\$13,500
Number of officers who are also directors.....	3	4
Depreciation and depletion.....	\$4,996	\$ 4,983

