009117

428

Twenty-third Annual Report 1973

for the year ended
September 30, 1973

and

Interim Report

for the three month period
ending December 31, 1973

GIANT MASCOT MINES LIMITED

GIANT MASCOT MINES LIMITED

(Incorporated under the Laws of the Province of British Columbia)

TWENTY-THIRD ANNUAL REPORT

DIRECTORS

A. H. Ainsworth, *Vancouver*
K. G. Bream, *Toronto*
R. B. Carleton, *Montreal*
N. Gesser, *Montreal*
J. L. Gibson, *Vancouver*
H. A. McDiarmid, *Vancouver*
L. P. Starck, *Vancouver*

OFFICERS

R. B. Carleton, *Chairman of the Board*
L. P. Starck, *President and Managing Director*
N. Gesser, *Vice-President Finance*
A. H. Ainsworth, *Secretary and General Counsel*

REGISTERED AND RECORDS OFFICE
Suite 2260, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street, Vancouver V7Y 1A9

ADMINISTRATIVE OFFICE
Suite 2410, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street, Vancouver V7Y 1A1

REGISTRAR AND TRANSFER AGENTS
Canada Permanent Trust Company,
Calgary, Montreal, Toronto, Vancouver

SOLICITORS
Ainsworth & Company, Vancouver

AUDITORS
Price Waterhouse & Co., Vancouver

Listed on the Toronto and Vancouver Stock Exchanges

ANNUAL REPORT OF THE PRESIDENT ON BEHALF OF THE DIRECTORS TO THE MEMBERS

Giant Mascot Mines Limited is optimistic about the future in view of its significant interest in Panarctic Oils Ltd., its planned exploration programs at the Motherlode-Greyhound and Big Missouri properties, its continuing exploration programs elsewhere, and the proposed rights offering to provide funds for these activities. However, 1973 was generally a disappointing year so far as operations at the Giant Nickel Mine were concerned.

Panarctic Oils Ltd., in which the Company has a 4.484% interest, made its fifth natural gas discovery during the year. Thus, there are now a total of six potential gas fields in the Canadian Arctic Islands having about half the estimated threshold reserves required for a gas pipeline down Hudson Bay to Eastern Canada.

In the latter part of 1973 the Motherlode-Greyhound copper-gold prospect at Greenwood, B.C., was purchased and the results of the initial phase of the exploration program on it have been encouraging and further work is planned for 1974.

The Company has recently optioned the Big Missouri prospect at Stewart, B.C., which is a former gold producer with a reported tonnage of gold-bearing reserves underground, and promising surface showings of lead, zinc, copper, silver and gold having an open pit potential.

At the Giant Nickel Mine, a number of factors have resulted in a substantial write-down of the estimated ore reserves, which could well result in the phasing out of production by September 30, 1974, unless additional ore is found in the course of exploration.

Financial Highlights

The lower gross value of mineral production in 1973 was due to the reduction in the grade of ore treated and less favourable marketing arrangements. These factors, in conjunction with increased operating costs, particularly in mining and mine exploration and development, resulted in an operating loss of $79,490, which was increased by writing off, as an extraordinary item, the expenses related to the proposed underwriting in the United States.

At the Annual General Meeting the members will be asked to approve a rights offering to raise some $3,675,000. Although planned for the fall of 1973, this offering was later deferred to the spring of this year. In the result, it has been necessary for the Company to obtain a capital bank loan to carry out its exploration and acquisition programs, to meet its Panarctic commitment and to provide working capital. This loan, which is fully guaranteed by Cemp Investments Ltd., the Company's major shareholder, will be repaid out of the proceeds of the rights offering.

The report for the first quarter of the fiscal year 1974 is included at the end of the annual report. The tonnage for the quarter is down as a result of a reduction in the number of stoping areas and a "wildcat" work stoppage that caused a substantial loss of production in October. Although total production costs were lower, the reduction in the value of mineral production was such that a loss was sustained for the quarter. The recent increase in the "posted" price of nickel should be of benefit during the balance of the 1974 fiscal year.

During the fiscal year ended September 30, 1973, the total wages, salaries and benefits paid to employees by the Company and its subsidiaries amounted to $2,400,979, as compared with $2,055,647 for the previous year. At the 1973 year-end the employees of the Company and its subsidiaries totalled 224.

On a consolidated basis, $954,062 was spent during the year on capital expenditures, including amounts for mineral claims, buildings and equipment. Of this total, $654,448 was paid for the acquisition of the Motherlode-Greyhound property, plant and equipment by the Company's wholly-owned subsidiary, Mascot Mines & Petroleums Limited; $272,576 for the purchase of new equipment in addition to the buildings and services at the Giant Nickel Mine; and the balance was incurred in minor miscellaneous capital acquisitions. At September 30, 1973, the Company was committed to a capital expenditure of some $75,000 for the replacement of the machine shop at the Giant Nickel Mine, which has since been completed.

Giant Nickel Mine

The Giant Nickel Mine operated at a profit during the first half of 1973 but during the latter part of the year certain conditions, which had already caused difficulty, resulted in a loss for the year. The main reason was the lower grade of ore available for treatment, which, for the 1973 fiscal year, averaged 0.58% nickel and 0.27% copper, as compared with the historic average grades of 0.77% and 0.33% respectively.

On the other hand the metallurgical efficiency and recoveries of the differential flotation circuits for the production of separate nickel and copper concentrates was better than indicated in initial tests.

The lower than anticipated grade of feed was caused by unexpected wall rock dilution in certain stoping areas and by unusual occurrences of barren and low grade material in the new stoping areas. This latter condition, which had not been apparent in the initial diamond drilling patterns on which the ore reserve estimates were based, was also disclosed by detail drilling in several of the reserve blocks that had been scheduled for production. These factors, together with changes in mining techniques adopted to offset them, and to meet changes in regulations, increased the cut-off grade of the ore, which, in turn, necessitated writing down previously estimated ore reserves by deleting tonnages which must presently be considered uneconomic. As a result, the number of working areas has recently been reduced and the plant is now operating at a daily rate of 1,500 tons. As ore reserve calculations now have to be revised on an increasingly more frequent basis to give effect to changing conditions, including new Provincial mineral lands taxation and accelerating inflation, no estimate of ore reserves is being published at this time.

Based on present estimates it is doubtful whether the mineable ore reserves will sustain production after September 30, 1974, but production would certainly be continued if the present exploration program results in the discovery of additional ore grade mineralization, and provided always that operating costs do not escalate faster than metal prices. In this connection, it should be recalled that the property was considered uneconomic before it came under the Company's management in 1959 and since that date 4,391,704 tons of ore have been discovered and mined profitably. However, there would have to be a pause in, or scaling down in the rate of production, because of the lead time required to prepare new discoveries for production.

Although the rate of discovery of new ore zones has been disappointing, the discovery of a number of new areas of interesting, but sub-commercial, mineralization is encouraging, particularly in view of the extensive area of favourable host rock yet to be tested.

Last season's surface exploration program included detailed geological and magnetometer resurveys of a portion of the property, supplemented by induced polarization surveys. The information obtained has delineated exploration targets of promising potential and has contributed to a greater understanding of the factors which controlled ore deposition.

Panarctic Oils Ltd.

Exploration for hydrocarbons in the Canadian Arctic Islands north of the 71st Parallel is gaining momentum as further natural gas fields are discovered and reserves approach the threshold volumes considered necessary to support marketing facilities. Giant Mascot, through its commitments to Panarctic Oils Ltd., is participating in this vital search for oil and natural gas.

Panarctic is a consortium of major mining and oil companies, which, with the Canadian Government as a 45% partner, is engaged in the largest exploration program in the Arctic Islands. Of the 19 participants from the private sector, Giant Mascot is one of five, each of whom hold a 4.484% interest. The only participants in the consortium which have a larger interest are two, who each hold 9.68%.

Six significant gas fields have been discovered in the Arctic Islands since 1969. Of these, five, namely Drake Point, King Christian, Kristoffer Bay, Hecla and Thor, were found on lands in which Panarctic holds an interest.

In addition, crude oil has been disclosed in drill stem tests at three Panarctic locations. The most recent of these was made early in February 1974 at Bent Horn on Cameron Island. Although on the basis of current information this last discovery does not appear to be commercial, Panarctic is continuing to drill the Bent Horn well to see if there are other oil-bearing strata at depth. In any event, this discovery is important as it is the first recovery of live crude oil from the older Paleozoic formations in the Canadian Arctic Islands. This oil interception, when considered in relation to known oil seeps, bitumen occurrences, and data from geochemical studies, offers real encouragement for the further exploration of the large Paleozoic Basin in the Arctic Islands.

The rate at which Panarctic has discovered gas fields and the deliverability of the wells lend strength to the estimates by the Canadian Petroleum Association as to the potential for the discovery of major quantities of hydrocarbons in the high Arctic, and underlines the importance of exploration activities in the area in terms of the present energy crisis.

During 1973 some 26 wells were drilled or were being drilled on lands in which Panarctic holds an interest. Six of these wells were drilled at no cost to Panarctic and the costs of a further sixteen were partially paid for by others. Five drilling rigs are presently under contract to Panarctic for locations included in the exploration program under the Fourth Expansion Agreement.

The participants will shortly be called upon to enter into a Fifth Expansion Agreement involving a total commitment of 25 million dollars. These funds will be used for geological and geophysical studies, land acquisitions and payments, and the drilling of some 22 wells, if supplemented by substantial expenditures which are expected to be made by other parties. The budget for the Fourth Expansion program, to which in 1972 the participants committed a like sum of 25 million dollars, amounted to 43 million dollars, and the budget for the Fifth Expansion program is in even a larger amount.

A group of four partners, consisting of a large Canadian gas transmission company, a major Canadian transportation company, a group of American gas companies and Panarctic, have formed the "Polar Gas Project" to undertake research for a means to deliver Arctic Island gas to markets in Eastern Canada. Presently under study is the possibility of a 48 inch diameter pipeline extending 3,200 miles from the Sverdrup Basin down the east or west side of Hudson Bay to Eastern Canada, capable of carrying up to 4.5 billion cubic feet of gas per day. The economics of these facilities are estimated to be dependent on the establishment of threshold reserves of some 25 to 30 trillion cubic feet.

Exploration

It presently appears that the determination as to the feasibility of production at the Motherlode-Greyhound and Big Missouri properties can be made at an earlier date and at a lower cost than might apply in the case of the Company's other properties. The Company is, therefore, entertaining the possibility of arranging with others for further work at the Giant Copper and Mascot Nickel Plate properties, both of which have major potential at present metal prices, but in the longer term.

Giant Copper Property

Discussions are proceeding with a world-wide mining group which is interested in undertaking a phased exploration program at the Giant Copper property, Allison Pass, B.C. It is proposed that this group would have the right, over a period of time, to earn a major interest in the property by expending an amount of money proportionately in excess of the $2,452,980 which Giant Mascot has incurred to date in respect to it, and, that once their interest has been earned, Giant Mascot could maintain a substantial interest by sharing in expenditures on a pro rata basis.

The A.M. Breccia sector of the Giant Copper property has drill-indicated reserves of some 2.8 million tons grading in the order of 1.35% copper, with $3 to $4 per ton in precious metals and an inferred geologic potential of some 10 to 20 million tons of 0.8% copper, or even 90 million tons of 0.3% to 0.4% copper, which might possibly be mined by underground block caving. In the Invermay sector of the property it is possible that there may exist a low grade porphyry copper deposit capable of being mined by open pit methods.

Mascot Nickel Plate Mines Limited

A limited exploration program was undertaken during 1973 on the property near Hedley, B.C., which is owned by Mascot Nickel Plate Mines Limited, a private company in which Giant Mascot has an equity of some 75%. This former gold producing property, from which some 2,800,000 tons of ore grading in the order of 0.4 ounce gold were mined, is one of the more promising gold prospects in British Columbia at present gold prices. It is particularly attractive as the gold-bearing formations, as evidenced by previous operations, could be adapted to modern mechanized underground mining methods more easily than other well known gold properties which are generally of the narrow vein type. In 1973 a 1,500 foot "wildcat" hole was drilled in the Sunnyside area to gain geologic information on the structure at depth, and three holes were drilled in the South Rim to test the continuity of four intersections of mineralization discovered in 1964. The recent drilling confirmed the existence of, and gave greater depth to, this mineralization, although only 0.25 ounces of gold over four feet were intersected. Assays obtained in 1964 were as follows:

Diamond Drill Hole	Feet of Intersection	Ounces Gold
S-1	13	0.35
S-1	18	0.45
S-5	5	0.64
S-6	9.5	0.84

Further work is required to test this zone of mineralization in the South Rim and to follow up the results of earlier drilling in the Windfall Canyon and on the 3750 level of the main Nickel Plate workings where there are also interesting areas of mineralization.

A detailed geologic study and sampling program on the property must also be completed, as, generally speaking, former producing properties frequently offer extremely interesting possibilities for new discoveries. This is all the more likely in the case of the Nickel Plate Mine in view of the fact that the price of gold has increased four-fold since production at the property was phased out in 1955.

Consideration is presently being given to various alternatives for financing this major exploration program at the Nickel Plate in a manner that would ensure the Company retaining a major equity in the property.

Mascot Mines & Petroleums Limited

This wholly-owned subsidiary of Giant Mascot, which was formerly known as Eagle Ridge Petroleum Ltd., purchased the Motherlode-Greyhound property and plant in August, 1973. These extensive mining properties constitute a promising copper-gold prospect which has the further advantage of being equipped with a 2,000-ton concentrating and open pit mining plant which cost the original operators some $6,000,000 in 1970 and was only operated for some six months.

The property and plant were acquired outright for some $650,000 as an exploration venture but with the knowledge that if the exploration program on the property itself proved unsuccessful then there was the possibility of processing not only whatever ore was proven on the property itself, but also any available in the general area where there are many properties with known mineralization. Furthermore, the plant is one which eventually might be used either on other properties presently controlled by the Company or on others which it might acquire, or in which it might earn an interest on a joint venture basis.

In the initial phase of the exploration program some 200,000 tons of 0.6% copper have been estimated by diamond and percussion drilling in the Greyhound pit. Encouraging results were also obtained in the Sunset area where some 200,000 tons can be inferred. Furthermore, percussion, rotary and diamond drilling in the former Motherlode pit and the Sulfide area have indicated substantial tonnages of mineralization that may be economic, if grade and tonnage can be increased and the waste to ore ratio improved. Percussion and diamond drilling have been carried out in several outlying areas of geologic and geophysical interest on the property and its extensions. Although no economic mineralization has been discovered in these interesting areas to date, only a limited number of them have been tested. An ongoing exploration program will be carried out on the Motherlode-Greyhound property and extensions in the coming season, and outside properties in the general Greenwood area will be investigated, with the objective of developing mill feed for the plant.

Big Missouri Property

The Company has recently optioned the Big Missouri property in the Stewart area from Consolidated Silver Butte Mines Ltd. (N.P.L.). In the 1930's this property was operated at a grade of 0.1 ounces of gold by a major B.C. mining company, and could have tonnages of low grade gold reserves remaining underground. It is considered of particular interest because of the open pit potential of surface showings of lead, zinc and copper with precious metal values. Samples by others in an apparently shallow-dipping surface zone have indicated ore grades at present prices, and the possibility of substantial tonnages. Giant Mascot proposes to sample the property by diamond drilling as soon as it is free of snow. If the results are as anticipated, the Company will follow up with a more extensive exploration program. Giant Mascot can earn a 70% interest in this property by committing to place it in production. Equipment for this property could be available from the Company's other plants.

General

In addition to carrying out exploration on its various properties, Giant Mascot is also investigating situations where any excess plant and equipment could be profitably employed, and is continuing to investigate new properties and ventures, both in the industrial and in the natural resource fields, which could contribute to the growth of the Company.

On behalf of the Board

President and Managing Director.

February 20, 1974

OPERATING DATA
FIVE YEAR REVIEW

	1973	1972	1971	1970	1969
Tons of Ore	**387,593**	386,205	157,175	301,693	316,749
Grade of Ore:					
Average % Nickel	**0.58**	0.68	0.74	0.83	0.72
Average % Copper	**0.27**	0.38	0.40	0.43	0.34
Concentrates:					
Tons Produced	**13,908**	20,427	9,217	20,595	17,527
Pounds of Contained Nickel	**2,611,301**	3,964,543	1,861,492	4,037,291	3,496,000
Pounds of Contained Copper	**1,786,599**	2,686,608	1,155,859	2,277,994	1,930,339
Raising (feet)	**3,916**	4,112	1,309	3,908	4,962
Drifting (feet)	**2,702**	3,233	5,028	3,596	3,451
Percussion Longhole Drilling (feet)	**181,852**	138,870	117,470	215,282	191,990
Diamond Drilling (feet)	**70,578**	46,990	59,789	70,120	55,077

FINANCIAL DATA
FIVE YEAR REVIEW

	1973	1972	1971	1970	1969
Net Value per Ton of Ore	$ 10.84	$ 12.50	$ 13.55	$ 17.15	$ 10.95
Total Production Costs per Ton of Ore (excluding taxes):					
Mine Exploration and Development	$ 1.79	$ 1.50	$ 1.39	$ 2.03	$ 2.12
Mining	3.93	3.06	2.72	2.66	2.82
Concentrating	1.86	1.53	1.19	1.51	1.48
Mine Administration	.59	.56	.42	.38	.30
Depreciation, Depletion and Amortization	2.16	1.98	2.01	1.12	.86
Total	$ 10.33	$ 8.63	$ 7.73	$ 7.70	$ 7.58
Gross Profit per Ton of Ore	$ .51	$ 3.87	$ 5.82	$ 9.45	$ 3.37

	1973	1972	1971	1970	1969
Average Common Shares outstanding	8,693,728	8,693,728	8,693,728	5,726,605	4,684,698
Earnings per Common Share:					
Income before extraordinary items	($ .01)	$ .08	$ .06	$ .27	$ .12
Extraordinary items	(.02)		.35		
Net Income	($ .03)	$ .08	$ .41	$ .27	$ .12

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED SEPTEMBER 30, 1973

	1973	1972
Financial resources were provided by:		
Net income (loss) for the year	$ (279,385)	$ 704,299
Add: Income charges (credits) not affecting working capital in the year -		
Depreciation, depletion and amortization	835,641	766,645
Deferred income and mining taxes	(107,000)	321,000
(Gain) loss on disposal of fixed assets	(30,161)	13,456
Equity in expired costs of affiliate	5,150	34,195
	424,245	1,839,595
Proceeds of disposals of fixed assets	37,700	4,356
Investment in affiliate	5,150	45,484
Minority interests in subsidiary at acquisition	—	72,620
Other	14,562	—
	481,657	1,962,055
Financial resources were used for:		
Interest in Panarctic Oils Ltd.	1,141,690	9,760
Reduction in indebtedness relative to commitment to acquire shares of Panarctic Oils Ltd.	—	404,025
Additions to mineral claims, buildings and equipment	954,062	661,414
Deferred exploration, development and other expenditures	565,067	468,650
Investment in affiliate	5,150	125,484
Increase (decrease) in advances to affiliate	22,283	(44,929)
	2,688,252	1,624,404
Increase (decrease) in working capital	(2,206,595)	337,651
Working capital, beginning of year	1,331,276	993,625
Working capital (deficiency), end of year	$ (875,319)	$ 1,331,276

CONSOLIDATED BALANCE SHEET
YEAR ENDED SEPTEMBER 30, 1973

ASSETS	1973	1972
Current assets:		
Cash	$ 7,757	$ 415,252
Receivables —		
Concentrate settlements	591,713	848,405
Other	2,712	7,944
Concentrate inventories, at estimated net realizable value *(Note 1)*	761,969	734,487
Supplies, at cost	194,071	171,564
Prepaid expenses	170,379	291,903
Total current assets	1,728,601	2,469,555
Investment in and advances to affiliated company Giant Explorations Limited (N.P.L.) *(Note 1)*:		
Investment	183,304	188,454
Advances	17,939	(4,344)
	201,243	184,110
Mining properties and petroleum and natural gas holdings *(Note 2)*	13,218,405	12,542,456
Interest in Panarctic Oils Ltd. *(Note 3)*	13,248,215	12,106,525
	$28,396,464	$27,302,646

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current liabilities:		
Bank loan	**$ 1,500,000**	$ —
Accounts payable	**268,176**	303,342
Accrued liabilities	**261,915**	330,580
Liability relating to the acquisition of shares of Panarctic Oils Ltd. *(Note 3)*	**562,628**	504,357
Current portion of capitalized lease obligations	**11,201**	—
Total current liabilities	**2,603,920**	1,138,279
Capitalized lease obligations	**14,562**	—
Deferred income and mining taxes *(Note 1)*	**3,154,500**	3,261,500
	3,169,062	3,261,500
Minority interest in subsidiary	**72,620**	72,620
Shareholders' equity:		
Capital stock —		
Authorized:		
15,000,000 common shares of no par value		
Issued:		
8,693,728 common shares	**16,273,848**	16,273,848
Contributed surplus	**237,494**	237,494
Retained earnings	**6,039,520**	6,318,905
	22,550,862	22,830,247
Commitments and contingent liabilities *(Notes 3, 4 and 7)*		
	$28,396,464	$27,302,646

THESE CONSOLIDATED FINANCIAL STATEMENTS
HAVE BEEN APPROVED BY THE BOARD OF DIRECTORS

Director

Director

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED SEPTEMBER 30, 1973

	1973	1972
Value of mineral production (*Note 1*)	$4,202,988	$4,828,738
Cost of production:		
Mining	1,524,577	1,182,915
Concentrating	719,600	590,943
Mine exploration and development	692,923	578,845
Mine administration	227,347	215,308
Depreciation	556,966	528,315
Amortization	266,930	226,639
Depletion	11,745	11,691
	4,000,088	3,334,656
Gross profit	202,900	1,494,082
General and administrative expenses (*Note 5*)	309,142	284,965
Other general expenses:		
Investigation of exploration prospects	45,107	42,832
Interest expense	24,239	127,523
Loss arising on disposal of building at Giant Copper Property	–	13,456
	378,488	468,776
	(175,588)	1,025,306
Other income:		
Gain on disposal of fixed assets	30,161	–
Interest income	12,869	33,019
Miscellaneous	5,218	1,169
	48,248	34,188
Income (loss) before income and mining taxes, equity in expired costs of affiliate and extraordinary item	(127,340)	1,059,494
Deferred income and mining taxes (recoverable)	(53,000)	321,000
Income (loss) before equity in expired costs of affiliate and extraordinary item	(74,340)	738,494
Equity in expired costs of affiliate (*Note 1*)	5,150	34,195
Income (loss) before extraordinary item	(79,490)	704,299
Extraordinary item:		
Financing expenses, net of deferred tax of $54,000 (*Note 6*)	(199,895)	–
Net income (loss)	(279,385)	704,299
Retained earnings, beginning of year	6,318,905	5,614,606
Retained earnings, end of year	$6,039,520	$6,318,905
Earnings per common share (*Note 8*)		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1973

1. Accounting policies:

The following significant accounting policies practiced by the company are set forth to facilitate an understanding of the accompanying consolidated financial statements.

a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries, namely: G.M. Explorations Limited (N.P.L.), Mascot Copper Mines Limited (N.P.L.), Mascot Mines & Petroleums Limited (formerly Eagle Ridge Petroleum Ltd.), Mascot Nickel Plate Mines Limited, (in which the company owns a 75% interest) and Giant Soo Mines Limited (N.P.L.). The latter, having disposed of its assets to the parent company, is presently being wound-up voluntarily.

b) Valuation of concentrate inventories:

The company operated under firm sales contracts covering all mineral production for the year ended September 30, 1973, therefore, mineral production is valued at estimated net realizable value and revenues have been recorded as concentrate was produced.

c) Accounting for investment in affiliate - Giant Explorations Limited (N.P.L.):

The company carries its 28% investment in this affiliate by the equity method of accounting. The company's share in the affiliate's expired costs for the year ended September 30, 1973 has been determined on the basis of unaudited financial statements of that company as at September 30, 1973.

The company recorded as contributed surplus its equity in the increased share capital of this affiliate derived from capital stock issuances to underwriters at prevailing prices. The difference as of September 30, 1973 between the carrying amount of the investment accounted for under the equity method and the underlying equity in net assets, in the amount of $29,918, has been allocated to mineral claims and exploration and development expenditures thereon.

d) Capitalization of exploration and development expenditures:

Mine development costs which could contribute significantly to the life of the Giant Nickel Mine are deferred as incurred and amortized on a straight-line basis at the rate of 10% annually.

Exploration and development expenditures are capitalized on the other properties which are held for development and are not operating, and accordingly no depreciation or amortization is being provided.

e) Depreciation:

The company provides for depreciation on buildings and equipment at the Giant Nickel Mine on a straight-line basis at the rate of 5% annually for buildings and other surface assets and 10% annually for underground machinery and facilities. Mobile equipment is depreciated on the declining balance method at a rate of 30% per year.

f) Repairs and maintenance:

Repairs and maintenance and minor expenditures for renewals and betterments, not calculated to extend the original life of the assets, are charged to income as incurred. Other renewals and betterments which are considered to extend materially the original life of the assets are capitalized, and these amounts are written off over the remaining depreciable life of the assets.

g) **Income taxes:**

The company records income taxes on the tax allocation basis recommended by the Canadian Institute of Chartered Accountants. Provision is made for deferred income and mining taxes arising from principally depreciation and exploration and development expenditures claimed for income and mining tax purposes in excess of the amounts charged against earnings in the accounts.

h) **Mineral claims:**

The costs of mineral claims at the Giant Nickel Mine are being amortized against earnings over a 25 year period.

2. **Mining properties and petroleum and natural gas holdings:**

	YEAR ENDED SEPTEMBER 30	
	1973	1972
Mining properties:		
Giant Nickel Mine:		
Mineral claims, at cost less accumulated depletion of $46,218 (1972 – $34,473)	$ 247,407	$ 257,816
Buildings and equipment, at cost less accumulated depreciation of $2,298,471 (1972 – $1,757,062)	7,083,436	7,352,269
Deferred mine development and exploration costs less accumulated amortization of $612,867 (1972 – $345,937)	2,056,432	1,920,453
	9,387,275	9,530,538
Giant Copper property:		
Mineral claims, at cost*	1,011,008	1,011,008
Buildings and equipment, at cost*	357,402	357,402
*(including $1,084,997 ascribed to 1,084,997 shares issued therefor)		
Deferred exploration and development expenditures	1,084,570	1,050,906
	2,452,980	2,419,316
Motherlode-Greyhound property:		
Mineral claims and options, at cost	203,091	–
Buildings and equipment, at cost	451,357	–
Deferred exploration and development expenditures	74,327	–
	728,775	–
Mascot Nickel Plate property:		
Mineral claims, at cost	79,126	78,161
Deferred exploration and development expenditures	263,489	224,143
	342,615	302,304

	1973	1972
Nickel Syndicate property, (50% interest):		
Mineral claims and options, at cost	**22,643**	21,002
Deferred exploration and development expenditures	**199,375**	185,633
	222,018	206,635
Giant Soo property:		
Mineral claims, at cost	**21,202**	21,202
Deferred exploration and development expenditures	**52,340**	51,261
	73,542	72,463
Interest in petroleum and natural gas holdings:		
Pembina Cardium Unit No. 8, at cost	**11,200**	11,200
	$13,218,405	$12,542,456

The amounts shown for mining properties and petroleum and natural gas holdings are not intended to represent present or future values.

3. Interest in Panarctic Oils Ltd. (1,585,622 common shares):

Under an agreement dated November 2, 1972, the company acquired additional common shares of Panarctic Oils Ltd. at a cost of $1,129,360, thereby maintaining its 4.484% interest. The company expects to be called upon to pay the balance of this obligation within the next fiscal year.

The company proposes to enter into an agreement for the acquisition of additional common shares of Panarctic Oils Ltd. at a proposed price of $12.50 per share for a total amount which is contingent upon subscription by others, but is not expected to exceed some $1,129,350, which the company may be called upon to pay by instalments.

4. Commitment:

The company is committed under a lease agreement to pay annually $35,888 as rental for its head office premises until May 30, 1977.

5. Remuneration of directors and senior officers:

Total direct remuneration paid by the company and its subsidiaries to the directors and senior officers (including not only officers, as such, but also by definition, certain management personnel) was $158,709 (1972 – $149,558). No such remuneration was paid by the company's subsidiaries.

6. Financing expenses:

During April 1973, the company decided not to proceed with the proposed underwriting in the United States and to withdraw its October 6, 1972 application for registration with the United States Securities and Exchange Commission. Accordingly the expenses related to the proposed underwriting have been recorded as an extraordinary item in the attached statement of earnings.

7. Contingent liabilities:

The Motherlode-Greyhound property and adjoining option properties are subject to payment of royalties, the ultimate aggregate amounts of which are fixed, and to a 5% interest in net profits.

8. Earnings per common share:

	YEAR ENDED SEPTEMBER 30	
	1973	1972
Income (loss) before extraordinary item	$ (.01)	$ .08
Extraordinary item	(.02)	–
Net income (loss)	$ (.03)	$ .08

9. Subsequent event:

The company on the 15th day of February, 1974, entered into an agreement (subject to ratification by shareholders, and acceptance by provincial securities commissions and the Toronto and Vancouver stock exchanges of the material relating to the rights offering contemplated therein) with the company's major shareholder, Cemp Investments Ltd. (Cemp), whereby Cemp guarantees:

a) that the company shall receive not less than $2,000,000 from a $3,675,000 rights offering made pro rata by the company to its shareholders, Cemp undertaking to exercise its own rights and, to the extent that the total subscriptions received, including Cemp's, are less than $2,000,000, to subscribe for such additional common shares at the rights offering price, forthwith after the closing of the rights offering, as may be required to bring the aggregate to $2,000,000;

b) that Cemp, when called upon by the company, shall subscribe, from time to time, for additional common shares at the rights offering price in an aggregate amount up to the difference between $3,675,000 and the amount raised under (a) above, but only to the extent such monies represent reimbursement of payments made by the company from October 1, 1973 to the date of the closing of the rights offering under the Fourth and Fifth Expansion Agreements with Panarctic Oils Ltd., or are required by the company to make such payments after the closing of the rights offering.

AUDITORS' REPORT

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited and its subsidiaries as at September 30, 1973 and the consolidated statements of income and retained earnings and changes in financial position 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.

The ultimate realization of the companies' investment in mineral claims, buildings and equipment, deferred mine development costs and deferred exploration and development expenditures is dependent on the results of future exploration and development work.

In our opinion, subject to the outcome of the companies' exploration and development efforts, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In accordance with Section 212 of the British Coumbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

Price Waterhouse & Co.

Chartered Accountants

Vancouver, B.C.
February 15, 1974

GIANT MASCOT MINES LIMITED

THREE MONTH INTERIM REPORT – 1974 FISCAL PERIOD

For the three month period ended December 31, 1973 with comparative figures for 1972

Consolidated Statement of Income

	1973	1972
Dry tons of ore milled	71,720	106,755
Value of mineral production	$997,298	$1,366,954
Cost of production:		
Mining	366,319	395,529
Concentrating	179,343	175,305
Mine exploration and development	150,346	220,632
Mine administration	66,470	53,280
Depreciation, depletion and amortizatior	229,000	222,000
	991,478	1,066,746
Gross profit	5,820	300,208
General and administrative expenses	73,411	69,542
Other general expenses:		
Investigation of exploration prospects	3,782	3,555
Interest expense	53,274	–
	130,467	73,097
Other income:		
Interest income	449	5,637
Miscellaneous	733	578
	1,182	6,215
Income (loss) before income and mining taxes	(123,465)	233,326
Income and mining taxes:		
Deferred (recovery)	(49,000)	95,500
Net Income (loss) for the period	$(74,465)	$ 137,826

Consolidated Statement of Changes in Financial Position

	1973	1972
Financial resources were provided by:	$	$
Net income (loss) for the period	(74,465)	137,826
Add: Income charges not affecting working capital in the period:		
Depreciation, depletion and amortization	229,000	222,000
Deferred income and mining taxes	(49,000)	95,500
	105,535	455,326
Indebtedness incurred relative to commitment to acquire shares of Panarctic Oils Ltd.	–	376,453
Increase in minority interest in subsidiary	2,000	–
	107,535	831,779
Financial resources were used for:		
Interest in Panarctic Oils Ltd.	2,121	1,131,168
Additions to mineral claims, buildings and equipment, net	87,631	91,220
Deferred exploration, development and other expenditures	256,731	101,137
Increase in advances to affiliate	7,901	8,546
Reduction in capitalized lease obligations	2,333	–
	356,717	1,332,071
Increase (decrease) in working capital	(249,182)	(500,292)
Working capital (deficiency), beginning of period	(875,319)	1,331,276
Working capital (deficiency), end of period	$ (1,124,501)	$ 830,984

THE ABOVE FIGURES ARE SUBJECT TO AUDIT AND YEAR END ADJUSTMENTS.