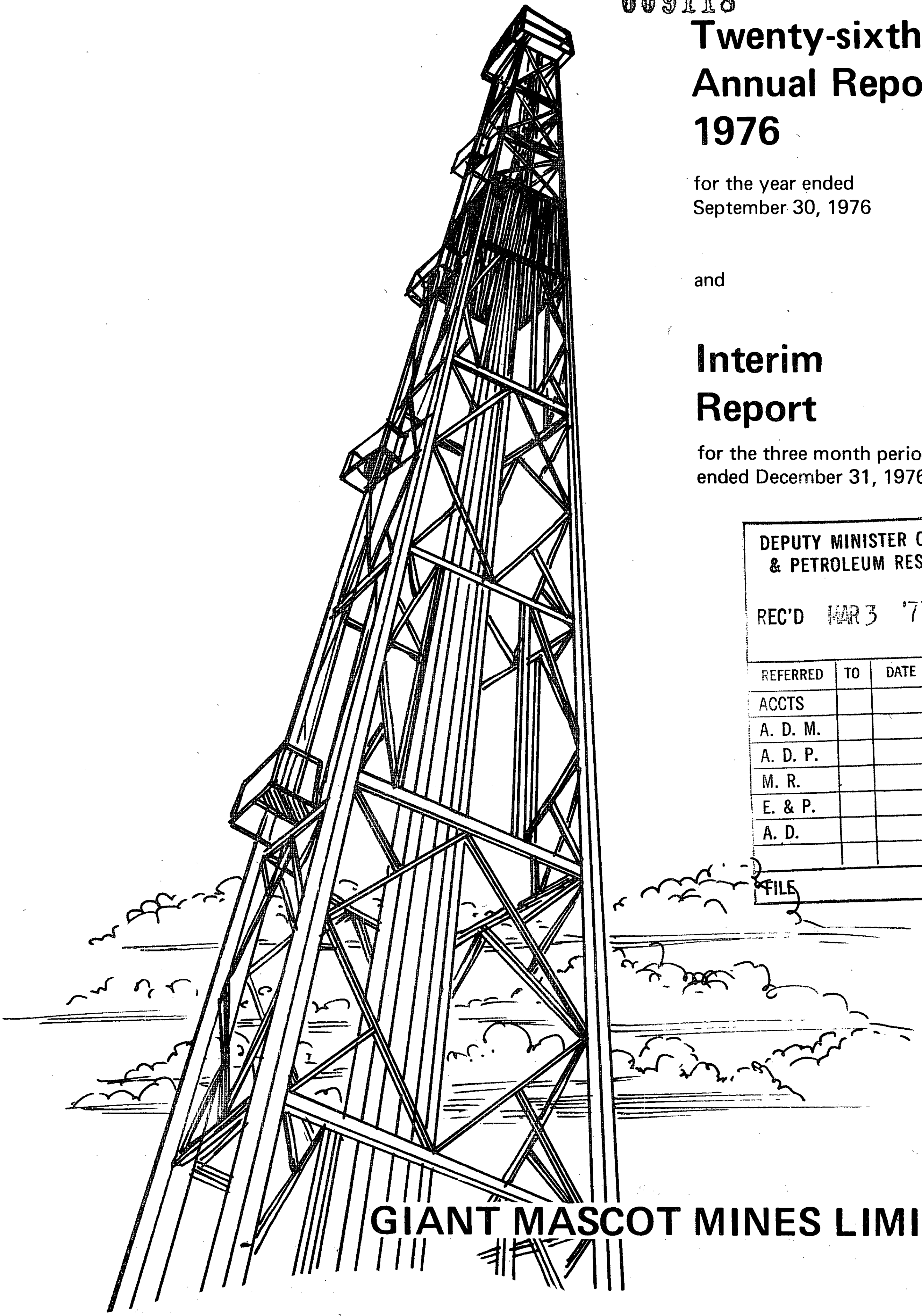
Twenty-sixth Annual Report 1976

for the year ended
September 30, 1976

and

Interim Report

for the three month period
ended December 31, 1976



GIANT MASCOT MINES LIMITED

GIANT MASCOT MINES LIMITED

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

TWENTY-SIXTH ANNUAL REPORT

DIRECTORS

A.H. Ainsworth, *Vancouver*
K.G. Bream, *Toronto*
F.P. Cundill, *Vancouver* *
N. Gesser, *Montreal* *
J.L. Gibson, *Vancouver* *
J.O. McCutcheon, *Montreal*
L.P. Starck, *Calgary*

OFFICERS

J.O. McCutcheon, *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, B.C., V7Y 1A9

EXECUTIVE OFFICE
Suite 2370, Bow Valley Square Two
205 - 5th Avenue S.W.
Calgary, Alberta, T2P 2W6

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

* Audit Committee

GIANT MASCOT MINES LIMITED

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

Since the last Annual General Meeting held in May, 1976, the Company has made two acquisitions, both yielding cash flow, which have placed it directly in the exploration for, and the production of, petroleum and natural gas in Western Canada. The first, involving the purchase of working and production interests from Canadian Hunter Exploration Ltd. (Hunter), is reflected in the accompanying audited consolidated financial statements for the last fiscal year. The second, the purchase of all the issued shares of Calgary International Energy Ltd. (Calgary International), was made on December 30, 1976, and is reflected in the accompanying unaudited consolidated financial statements for the quarterly period ended December 31, 1976.

As the result of these transactions and related exploration activities, the Company now has proven and probable reserves of some 44 billion cubic feet of natural gas, as well as a production interest purchased from Hunter in petroleum and natural gas, amounting, over a term of not less than six years, to $13.02 million in net proceeds to the Company. In addition, by way of exploration potential, there are unexplored and undeveloped holdings of Calgary International and lands not yet evaluated or tested under the agreement with Hunter.

The Company's earnings for the fiscal year ended September 30, 1976, were $14,136 before providing for a write down of mining assets. The unaudited net earnings for the first quarter of the current fiscal year were $263,590 or $0.02 per share.

In view of the Company's financial requirements with respect to further development of certain of its present natural gas holdings, anticipated installation of production facilities and its contemplated participation in a new exploration program for natural gas in Western Canada, the Company recently elected not to participate in the subscription for units offered by Panarctic Oils Ltd. under the Eighth Expansion Agreement.

At the Annual General Meeting on March 31, 1977, the members will be asked to approve a consolidation of the Company's shares and a change of name. Shortly after the meeting, it is planned to make a rights offering to its members, the proceeds of which will be used to provide working capital and to meet certain firm and anticipated commitments in respect of the Company's petroleum and natural gas interests.

Details of the Company's activities since the last Annual Report and a summary of its future plans and policies accompanies, and forms part of, this Report.

February 15, 1977.

On Behalf of the Board

President and Managing Director

GIANT MASCOT MINES LIMITED

Purchase of Petroleum and Natural Gas Interests from Canadian Hunter Exploration Ltd. (Hunter)

Working interests in various exploration prospects and production interests in certain proven petroleum and natural gas properties were purchased from Hunter, effective July 1, 1976, for a cash price of $9 million in a transaction which closed early in September, 1976.

The exploration interests consisted of an undivided 75% share of Hunter's working interest, owned or to be earned by it in one well-site spacing unit (or a group of spacing units) in not less than nine separate prospects selected by Hunter. Of eight prospects selected to date, four are in British Columbia and four are in Alberta. As operator, Hunter undertook to drill an exploratory well on one well-site spacing unit in each prospect, using for that purpose a portion, in the amount of $5 million, of the total purchase price paid to it by the Company.

As of February 15, 1977, six of the exploratory wells have been drilled, two are being drilled, and the location for the ninth has yet to be selected. Five of the six wells drilled encountered gas and the sixth, at Simonette, was a dry hole. The first of the five gas discoveries, the Bubbles well, has been suspended as not being commercial at this time due to the volume of water recovered with the gas. The other four discoveries were made at Julienne, Karr, Elmworth and Altares, and of those the Julienne exploratory well has been abandoned due to mechanical difficulties, but a twin well on the same spacing unit is to be drilled shortly, and the others are presently either suspended pending completion or have been capped waiting the installation of production facilities.

Some 31 billion cubic feet net of natural gas reserves (over 97% proven and the balance probable), having a net present worth, based on a 15% discount factor, of some $13.5 million, has been attributed to the Company's interests in the well-site spacing units at Julienne, Karr and Elmworth in a recent report by Sproule Associates Limited, as independent consultants for the Company.

Costs of installing production facilities on the exploration prospects and any excess drilling or completion costs incurred over those originally estimated, after applying the $5 million budget for the drilling program, are to be borne by the Company as to 75% and Hunter as to 25%. If the Company does not contribute its share of these costs, its interest in the production from the well or wells affected will be subject to a penalty of 150% in the case of the cost of production facilities and 400% in the case of excess drilling or completion costs. These penalties would only apply in respect of any amount which should have been contributed by the Company.

The Company has recently elected to contribute its 75% share, in an estimated amount of some $330,000, of the cost of drilling a twin well at Julienne. Furthermore, the Company expects to be called upon shortly to contribute its share of the costs of production facilities for this well and possibly for the drilling of a second production well on the Julienne spacing unit. When threshold volumes of gas for production facilities are proven in the areas of the other discoveries and markets are available, the Company will also be called upon to contribute its share of the cost of such facilities.

The production interests acquired by the Company from Hunter entitle the Company to take petroleum and natural gas production in an aggregate amount of $13,020,000, as measured in net proceeds, by way of the first $2,170,000 of such production annually for a term of not less than six years which commenced on July 1, 1976. The Company is to receive such production from Hunter's 25% retained share of its working interest in any of the exploratory properties which are placed in production or from the whole of Hunter's working interest in certain proven and presently producing petroleum and natural gas properties in Western Canada, or partially from Hunter's interest in such exploratory properties and partially from its interest in such producing properties. The proven production subject to the Company's production interest is from four natural gas and seven oil properties. By December 31, 1976, the Company's share of petroleum and natural gas produced and sold amounted to $1,642,726, all of which, of course, was derived from the previously proven properties.

The agreement with Hunter was entered into by the Company for its own account, as to a two-thirds interest, and for the account of its wholly-owned subsidiary, Mascot Mines & Petroleums Limited (Mascot), as to the remaining one-third interest.

Purchase of Calgary International Energy Ltd. (Calgary International)

On December 30, 1976, Mascot acquired, for a cash purchase price of $4,435,000, all the issued shares of Calgary International, a private Alberta company with diversified petroleum and natural gas interests in Alberta and Saskatchewan. Concurrently with the closing, Calgary International realized some $101,000 from the sale of certain of its assets which were not required in its continuing operations.

Calgary International is presently receiving some $500,000 in annual income from its 0.634% gross overriding royalty interest in the Strachan D-3 Leduc gas unit, a well known Alberta gas field operated by Gulf Oil Canada Limited which has been in production since 1969. In the Strachan area, Calgary

International also holds gross overriding royalty interests in various percentages in some 50,000 acres.

In the Seven Persons shallow gas field near Medicine Hat, Alberta, Calgary International presently holds a 30% working interest in 20½ sections with proven reserves in the Medicine Hat formation and probable reserves in the Milk River formation. That working interest is subject to the right of one of Calgary International's partners to recoup certain development drilling costs from production. Pending such recoupment, Calgary International's interest may be proportionately reduced annually to permit such recoupment. Upon recoupment, however, Calgary International's interest would increase to 37½%. The field gathering system is owned by an independent operator who contracted to install and operate it for a certain fixed return. The Seven Persons property is presently operating with 31 of the 39 wells in the Medicine Hat formation on stream. The remaining wells will be placed on production when the gathering facilities are completed and certain start up problems resolved.

Calgary International is also a 50% working interest partner in another gas property consisting of some seven sections in the Bassano area of Alberta. To date the partnership has drilled two wells, which, together with a number drilled by previous owners, have established proven and probable reserves which, on installation of a gathering system and the availability of a sales contract, could be commercial.

In the Cypress Hills area of Saskatchewan, Calgary International is beneficially entitled to a 1.66% gross overriding royalty interest in some 600,000 acres held under permits or leases by the Saskatchewan Power Commission. This property has undeveloped proven and possible reserves and exploration potential.

In addition, Calgary International holds various minor working or royalty or other carried interests in other areas of Alberta and Saskatchewan, as well as in certain gold, base metal and uranium exploration prospects in the Northwest Territories and British Columbia.

Interest in Panarctic Oils Ltd. (Panarctic)

In September, 1976, Panarctic announced that the Bent Horn A-02 well on Cameron Island, which is the third well drilled on that formation capable of oil production, had been flow-tested at varying rates over various periods of time. Over a period amounting to 36 days in the aggregate, it had produced a total of 127,000 barrels of crude oil at rates of up to 6,000 barrels per day on a restricted choke and an average of 3,500 barrels per day over the entire flow-test period. Following those tests, that well has been shut-in, in order that the bottom-hole pressure could be observed over an extended period of time with a view to further evaluating the discovery. The sixth well, Bent Horn I-01 situated some two-thirds of a mile south of the A-02 well, is presently being drilled to further delineate the Bent Horn structure.

Two exploratory wells, the Key Point 0-51 on Vanier Island and the Charles Point G-07 on Cameron Island, were drilled within the last nine months to test structural features which appeared somewhat similar to the Bent Horn but were unsuccessful.

In November, 1976, Imperial Oil Ltd. as to 35%, Gulf Oil Canada Limited as to 25%, Petro-Canada Exploration, Inc. as to 18%, and Panarctic as to 22% entered into a farmin agreement with respect to the interests in 33 million gross acres held by Sun Oil Company Limited and Global Arctic Islands Ltd., largely offshore in the Sverdrup Basin. The four farmees agreed to spend some $80 million over four to six years to earn, in the aggregate, a 60% share of the farmors' interest in the farmin lands. The success of this program could help to accelerate the establishment of pipeline threshold gas reserves in the Arctic Islands where some 15 trillion cubic feet of gas have been discovered to date.

The first well on the farmin lands is a wildcat presently being drilled in the Drake Point area offshore from the east coast of the Sabine Peninsula on Melville Island. The second well will be in the Hecla area offshore the west coast of Sabine Peninsula.

Pursuant to an agreement dated December 3, 1976, between Home Oil Company Limited (Home) and Panarctic, Home committed to expend, in approximately equal payments over a three-year period expiring December 31, 1979, a total sum of $30,522,425 in exploration on Panarctic lands to earn 2,441,794 shares of Panarctic. The reservation by Panarctic of those shares for Home potentially reduced the Company's equity interest in Panarctic from 4.2626% to 4.0225%, before allowing for the exercise of any of the share purchase warrants issued, pursuant to the Seventh Expansion Agreement, by Panarctic to the Company and the other participants in that agreement, which, in any event, are not exercisable until after January 1, 1981.

In January, 1977, following payment by the Company of the balance of its $1,065,500 commitment under the $25 million Seventh Expansion Agreement, the Company declined the opportunity to participate pro rata for units, at $12.50 each, in the new $35 million Eighth Expansion Agreement. These units are comprised of one common share and a warrant (having the same terms and conditions as the warrants issued pursuant to the Seventh Expansion Agreement) to purchase one further common share for $1. On the issuance of the 2,800,000 shares under this Agreement and when the shares reserved for Home are issued, the Company's interest in Panarctic will be 3.7784%, before allowing for the exercise of any of the share purchase warrants issued pursuant to the Seventh and Eighth Expansion Agreements.

Mining Interests

Although the Company has disposed of the Giant Nickel plant at Hope and is liquidating the Motherlode-Greyhound plant at Greenwood, it has maintained in good standing the principal mineral holdings in the Giant Nickel, Motherlode-Greyhound, Canam, Nickel Plate, Nickel Syndicate, and Giant Soo properties. All of these properties are considered to have promising exploration potential and, in most instances, probable and inferred reserves of mineralization.

The Company, which has retained a core of mining exploration and development equipment, does not presently plan to undertake any exploration on those properties during the present fiscal year, but is continuing to investigate and evaluate other situations in the mineral industry.

Financial

The Company's earnings for the fiscal year ended September 30, 1976, before providing for a write down of mining assets in the amount of $499,002, were $14,136 as compared with a loss of $625,696 last year. For the same period a total of $810,671 was realized from the disposal of fixed assets.

During the first quarter ended December 31, 1976, of the present fiscal period, the Company's unaudited net earnings amounted to $263,590 after making provision for depletion and income taxes.

The purchase of production and exploration working interests from Hunter, as well as the purchase of the outstanding shares of Calgary International, was financed by way of loans from The Royal Bank of Canada in the aggregate sum of $13.2 million, which are secured by petroleum and natural gas production. An operating line of credit of up to $850,000, secured by a guarantee by Cemp Investments Ltd., was also recently arranged with the Bank.

Save for the acquisitions previously noted, no capital expenditures as such were made during 1976 and, other than for expenditures in meeting the Company's share of placing natural gas properties in production, none are contemplated in the coming year.

During the fiscal year ended September 30, 1976, the total wages, salaries and benefits paid by the Company and its subsidiaries to its eight employees amounted to $190,733 as compared with $212,700 for the previous year.

In the past 12 months there have been several increases in the price of petroleum and natural gas and further increases are anticipated in the coming year. Although the market for new gas in Alberta is presently limited and the general indication is that this condition will continue into 1978, there is presently a market for new gas production in British Columbia.

Corporate

As set out in the accompanying Notice and Information Circular, it is proposed, by way of special business at the Annual General Meeting to be held on March 31, 1977, to reorganize the share capital of the Company so that there will be 3,694,833 common shares issued of a total of 10 million shares authorized. As it is a condition of any such capital reorganization that the name of the Company be changed, the members will be asked at the Annual General Meeting to approve a special resolution changing the Company's name to one acceptable to the various regulatory bodies. If the reorganization of the share capital is approved, members of record will receive, following the Annual General Meeting, a formal Notice to that effect and a Letter of Transmittal under the cover of which the certificates representing the shares to which they are presently entitled will have to be surrendered in exchange for certificates representing the number of shares of the Company as consolidated under its new name to which they will then be entitled.

At an appropriate time after the reorganization of the share capital of the Company has been completed, the Company intends to proceed with a rights offering to its members. In general terms, the proceeds of such an offering would be used to finance the participation by the Company in further exploration for petroleum and natural gas in British Columbia and Alberta, to meet the Company's share of any excess drilling or completion costs incurred over Hunter's original budget, to place in production certain successful discoveries, and to provide operating capital to supplement revenue from petroleum and natural gas production or to reduce bank borrowings under its operating line of credit.

At a recent meeting of the Board of Directors, J.O. McCutcheon was appointed a Director and Chairman of the Board of the Company. At the same meeting, pursuant to the power conferred on the Board by the members at the last Annual General Meeting, the number of Directors was increased to seven and A.H. Ainsworth was appointed a Director. Mr. McCutcheon, of Montreal, is the Executive

Vice-President of Cemp Investments Ltd. and President of Multiple Access Ltd. and Chairman of the Board of Warrington Products Limited. Mr. Ainsworth, of Vancouver, is the Secretary and General Counsel of the Company and has previously been a Director.

Mr. R.B. Carleton, who has been a Director of the Company since 1970 and Chairman of the Board since 1973, resigned recently, and K.G. Bream, who was first appointed a Director of the Company in January, 1969, has advised that he will not be standing for re-election at the forthcoming Annual General Meeting.

In view of the Company's increasing participation in the petroleum and natural gas industry, the Company has relocated its executive offices at 2370 Bow Valley Square Two, 205 - 5th Avenue S.W., Calgary, Alberta, T2P 2W6.

Plans and Policies

Since July, 1976, the Company, through its participation with Hunter in the exploratory drilling program and by the purchase of the shares of Calgary International, has acquired in excess of 44 billion cubic feet of proven and probable natural gas reserves in Western Canada, in addition to the $13,020,000 petroleum and natural gas production interest purchased from Hunter. In the coming months of 1977, the Company intends to participate with others in a new exploration program for the discovery of natural gas within ten miles of existing pipeline facilities. While the natural gas exploration program initiated last year and the one contemplated this year are proceeding, it will be the Company's primary objective to maximize, so far as possible, the revenue from reserves already discovered in order to provide the financial base for continued growth in the natural resource field generally. Notwithstanding its principal emphasis on energy resources in the coming year, the Company will continue to evaluate opportunities for the further exploration and development of its mineral holdings and to investigate other properties and ventures of merit.

GIANT MASCOT MINES LIMITED

October 27, 1976
(except as to Note 9 for which
the date is December 30, 1976)

AUDITORS' REPORT

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited as at September 30, 1976 and the consolidated statements of loss, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The ultimate realization of the Company's 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 and the generation of sufficient funds for such programmes.

In our opinion, subject to the outcome of the Company's exploration and development efforts and the generation of sufficient funds for such programmes, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1976 and the results of its operations and the changes in its 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.

Price Waterhouse & Co.

Chartered Accountants

GIANT MASCOT MINES LIMITED

CONSOLIDATED BALANCE SHEET

ASSETS

	September 30	
	1976	1975
Current assets:		
Cash and certificates of deposit	$ 151,507	$ 415,908
Accounts receivable	860,229	83,596
Supplies, at estimated realizable value	—	47,786
Prepaid expenses	81,080	93,743
	1,092,816	641,033
Petroleum and natural gas production interest, at cost less accumulated depletion of $218,700 (Notes 1 and 2)	5,031,300	—
Other petroleum and natural gas and mineral holdings (Note 4)	8,587,519	5,946,999
Investment in Panarctic Oils Ltd. (Note 3)	15,251,807	14,181,512
Investment in and advances to affiliated company, Giant Explorations Limited (N.P.L.) (Note 1):		
Investment	98,368	122,498
Advances	98,711	74,888
	197,079	197,386
	$30,160,521	$20,966,930

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

Director

Director

GIANT MASCOT MINES LIMITED

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30 1976	1975
Current liabilities:		
Bank loan	$ 2,170,000	$ —
Accounts payable	236,244	39,200
Accrued liabilities	170,329	83,978
Liability relating to the acquisition of shares of Panarctic Oils Ltd. (Note 3)	329,400	—
	2,905,973	123,178
Bank loan, net of current portion included above (Note 5)	6,889,362	—
Minority interest in subsidiary	85,666	85,666
Shareholders' equity:		
Share capital-		
Authorized-		
15,000,000 common shares without par value		
Issued-		
14,779,332 common shares	19,803,498	19,803,498
Contributed surplus	237,494	237,494
Retained earnings	238,528	717,094
	20,279,520	20,758,086
	$30,160,521	$20,966,930

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF LOSS

	Year ended September 30 1976	1975
Income:		
Petroleum and natural gas revenue	$838,874	$ —
Interest income	25,962	21,173
Miscellaneous	15,879	46,816
	880,715	67,989
Expenses:		
General and administrative (Note 6)	201,415	184,802
Other-		
Depletion	219,600	1,000
Property shutdown	251,253	217,601
Mineral Land Tax	—	49,548
Interest	68,557	129,974
Financing	—	39,117
Investigations of prospective ventures	95,324	66,771
	836,149	688,813
Earnings (loss) before the following	44,566	(620,824)
Income taxes	6,300	—
Earnings (loss) before equity in expired costs of affiliate and extraordinary items	38,266	(620,824)
Equity in expired costs of affiliate (Note 1)	24,130	4,872
Earnings (loss) before extraordinary items	14,136	(625,696)
Extraordinary items:		
Writedown of mining assets	499,002	—
Recovery of taxes on income arising from the application of prior years' losses	6,300	—
	492,702	—
Loss for the year	$478,566	$625,696

Loss per common share (Note 7)

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended September 30 1976	1975
Retained earnings, beginning of year	**$717,094**	$1,342,790
Loss for the year	**478,566**	625,696
Retained earnings, end of year	**$238,528**	$ 717,094

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended September 30 1976	1975
Financial resources were provided by:		
Operations-		
Earnings before extraordinary items	$ 14,136	$ —
Add: Charges not affecting working capital-		
Depletion	219,600	—
Equity in expired costs of affiliate	24,130	—
	257,866	—
Bank loan	6,889,362	—
Proceeds from disposal of fixed assets	810,671	400,627
Extraordinary item affecting working capital	6,300	—
Issue of share capital	—	3,529,650
Other	—	9,006
	7,964,199	3,939,283
Financial resources were used for:		
Operations-		
Loss for the year	—	625,696
Less: Charges not affecting working capital-		
Depletion	—	1,000
Equity in expired costs of affiliate	—	4,872
	—	619,824
Petroleum and natural gas production interest	5,250,000	—
Other petroleum and natural gas and mineral holdings	3,951,093	41,540
Investment in Panarctic Oils Ltd.	1,070,295	3,839
Increase in advances to affiliate	23,823	23,172
	10,295,211	688,375
(Decrease) increase in working capital	(2,331,012)	3,250,908
Working capital (deficiency), beginning of year	517,855	(2,733,053)
Working capital (deficiency), end of year	$(1,813,157)	$ 517,855

GIANT MASCOT MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1976

1. **Accounting policies:**

The following significant accounting policies used 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 and Mascot Nickel Plate Mines Limited (in which the Company owns a 76% interest).

(b) 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, 1976 has been determined on the basis of unaudited financial statements of that company as at September 30, 1976.

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, 1976 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.

(c) Capitalization of mineral exploration and development expenditures-

Expenditures are capitalized on properties which are held for development and are not operating, and accordingly no depreciation or amortization is being provided. When a property is abandoned or an option dropped, the related costs are written off against income in that year.

(d) Petroleum and natural gas production interest-

The Company is providing for depletion of its production interest in certain proven lands of Canadian Hunter Exploration Ltd. on a straight-line basis over 6 years beginning July 1, 1976.

2. **Petroleum and natural gas production interest:**

Effective July 1, 1976, the Company purchased from Canadian Hunter Exploration Ltd. (Hunter) for a total cash purchase price of $9,000,000-

(a) an undivided 75% share, being a working interest, of Hunter's working interest in certain exploratory lands consisting of not less than nine separate drilling spacing units or groups of spacing units, on each of which units, or groups of units, Hunter, as operator, undertook to drill and complete an exploratory well;

(b) the right, for a term of not less than six years commencing July 1, 1976, to take petroleum and natural gas in an aggregate amount of $13,020,000, as measured in net proceeds, by way of the first $2,170,000 of production annually, derived either from Hunter's retained interest in any of the exploratory lands referred to in (a) or from the whole of Hunter's working interest in certain proven, and producing fields in Western Canada, or partially from one and partially from the other.

A portion, in the amount of $5,000,000 of the total purchase price has been budgeted for, and is to be used by Hunter in, drilling and completing the exploratory wells. Any excess outlay or completion costs over the estimate, after applying a contingency reserve provided for in the total budgeted cost of the programme, are to be borne by the Company as to 75% and by Hunter as to 25%, and the costs of installing production facilities on any of the test wells which are successful are to be contributed by the parties in the same ratio.

3. **Investment in Panarctic Oils Ltd.:**

The Company holds 1,743,424 shares in Panarctic Oils Ltd. (Panarctic), the cost of which interest amounted to $15,251,807 at September 30, 1976. During the year ended September 30, 1976, the Company subscribed for 85,252 units consisting of 85,252 common shares of Panarctic and a like number of warrants offered pursuant to the Seventh Expansion Agreement, at a cost of $1,065,650. A portion of the balance of this obligation was paid by the Company on October 15, 1976, and the remainder will be payable on January 20, 1977.

The warrants held by the Company entitle it to purchase an additional 170,504 shares of Panarctic at a price of $1 per share which may be paid by the incurring of exploration expenditures. Such warrants are exercisable during the five years commencing either on January 1, 1981 or the first day of January in the year next following the initial delivery of petroleum substances from Panarctic lands, whichever is the latter, but, in any event, not later than January 1, 1991.

Panarctic, at present, is still in the exploratory stage, and, accordingly, as its most recent published financial statements indicate, all its costs and expenses have been capitalized and its is deemed to have earned no profit and sustained no loss to December 31, 1975. The shares of Panarctic are closely held and their transfer is subject to restrictions.

4. **Other petroleum and natural gas and mineral holdings:**

	September 30 1976	1975
Mineral holdings:		
Giant Nickel-		
Mineral claims, at cost less accumulated depletion	239,490	$ 239,490
Buildings and equipment, at estimated realizable value	76,550	1,345,698
Deferred exploration and development expenditures less accumulated amortization and extraordinary write down	782,061	779,738
	1,098,101	2,364,926

Giant Copper-		
Mineral claims, buildings and equipment, at cost	**1,077,298**	1,077,298
Deferred exploration and development expenditures	**1,091,864**	1,089,584
	2,169,162	2,166,882
Motherlode-Greyhound-		
Mineral claims, at cost	**214,103**	214,103
Buildings and equipment, at cost	**173,404**	213,929
Deferred exploration and development expenditures	**303,191**	301,061
	690,698	729,093
Mascot Nickel Plate-		
Mineral claims, at cost	**79,794**	79,794
Deferred exploration and development expenditures	**305,394**	293,881
	385,188	373,675
Nickel Syndicate (50% interest)-		
Mineral claims, at cost	**25,099**	25,099
Deferred exploration and development expenditures	**203,876**	202,168
	228,975	227,267
Giant Soo-		
Mineral claims, at cost	**21,202**	21,202
Deferred exploration and development expenditures	**56,093**	54,954
	77,295	76,156
Petroleum and natural gas holdings:		
Pembina Cardium Unit No. 8, at cost less accumulated depletion of $3,100	**8,100**	9.000
Working interests in exploration prospects	**3,930,000**	—
	3,938,100	9,000
	$8,587,519	$5,946,999

The total amount shown for other petroleum and natural gas and mineral holdings is not intended to represent present or future value.

5. **Bank loan:**

To finance the purchase of certain petroleum and natural gas working interests and production interests, the Company borrowed $9,000,000 from The Royal Bank of Canada, at the Canadian chartered bank rate of interest plus 1%. This loan and interest thereon is payable, up to a maximum of $2,170,000 per annum, from the proceeds of the production interest acquired from Canadian Hunter Exploration Ltd. The bank loan is secured by-

(a) A general assignment under Section 82 of the Bank Act, covering the petroleum and natural gas production interests.

(b) A registered general assignment of the accounts receivable of the Company.

(c) Specific assignment of proceeds from the sale of petroleum and natural gas derived from the production interest.

6. **Remuneration:**

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 and other personnel) was $143,000 (1975 - $148,100). No such remuneration was paid by the Company's subsidiaries.

7. **Loss per common share:**

	September 30 1976	1975
Earnings (loss) before extraordinary items	$ –	$.05
Extraordinary items	.03	–
Net loss	$.03	$.05

8. **Loss carry-forward and earned depletion:**

At September 30, 1976 the Company has available as a future deduction for income tax purposes an accounting loss carry-forward of approximately $2,000,000.

Earned depletion is limited to 25% of production profits per annum to a total of $1 for every $3 of eligible capital and exploration expenditures made after November 7, 1969. At September 30, 1976 the earned depletion available to the Company and one of its subsidiaries in future years is approximately $8,000,000.

9. **Subsequent events:**

On December 30, 1976, the Company purchased all the issued shares of Calgary International Energy Ltd. (Calgary International) for a purchase price of $4,435,000. Of that amount, $4,200,000 was obtained by way of a production loan from The Royal Bank of Canada bearing interest at the Canadian chartered bank rate plus 1%. The production loan is secured by general assignments under Section 82 of the Bank Act covering proceeds of Calgary International's royalty interest in the Strachan D-3 gas unit and of its working interest in the Seven Persons gas field which is presently being placed in production, as well as general assignments of accounts receivable and specific assignments of proceeds from the sale of petroleum and natural gas derived from Calgary International's interests. The balance of the purchase price was paid out of an $850,000 line of credit from the Bank secured by a guarantee by Cemp Investments Ltd.

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME

		Three month period ended December 31, 1976
Income:		
Petroleum and natural gas revenue		$804,417
Interest income		2,030
Miscellaneous		6,331
		812,778
Expenses:		
General and administrative		48,450
Other:		
Depletion		218,903
Property shutdown		38,327
Interest		228,851
Investigation of prospective ventures		14,657
		549,188
Earnings before the following		263,590
Income taxes		36,900
Earnings before extraordinary item		226,690
Extraordinary item:		
Recovery of taxes on income arising from the application of prior years' losses		36,900
Earnings for the period		$263,590
Earnings per Common Share:		
Earnings before extraordinary item	$	.02
Extraordinary item		—
Net earnings	$	.02

As the Company was not in receipt of income during the three month period ended December 31, 1975, no comparable figures are provided for that quarterly period.

THE ABOVE FIGURES ARE UNAUDITED AND ARE SUBJECT TO
YEAR END ADJUSTMENTS

GIANT MASCOT MINES LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Three month period ended December 31	
	1976	1975
Financial resources were provided by:	$	$
Operations -		
Earnings (loss) for the period	263,590	(109,595)
Add: Charges not affecting working capital-		
Depletion	218,903	—
	482,493	(109,595)
Bank loan	2,578,765	—
Proceeds from disposal of fixed assets	1,198	132,391
	3,062,456	22,796
Financial resources were used for:		
Acquisition of petroleum and natural gas and mineral holdings less deferred taxes thereon net of working capital	4,783,313	6,848
Investment in Panarctic Oils Ltd.	750	1,327
Increase in advances to affiliate	2,840	4,798
	4,786,903	12,973
(Decrease) increase in working capital	(1,724,447)	9,823
Working capital (deficiency), beginning of period	(1,813,157)	517,855
Working capital (deficiency), end of period	$(3,537,604)	$527,678

THE ABOVE FIGURES ARE UNAUDITED AND ARE SUBJECT TO YEAR END ADJUSTMENT