



822817  
Great Western

## ANNUAL REPORT 1987

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# About the Company

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Lectus Developments Ltd. is a Canadian based company engaged in the exploration and development of Natural Resources.

Lectus is listed in the Development sections of the Vancouver Stock Exchange and traded under the symbol LDV.

The company has received its 12(g) exemption from the US Securities Exchange and Commission, File No. 82-1364 and is listed in Moody's Information Services, Standard & Poor's and is pink sheeted for over the counter trading in the United States.

## **DIRECTORS :**

Roy W. Robinson, President  
Stanley R. Ford, Executive Vice President  
John V. Koonce, Secretary  
Frederick A. McGonigle  
Edwin F. Grobler  
Joseph A. Charland

## **CAPITALIZATION :**

Shares Authorized	10,000,000
Shares Issued as at September 30, 1987	4,324,827

## **INVESTOR ENQUIRIES :**

Lectus Developments Ltd. (604) 687-5257  
530 - 355 Burrard Street  
Vancouver, British Columbia  
V6C 2G8

## **SPECIAL INFORMATION FOR INVESTORS :**

The Annual Shareholders Meeting will be held on Friday, December 18, 1987, at 10:00 A.M. at Suite 2200 - 885 West Georgia Street, Vancouver, British Columbia.

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# REPORT TO THE SHAREHOLDERS

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The past year has seen the company placed on a more secure financial foundation and is a respected Company in the financial community.

Many properties have been reviewed and our holdings have increased by the acquisition of selected properties.

It has been an extremely active year for the company with the completion of several work programs and others underway.

Several financings have been completed to fund the exploration thrust. In particular a \$700,000 "Flow Through" financing at \$0.96 per share is in place with the First Exploration Fund and this funding is being used at this time. An agreement is in place for a further \$1,000,000 funding for 1988 at a price yet to be determined on a 30 day average.

The current assets in the enclosed statement are listed at \$1,623,554. This includes natural gas leases at \$640,367 which have a Fair Market Value of \$2.2 million. Recent changes in the Canadian Tax Act and resulting changes in accounting principles only allows us to report our cost value in the financial statement.

Since July 31, 1987 the assets of the company have been increased to over \$2,000,000 which will be reported in the January 31, 1988 semi-annual statement, at which time we will apply for a NASDAQ listing.

The results being obtained from our Arizona and Great Western properties are very exciting. The potential of the Arizona property being into gold production early in 1988, and the Great Western moving very close to our engineers statement in 1985 of a large tonnage low grade deposit amenable to low cost mining such as open pit, places the company in a very enviable position, and one that very soon should be recognized by the market.

At this time we would like to thank our shareholders for their support, and look forward to receiving it in the years to come.

On behalf of the Board,



R. W. Robinson  
President

November 12, 1987

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## **OPERATIONS**

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### **OIL AND GAS**

Lectus holds 460 acres of proven undeveloped natural gas leases in the Arkoma Basin of Oklahoma. This acreage has been committed to a Joint Venture, where industry partners provide the drilling cost. We expect drilling to commence this winter. Using a gas price of \$1.50 U.S. per MCF, Lectus' projected earnings are quoted at \$120,000 per annum.

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### **MINING DIVISION**

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#### **Stump Lake, Central British Columbia**

On the Stump Lake project near Merritt, British Columbia a geochemical and geological program was carried out on the property. Interesting gold values were found in one area where further work will be done this year to test the target.

#### **Cave Creek, Arizona**

At the Cave Creek property near Phoenix, Arizona a drilling program to expand the reported proven tonnage and gold grade has just been completed. The operator of the drilling project reports that ore like material was found to a depth of 100 feet. We expect the assays to prove up economic leaching values to this 100 foot depth therefore the tonnage will be greatly increased. This property could be in production within six (6) months and earning a significant cash flow for Lectus.

#### **Casa Berardi, Quebec**

In Casa Berardi, Quebec a geophysical program early in the year identified several potential drill targets which includes a diagonal offshoot from the Golden Pond West deposit of Inco-Golden Knight where \$72 million is being spent to put this property into production. Recently a drilling program was completed to test several targets. Assays from this work have not been received at time of writing and will be reported later.

# Great Western, South East British Columbia

In 1985 G. Salazar S., P.Eng. wrote his first report on the Great Western project. In that report he stated that the property contained a mineralized shear zone 2000 meters by 500 meters with the potential for a large tonnage low grade deposit amenable to low cost mining methods (including open pit). In the two years that have elapsed since that report was written many exciting developments have taken place. A key property was acquired where discovery hole DH86-1 was collared and each subsequent step-out drilling program has given more satisfying results with intersections as high as 1.715 oz/ton gold plus 1.44% copper over 2.8 feet and some cores have contained visible as well as coarse gold.

J. W. Murton, P.Eng. reviewed the project in late October 1987. In his review letter he states drilling to date has indicated the potential for at least 2 types of targets :

Type A, a higher grade type, has been indicated by drill sections of up to 0.148 oz/ton gold over 38 feet (DH87-3); more drilling is required on this type mineralization before a tonnage calculation may be completed.

Type B, a lower grade type, has been indicated by drill intersection of 0.055 oz/ton gold over 202 feet (DH87-3). While it is too early to assign overall grades a size potential of 10,500,000 tons is indicated.

Within the Type A higher grade zones, mineable widths of high grade have been encountered :

DH86-1	5.6 feet	0.469 oz/ton gold
	1.7 feet	0.248 oz/ton gold
DH87-1	0.6 feet	0.346 oz/ton gold
	6.7 feet	0.300 oz/ton gold
DH87-3	1.3 feet	0.224 oz/ton gold
	2.0 feet	0.577 oz/ton gold
	2.8 feet	1.715 oz/ton gold
	1.0 feet	0.523 oz/ton gold
DH87-6	0.2 feet	0.594 oz/ton gold
DH87-9	1.9 feet	1.154 oz/ton gold

These gold grades confirm the potential of a high grade deposit.

The exciting results obtained strongly suggest that this is a significant discovery which could prove the Nelson area to be a new major gold camp for British Columbia and possibly Canada.

# **FINANCING**

During the year several financings have been completed to fund the work program. An Agreement is in place for a \$1,000,000 Flow Through financing for the 1988 season, at a price yet to be determined by a 30 day average. Contact has been made with several other sources who are interested in funding the development of this property.

**LECTUS DEVELOPMENTS LTD.  
FINANCIAL STATEMENTS  
YEAR ENDED JULY 31, 1987**

Auditors' Report

Balance Sheet

Statement of Deferred Exploration, Development  
and Administrative Expenditures

Statement of Deficit

Statement of Changes in Financial Position

Notes to Financial Statements

Thorne Ernst & Whinney

# Thorne Ernst & Whinney

Chartered Accountants

2500-1177 West Hastings Street  
Vancouver, British Columbia, Canada  
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Telephone: (604) 685-3511  
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File Ref.

## AUDITORS' REPORT

To the Shareholders of  
Lectus Developments Ltd.

We have examined the balance sheet of Lectus Developments Ltd. as at July 31, 1987 and the statements of deferred exploration, development and administrative expenditures, deficit 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.

In our opinion, these financial statements present fairly the financial position of the Company as at July 31, 1987 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.

Thorne Ernst & Whinney

Chartered Accountant

September 18, 1987



**LECTUS DEVELOPMENTS LTD.  
BALANCE SHEET**

	July 31	
	1987	1986
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
<b>CASH</b>	\$ 6,690	\$ 57,064
<b>ACCOUNTS RECEIVABLE</b>	9,914	-
<b>INVESTMENT IN PUTCO HOLDINGS LTD.</b> (note 2(d), (e)), at cost	150,000	25,000
<b>OIL AND GAS</b>		
Goforth Gas Wells	27,370	27,370
Arkoma Basin	640,366	-
	<u>667,736</u>	<u>27,370</u>
<b>MINERAL PROPERTIES</b> (note 1)	75,001	28,001
<b>DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES</b>	672,300	89,220
<b>DEFERRED CHARGES</b>	41,913	-
	<u>\$ 1,623,554</u>	<u>\$ 226,655</u>
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b>	\$ 68,391	\$ 1,501
<b>PAYABLE TO SUBSCRIBERS</b> (note 2(f))	45,000	-
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 2)		
Authorized		
10,000,000 common shares without par value		
Issued and to be issued		
3,469,729 shares (1986 - 1,750,908 shares)	1,716,270	425,644
Deficit	206,107	200,490
	<u>1,510,163</u>	<u>225,154</u>
	<u>\$ 1,623,554</u>	<u>\$ 226,655</u>
<b>SUBSEQUENT EVENTS</b> (note 5)		

**APPROVED BY THE BOARD**

Director



Director



## LECTUS DEVELOPMENTS LTD.

### STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES

	Year ended July 31	
	1987	1986
Exploration and development		
Engineering costs		
O.G.G. property	\$ 3,000	\$ 5,371
Great Western claim properties	151,498	23,995
Stump Lake	64,656	-
Casa Berardi property	47,220	7,958
Administrative expenses directly related to specific properties	86,910	3,664
	<hr/>	<hr/>
	353,284	40,988
Administrative		
Accounting and auditing	8,252	2,305
Automobile expense	4,656	1,558
Bank interest, net of charges	(77)	(5,144)
Consulting fees paid to affiliated company	-	3,000
Insurance	8,865	-
Legal fees	23,962	10,195
Licences, fees and taxes	10,793	3,866
Management fees paid to affiliated company	14,550	10,000
Miscellaneous expense	4,152	570
Postage, printing and office	22,903	7,545
Public relations and advertising	71,955	3,521
Rent	28,700	9,300
Salaries, Wages and benefits	16,209	-
Secretarial	532	687
Telephone	12,090	1,204
Travel and accommodation	7,871	5,270
	<hr/>	<hr/>
	235,413	53,877
	<hr/>	<hr/>
Total exploration, development and administrative expenditures for the year	588,697	94,865
Deferred exploration, development and administrative expenditures at beginning of year	89,220	56,824
	<hr/>	<hr/>
	677,917	151,689
Write-off of costs relating to expired options	5,617	62,469
	<hr/>	<hr/>
<b>DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES AT END OF YEAR</b>	<b>\$ 672,300</b>	<b>\$ 89,220</b>
	<hr/> <hr/>	<hr/> <hr/>

# LECTUS DEVELOPMENTS LTD.

## STATEMENT OF DEFICIT

	Year ended July 31	
	1987	1986
Write-off of costs relating to expired options		
Option payments and advance royalties	\$ 3,000	\$ 5,001
Deferred exploration, development and administrative expenditures	2,617	62,469
	<u>5,617</u>	<u>67,470</u>
Share issue expenses	-	15,896
	<u>5,617</u>	<u>83,366</u>
Deficit at beginning of year	200,490	117,124
<b>DEFICIT AT END OF YEAR</b>	<u><u>\$ 206,107</u></u>	<u><u>\$ 200,490</u></u>

**LECTUS DEVELOPMENTS LTD.**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year ended July 31	
	1987	1986
	<u>                    </u>	<u>                    </u>
<b>CASH PROVIDED BY (USED FOR) :</b>		
<b>FINANCING</b>		
Issue of common shares for		
Properties	\$ 658,367	-
Cash, net of issue expenses	632,259	\$ 201,956
	<u>                    </u>	<u>                    </u>
	1,290,626	201,956
 Changes in non-cash working capital		
Increase in		
Accounts payable	66,890	-
Accounts receivable	(9,914)	-
Payable to subscribers	45,000	-
	<u>                    </u>	<u>                    </u>
	1,392,602	201,956
	<u>                    </u>	<u>                    </u>
<b>INVESTMENTS</b>		
Deferred charges	(41,913)	-
Purchase of option on		
Great Western claim properties	(7,500)	-
Casa Berardi property	(12,500)	(20,000)
Advance royalty on		
O.G.G. property	-	(5,000)
Great Western claim properties	(27,000)	(4,500)
Exploration, development and administrative expenditures	(588,697)	(95,836)
Investment in		
Goforth Gas Wells	-	(27,370)
Putco Holdings Ltd.	(125,000)	(25,000)
Arkoma Basin property	(640,366)	-
	<u>                    </u>	<u>                    </u>
	(1,442,976)	(177,706)
	<u>                    </u>	<u>                    </u>
<b>INCREASE (DECREASE) IN CASH</b>	(50,374)	24,250
Cash at beginning of year	57,064	32,814
	<u>                    </u>	<u>                    </u>
<b>CASH AT END OF YEAR</b>	\$ 6,690	\$ 57,064
	<u>                    </u>	<u>                    </u>

**LECTUS DEVELOPMENTS LTD.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JULY 31, 1987**

**GENERAL**

The Company is registered under the laws of British Columbia and is registered extra-provincially in the Province of Quebec. Its principal activities include exploration of minerals and oil and gas in Canada and the United States.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Mineral Properties**

The Company capitalizes the cost of acquiring, exploring and developing mineral properties, and defers administrative expenditures, until such time that the properties are placed on a unit of production basis or written off. The recovery of the costs is dependent upon obtaining adequate financing and developing economic operations. The amount capitalized represents costs to date and is not intended to reflect present or future values.

**Deferred charges**

Deferred charges represents the costs of a promotional video of the Company's properties. Amortization of these charges will commence in 1988.

**1. MINERAL PROPERTIES**

Options and advance royalties (cumulative)

	<u>1987</u>	<u>1986</u>
(i) Great Western Claim properties		
Option agreement	\$ 7,501	\$ 1
Advance royalty	35,000	8,000
	<u>42,501</u>	<u>8,001</u>
(ii) Casa Berardi property		
Option agreement	<u>32,500</u>	<u>20,000</u>
	<u>\$ 75,001</u>	<u>\$ 28,001</u>

**LECTUS DEVELOPMENTS LTD.**  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**1. MINERAL PROPERTIES** (Continued)

Description

A. Great Western claim properties

Great Western claim properties consists of four separate agreements, the Weir property, Bourdon property agreement, the Asarco property agreement, and the Palmer property agreement, all of which are described below.

(i) Weir property

The Weir property consists of three claims in the Nelson Mining Division. The Company has the option to obtain a 100% ownership interest in the property. The following additional payments are required to fulfill this agreement :

- (a) Payment of \$12,000 and work expenditure to \$90,000 by June 30, 1988;
- (b) Payment of \$12,000 and work expenditure to \$190,000 by June 30, 1989;
- (c) Payment of \$12,000 and work expenditure to \$340,000 by June 30, 1990;
- (d) Payment of \$12,000 and work expenditure to \$650,000 by June 30, 1991;
- (e) Payment of \$12,000 before June 30, 1992;
- (f) Payment of \$12,000 before June 30, 1993; and
- (g) Payment of \$12,000 before June 30, 1994.

Upon commencement of production the following royalties are payable :

- (a) 4% net smelter returns shall be paid until the aggregate amount equals \$1,000,000;
- (b) 2% net smelter returns shall be paid until the aggregate amount equals \$5,000,000; and
- (c) 1% net smelter returns in perpetuity thereafter.

(ii) Bourdon property

The Bourdon property consists of 10 units in the Nelson Mining Division. The Company has the option to obtain a 100% ownership interest in the property by paying an aggregate amount of \$1,500,000 in royalties or advance royalties. The breakdown of future payments is as follows:

## LECTUS DEVELOPMENTS LTD.

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### 2. CAPITAL STOCK (Continued)

- (d) In 1986, the Company entered into a revised exploration agreement to issue flow-through shares for an issue price of 96¢ per flow-through share. As part of the revised agreement, the Company has subscribed for 1,200 class A preference shares of Putco Holdings Ltd. for an aggregate price of \$120,000 (\$25,000 was paid in 1986). The preferred shares will be redeemed on January 31, 1992 at the net asset value per share of Putco Holdings Ltd.

During the year the Company received \$309,263 of advances for the issue of 322,149 common shares under this share subscription program. The program provides each subscriber with a specific number of common shares of the Company for every dollar of contributions expended on exploration and development of mineral properties. Income tax deductions arising as a result of these expenditures are allocated to the share subscribers and are not available to the Company.

- (e) During the year, the Company entered into an exploration agreement under which it will issue 625,000 flow-through shares for an issue price of 96¢ per flow-through share. As part of the agreement, the Company is required to subscribe for 1,740 preferred shares of Putco Holdings II Ltd. for an aggregate price of \$174,000 (\$30,000 was paid prior to year end). The preferred shares will be redeemed on February 1, 1993 at the net asset value per share of Putco Holdings II Ltd.
- (f) During the year the Company received \$45,000 for 88,236 shares which had not been issued at year end. The amount is shown on the balance sheet as payable to subscribers.
- (g) Share options
- (i) Directors stock option plan
- On February 28, 1986, the Company granted options to certain directors of the Company to purchase 87,543 shares at a price of \$.50 per share, exercisable to February 28, 1991. At year end options for 39,543 shares had not been exercised.
- On June 17, 1987, the Company granted options to a new director of the Company, to purchase 115,000 shares at a price of \$.60 per share. These options expire on June 17, 1992.
- (ii) Employee options
- On February 28, 1986, the Company granted additional options to certain employees of the Company to purchase 60,045 shares at a price of \$.50 per share. These options expire on February 28, 1991.

**LECTUS DEVELOPMENTS LTD.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**2. CAPITAL STOCK (Continued)**

(h) Share purchase warrants

As a result of private placement share offerings during the year, the following warrants are outstanding at July 31, 1987. Each warrant entitles the holder to subscribe for one common share at the price stated.

Number of Warrants	Exercise Price	Expiry Date
68,855	\$0.70	January 27, 1988
200,000	0.50	February 5, 1988
25,000	0.61	July 8, 1988
20,000	0.61	July 15, 1988

**3. RELATED PARTY TRANSACTION**

During the year, management fees of \$30,000 were charged to the Company by a company related by virtue of three common directors.

**4. SEGMENTED INFORMATION**

All of the Company's mineral properties are located in Canada whereas its oil and gas investment is in the United States.

**5. SUBSEQUENT EVENTS**

Subsequent to year end, the Company issued 610,000 common shares for net proceeds of \$401,649.

Subsequent to year end, the Company also received \$79,999 for 156,863 shares which will be issued upon receipt of regulatory approval. As a result of the subscription of the above shares, 156,863 warrants were issued entitling the holder to subscribe for one common share at a price of \$.61 per share from the date of the issue to August 13, 1988.

By agreement dated August 7, 1987, the Company entered into a joint venture agreement for the exploration of the Cave Creek property in Arizona.



**LECTUS DEVELOPMENTS LTD.**  
**NOTES OF FINANCIAL STATEMENTS (Continued)**

**1. MINERAL PROPERTIES (Continued)**

Description (Continued)

A. Great Western claim properties (Continued)

(ii) Bourdon property (Continued)

- (a) \$6,000 plus 6,000 shares on or before January 1, 1988;
- (b) \$10,000 plus 10,000 shares on or before January 1, 1989; and
- (c) Upon commencement of production, a royalty of 1.5% of net smelter return shall be paid until the full \$1,500,000 is paid.

(iii) Asarco property

The Asarco property consists of 14 recorded mineral claims and 2 Crown grants in the Nelson Mining Division. The Company has the option to earn a 51% interest in the property by incurring a minimum \$100,000 exploration expense by no later than September 30, 1987.

(iv) Palmer property

The Palmer property consists of two recorded mineral claims in the Nelson Mining Division. The Company has the option to earn 100% interest in the property. The following additional payments are required to fulfill this agreement :

- (a) \$15,000 plus 10,000 shares on or before January 20, 1988; and
- (b) \$15,000 plus 15,000 shares on or before January 20, 1989.

B. Casa Berardi property

The option is for 55 mining claims in the Dieppe Township, Quebec. The agreement gives the Company the option to acquire at least an undivided 50% right, title and interest in the claims. The agreement requires the following :

- (a) issuance of 25,000 shares and work expenditures of \$200,000 on or before October 31, 1987;
- (b) issuance of 25,000 shares and work expenditures of \$350,000 on or before October 31, 1988; and
- (c) issuance of 25,000 shares and work expenditures of \$500,000 on or before October 31, 1989.

**LECTUS DEVELOPMENTS LTD.****NOTES TO FINANCIAL STATEMENTS** (Continued)**1. MINERAL PROPERTIES** (Continued)

Description (Continued)

## C. Stump Lake Property

The Company has earned a 50% interest in Saturn Energy and Resources Ltd.'s (an affiliate) 50% interest in the Stump Lake property.

**2. CAPITAL STOCK**

Changes to share capital were as follows :

	Number of Shares	Amount
	<hr/>	<hr/>
Issued and outstanding at July 31, 1986	1,750,908	\$ 425,644
	<hr/>	<hr/>
Issued for cash	475,855	285,246
Issued upon exercise of directors' options	48,000	24,000
Issued upon exercise of employees' options	27,500	13,750
	<hr/>	<hr/>
	551,355	322,996
Flow-through shares issued	322,149	309,263
	<hr/>	<hr/>
Total issued for cash	873,504	632,259
	<hr/>	<hr/>
Issued for properties		
Issued and to be issued to meet property option agreements	36,000	18,000
Issued for Arkoma gas leases	809,317	640,367
	<hr/>	<hr/>
Total issued and to be issued for property	845,317	658,367
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Issued and to be issued at July 31, 1987	3,469,729	\$ 1,716,270

- (a) During the year, the Company issued 551,355 common shares for net cash proceeds of \$322,996.
- (b) During the year, the Company issued 36,000 common shares valued at \$18,000 to meet terms of various option agreements.
- (c) Pursuant to a revised agreement dated April 22, 1986, the Company issued 809,317 common shares to acquire 462.466 acres of natural gas leases in the Arkoma Basin, Oklahoma.

**LECTUS DEVELOPMENTS LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**6. STATUS**

The Company's common shares are exempt securities under United States securities laws. Accordingly, these financial statements do not necessarily include all of the disclosures and accounting as required by U.S. generally accepted principles and Regulations A - X.

**REGISTERED OFFICE :**

Lectus Developments Ltd.  
530 - 355 Burrard Street  
Vancouver, British Columbia  
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**TRANSFER AGENT & REGISTRAR**

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V6E 2L9

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**BANKERS :**

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