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# ANNUAL REPORT 1985

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**energex**  
MINERALS LTD.

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## The Company

Energex is a diversified resource company. The Company and its wholly owned subsidiary, Energex Resources, Inc., both on their own account and through various joint ventures and partnerships, are engaged in:

- the acquisition of, exploration for and development of mineral properties of merit; and
- the business of gathering, processing, transporting and selling natural gas and related hydrocarbon liquids.

The Company's general policy is to place emphasis on the development of income. With respect to exploration, Energex generally prefers to participate with others in the development of prospects on a basis which shares risks and costs.

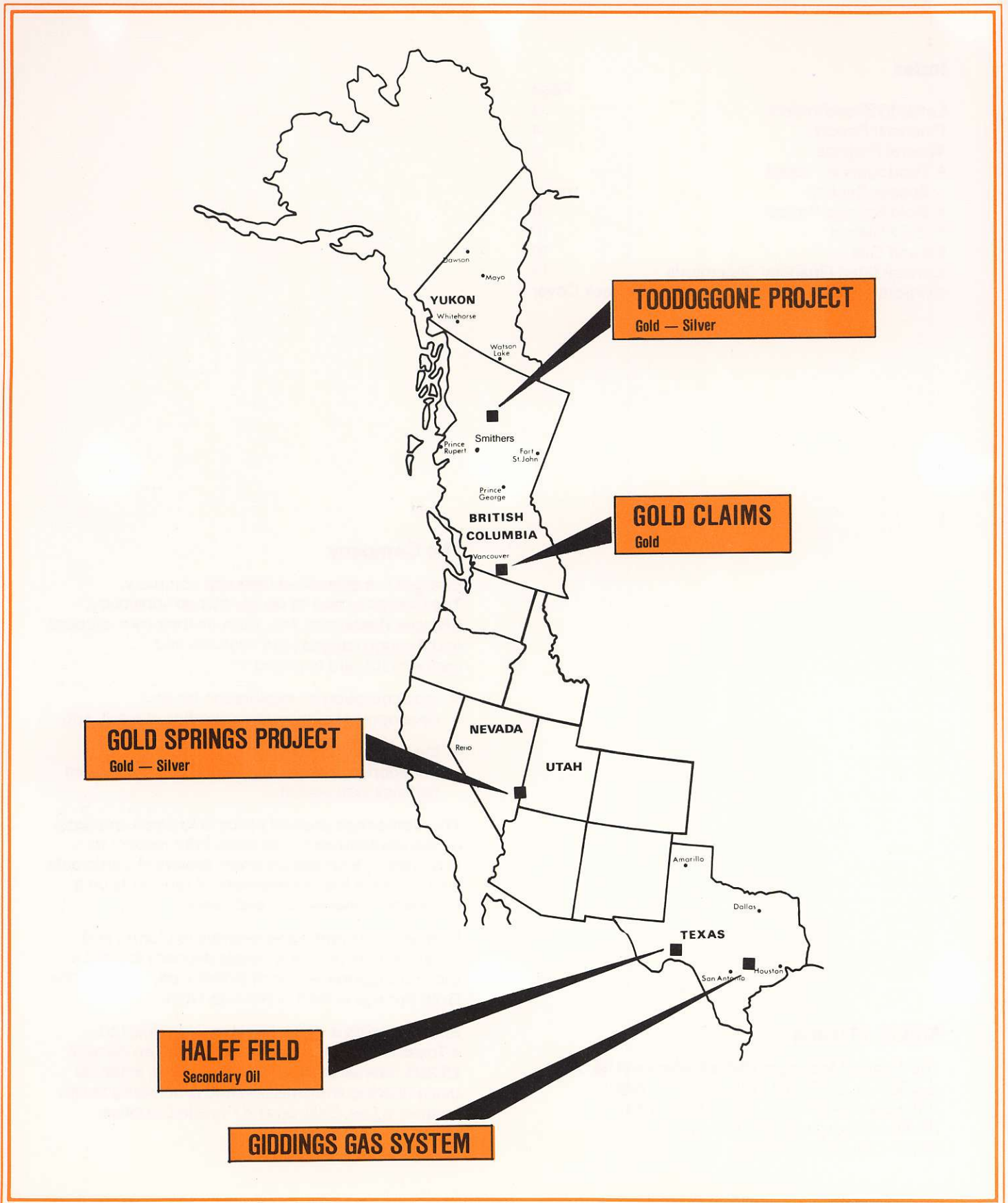
Energex is currently aggressively exploring and developing its precious metals deposits located in the Toodoggone region of British Columbia and the Gold Springs district of Nevada/Utah.

Energex holds a 10% interest in Giddings, Ltd., a Texas limited partnership, which in turn owns a 25.25% interest in the Giddings system, a natural gas gathering, transmission and processing facility located in Lee, Bastrop and Fayette Counties, Texas.

## Annual Meeting

The Annual Meeting of Shareholders will be held at 2:00 p.m. on Friday, November 15, 1985 in the Garibaldi Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, Canada.

# Property Locations



The past year has indeed been exciting and eventful for Energex.

- The Toodoggone gold project, in north-central British Columbia, has been an outstanding exploration success and several broad intersections of high grade mineralization have been encountered during diamond drilling.
- Visible gold and ore grade mineralization has also been intersected in diamond drilling on Energex's Gold Springs claims in Nevada.
- Settlement of most contractual disputes involving the Company's interest in the Giddings gas and gas by-product system has resulted in the resumption of cash distributions to the Company.

The 1985 exploration program on the Toodoggone properties has given dramatic evidence that the Company has in its possession several high grade, near surface deposits which could possibly be developed at minimal capital and operating cost. It is now clear that the Toodoggone is indeed a gold 'camp' in the classic sense in that it possesses several deposits. We fully expect that Serem Inc. will announce a production decision this year for the Lawyer's deposit and that this will initiate the financial assistance from the Provincial Government to assist in the construction of road access to the area. Needless to say, this will remove the stigma that currently labels this area as 'remote' — and will result in significantly lower development costs for the Energex deposits.

With respect to these deposits — in excess of 25,000 feet of diamond drilling has now been completed — the 1985 results on the Thesis III zone yielded some of the most spectacular results reported in Canada this season, namely 72.8 feet of 0.81 ounces/ton gold in Hole A85-01 and 86.9 feet of 0.97 ounces/ton gold in Hole A85-10. Prior to the 1985 season, the Thesis III zone had been tested with four drill holes, only one of which gave what might be considered 'ore grade' over 'mining width'. This zone, as a result of the 1985 program, is now partially drilled off on a section line basis to a depth of 130 feet. The zone demonstrates continuity from section to section, has been extended along structure by geophysics and trenching and is clearly open to depth. It is apparent that initial mining of this zone would be by surface open pit excavation with a very low stripping ratio. The balance of the 1985 drill program focussed on the BV zone and the Bonanza Ridge zone. The former was infill drilled to allow preliminary estimates of reserve inventory; however, two step-out holes have greatly extended the potential of this zone. At the Bonanza Ridge zone, a significant drill intersection, where spectacular high grade values occur at surface, has generated an exciting drill target which can be further delineated in 1986.

Of prime significance regarding the future development of the Toodoggone properties is the fact that the Company's exploration personnel have made significant inroads in understanding the mode of occurrence of the mineralized deposits — the 1985 program has been extremely cost effective in terms of results obtained per dollar spent, and the 1986 program promises to be even more rewarding. At least four new gold showings were discovered during the course of the past field season and several of these may be drill-tested during 1986.

It should be noted that not all of the past year's exploration success was confined to Canada. The Company's joint ventures on the Gold Springs project in eastern Nevada resulted in a new gold discovery which is currently being drill tested.

The past year has been a busy year with respect to financings — a total of \$2.6 million was raised for exploration, of which \$1.9 million was through the sale of common shares and \$0.7 million was provided by joint venture partners. It is good news that litigation surrounding the operation of the Giddings gas system has, for the most part, been settled. A cash distribution of \$230,000 was received in September.

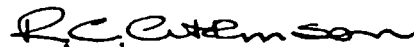
With respect to the Company's future plans and outlook, management feels that the Toodoggone project has added significantly to the underlying asset base of the Company. This, combined with the maturing stature of the Company, will result in a trend toward the purchase of the Company's shares by long term investors.

Accordingly, it is planned to seek a listing on a senior Canadian stock exchange prior to year end. It is intended to develop investment banking relationships, both in eastern Canada and Europe as it will be necessary to fund the development costs of the Toodoggone project which could approach \$2 to \$3 million in 1986. Contingent upon the continued development of additional reserves, several million dollars may be required to finance gold operations in 1987.

As we stated at the 1984 Annual General Meeting, the reacquisition of the Toodoggone properties could well be the most significant event in our corporate history. The mining industry in Canada is undergoing an evolution away from the development of large volume, low grade, capital intensive mines, to smaller, more flexible and cost efficient mines. We believe that these types of projects are best conceived and managed by smaller companies such as Energex.

In closing, it is our wish to extend thanks to those who have assisted the Company during the past year. This includes, most importantly, our employees, our shareholders, our fiscal agent, and our joint venture partners. We believe that in this group, we have a competent and cohesive team well equipped to maximize the potential return from our asset base. We look forward to the forthcoming year with enthusiasm and optimism.

**On behalf of the Board**



R.C. Atkinson, P. Eng.  
Chairman



A.O. Birkeland, P. Eng.  
President

October 15, 1985

# Financial Report

Significant efforts were expended on financing activities following the successful negotiations for the return of the Toodoggone land holdings from Kidd Creek Mines Ltd. In December 1984 a financing of 600,000 units at 40¢ per unit was concluded; during the period April to June 1985, warrants from this financing (for all but 500 shares) were exercised for the issue of 599,500 shares at 42¢ per share; in February 1985, management negotiated a private placement of 250,000 shares at 80¢ per share with a Texas-based gold fund; and on May 31, 1985, an underwriting of 600,000 shares at \$1.00 per share was finalized. Since May 31, 1985, underwriters' options on 300,000 shares out of a total of 400,000 shares have been exercised. In early August 1985, two private placements of tax flow-through shares priced at \$1.40 per share were successfully concluded. To the date of this annual report, financings to a total of \$1,926,790 have been achieved.

Additional funding of \$375,000 under the New Ridge Joint Venture, \$234,500 under the Geostar Joint Venture and \$104,000 under the Kidd Creek Joint Venture bring the Company's total financing activities to \$2,640,290. The successes achieved through the expenditure of the bulk of these funds on the two main mineral properties are reviewed under the Mineral Projects section of this report.

The main thrust of the recent financing activities is the continued development of the Company's Toodoggone holdings. Working capital as at the date of this report is sufficient to permit an in depth review of results obtained to date and the establishment of plans to capitalize upon these in 1986. Management is confident that achievements to date have created significant mineral assets which will move Energen into the ranks of gold producers in the near future.

The loss from operations of \$872,926 for the fiscal year ended May 31, 1985 shows an increase of \$58,002 from the operating loss of \$814,924 for the previous year.

Revenue declined \$12,018 reflecting the cessation of mineral option income consequent upon the return of the Toodoggone land holdings to the Company, offset to a large extent by earnings from operatorship of various joint ventures.

Oil and gas exploration costs declined by \$195,132 to almost nil, due to earlier decisions to write off interests from which no returns could be expected and to make no further commitments to this area of business.

Mineral exploration costs declined \$199,599. The 1985 charge of \$328,029 includes an amount of \$267,368 arising from the decision to abandon the Company's interest in the Nightingale tungsten property. This former producer had been held on a 'care and maintenance' basis, pending a revival in tungsten prices; however, there are no signs that such a revival

will occur in the near future and the annual cash carrying costs can no longer be justified. The write-downs taken, both this year and last, reflect management's decision to concentrate on its two major projects — the Toodoggone and Gold Springs.

Administration costs declined \$49,596, almost 17%, reflecting cost savings measures instituted early in 1984.

The Company's equity in the loss of Giddings, Ltd. for fiscal 1985 amounted to \$116,354 against an equity in earnings of \$367,698 in fiscal 1984. This comparative negative impact of \$484,052 arises mainly from the dispute between the operator of the system and the major gas purchaser, together with continued weakness in gas and gas by-product prices. Subsequent to May 31, 1985, this dispute was settled. Because of this dispute the system's operator was forced to take temporary curtailment actions towards the suppliers of the system's natural gas. This created disputes, some of which have resulted in litigation; these are now in the process of being settled. The impact upon the future earnings of the system has not yet been determined, but a cash distribution of \$230,000 was received in September 1985.

Late in 1984, the balance outstanding on the bank loan secured by the Company's interest in cash distributions from Giddings, Ltd. was repaid, leaving a debt-free situation.

## TOODOGGONE PROJECT

### Liard/Omineca Mining Divisions

Energex holds a 100% interest in 565 contiguous claim units with an area approximately 14 miles by 5 miles located 180 miles north of Smithers, British Columbia in the northern portion of what is emerging as one of British Columbia's most active gold camps.

Approximately \$4.5 million has been spent for exploration on this property during the last several years. In excess of 25,000 feet of diamond drilling has been completed. The property is divided into three main areas: the AI, JD and Moose prospects. Expenditures during 1985 on the AI prospect amounted to approximately \$925,000 and included 5,500 feet of drilling. On the Moose project a \$375,000 program involving approximately 3,000 feet of diamond drilling was conducted by the Energex/New Ridge Joint Venture. Limited reconnaissance work was carried out on the JD prospect.

### AL PROPERTY

On the AI prospect, which is located in the western most area of the claim group, several surface showings have been trenched, sampled and explored by diamond drilling. To date three significant showing areas have emerged and these have seen the bulk of the exploration effort thus far.

### Thesis III Zone

On the Thesis III zone, three semi-parallel intensely silicified and clay-altered gold bearing zones have been tested by 3,036 feet of diamond drilling. To date, the best trench on the Thesis zone has encountered 1.06 oz/ton gold over a width of 87 feet. Drill intersections in the vicinity of this zone have encountered from 55 feet to 87 feet of values ranging between 0.81 and 0.97 oz/ton gold. Very high grade intersections included 37 feet of 1.5 ounces in Hole A85-01 and 36 feet of 2.2 ounces in Hole A85-10.

The bulk of the drilling on the Thesis III zone this year was on section lines in the order of 30 to 50 feet between sections. Mineralization was drilled to a depth of approximately 130 feet. Large diameter core (HQ) was drilled this year to improve core recovery and increase sample size.

Calculation of the mineral inventory for this zone and follow-up economic evaluations are currently in progress. Preliminary indications are, however, that this deposit shows a high potential to become Energex's first open pit gold producer in the Toodoggone area. The central mineralized zone of the Thesis III area is open along strike, in both directions and at depth. A deep penetrating IP survey shows anomalies trending beyond the known extents of the drilled mineralization. The anomaly also extends to a depth of at least 330 feet. The best drill intercepts in the Thesis III zone are as follows:

### Thesis III - Significant Drill Intercepts

Drill Hole No.	Interval (feet)			Gold Assay (oz/t)
	From	To	Width	
A84-10	12.00	67.00	55.00	0.94
A85-01	15.97	88.77	72.80	0.81
includes	33.98	70.75	36.77	1.54
A85-02	41.59	116.99	75.40	0.15
includes	41.59	53.07	11.48	0.28
and	95.71	116.99	21.28	0.33
A85-03	38.27	83.67	45.40	0.35
includes	70.55	83.67	13.12	0.87
A85-04	29.52	73.80	44.28	0.18
includes	29.52	47.56	18.04	0.22
A85-07	57.92	82.98	25.06	0.12
includes	61.20	67.76	6.56	0.16
A85-08	22.01	24.96	2.95	0.34
A85-10	75.11	161.99	86.88	0.97
includes	98.07	134.15	36.08	2.23
end	104.63	112.83	8.20	9.28
A85-30	56.68	71.44	14.76	0.28
and	90.00	123.00	33.00	1.16
includes	95.91	105.91	10.00	3.30
A85-31	128.15	129.79	1.64	0.44
A85-32	78.45	107.91	29.46	0.42
includes	89.93	98.00	8.07	0.92
and	196.99	203.98	6.99	0.20
A85-34	154.98	159.99	5.01	0.08
A85-35	122.41	129.13	6.72	0.20

### BV Zone

At the BV zone gold mineralization is associated with a silicious barite-bearing structure commonly up to 50 feet in width which has been traced for a strike length of approximately 1,500 feet by surface trenching. Surface assays in this zone are up to 28 feet of 0.64 oz/ton gold. Several trench samples range between 11 feet and 21 feet of 0.2 to 0.4 oz/ton gold. Over 1,500 feet of HQ core was drilled on the BV zone in 1985. This program was designed to fill in between widely spaced drill holes and trenches and to test the structure beneath lateral surface exposures which had been previously defined. This year's drilling indicates the probability that several bands of silicious barite gold-bearing vein-like features occur within the mineralized system. This may be caused by sub-parallel structures or repetition by faulting. This zone demonstrates some of the best continuity of mineralization on the property. Several drill holes have returned intersections from 7 feet to 24 feet of 0.40 to 0.75 oz/ton gold. Most holes drilled in 1985 were designed to fill in between previous holes to allow calculation of mineral inventory; however, two stepout holes effectively doubled the strike length of the mineralized zone and substantial infill drilling will now be required. Significant drill intercepts are listed in the following table.

### B.V. Zone - Significant Drill Intercepts

Drill Hole No.	Interval (feet)		Width	Gold Assay (oz/t)
	From	To		
A85-12	37.98	41.62	3.64	0.24
and	133.56	140.12	6.56	0.38
A85-13	43.13	52.25	9.12	0.06
includes	49.69	52.25	2.56	0.10
A85-14	63.66	71.86	8.20	0.26
includes	66.94	70.22	3.28	0.47
A85-15	156.65	159.93	3.28	0.49
and	192.50	195.78	3.28	0.20
A85-16	22.14	31.98	9.84	0.08
A85-17	19.48	24.40	4.92	0.20
A85-18	43.98	46.38	2.40	0.53
and	52.94	57.01	4.07	0.07
A85-19	32.17	56.77	24.60	0.17
includes	32.17	37.08	4.91	0.38
and	42.01	56.77	14.76	0.15
and	45.29	51.85	6.56	0.22
A85-20	38.50	63.01	24.51	0.13
includes	38.50	41.78	3.28	0.40
and	40.15	41.78	1.63	0.61
and	51.62	63.01	11.39	1.42
and	51.62	54.91	3.29	0.15
and	58.18	63.01	4.83	0.15

### Bonanza Ridge Zone

The Bonanza Ridge area hosts gold mineralization in an area where an intricate network of faults intersect or offset one another over an areal extent of approximately 800 feet by 900 feet in dimension. Surface sampling from this zone indicates an area of surface dimension 260 feet by 12½ feet in width with a weighted average grade of 0.91 oz/ton gold. Surface trenches returned up to 20 feet of 1.0 ounce gold and 12 feet of 2.4 ounces across the width of this mineralized feature. During 1985, 890 feet of HG core was drilled in this area. The high grade gold mineralization previously reported on surface was intersected at a depth of approximately 100 feet. The most significant intercepts from this zone are listed in the following table.

### Bonanza Ridge Zone - Significant Drill Intercepts

Drill Hole No.	Interval (feet)		Width	Gold Assay (oz/t)
	From	To		
A85-23	65.63	75.47	9.84	0.02
A85-24	57.73	67.56	9.83	0.08
A85-25	6.00	41.62	35.62	0.04
includes	32.80	41.62	8.82	0.07
A85-26	17.77	37.75	19.98	0.16
includes	17.77	31.98	14.21	0.20
and	17.77	23.78	6.01	0.37
and	19.68	21.74	2.06	0.75
A85-27	97.91	104.47	6.56	0.08
A85-28	110.47	130.15	19.68	0.09
includes	123.59	130.15	6.56	0.15
A85-29	68.55	117.75	49.20	0.21
includes	78.39	98.07	19.68	0.43

### Reconnaissance Exploration

By utilizing the exploration guideline of following up soil geochemical anomalies by prospecting for barite-rich silica float associated with clay alteration, several new zones have been discovered on the AI property. Additional backhoe trenching and surface sampling combined with geophysical surveys will be required prior to drilling these zones. Follow up of many additional geochemical targets, often where barite and silica-rich float contains gold values, will undoubtedly lead to the discovery of new mineralized zones during the course of the 1986 program.

In addition to the exploration work carried out on the property, preliminary environmental baseline studies have been initiated, road access has been investigated, bulk samples have been taken for metallurgical testing, and preliminary economic evaluations have been initiated, all of which consist of pre-production activities which demonstrate the advanced stage of development of this potential mining project. Three deposits on the AI property have been delineated to date to the extent that the potential to host economic grades and tonnages has been demonstrated. The mining of multiple high grade deposits by open pit could generate very significant positive cash flow from operations on this property. Some of this cash flow would be used to expand and add to mineral inventory by continuing the development of these zones. The discovery of new zones on this property is considered to be highly probable due to the success ratio that has been demonstrated during the past year by EnergeX.

### JD PROPERTY

On the JD claim group reconnaissance work was carried out in 1985. Previous work on the Gumbo zone gave trenching values of 0.52 oz/ton gold and 2 oz/ton silver over 4.3 feet of width. The best drill intersection was 1.31 oz/ton gold and 0.04 oz/ton silver over 15 feet. On the Gasp zone, values obtained from trenching ranged up to 0.42 oz/ton gold and 1.31 oz/ton silver over 39 feet. Mineralization appears to be confined to the lower plate rocks beneath a major flat-lying fault. Potential exists for the discovery of major tonnages of open pit material from one or more of the many mineralized zones which outcrop in this area.

### MOOSE PROPERTY

The Moose property was explored under a joint venture with New Ridge Resources Ltd. whereby the latter may earn a 25% interest by the expenditures of \$375,000 in 1985 and \$325,000 in 1986, and may increase that interest to 50% by the expenditure of an additional \$2.3 million over the years 1987 and 1988. If New Ridge fails to spend the complete initial \$700,000, no interest will be earned. Similarly, there will be no increase beyond 25% if less than the full additional \$2.3 million is advanced.

Exploration on this ground during 1985 included drilling two targets, the first, a silver/base metal zone measuring 7,000 by 2,000 feet, which lies between a gold soil anomaly and a gold-bearing porphyry zone; the second,

the flank of an IP anomaly (Porphyry Pearl) where previous work returned values up to 0.80 ounces/ton gold and 36 ounces/ton silver. About 3,000 feet of drilling was carried out. In addition, a zoned gold soil anomaly was also prospected and trenched.

Results obtained are as follows:

**Silver/Base Metal** — Evaluation of the silver/base metal soil anomaly involved geological mapping, rock and soil sampling, detailed VLF-EM and magnetometer surveys, and the completion of 16 BQ-diameter diamond drill holes.

The initial surface work confirmed the presence of widespread silver/lead/zinc mineralization and located a new silver rich zone near the center of this anomaly. Samples assayed up to 156 oz/ton silver; 21 chip and channel samples, taken at intervals along 500 feet of strike, averaged 29.94 oz/ton silver.

Diamond drill holes testing this zone returned silver values up to 76.1 oz/ton over narrow intervals with highly anomalous values over intervals up to 17 feet wide. Additional drill holes put down west and east of the silver rich core zone returned lower silver values but confirmed the presence of silver/lead/zinc mineralization over a strike length in excess of 2,600 feet.

Approximately two-thirds of the silver/base metal zone remains untested. However, soil geochemistry has confirmed high silver, lead and zinc values well to the east and west of the drilled area.

**Gold** — Prospecting along the south flank of the "Porphyry Pearl" IP anomaly resulted in the discovery of a number of fault zones containing narrow veins with high gold values. Grab samples from the veins assayed as high as 0.5 oz/ton gold; channel samples returned values of 0.03 to 0.12 oz/ton gold. Two drill holes tested the faulted area; both holes reported continuous highly anomalous gold values from top to bottom. Narrow sections, corresponding to gold-bearing veins, assayed up to 0.39 oz/ton gold.

Gold/silver soil anomalies in alpine terrain northeast of the silver/base metal zone were explored to a limited extent. This work exposed the narrow, high grade "Marmot" vein-fault system where assays of material exposed in trenches returned gold values ranging from 0.10 to 0.204 oz/ton; silver assays ranged from 19.28 to 53.70 oz/ton. Samples of vein material taken several hundred meters north of the "Marmot" zone also contain highly anomalous gold and silver values, indicating that precious metal mineralization is widespread in this alpine area.

The 1985 exploration work has confirmed widespread precious and base metal mineralization. New discoveries include the high grade silver mineralization within the large silver/base metal zone, the auriferous veins on the south flank of the Porphyry Pearl zone, and the high grade gold/silver "Marmot" vein system.

The main "Porphyry Pearl" zone, not explored in 1985, remains a potentially large gold/base metal bulk-tonnage deposit and a strong possibility exists for high grade precious metal zones within the "Porphyry Pearl" system.

## Moose Property - Significant Drill Interocepts

Drill Hole No.	Interval (feet)			Assay	
	From	To	Width	Silver (oz/t)	Gold (oz/t)
M85-1	0.00	5.25	5.25	0.69	
and	87.25	94.14	6.89	0.44	
M85-2	44.08	61.11	17.03	3.17	
includes	56.42	59.27	2.85	16.91	
M85-3	6.00	19.68	13.68	1.63	
M85-4	9.51	23.29	13.78	1.04	
and	77.74	88.99	11.25	1.47	
includes	84.98	87.38	2.40	5.97	
M85-5	20.00	31.98	11.98	0.77	
includes	20.00	28.60	8.60	1.00	
and	47.00	53.79	6.79	2.91	
includes	50.87	53.79	2.92	6.58	
M85-6	6.36	10.36	4.00	2.05	
includes	8.23	10.36	2.13	3.82	
and	66.88	77.97	11.09	8.03	
includes	71.47	72.49	1.02	76.13	0.057
M85-7	31.29	37.52	6.23	1.38	
includes	31.29	33.29	2.00	3.71	
M85-9	40.38	49.11	8.73	3.53	
M85-10	41.98	47.10	5.12	3.63	
and	70.68	76.98	6.30	3.86	
includes	70.68	71.99	1.31	12.62	
M85-17	0.00	201.95	201.95		0.008
includes	119.56	120.87	1.31		0.390
M85-18	0.00	151.96	151.96		0.008
includes	34.80	37.23	2.43		0.023
includes	104.27	112.86	8.59		0.022



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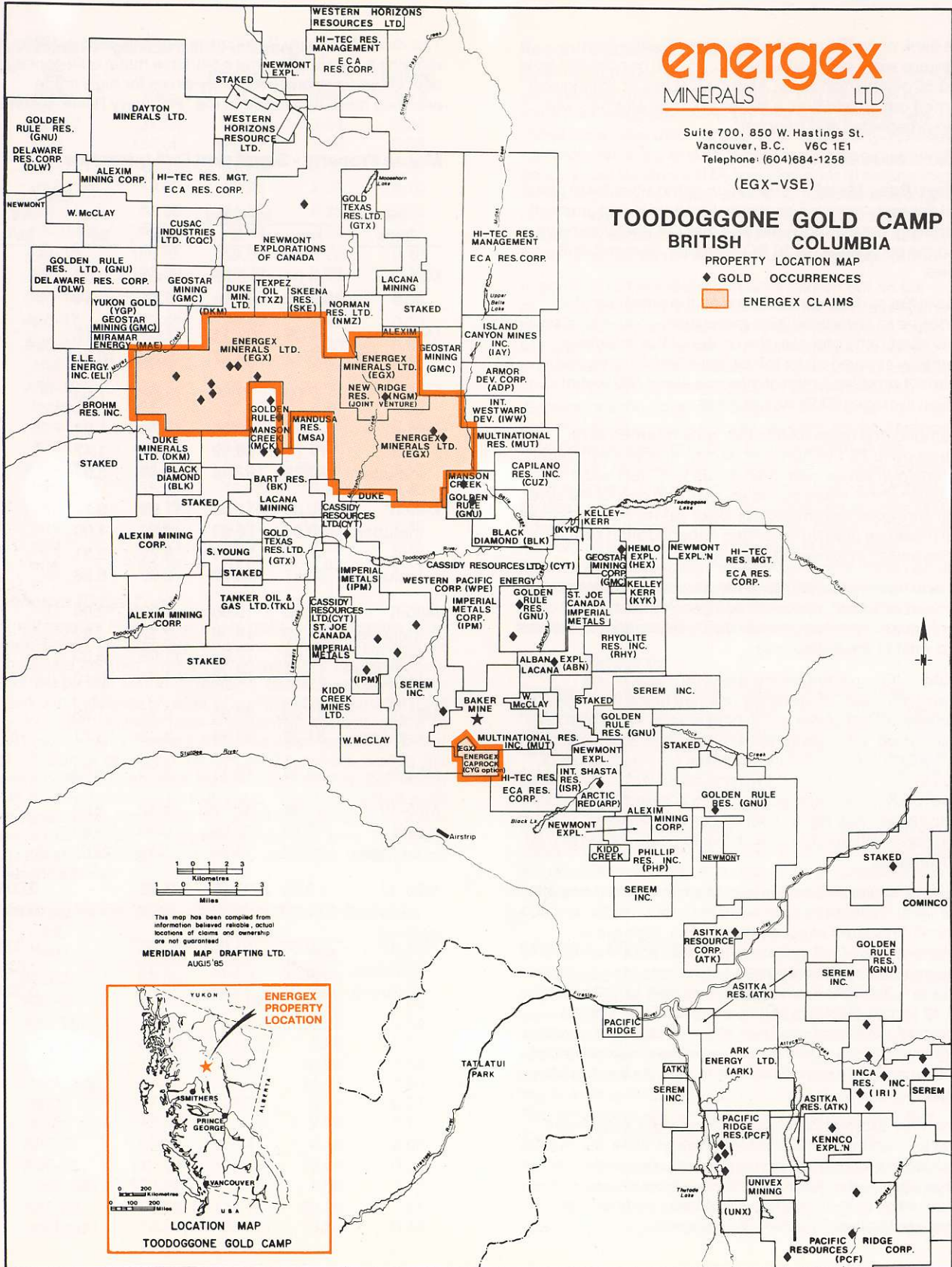
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## TOODOGGONE GOLD CAMP BRITISH COLUMBIA

PROPERTY LOCATION MAP

◆ GOLD OCCURRENCES

□ ENERGEX CLAIMS



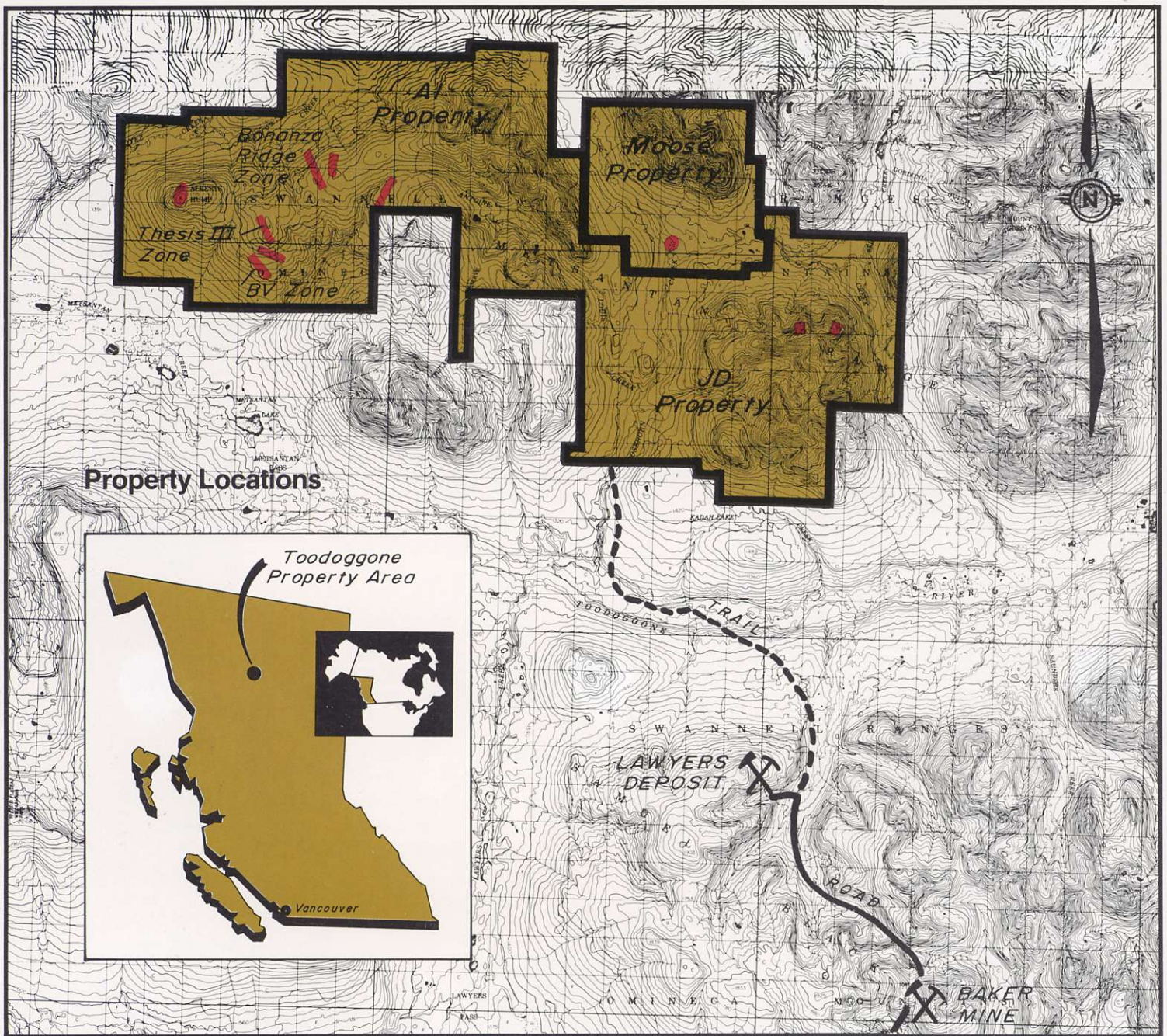
This map has been compiled from information believed reliable, actual locations of claims and ownership are not guaranteed.  
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**TOODOGGONE PROJECT**



**Property Locations**



**Introduction**

Energex has divided their 565 Toadoggonne claim units into three separate project areas named the AI, Moose and JD properties. To date over 25,000 feet of diamond drilling has been completed and over \$4,000,000 has been spent on exploration on these claims.

Exploration in 1985, with an aggregate budget of \$1.4 million, was directed primarily towards the evaluation of the AI and Moose properties by diamond drilling. Funding for the Moose project was provided by New Ridge Resources Ltd. under a joint venture agreement in which Energex acts as operator. Work on the AI property was funded solely by Energex.

**AI Property**

Gold deposits on the AI property are typical of mineralization found in the highest levels of the hydrothermal system thereby indicating that substantial depth and tonnage potential could exist. These epithermal deposits, which are common in Nevada, contain a very high gold-silver ratio and are believed to be hosted by silicified fossil hot springs.

A road providing access to the Toadoggonne gold camp is expected to be completed in 1987 and is considered a major event leading towards the development of several of the deposits in this gold camp. Energex is in a position to take advantage of this

\*Picture on previous page: Gold specimen from Bonanza Zone.

positive development as several deposits have been discovered and these will be in an advanced stage of evaluation at that date.

On the AI property several showings occur clustered in an area approximately three miles by three miles in extent. Very high grade gold zones are often flanked by broad, lower grade, pervasive zones of mineralization. Although several showings occur on the AI property, the bulk of the surface trenching and diamond drilling has taken place on three distinct prospects. Work on these prospects has progressed to the point where Energex is seriously considering production within the next two years. Exploration activity in 1985 included environmental baseline studies and bulk sampling for the purpose of metallurgical testing. Analysis of the substantial diamond drilling which has been completed will permit the initiation of economic studies. A production decision may be possible early in 1987.

At least one deposit, the Thesis III, has been developed to the stage where it appears to be suitable for small scale, open pit mining. One production alternative which will be investigated is the utilization of an existing mill located in the area to process open pit ore. This could result in the Company realising an immediate, positive cash flow with minimal capital outlay. This could, in turn fund the ongoing exploration/development required to locate and delineate a larger reserve that would result in long term, large tonnage ore production and justify the construction of a milling facility on the property. This could involve seasonal open pit production from more than one deposit which, combined with year round underground production, would feed a centrally located mill.

Details of work completed on the Thesis III, BV and Bonanza Ridge zones, the three most significant deposits found in the AI property to date, are summarized on the following pages.

## **Moose Property**

At least three interesting zones of precious metal mineralization exist on the Moose property. In 1985 drilling concentrated on evaluating a very large silver/base metal geochemical anomaly with dimensions in excess of 7,000 feet by 2,000 feet. A total of 16 BQ-diameter diamond drill holes confirmed the presence of widespread strata-bound silver/lead/zinc mineralization along a strike length of over 2,600 feet. Silver assays range from highly anomalous values over widths up to 17 feet to 76.1 oz/ton over narrow core intervals.

Gold mineralization also occurs on the Moose property. In the "Porphyry Pearl" zone, values have been encountered in seven holes to date. At the newly discovered, high grade "Marmot" zone, assays of vein material ranged up to 0.2 oz/ton gold and 54 oz/ton silver.

## **JD Prospect**

Limited work was done on the JD property in 1985. Several significant gold and silver showings are present on the property. This includes the 'Gumbo Zone', where trenching and diamond drilling indicates gold is lying beneath and related to a shallow dipping fault. The setting of this deposit would be ideal for an open pit operation.



*AI Camp*



*View of JD Property from headwaters of McClair Creek.*



*Backhoe trenching, AI Property, Albert's Hump in centre background.*



### Thesis III - AI Property

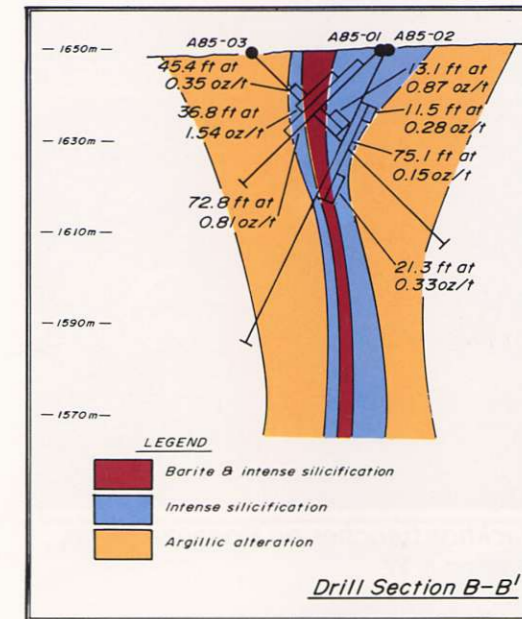
The Thesis III area has several zones which are more fully developed and which show the highest and most consistent gold grades on the AI property. These mineralized zones consist of three semi-parallel bands of pervasively silicified volcanic host rock, and appear to be the top of an epithermal-hot springs system. Highest grade gold mineralization has so far been found concentrated along the centre band of silicification. Lower grade gold values are also encountered within and beneath the outcropping extent of the other two silicified zones. The tested strike length of the central silicified band is over 300 feet with a width averaging 30 feet. Gold mineralization has been drill tested to a depth of at least 130 feet.

To date, the bulk of the drilling has been within the perimeters of the zone as outlined by trenching

and surface outcrops. A deep, penetrating induced polarization survey indicates that the deposit extends along strike and to depth beyond the limit of drilling done to date. Additional trenching and drilling during the 1986 field season is designed to add substantially to the reserves of this open pit prospect.

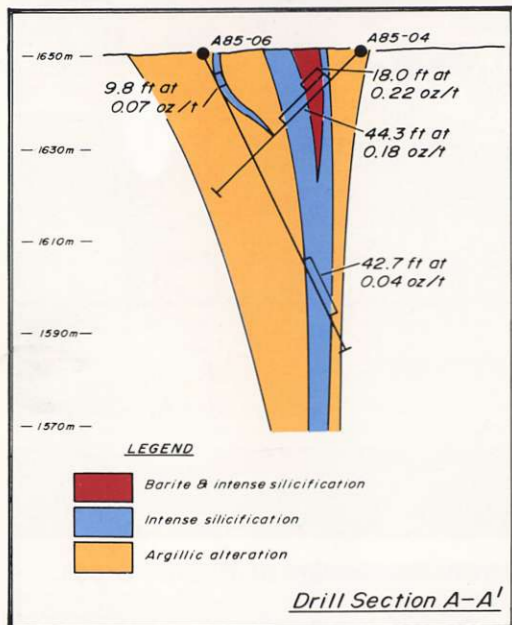
A bulk sample collected from the Thesis III is currently undergoing metallurgical test work. A surface stripping and small scale open pit program is scheduled for 1986 to obtain additional data for geological interpretation and mine planning, and to provide material for bench or pilot metallurgical testing.

Following next year's program, Energex expects to make a production decision on this deposit.

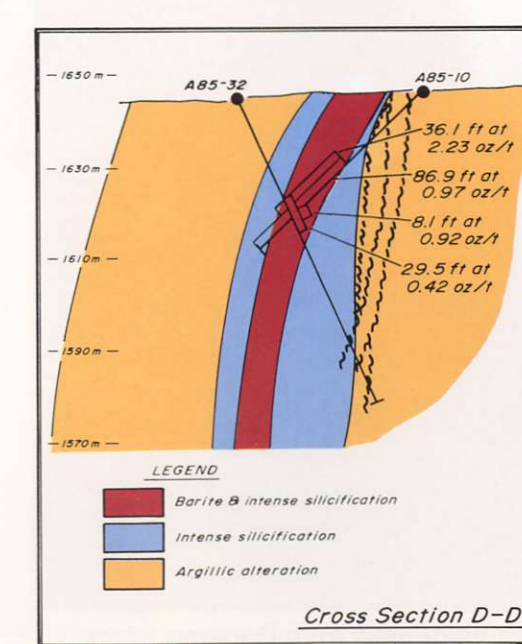
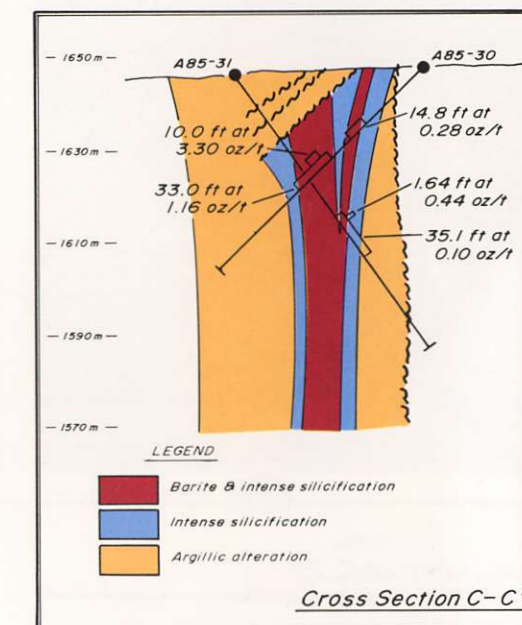
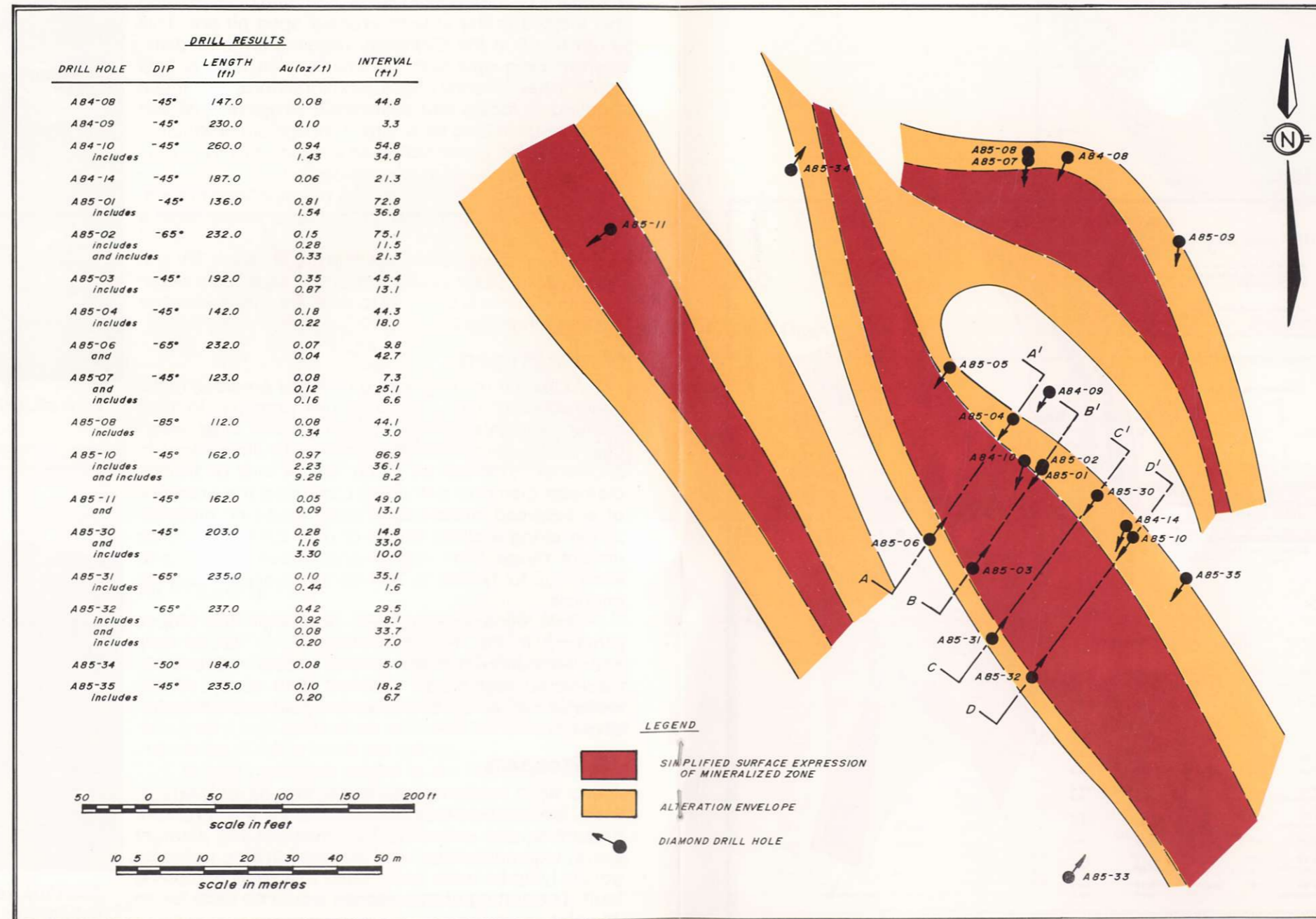


Thesis II & III Zones, looking northerly.

### Drill Plan

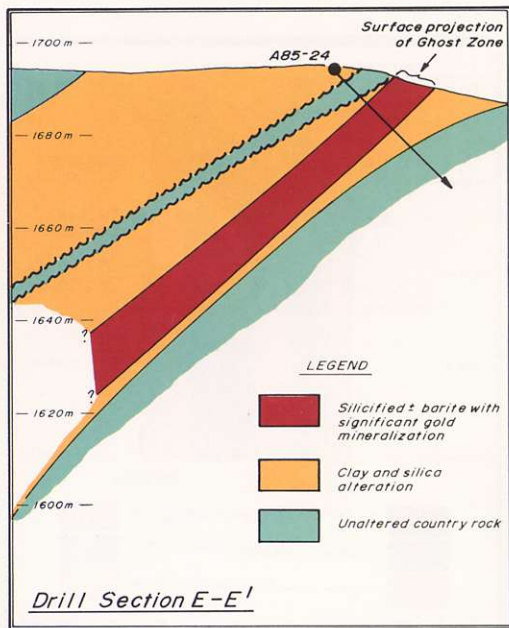


Thesis II & III Zones, false colour photography looking northerly.





Backhoe trenches on Bonanza Ridge, looking N.W.



Northerly view from Bonanza Ridge.

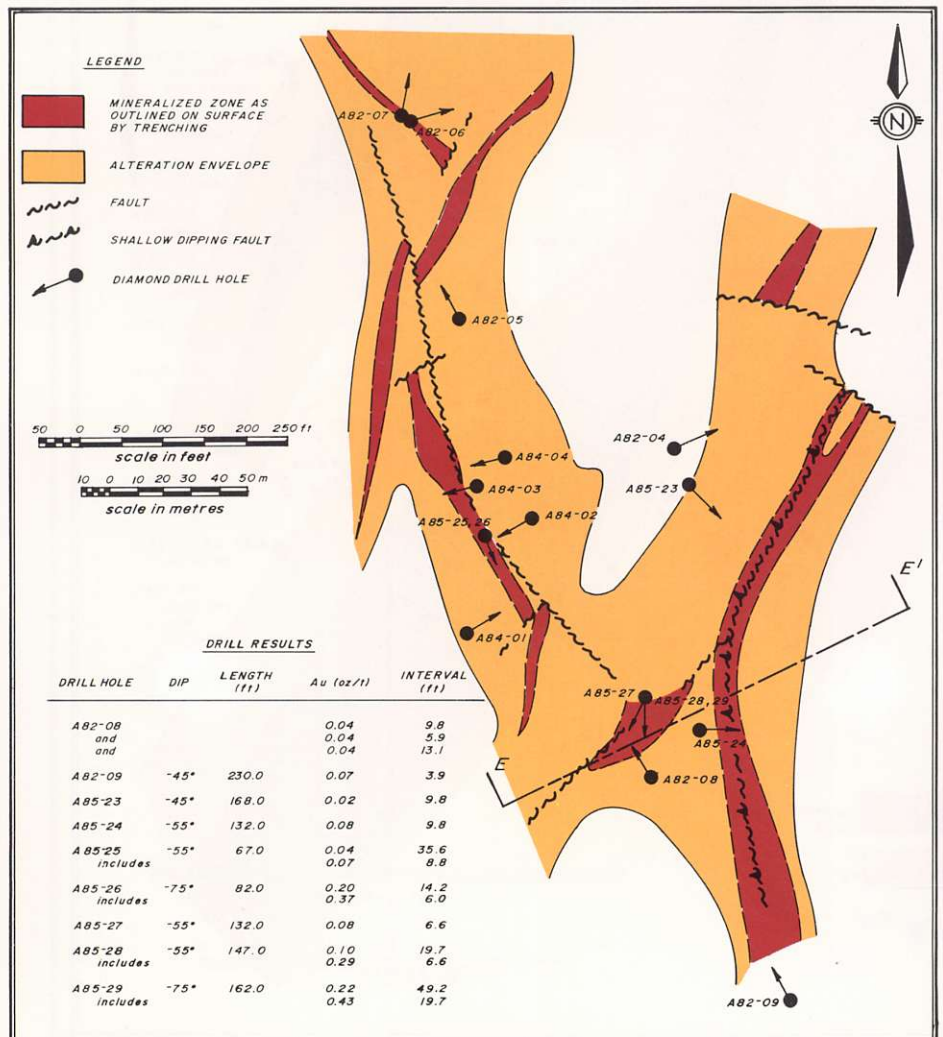
## Bonanza Ridge - AI Property

A complex array of structures which are believed to be responsible for the channelling of hydrothermal fluids containing gold, barite and silica are found within the Bonanza Ridge area. The distribution of gold mineralization on surface and at depth suggests that this area, like the Thesis III, is representative of hot-spring deposition.

The 1985 drill program was successful in that impressive gold mineralization which had not previously been found at depth, was encountered 100 feet below surface in drill hole A85-29.

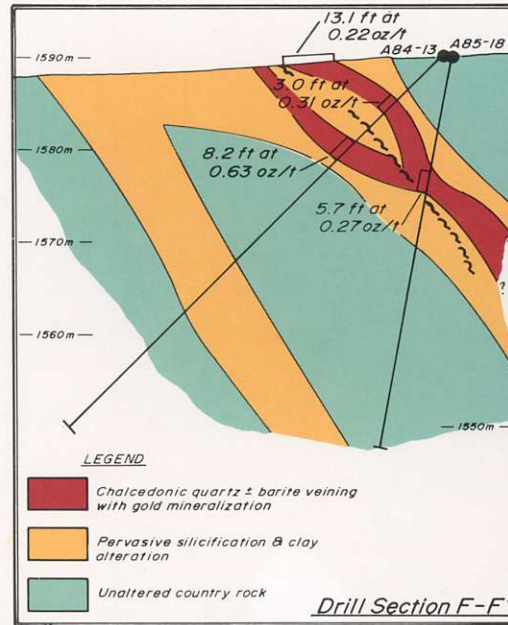
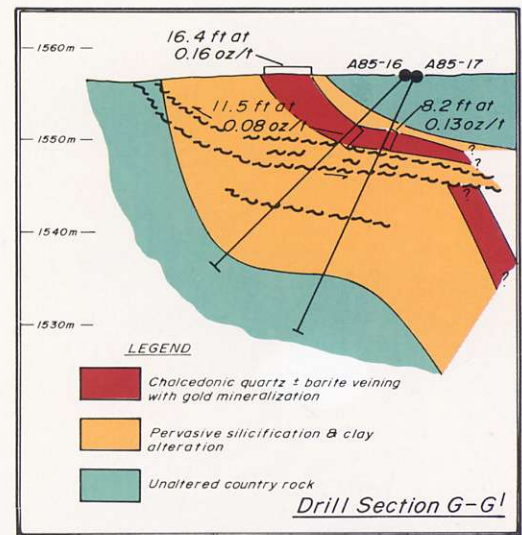
This particular zone is not fully understood, but this year's drilling confirmed that, similar to the Thesis III, high-grade gold deposits are flanked by broad low-grade mineralization. More drilling is definitely required to fully assess the significance of this prospect.

## Drill Plan

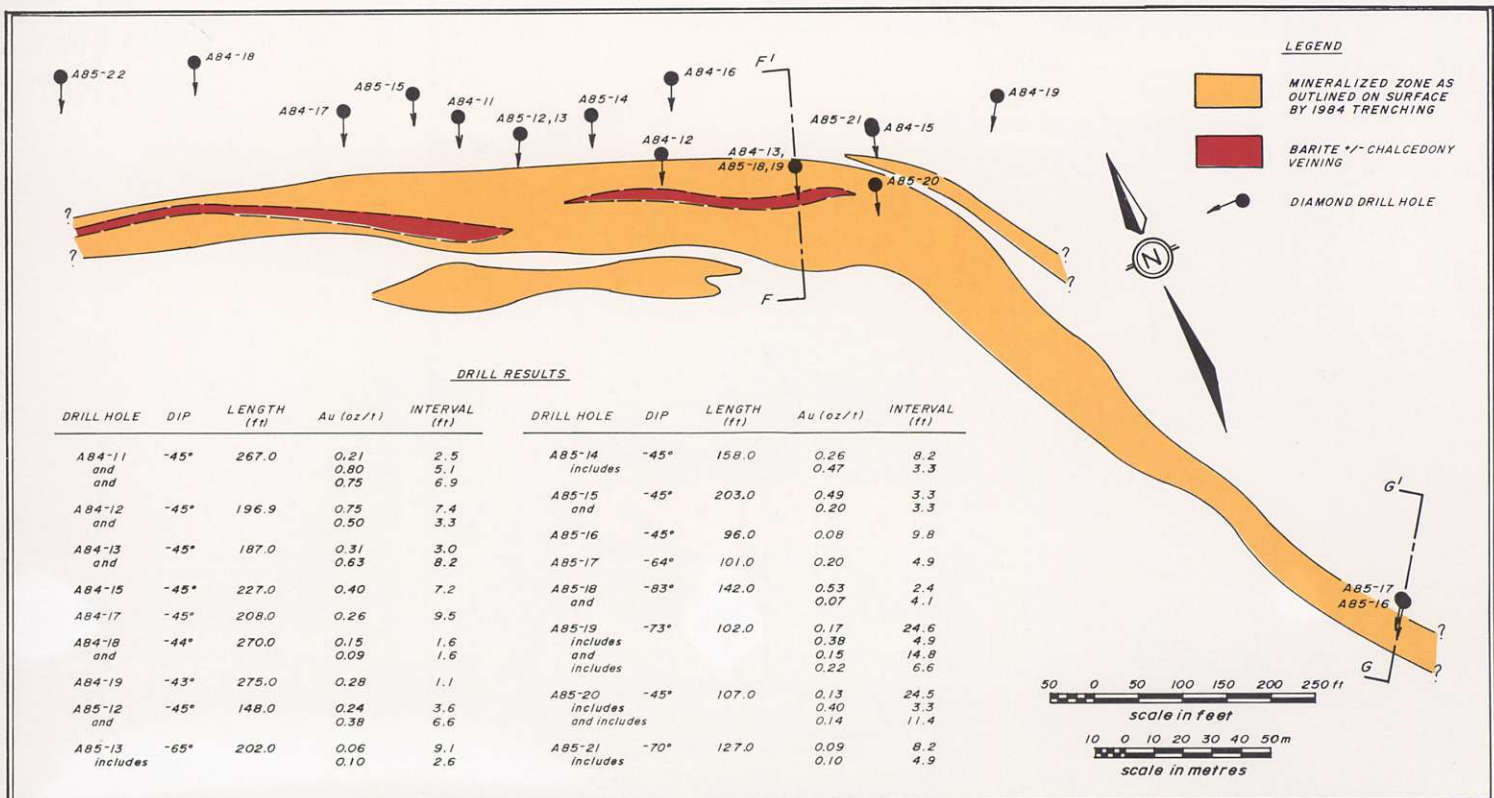


## B.V. - AI Property

Results of trenching and diamond drilling along the B.V. structure define a sinuous feature, mineralized with gold, occurring over a strike length of at least 1,500 feet. This zone is believed to be part of a strong mineralizing structure. Average widths of surface exposures of barite and chalcedonic quartz veining containing native gold are 10 to 15 feet. The width of the vein is enhanced due to faulting which results in an alternating barite-quartz sequence. This structural dislocation may cause stacking, repetition, and thickening of the zone near surface. This could enhance the development of an open pit deposit with a low stripping ratio.



## Drill Plan





*Drill cores at Energex's AI Camp.*

**energex**  
MINERALS LTD.

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(ENMIN)

Energex shares trade on the Vancouver Stock Exchange ... trading symbol EGX  
Energex shares also trade over-the-counter in the United States ... NASDAQ symbol EGEXF



## GOLD SPRINGS PROJECT

### Lincoln County, Nevada - Iron County, Utah

The Gold Springs project area is located on the Nevada-Utah border, 150 miles northeast of Las Vegas, Nevada. The claim groups are comprised of 251 claims (5100 acres) and encompass 13 former producing mines.

The setting of the properties is along a north trending arcuate belt of tertiary volcanics which forms the rim of a collapsed caldera. Geological mapping has demonstrated that the volcanic rim is intruded by a number of rhyolitic "epicentres". Large breccia zones flank the rhyolite intrusions and often host broad zones of mineralization.

Epithermal precious metals also occur along structurally controlled radial and ring fractures. Massive quartz-adularia-carbonate gangue is developed in several localities in zones which commonly vary from 200 to 500 feet in width and often exceed 1,000 feet in strike length.

Exploration on the Gold Springs property in 1985 has been carried out under two joint ventures:

- the Geostar joint venture, whereby Geostar Mining Corporation (a Vancouver exploration company) can earn a 49% interest in the Jeannie, Erin, Pronto, South End, Midnight, Buck Mountain and Zenith properties by the expenditure of \$400,000 over the years 1984 and 1985. No pro rata interest is earned for expenditures of less than \$400,000.
- the Kidd Creek joint venture, whereby Kidd Creek Mines Ltd. can earn a 50% interest in the Jumbo, Etna Ridge and Helena properties by the expenditure of \$500,000 over the years 1985 and 1986. No pro rata interest is earned for expenditures of less than \$500,000; and

### GEOSTAR JOINT VENTURE

The Geostar project area, located in Lincoln County, Nevada, includes a group of 44 claims near the geographic centre of the Gold Springs camp. Work programs have centered on an area between two previously producing mines.

The 1984 program consisted of geological mapping, prospecting and soil geochemistry of the Pronto and Thor veins.

During 1985 the program consisted of control survey and detailed mapping and sampling.

Surface excavation of the old Thor workings exposed a zone of green hued quartz adularia veining 4 to 5 feet in width, while detailed underground mapping confirmed the zone continues to a depth of 30 to 40 feet. Visible gold was found in all the surface cuts on the north end of the Thor vein system for a strike length of approximately 350 feet. Overburden obscures both the northern and southern extensions.

Significant results of surface and underground sampling across the mineralized zone are as follows:

	Sample No.	Length (in feet)	Gold Assay (oz/l)
<b>Thor Surface</b>	26191	3.3	0.27
	26194	1.5	0.16
	26196	Grab	0.27
	26197	3.7	0.17
	26200	2.5	0.15

	Sample No.	Length (in feet)	Gold Assay (oz/l)
<b>Thor Surface</b> (continued)	26202	3.0	0.30
	26203	Grab	1.06
	26206	2.4	0.16
	26211	Grab	0.64
	26212	1.4	0.42
	26213	6.4	0.27
	26214	5.5	0.10
<b>Thor Underground</b> (North Adit)	26152	3.5	0.09
	26221	2.0	0.14

Based on the sample results from the Thor vein and previous results from the Pronto system, a decision was made to proceed immediately to diamond drilling.

A summary of significant diamond drill intersections from the Thor vein zone is as follows:

Drill Hole	From (in feet)	To (in feet)	Interval (in feet)	Gold Assay (oz/l)
DDH85-3	35.0	40.5	5.5	0.28
DDH85-3A	47.0	51.5	4.5	0.38
DDH85-3A	79.0	86.0	7.0	0.17

Drilling to date confirms the presence of significant gold values in the Thor vein and the presence of a second zone at depth. This, coupled with good continuity to the mineralized zone where it has been trenched on surface, defines an exciting target for follow up drilling.

### KIDD CREEK JOINT VENTURE

The Kidd Creek project area located in Iron County, Utah includes the Jumbo, Etna and Helena group of claims (40 claims). During Phase I of the program, carried out in May 1985, detailed mapping of the Jumbo and Etna vein systems was undertaken and approximately 800 feet of drill/blast trenches across exposed portions of the zone were channel sampled. The Jumbo vein system measures 2,000 feet in length by 40 to 100 feet in width. The Etna vein area, not as well defined, measures approximately 2,500 feet in length by 250 feet in width.

A summary of the significant 1985 trench and underground sampling results is as follows:

	Trench No.	Sample Width (in feet)	Gold Assay (oz/l)	Silver Assay (oz/l)
<b>Jumbo Surface</b>	J85TR-1	4.0	0.06	0.93
	J85TR-3	5.0	0.08	0.84
	J85TR-6	4.5	0.13	0.58
	"	4.7	0.71	1.02
	J85TR-7	5.0	0.06	0.29
	J85TR-11	1.7	0.07	0.42
	"	3.9	0.25	3.05
	J85TR-13	1.2	0.06	3.50
	"	3.5	0.04	0.58
	<b>Etna Surface</b>	E85TR-1	3.0	0.15
"		2.5	0.13	1.48
"		4.0	0.22	0.76
"		2.6	0.12	1.66
Grab		/	0.24	4.10
Grab		/	0.19	1.42

	Sample No.	Sample Width (in feet)	Gold Assay (oz/ton)	Silver Assay (oz/ton)
Jumbo Under-ground (East Work-ings)	19025	5.0	0.11	1.57
	19048	5.0	0.21	1.15
	19049	5.0	0.08	1.68
	19051	4.0	0.07	1.37
	19054	4.0	0.06	0.92
	19056	4.0	0.05	0.55
	19058	3.0	0.11	1.81
	19059	5.0	0.08	0.60

Expenditures on the 1985 Phase I program were \$104,000. Surface results, in the opinion of Kidd Creek, did not fit their model of an epithermal bulk tonnage surface mineable precious metals deposit, and the Phase II drilling program was not initiated. Energex, however, wishes to continue by drill testing the Jumbo and Etna vein structures at depth.

The Energex land position in the Gold Springs Mining District is considerable and to date only a small portion of the claim area has been adequately mapped and sampled.

The Geostar joint venture plans to continue drilling and geological activities in October and November with the intent of outlining extensions of existing zones along the strike and downdip of the Thor vein. The Kidd Creek joint venture program encountered mineralization on surface and underground which requires drilling to confirm the presence of ore zones at depth.

## GOLD CLAIMS

Energex holds a 50% interest in 44 claim units near Okanagan Falls, British Columbia. During the latter part of 1984 Rio Algom Exploration Inc. undertook a program of mapping, soil sampling and ground magnetic and electromagnetic surveys which resulted in the definition of two drill targets. The main showing area was defined by gold values in outcrop in the order of 0.1 ounces per ton. A mercury and weak gold geochemical anomaly formed the second drill target.

After a 1,500 feet diamond drilling program, Rio Algom stated that results were inconclusive and returned the property. Future exploration plans will be established after a detailed evaluation of Rio Algom's results.

## Oil and Gas

Investments in this business area were negligible, being restricted to maintaining existing cash flow interests. Gross revenue from all hydrocarbon sales amounted to \$51,511, an increase of almost 7%. Operating costs amounted to \$12,747. Net revenues at \$38,764 were identical to the \$38,727 achieved in fiscal 1984.

### GIDDINGS, LTD.

On July 16, 1985, the contractual dispute with the major gas purchaser was settled. In September 1985, Giddings recommenced cash distributions with Energex receiving \$230,000.

The above-referenced contractual dispute and a generally depressed market for gas and gas by-products resulted in Giddings showing a net loss for the twelve months ended May 31, 1985. Because of these conditions, the operator of the Giddings system was compelled to take curtailment actions with its suppliers of natural gas. In some instances, litigation arose as a result of these actions and the operator is now in the process of settling these cases.

While it is too early to establish estimates of the future levels of profitability of the Giddings system, a return to a profit position is expected. Management is convinced that resumption of a steady cash flow will be achieved and that this long term investment in natural gas will once again prove to be advantageous to the Company.

From March 1, 1980 to May 31, 1985, (the end of the 1984/85 fiscal year), Energex has reported equity in the earnings of Giddings, Ltd. at an aggregate of \$2,393,000. Cash distributions received during the same period have aggregated \$1,453,000.

### CANYON RESOURCES, INC.

Canyon Resources, Inc. is a private Texas corporation, based in Dallas, that specializes in secondary oil and gas recovery. Energex holds a 12½% equity interest in this company and has representation on the Board of Directors. In addition, the Company has a first right of refusal to acquire an interest of up to 25% in all oil and gas prospects developed by Canyon. The effect of this investment is the acquisition of oil and gas technical expertise, a wider exposure to oil and gas exploration at a reduced risk, and a possible base for further expansion into the United States. Energex has a 12½% equity interest in all carried interest income earned by Canyon and also receives working interest income from Canyon prospects in which it participates.

Canyon is constantly reviewing secondary recovery opportunities with the intent to initiate one new program in each year. Canyon generally attempts to acquire depleted or partially depleted primary oil reservoirs up to 5,000 acres in size. This size of reservoir is considered by Canyon to be optimum for their operations because the acquisition and redevelopment cost can usually be kept under \$US10 million and these smaller reservoirs do not attract competition from the major oil companies.

To date, Canyon has conceived and financed three major secondary oil recovery projects. The aggregate redevelopment funding that has been arranged is \$US21.5 million. One of these projects, known as the Half Field project, has been sold to the shareholders of Canyon, including Energex. The company will receive a distribution of 3.3% of the net revenue from the Half Field once the project reaches payout.

The present gross oil production rate from the Half Field, Sweetwater Canyon Sand Unit and South Lake Trammel Field is 580 barrels per day.

## CONSOLIDATED BALANCE SHEET

As At May 31, 1985

### ASSETS

	1985	1984
<b>Current Assets</b>		
Cash	\$ 165,851	\$ 125,614
Accounts receivable	53,418	58,596
Share subscription receivable	107,925	—
Employee share purchase loans (note 5)	<u>108,000</u>	<u>—</u>
	435,194	184,210
<b>Gas Transportation and Processing Interests</b> (note 2)	2,277,879	2,599,847
<b>Mineral Interests</b> (note 3)	947,176	979,006
<b>Oil and Gas Interests</b>	225,512	236,686
<b>Investments</b> (note 4)	265,663	300,086
<b>Employee Share Purchase Loans</b> (note 5)	—	108,000
<b>Fixed Assets</b>	<u>73,908</u>	<u>75,440</u>
	<u><u>\$4,225,332</u></u>	<u><u>\$4,483,275</u></u>

### LIABILITIES

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 50,876	\$ 46,905
Bank loan	<u>—</u>	<u>58,787</u>
	50,876	105,692

### SHAREHOLDERS' EQUITY

<b>Share Capital</b> (note 6)	6,872,377	6,145,412
<b>Deficit</b>	<u>2,697,921</u>	<u>1,767,829</u>
	<u>4,174,456</u>	<u>4,377,583</u>
	<u><u>\$4,225,332</u></u>	<u><u>\$4,483,275</u></u>

Contingency (note 2[b])  
 Commitments (note 8)  
 Subsequent event (note 9)

Approved by the Board

*R. C. Atkinson*

Director

*A. H. ...*

Director

## CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended May 31, 1985

	1985	1984
<b>REVENUE</b>		
Oil and gas sales	\$ 51,511	\$ 48,256
Project management fees	27,163	—
Interest	7,570	14,186
Mineral options	—	35,820
	<u>86,244</u>	<u>98,262</u>
<b>EXPENSE</b>		
Oil and gas taxes and operating costs	12,747	9,529
Oil and gas exploration costs	308	195,440
Mineral exploration costs	328,029	527,628
Administration costs	245,960	295,556
Interest	2,558	17,152
Equity in loss (earnings) of Giddings, Ltd. (note 2)	116,354	(367,698)
Amortization of interest in Giddings, Ltd. (note 2)	191,200	191,200
Equity in loss (earnings) of Canyon Resources, Inc. (note 4)	16,623	(2,525)
Amortization of interest in Canyon Resources, Inc. (note 4)	17,800	17,800
Depletion of oil and gas interests	12,299	12,469
Depreciation	15,292	16,635
	<u>959,170</u>	<u>913,186</u>
<b>LOSS FROM OPERATIONS</b>	872,926	814,924
<b>OTHER EXPENSE</b>		
Loss on investment	—	50,000
	<u>—</u>	<u>50,000</u>
<b>LOSS FOR THE YEAR</b>	<u>\$ 872,926</u>	<u>\$ 864,924</u>
<b>LOSS PER SHARE</b>	<u>16¢</u>	<u>17¢</u>

## CONSOLIDATED STATEMENT OF DEFICIT

For the Year Ended May 31, 1985

<b>DEFICIT AT BEGINNING OF YEAR</b>	\$1,767,829	\$ 898,858
Loss for the year	872,926	864,924
Share issue costs	57,166	4,047
<b>DEFICIT AT END OF YEAR</b>	<u>\$2,697,921</u>	<u>\$1,767,829</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended May 31, 1985

	1985	1984
<b>SOURCE OF CASH</b>		
Issue of shares	\$ 726,965	\$ 220,150
Funding by mineral joint venture partners	185,585	39,215
Increase (Decrease) in accounts payable	3,971	(36,500)
Decrease in accounts receivable	5,178	77,078
Proceeds from sale of fixed assets	—	5,690
Mineral option proceeds, less amount credited to revenue	—	1,680
	<u>921,699</u>	<u>307,322</u>
<b>CASH AVAILABLE</b>		
<b>APPLICATION OF CASH</b>		
Exploration, development and property acquisition		
Mineral interests	477,116	379,141
Oil and gas interest	<u>1,125</u>	<u>17,538</u>
	478,241	396,679
Operations (note 7)	165,583	(179,933)
Repayment of bank loan	58,787	182,781
Share issue costs	57,166	4,047
Increase in share subscription receivable	107,925	—
Purchase of fixed assets	<u>13,760</u>	<u>21,332</u>
	<u>881,462</u>	<u>424,906</u>
<b>CASH APPLIED</b>		
<b>INCREASE (DECREASE) IN CASH</b>	40,237	(117,584)
<b>CASH AT BEGINNING OF YEAR</b>	<u>125,614</u>	<u>243,198</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 165,851</u>	<u>\$ 125,614</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended May 31, 1985

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

The consolidated financial statements include the accounts of a wholly-owned subsidiary, Energex Resources, Inc., incorporated in Delaware, United States of America.

### (b) Translation of Foreign Currencies

The United States operations, which are considered to be operationally dependent on the parent company, are translated into Canadian funds on the following basis:

Monetary items at the rate of exchange in effect at the period end;

Non-monetary items at historic rates and revenues and expenses at the average rate for the period.

Foreign exchange gains or losses are included in operations in the year of translation.

### (c) Gas Transportation and Processing Interests and Investments

The Company's investment in Giddings, Ltd., a limited partnership, and Canyon Resources, Inc., a private oil and gas exploration and development company, are accounted for by the equity method. Under this method, the investment is carried at cost plus the related equity in undistributed earnings since acquisition, less the amortization of the excess of the purchase price over the net book value at date of acquisition.

The excess of the purchase price over the net book value at date of acquisition is amortized on a straight line basis over ten years.

Other investments are accounted for by the cost method.

### (d) Oil and Gas Interests

The Company accounts for oil and gas operations by capitalizing all costs relative to the exploration for and development of reserves, by field. Such costs, which include all direct costs and related overhead, are reduced by the proceeds from the sale of oil and gas properties or interests therein within the field.

The field costs are amortized on the unit-of-production method, based on estimated reserves, by field. If the unamortized costs exceed the estimated market value of the reserves, the costs are further written down to the market value of the reserves. During the development of properties within a field, costs are not amortized or written off until the available oil and gas reserves relative to the field have been determined.

### (e) Mineral Interests

Mineral interests and related costs (net of option proceeds received) are capitalized until either commercial production is established or the property is abandoned, at which time, the costs are either amortized on a unit-of-production basis or fully charged to earnings.

The amount shown for mineral interests represents costs to date, and does not necessarily reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recovery of the amounts shown for mineral interests is dependent on the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production.

### (f) Exploration Costs

Exploration costs charged to the statement of earnings consists of overhead costs incurred to carry out the evaluation of mineral and oil and gas prospects, and the costs of unsuccessful exploration and abandoned properties.

### (g) Depreciation

Fixed assets, which include leasehold improvements, are depreciated on a straight line basis over five years to ten years, which are the estimated useful lives of the assets.

### (h) Per Share Amounts

Loss per share is calculated using the weighted average number of shares outstanding during the fiscal period.

## 2. GAS TRANSPORTATION AND PROCESSING INTERESTS

(a) The Company is a limited partner with a 10% interest in Giddings, Ltd. (Giddings), a Texas limited partnership which owns a 25.25% interest in a natural gas gathering, transmission and processing system. Energex has the right to receive an annual preferential distribution of the first \$US130,000 of cash flow, as defined, for the first ten years or until aggregate preferential distributions equal \$US1,300,000, if earlier. Energex also receives 10% of any additional distributions of annual cash flow, as defined, in excess of \$US130,000, resulting from operations and sale of Giddings' assets.

(b) Perry Pipeline Company, Inc. (Perry) acts as operator of the natural gas gathering, transmission and processing system and, together with an associated company, owns a 74.75% interest in the system.

In April 1984, Perry filed suit against the major purchaser of gas concerning volumes of gas to be purchased and the pricing bases of such purchases. The litigation was settled subsequent to May 31, 1985 but the impact of the settlement cannot yet be assessed.

Actions which Perry was forced to take as a result of the above-referenced suit resulted in litigation between Perry and some suppliers of the system's gas. Perry is now in the process of settling these disputes.

Should these matters have a material adverse effect upon the operations of the system, the Company's interest in Giddings, Ltd. may require write-down.

(c) The excess of the purchase price of the interest in Giddings over the net book value of its assets at acquisition amounted to \$1,912,000 (\$US1,652,000), and is being amortized on the straight line basis over ten years. The carrying value of the investment consists of:

	1985	1984
Acquisition Cost	\$2,341,779	\$2,341,799
Equity in Earnings Since Acquisition	2,393,164	2,509,518
Cash Distributions Received	(1,453,264)	(1,438,850)
Amortization of Purchase Excess	(1,003,800)	(812,600)
	<u>\$2,277,879</u>	<u>\$2,599,847</u>

## 3. MINERAL INTERESTS

	1985	1984
Gold Springs Project - Gold and Silver Lincoln County, Nevada and Iron County, Utah	\$ 711,415	\$ 611,048
Toodoggone Project - Gold and Silver Omineca/Liard Mining Divisions, B.C.	127,972	—
Gold Claims - Gold Osoyoos Mining Division, B.C.	16,857	16,827
Nightingale Project - Tungsten Pershing County, Nevada	—	245,484
Star Claims — Gold Liard Mining Division, B.C.	—	26,125
Strip Claims — Gold Atlin Mining Division, B.C.	—	17,933
Other interests	90,932	61,589
	<u>\$ 947,176</u>	<u>\$ 979,006</u>

## 4. INVESTMENTS

	1985	1984
(a) Investments consist of:		
Canyon Resources, Inc.	\$ 239,963	\$ 274,386
Other companies	25,700	25,700
	<u>\$ 265,663</u>	<u>\$ 300,086</u>

### (b) Canyon Resources, Inc.

In October 1980, the Company entered a series of transactions whereby it acquired, effective November 1, 1980, for \$US312,500, 125,000 shares, representing 12.5% of the issued share capital of Canyon Resources, Inc. (Canyon), a private Texas corporation in the oil and gas industry.

The excess of the purchase price of the Company's interest in Canyon over the net book value of Canyon's assets at acquisition amounted to \$178,000 (\$US150,000), and is amortized on the straight line basis over ten years.

The carrying value of the investment consists of:

	1985	1984
Acquisition Cost	\$ 376,861	\$ 376,861
Equity in Loss Since Acquisition	(76,098)	(59,475)
Amortization of Purchase Excess	<u>(60,800)</u>	<u>(43,000)</u>
	<u>\$ 239,963</u>	<u>\$ 274,386</u>

## 5. EMPLOYEE SHARE PURCHASE LOANS

Employee share purchase loans were made to finance the acquisition of 180,000 shares during the year ended May 31, 1983 upon exercise of stock options. These loans are interest free and repayable by February 28, 1986, and the shares are held in trust as security.

## 6. SHARE CAPITAL

### (a) Authorized

- 10,000,000 common shares of no par value
- 5,000,000 Class A preferred shares of \$10.00 par value
- 5,000,000 Class B preferred shares of \$10.00 par value

### Issued:

	Common Shares	
	Number	Amount
As at May 1, 1984	5,063,750	\$6,235,312
Issued during year		
For cash at \$0.40	600,000	240,000
For cash at \$0.42	452,250	189,945
For cash at \$0.80	250,000	200,000
For mineral properties at \$0.35	15,000	5,250
For mineral properties at \$0.68	161,425	109,770
Less commissions paid	—	(18,000)
	<u>6,542,425</u>	<u>\$6,962,277</u>
Less 10% of Giddings, Ltd. investment in Energex	<u>38,900</u>	<u>89,900</u>
	<u>6,503,525</u>	<u>\$6,872,377</u>

### (b) Share Issue Commitments

As At May 31, 1985, the Company had reserved the following common shares for possible future issue and as at August 27, 1985 the following shares had been taken up:

	Reserved	Taken Up	
	Number of Shares	Number of Shares	Amount
Warrants to acquire shares @ \$0.42/share - expiring June 24, 1985	293,750	293,250	\$123,165
Director's and employee options to acquire shares @ \$0.42/share - expiring April 27, 1989	360,000	126,600	53,172
Underwriting dated May 31, 1985 with a closing date of June 7, 1985:			
- Initial issue @ \$1.00/share	600,000	600,000	600,000
- Underwriter's option expiring Nov. 27/85, to acquire shares @ \$1.10/share	200,000	200,000	220,000
- Underwriter's option expiring Feb. 25/86, to acquire shares @ \$1.35/share	200,000	100,000	135,000
Agreements dated August 8, 1985 and August 9, 1985 whereby the Company has agreed to issue common shares, at a deemed value of \$1.40/share, in consideration for the incurring of eligible exploration expenditures under sub-paragraph 66.1(6)(a)(v) of the Income Tax Act (Canada)	<u>200,000</u>	<u>—</u>	<u>—</u>
	<u>1,853,750</u>	<u>1,319,850</u>	<u>\$1,131,337</u>

## 7. CASH GENERATED FROM OPERATIONS

	1985	1984
(Loss) for the year	\$ (872,926)	\$ (864,924)
Items not involving cash		
Equity in earnings of Giddings, Ltd. (net of cash received \$14,414: 1984 - \$427,983)	130,768	60,285
Amortization of interest in Giddings, Ltd.	191,200	191,200
Equity in (earnings) loss of Canyon Resources, Inc.	16,623	(2,525)
Amortization of interest in Canyon Resources, Inc.	17,800	17,800
Depletion of oil and gas interests	12,299	12,469
Property write-downs (non-current)		
Mineral	323,361	506,633
Oil and gas	—	192,360
Depreciation	15,292	16,635
Loss on investment	—	50,000
Cash Flow (Deficiency)	<u>\$ (165,583)</u>	<u>\$ 179,933</u>

## 8. COMMITMENTS

### (a) Mineral Property Option and Assessment Payments

Under agreements in respect of optioned mineral properties, which are cancellable from year to year, the Company is committed to payments in the twelve months ended May 31, 1986 aggregating \$US94,800 to maintain its interests in the subject properties in good standing.

### (b) Gas Transportation and Processing Interests

The Company may be required to contribute its pro rata share of calls for additional capital by Giddings to a maximum of \$US300,000, to maintain its 10% interest.

## 9. SUBSEQUENT EVENT

Subsequent to May 31, 1985 the Company:

- (a) issued common shares as set out in note 6(b)
- (b) received a cash distribution of \$230,000 from Giddings.

## 10. SEGMENTED INFORMATION

The Company operates in three industry segments: gas transportation and processing, oil and gas exploration and production, and mineral exploration.

	SEGMENT								Consolidated Totals	
	USA Gas Transportation & Processing		USA Oil & Gas Exploration & Production		USA Mineral Exploration		Canada Mineral Exploration			
	(\$000's)		(\$000's)		(\$000's)		(\$000's)		(\$000's)	
	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984
Revenue from External Customers	—	368	52	51	25	—	2	36	79	455
Corporate Revenue									8	14
<b>TOTAL REVENUE</b>									<u>87</u>	<u>469</u>
(Earnings) Loss Before Unallocated Items	308	(177)	8	184	242	119	59	373	617	499
Corporate Revenue									(8)	36
Administrative Expenses									246	296
Depreciation									15	17
Interest Expense									3	17
<b>LOSS FOR THE YEAR</b>									<u>873</u>	<u>865</u>
Segment Assets	2,278	2,600	465	511	717	860	230	119	3,690	4,090
Corporate Assets									535	393
<b>TOTAL ASSETS</b>									<u>4,225</u>	<u>4,483</u>
Capital Expenditure	—	—	1	18	310	309	167	85	478	412
Corporate									14	21
									<u>492</u>	<u>433</u>
Depletion and Amortization	191	191	30	30	—	—	—	—	221	221
Corporate									15	17
									<u>236</u>	<u>238</u>

## Auditor's Report

To the Shareholders of Energex Minerals Ltd.

 Thorne Riddell

We have examined the consolidated balance sheet of Energex Minerals Ltd. as at May 31, 1985 and the consolidated statements of earnings, 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, except as explained in the following paragraph.

The gas transportation and processing interests consist of an interest in a Texas limited partnership. Current audited financial statements for this partnership are not available and we are unable to satisfy ourselves as to the equity in earnings of the partnership or that the description of the litigation as set out in note 2(b) is complete. Accordingly, we are unable to determine whether any adjustments might be necessary to gas transportation and processing interests, loss for the year, deficit or the notes to the financial statements.

In our opinion, except for the effect of the adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to the equity earnings of the gas transportation and processing interests and the litigation disclosure referred to in the preceding paragraph, these financial statements present fairly the financial position of the company as at May 31, 1985 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.

Vancouver, Canada  
August 27, 1985

  
Chartered Accountants



# Corporate Data

## DIRECTORS

ROBERT H. ALLEN  
Private Investor  
Houston, Texas

RICHARD C. ATKINSON\*†  
Chairman, Energex Minerals Ltd.  
Vancouver, B.C.

ARNE O. BIRKELAND  
President, Energex Minerals Ltd.  
Vancouver, B.C.

IAN D. BROWN  
President, Tasu Resources Ltd.  
Vancouver, B.C.

LAUCH F. FARRIS\*  
President, Fargo Oil Corporation  
Vancouver, B.C.

GORDON C. GUTRATH†  
President, Queenstake Resources Ltd.  
Vancouver, B.C.

DAVID KINNEAR  
Senior Vice President, Business Development,  
and Director, Royal LePage Ltd.  
Toronto, Ontario

A. HANS SWINTON\*†  
Senior Partner, Swinton & Company  
Vancouver, B.C.

\* Member of Compensation Committee  
† Member of Audit Committee

## OFFICERS

RICHARD C. ATKINSON, P.Eng.  
Chairman

ARNE O. BIRKELAND, P.Eng.  
President

VICTOR H. BRADLEY, C.A.  
Corporate Secretary

IAN D. BROWN, C.A.  
Assistant Secretary

GIULIO T. BONIFACIO, C.G.A.  
Controller

## HEAD OFFICE

Energex Minerals Ltd.  
703 - 850 West Hastings St.  
Vancouver, B.C. V6C 1E1  
(604) 684-1258

## UNITED STATES OFFICE

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1210 Kleppe Lane  
Sparks, Nevada 89431  
P.O. Box 20610  
Reno, Nevada 89515  
(702) 359-3020

## REGISTERED OFFICE

400 - 750 West Pender St.  
Vancouver, B.C. V6C 2T7

## LEGAL COUNSEL

Rand & Edgar  
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Vancouver, B.C. V6C 2T7

Walter H. Walne III  
2840 Two Houston Centre  
Houston, Texas 77010

Davis & Company  
2800 - 666 Burrard St.  
Vancouver, B.C. V6C 2Z7

## AUDITORS

Thorne Riddell  
1177 West Hastings St.  
Vancouver, B.C. V6E 2L9

## BANKERS

Royal Bank of Canada  
1055 West Georgia Street  
Vancouver, B.C. V6E 3P1

## REGISTRAR & TRANSFER AGENT

Montreal Trust Company  
466 Howe Street  
Vancouver, B.C. V6C 2A8

1908 11th Avenue  
Regina, Saskatchewan S4P 2Z6

221 Portage Avenue  
Winnipeg, Manitoba R3C 2J1

## SHARES LISTED

Vancouver Stock Exchange  
Trading Symbol — **EGX**

NASDAQ  
Trading Symbol — **EGEXF**