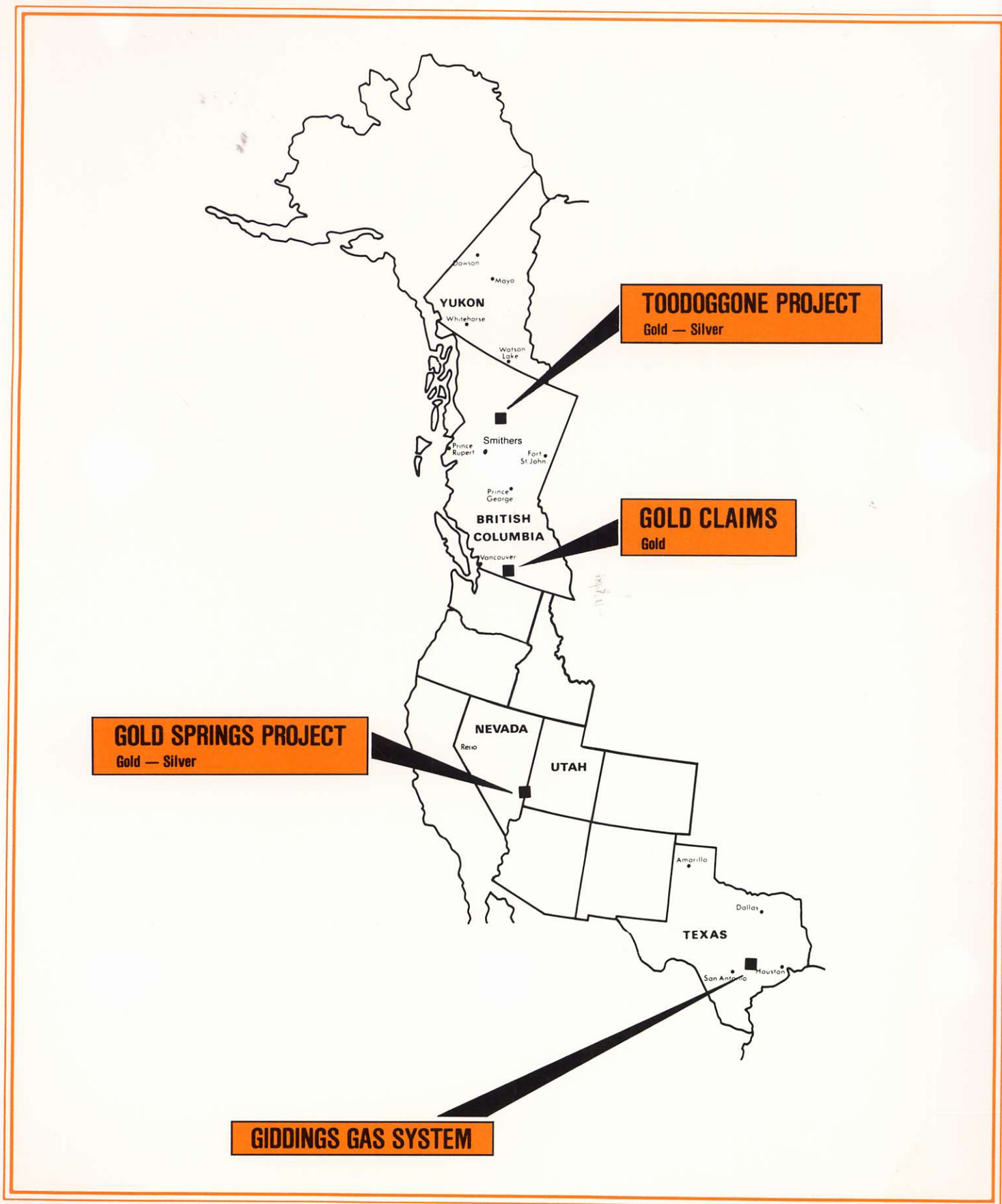




energex
MINERALS LTD.
ANNUAL REPORT 1986

831080

Property Locations





The Company

Energex Minerals Ltd. is a diversified resource company engaged in:

- acquiring, exploring and developing mineral properties of merit with major emphasis on gold; and
- gathering, processing, transporting and selling natural gas and related hydrocarbon liquids.

These enterprises are pursued directly and through various joint ventures and partnerships. Income development and cash flow enhancement are key corporate priorities.

Energex's mineral exploration strategy is to acquire and explore, on its own or through joint ventures, projects with outstanding potential for near-term production and substantial cash flow to the Company.

Energex is engaged in major precious metals exploration and development programs on its deposits located in the Toodoggone region of British Columbia and the Gold Springs district of Nevada/Utah.

Energex has an interest in the Giddings System, a gas gathering, transmission and processing facility operating in Lee, Bastrop and Fayette Counties, Texas, which provides ongoing cash flow to the Company to fully meet operating and overhead expenses.

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Annual Meeting

The Annual Meeting of Shareholders will be held at 2:00 p.m. on Thursday, September 4, 1986 in the Victoria Room, Holiday Inn - Harbourside, 1133 West Hastings Street, Vancouver, British Columbia, Canada



The past year has brought exciting and very important developments. Your Company has benefitted from substantial cash reserves in treasury, major cash flow increases from the Giddings, Ltd. gas field system, a Toronto Stock Exchange listing, and continued outstanding results from precious metals exploration in the U.S. and Canada. Energex is also on the threshold of becoming a significant producer of precious metals from its Toodoggone project.

A \$2,000,000 program is underway in the Toodoggone. This year's exploration efforts focus on substantially expanding reserves and upgrading Energex's deposits in the camp to a point where final feasibility studies can be undertaken prior to a production decision for 1987.

Geophysical surveys have greatly increased the strike lengths and ultimate ore reserve potential for the Toodoggone deposits. Trenching and surface sampling continue to yield bonanza grade assays and re-confirm the very high grade nature of the deposits. Twelve thousand feet of drilling is scheduled and well underway with encouraging results received to date from all three deposits.

A 6 ton per day pilot mill has been transported to the property and assembled. The pilot plant is currently processing bulk samples of high grade ore mined from the deposits. Information derived from this processing will be used in the final production feasibility studies to optimize mining and milling rates and to design the full size milling facility.

High grade ore has been mined and stockpiled as feed for the pilot plant; half of this stockpile has a calculated average grade of 1.8 oz gold/ton.

Prior to the 1986 exploration season, baseline ore reserve calculations were completed for the Thesis III and BV deposits by Wright Engineers Ltd., indicating a combined mineral inventory having a gross metal value of \$32,800,000 (gold @ C\$500). This figure is expected to be increased substantially as a result of 1986 exploration activities.

Kilborn Engineering (B.C.) Ltd. and Fisher & Associates have completed economic analyses for both small tonnage high grade mining scenarios and open pit heap leach operations. The very high grade nature of the Toodoggone deposits allows the Company several attractive production options.

The Company continues to receive excellent results from exploration of its U.S. precious metals project in Nevada/Utah. In a recent drilling program as part of the Energex-Geostar Joint Venture, the gold zone was encountered in all drill holes. A major drill program is planned to establish reserves.

During the past year a total of \$1,765,551 was raised through equity financings and private placements. Cash flow from the Giddings, Ltd. gas system increased by over \$860,000 as a result of settlement of

a dispute with the major purchaser of product. Despite fluctuations in world oil prices, long term contracts have maintained regular cash receipts to the system and continue to provide Energex with significant cash flow, which currently averages approximately \$50,000 per month.

Corporate visibility has improved measurably with the listing of Energex's shares on the Toronto Stock Exchange. This will enhance the Company's already respectable ability to raise money, especially in eastern Canada, the U.S. and Europe. The calling of shares in a senior market and the maturing status of the Company have increased interest by long-term investors and financial institutions, who have been instrumental in financing this year's exploration activities.

Energex continues to meet with success in fulfilling corporate objectives of securing cash flow and developing producing precious metals properties. We are privileged to have a capable and enthusiastic staff, providing your Company with enviable technical and corporate abilities. A strong, active Board of Directors continues to steer the Company towards its goals.

In closing, we wish to express our gratitude to our employees, our fiscal agents, our new investors, and especially our shareholders. Your support and encouragement have been fundamental to the Company's continued success. We share with you our enthusiasm and optimism for the forthcoming year.

On behalf of the Board



A.O. Birkeland, P.Eng.
President

The Company's financial performance reflects a strong turnaround in activities since last year's Annual Report. Financial statements for the year ended May 31, 1986 show significant improvements in both cash position and earnings.

The Company's cash position increased by \$1,117,085 over the year to show total cash available at May 31, 1986 of \$1,282,936. This increase was the result of a substantial growth in cash generated from operations and financing activities for the year. Cash flow from operations increased by \$800,099 over the comparable period last year, generating a positive cash flow of \$0.08 per share. This increase is attributable to the Company's investment in Giddings, Ltd., which generated \$874,765 in cash for the year.

Financing activity from underwritings, the exercise of warrants and options and issue of flow-through shares contributed \$1,765,551. Additional project funding of \$443,981 by joint venture partners bring the Company's total financing activities to \$2,209,532. The majority of these funds was spent on the Toodoggone and Gold Springs mineral projects.

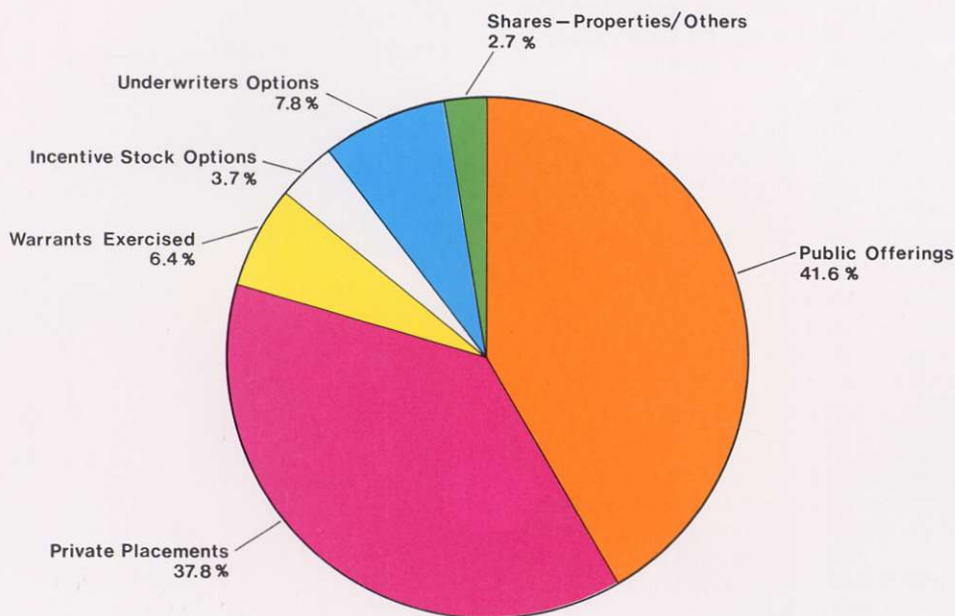
An improvement of \$447,002 for the period was

realized over the previous year's loss of \$615,926, with this year's loss reduced to \$168,924. Revenue increased by \$501,382 as a result of increases achieved in all major revenue categories. The largest single increase of \$340,723 was shown by equity in earnings from Giddings, Ltd. gas field system.

Expenses increased slightly by \$54,380 which is mainly attributable to a \$159,692 increase in oil and gas exploration costs as a result of management's decision to write down the carrying value of its oil and gas investments. Increases in administrative costs for the year were the result of increased corporate activity. These increases were offset by a decrease of \$312,055 in mineral exploration costs due to a substantial write off, in the previous fiscal year, of costs associated with minor mineral properties reflecting management's decision to concentrate exploration on the Toodoggone and Gold Springs gold projects.

The Company's current cash position of \$1,282,936, turnaround in earnings from Giddings system, and recent private placements totalling \$2,000,000 all ensure a sound financial position for the future development of the Company's mineral assets.

Share Capital Structure



Toodoggone Project



Energex holds mineral title to 565 claim units covering over 36,300 acres in the Toodoggone gold camp, 180 miles north of Smithers, British Columbia.

Energex was one of the first mining companies to recognize the area's outstanding potential for hosting major epithermal precious metal deposits. The Company has been very aggressive in acquiring and exploring its keystone land position, an area of approximately 70 square miles, which encompasses some of the highest quality gold deposits in what, over the past two years has been, the most active exploration camp in British Columbia.

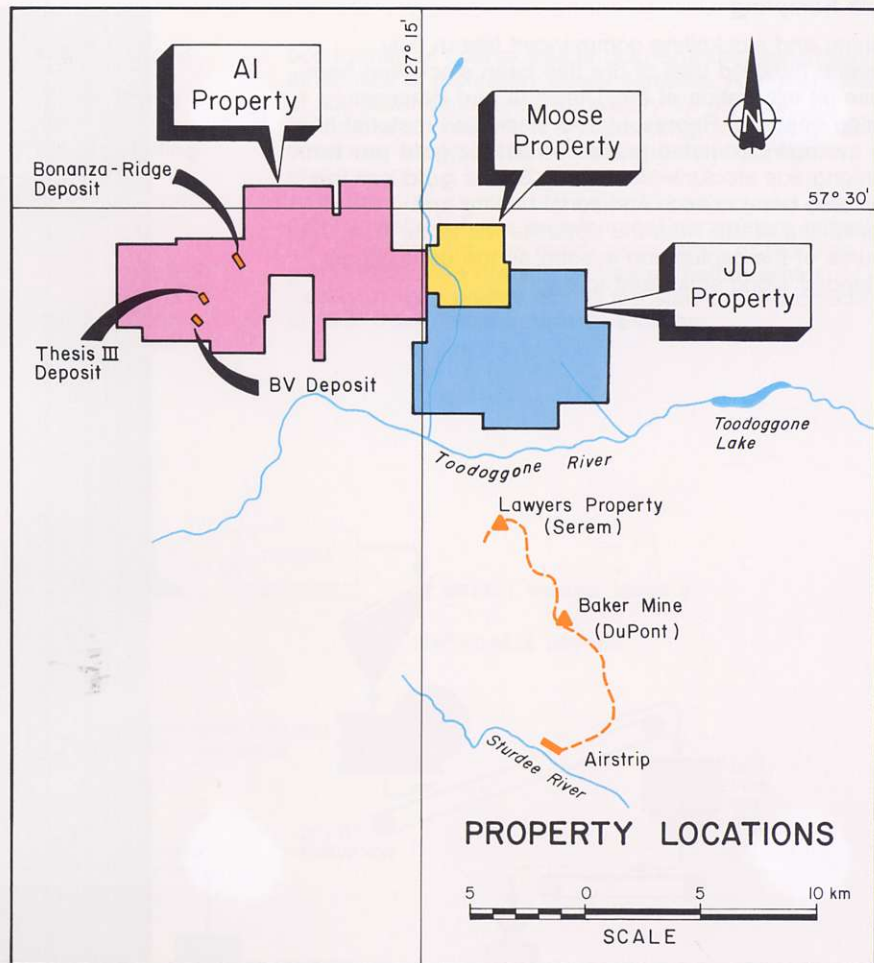
To date, \$6.5 million has been spent to explore the Company's Toodoggone holdings.

Extensive mapping, sampling, geophysical and trenching programs have been carried out as well as 32,000 feet of diamond drilling. Over 28 documented and sampled precious metals zones have been discovered on Energex's claims.

At the end of the 1985 season, baseline ore reserve calculations were initiated by Wright Engineers Ltd. for the Thesis III and BV deposits which resulted in a combined mineral inventory having a gross metal value of \$32,800,000 (gold @ C\$500).

The 1986 exploration efforts are being concentrated on the AI property, which includes three outstanding deposits: the Thesis III, the BV, and the Bonanza Ridge. High grade gold assays across broad widths encountered in surface trenching and diamond drilling make all three deposits the most likely areas to provide reserves for near-term production. Energex's \$2 million 1986 Toodoggone exploration program commenced in June. Objectives of the program are:

- Increase reserves by conducting at least 10,000 feet of diamond drilling on the Thesis III and BV deposits to a production threshold target of 1 million tons mineable by combined open pit/underground methods.
- Establish reserves on the Bonanza Ridge deposit.



- Strip and channel sample the high grade A zone of the Thesis III deposit on a tight grid spacing for grade control. Mine and stockpile bulk samples and high grade ore.
- Assemble and operate on site a 6 ton per day pilot plant for metallurgical testing of Thesis III/Bonanza Ridge ore and production test milling of stockpiled high grade ore.
- Locate and define additional gold showings by airborne and surface geophysical surveys using the geophysical signatures of the drilled deposits for baseline interpretation. Carry out soil geochemistry and prospecting in conjunction with the geophysical surveys.
- Delineate new precious metals zones by backhoe trenching and undertake systematic sampling programs including follow-up drilling.

Bulk Sampling

Mining and stockpiling commenced late in July. Several hundred tons of ore has been stockpiled from open-pit excavation of the Thesis III and Bonanza Ridge deposits. Representative stockpiled material has an average calculated grade of **1.811 oz gold per ton**. A highgrade stockpile containing **3.0 oz gold per ton** has also been mined. Additional mining and stockpiling of ore from the deposits will occur over the course of the exploration season as the deposits are extended along strike and to depth.



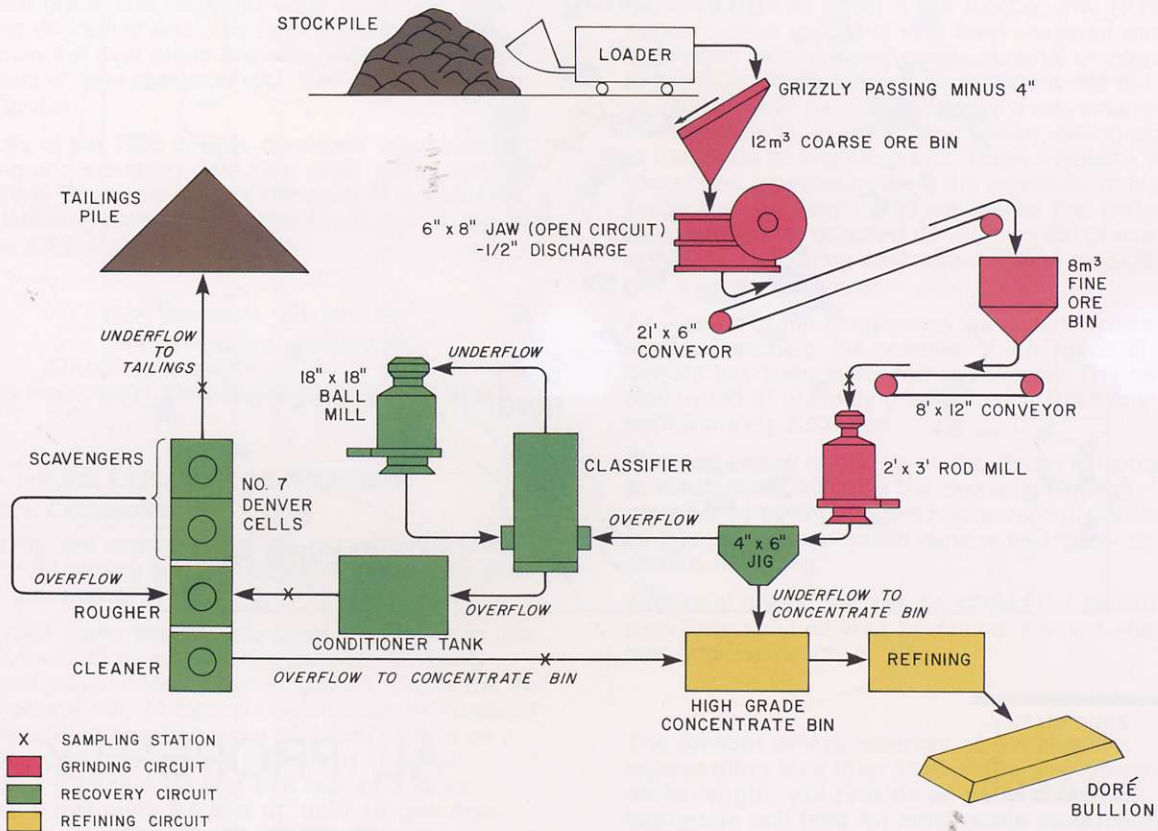
Typical Backhoe Trenching and Surface Sampling

Pilot Plant

On July 28th a 6 ton per day pilot plant was shipped to the property. The purpose of the pilot plant operation is to confirm the amenability of the ore to treatment by jig and flotation processes. Test information will be used to design the full size milling facility. Factors such as recovery rates will be determined for feasibility analysis. Milling of high-grade bulk samples will also establish more accurately ore grades which are difficult to define precisely from trenching and core drill assays particularly because of low or no core recovery. The bulk grade is expected to be higher than the calculated grade because of the very high grade nature of the samples, the frequent

occurrence of coarse visible gold and the statistically small size of laboratory assay samples. A higher level of statistical confidence necessary for reserve calculations, production rate planning, mill design and economic analysis will be obtained by pilot plant processing of a large bulk sample.

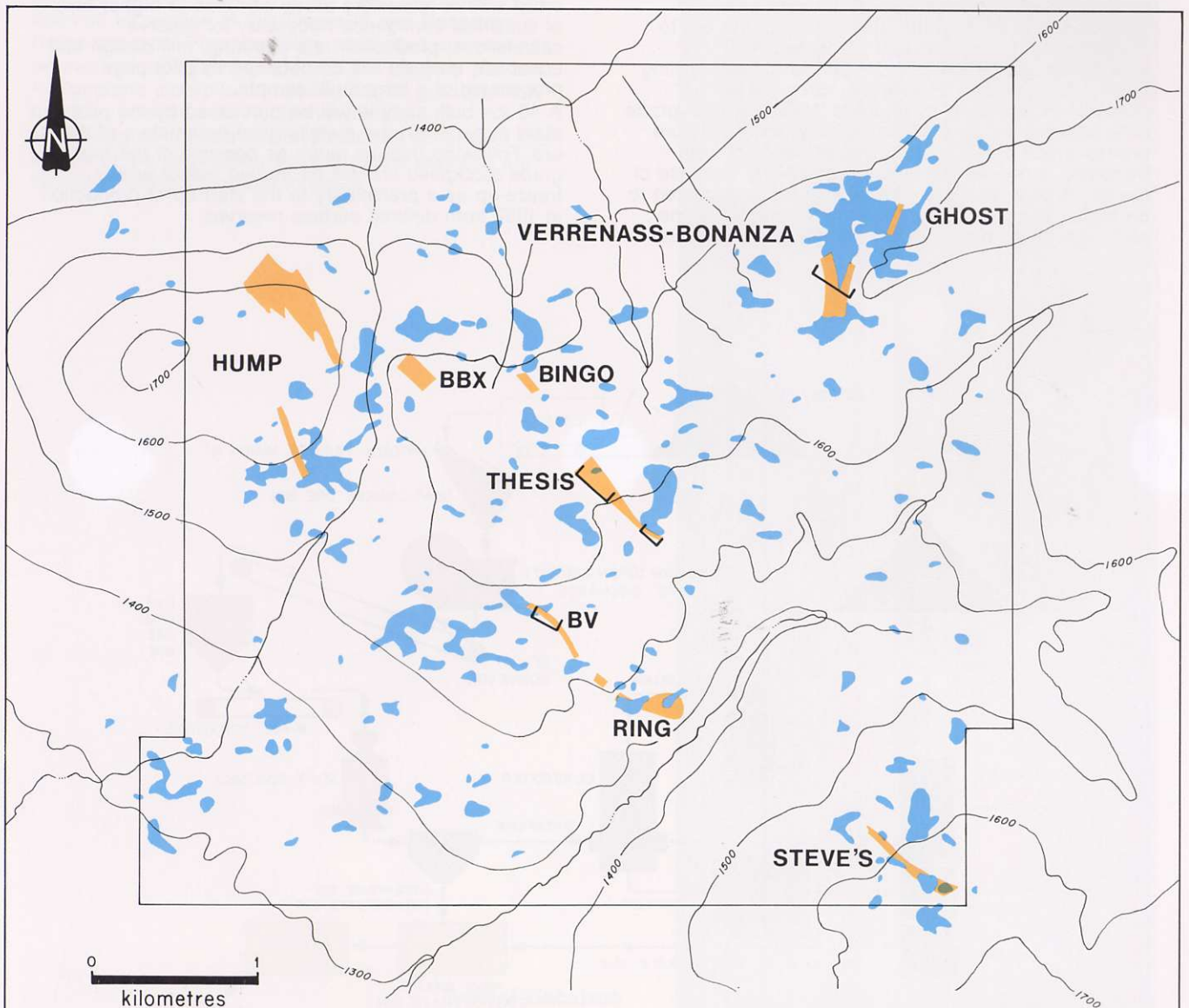
A 40 ton bulk sample will be processed by the pilot plant to establish the metallurgical parameters of the ore. Following this, as much as possible of the high grade stockpiled ore will be treated before winter freeze-up as a preliminary to the start up of production in 1987 from defined surface reserves.



Pilot Plant - Flow Diagram

Ore from the coarse ore bin is initially passed through the jaw crushers and stored in the fine ore bin. It is next processed in two grinding stages in a rod and a ball mill to 50%-200 mesh. Processing through a jig circuit will remove coarse free gold and recover

approximately 50% of the gold values as a high grade concentrate. Discharge from the jig circuit is treated in the flotation cells, where it is expected that over 95% of the remaining gold will be recovered. Both a high grade concentrate and a high grade flotation product will be shipped by container to Vancouver for refining.



LEGEND

- AREA OF GEOCHEMISTRY ANOMALY
- AREA OF GEOPHYSICAL ANOMALY
- AREA OF DETAILED DRILLING

AL PROPERTY

**DEPOSIT
LOCATIONS**

Thesis III

Energex's highly successful 1985 exploration program on the Thesis III deposit sampled three semi-parallel, intensely altered and silicified gold zones in surface trenching and 3,306 feet of large core (HQ) diamond drilling. The gold zones appear to be the top of an epithermal hot springs system hosting very high precious metals values in the form of free often spectacular visible gold and disseminated sulfides. Outstanding assays from the program, both on surface and at depth have strengthened this geological model.

1985 drill intersections on the Thesis III deposit, in the vicinity of bonanza grade assays taken from surface trenches, encountered from 55 to 87 feet of high grade gold values, with assays ranging between 0.81 oz gold/ton and 0.97 oz gold/ton. Very high grade intercepts included 37 feet of 1.5 oz gold/ton (Hole A85 0-01) and 36 feet of 2.2 oz gold/ton (Hole A85-10). Highest grade drill intercepts were associated with drilling difficulties and core recovery problems because the high grade ore zone within this deposit consists of hard shattered rock interlayered with soft clay gouge.

Results of the 1985 drilling, combined with diamond drilling and trenching data from 1984, were submitted to Wright Engineers Ltd. for ore reserve calculations. The following reserve was determined prior to the start of the 1986 exploration program:

1985 MINERAL INVENTORY (All categories, undiluted)

134,000 tons grading 0.248 oz gold/ton
Gross metal value \$16,616,000 (Gold @ C\$500/oz)

1986 THESIS EXPLORATION PROGRAM

Surface Exploration

Stripping and channel sampling are providing grade control for mining and stockpiling of material for pilot plant processing.

Very high grade assays have been returned from this year's initial channel sampling program on newly stripped areas of the Thesis III deposit. Out of the first 20 channels cut, 14 returned gold values in excess of 1 oz/ton. Best channels were 21.3 feet of 5.18 oz gold/ton, which included 4.9 feet of 16.90 oz gold/ton (Channel 14) and 20.8 feet of 3.92 oz gold/ton including 6.6 feet of 10.77 oz gold/ton. Assay results to date from trenching indicate that high gold values flank the silica barite host rock in shattered zones alternating with soft bands of altered rock.

1986 Drilling Program

Approximately 6,000 feet of diamond drilling is scheduled for the Thesis III deposit and its extensions. The first 12 holes were drilled beneath ore intercepts from the 1985 program. The mineralized zone

appeared to be present in the majority of holes and the favourable silica-barite host broadens at depth. However, drilling difficulties in the targeted high grade section caused very low to nil core recovery and forced abandonment of three holes. Sampling results from this drilling, while statistically inadequate, nevertheless demonstrate the presence of ore grade values in segments of core successfully recovered, with gold values as high as as 0.84 oz/ton (3 feet) and 1.16 oz/ton (1 foot) across narrow widths. Broader gold zones up to 34 feet in width were also detected and yielded gold assays of 0.14 oz/ton from the core recovered.

Drilling has been hampered by poor to non-existent core recovery. Several holes had to be abandoned completely. Diamond drilling difficulties and low core recovery are not unusual in high level epithermal deposits such as those in the Toodoggone. These deposits often consist of very hard shattered rock alternating with soft clay gouge material or intermixed in breccias. Since these rock conditions are the result of hydrothermal processes related to ore emplacement, it is common to have the most severe drilling problems in the zones of highest grade. These problems are interpreted as substantiating the continuity of high grade zones to depth. It is anticipated that better core recovery can be obtained during the next phase of drilling by employing specialized drilling techniques and steeper drill angles.

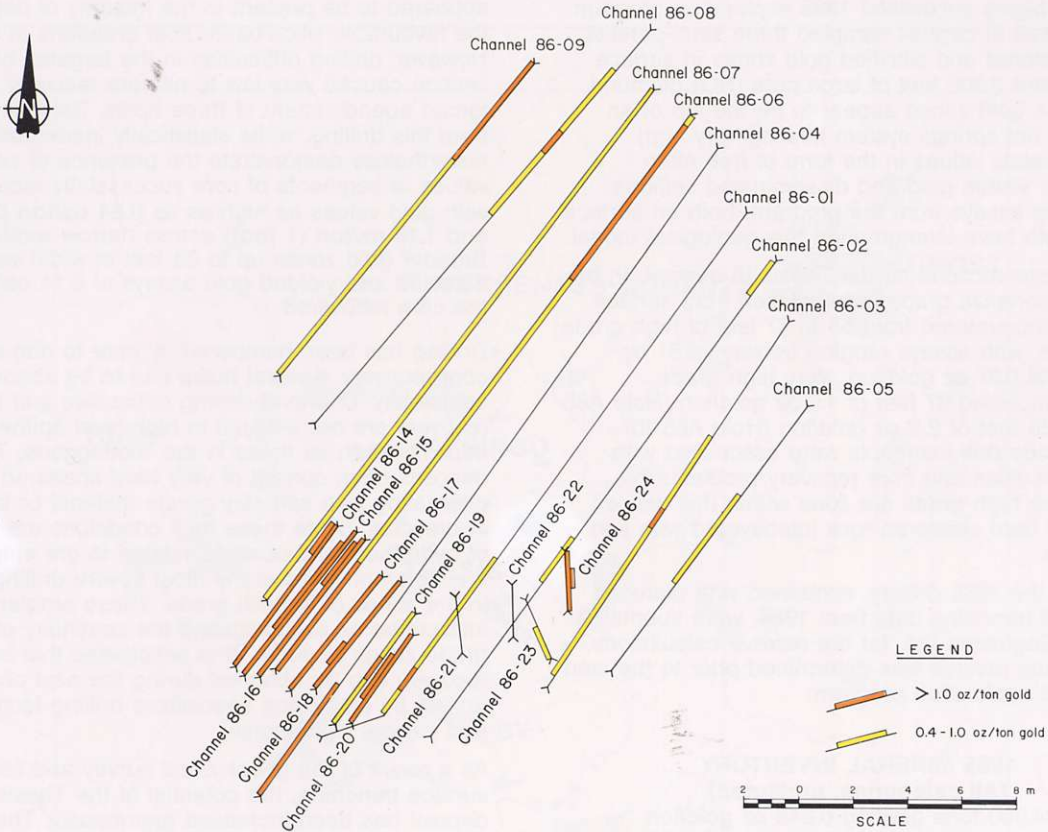
As a result of the geophysical survey and follow-up surface trenching, the potential of the Thesis III deposit has been increased enormously. The newly discovered IP anomaly extends along strike for approximately 3,300 feet.

The next phase of drilling on the Thesis III is designed to substantially increase the deposit's tonnage potential by testing the extensions recently delineated by this year's geophysical surveys and follow up surface trenching.

Additional drilling will also be carried out beneath the highgrade stripped area to confirm reserves ahead of next year's production.

The present drilled reserves of the deposit, representing less than 10% of the new potential strike length, will provide an early source of highgrade mill feed for small-scale production, commencing as early as next year. The ultimate size of the deposit may increase dramatically as trenching and drilling along strike verifies the continuity and grade of the potential ore zone.

THESIS III CHANNEL SAMPLE PLAN



THESIS III "A" ZONE SIGNIFICANT CHANNEL INTERCEPTS

CHANNEL NO.	INTERVAL		INTERVAL		CHANNEL NO.	INTERVAL		INTERVAL	
	(m)	(g/tonne)	(ft)	(oz/ton)		(m)	(g/tonne)	(ft)	(oz/ton)
Channel 01	6.00	27.975	19.69	0.816	Channel 13*	No significant values.			
includes	1.00	103.800	3.28	3.028	Channel 14	6.50	177.731	21.33	5.184
Channel 02	2.00	25.575	6.56	0.746	includes	1.50	579.333	4.92	16.897
and	1.50	27.433	4.92	0.800	Channel 15	6.70	106.722	21.98	3.113
Channel 03	6.00	18.063	19.69	0.527	includes	4.00	164.200	13.12	4.789
includes	0.80	45.825	2.62	1.337	Channel 16	6.35	134.451	20.83	3.921
Channel 04	5.00	37.480	16.40	1.093	includes	2.00	369.150	6.56	10.766
Channel 05	4.00	12.050	13.12	0.351	Channel 17	5.50	34.531	18.05	1.007
Channel 06	25.50	22.994	83.66	0.671	Channel 18	5.00	85.850	16.41	2.503
includes	5.00	41.340	16.40	1.206	includes	1.00	150.900	3.28	4.401
and	7.00	39.793	22.97	1.161	Channel 19	5.00	21.520	16.41	0.627
Channel 07	23.50	13.934	77.10	0.406	includes	1.00	40.150	3.28	1.171
Channel 08	7.00	19.964	22.97	0.582	Channel 20	4.00	109.600	13.12	3.197
includes	1.00	40.300	3.28	1.175	includes	2.00	198.100	6.56	5.778
Channel 09	14.70	15.878	48.23	0.463	Channel 21	2.15	5.846	7.05	0.171
includes	4.70	38.106	15.42	1.111	Channel 22	No significant values.			
Channel 10*	1.00	16.200	3.28	0.472	Channel 23	1.20	13.200	3.94	0.385
Channel 11*	1.50	17.317	4.92	0.505	Channel 24	2.23	69.466	7.32	2.026
Channel 12*	3.50	24.593	11.48	0.717	includes	0.83	173.800	2.72	5.069
includes	0.50	43.05	1.64	1.256					

* From trenched area 20 m (67 ft.) southeast of stripped zone.

BV Deposit

The BV deposit is considered to be part of a strong mineralizing structure trending southeast to northwest and roughly parallel to the Thesis zones. Trenching and drilling in 1985 delineated a sinuous feature continuing for over 1,500 feet, characterized by barite and quartz veining containing native gold. Average width of surface exposures is 10 to 15 feet with structural dislocation and stacking of the zone apparently enhancing the vein width.

In 1985, 3,017 feet of diamond drilling tested the BV deposit, returning consistent ore grade intercepts across mining widths. Core assays ran as high as **0.75 oz gold/ton across 7.4 feet and**; 1985 drilling tested the deposit to a depth of approximately 125 feet. Preliminary ore reserve calculations, undertaken by Wright Engineers Ltd., have been calculated as follows:

MINERAL INVENTORY (all categories, undiluted)

130,000 tons grading 0.249 oz gold/ton
Gross metal value **\$16,185,000** (Gold @ C\$500/oz)

Early in the current exploration program, a geophysical survey detected an anomaly directly coincident with

precious metal mineralization as defined in previous surface trenching and drilling. This anomaly extends the potential BV ore zone substantially.

1986 Exploration

In addition to the successful geophysical survey, 1540 feet of diamond drilling has been completed on the BV deposit, comprising 7 holes, designed to test the deposit along a strike length of approximately 1000 feet. The program's objective is to delineate additional reserves within the deposit and develop a more complete geological picture of the deposit and its extensions.

The best results received to date have been very encouraging with assays across a zone of quartz/barite breccia averaging **1.72 oz gold/ton across 4.7 feet** (A86-13).

The geophysical survey and encouraging diamond drilling results from the BV deposit indicate the potential for far more extensive gold mineralization along strike and to depth. Only a small fraction of the deposit has been explored in detail and a substantial amount of exploration potential remains to be tested.



Detailed Channel Sampling, Proposed "A" Zone Pit, Thesis III Deposit



Bonanza Ridge Deposit

Spectacular high grade surface showings on the Bonanza Ridge have made the deposit an intensive exploration target for gold. Surface sampling from 1984 defined a 260 foot zone 12½ feet wide with a weighted average grade of 0.91 oz gold/ton. Surface trenching returned high grade gold assays of up to 2.4 oz gold/ton across 12 feet and 1.0 oz gold/ton across 20 feet. The complex array of gold-bearing structures on the Bonanza Ridge deposit display marked similarities to the Thesis III deposit and follow the classic hot springs epithermal model.

In 1985, a 890 foot diamond drilling program was carried out on the Bonanza Ridge deposit. The program was successful at locating depth extensions of the gold mineralization. A wide drill intersection (A85-29) of 49.2 feet encountered average gold assays of 0.22 oz/ton which included 19.7 feet of 0.43 oz gold/ton. Hole A85-26 intersected 6 feet of 0.37 oz gold/ton within a 14.2 foot zone which averaged 0.20 oz gold/ton.

1986 Surface Exploration

While the deposit has not received as much exploration to date as the Thesis III and BV deposits, recent geophysical surveys have clarified the structure and extended the strike length considerably. Several

potential ore zones with a parallel to sub-parallel orientation have also been delineated by the IP survey. Recent surface trenching on a stripped portion of the deposit has returned some very encouraging gold assays including **11.5 feet of 3.45 oz/ton; 4.92 feet of 1.3 oz/ton and 11.5 feet of .717 oz/ton.**

1986 Drill Program

Under the 1986 program, 1856 feet of diamond drilling has been completed to date in 13 holes with all holes intersecting very favorable silica host rock containing barite, pyrite, chalcopyrite and other gold-associated minerals. At least three of the intersections carry visible gold. Best preliminary assays received to date include: **16.7 feet of 1.00 oz gold/ton (A86-26); 14.8 feet of 0.398 oz gold/ton (A86-21); and 3.28 feet of 0.521 oz gold/ton (A86-29).**

The excellent results received from recent trenching and drilling combined with the geophysical delineation of a potentially much larger deposit make the Bonanza Ridge a subject for intensive follow up exploration. The deposit exhibits marked similarities in grade and geology to the Thesis III with an excellent potential to provide a similar tenor of highgrade gold ore for start up production. Another drilling phase for this zone is planned during the 1986 program.

Geophysics

Extensive airborne and surface geophysical surveys have been carried out over the Thesis III, BV and Bonanza Ridge deposits. Significant extensions to the strike length of previously known anomalies centered on the deposits have been discovered.

The IP anomaly occurring on the Thesis III deposit is now known to extend along strike southeastwards and northwestwards for a length of approximately 3,300 feet to the Thesis II showing. The length of the drilled and trenched section of the combined deposits occupies less than 10% of the geophysical anomaly. This newly discovered anomaly is open along strike in both directions and is currently being used as a guide for follow-up drilling.

At the BV deposit the new IP anomaly extends along strike for over 3,300 feet and is directly coincident with the mineralization defined by previous trenching and drilling. The zone previously drilled occupies only a fraction of the total anomalous strike length.

Utilizing the geophysical signatures of the established gold deposits for interpretation standards, geophysics provides an important exploration tool for mapping extensions to the known deposits as well as discovering additional new zones.

Moose Property/JD Prospect

The Moose and JD properties consist of approximately 17,000 acres situated to the east and south of the AI property. In 1985 in a joint venture with New Ridge Resources as funding partner, Energex as operator conducted a \$300,000 exploration program on the Moose property. A total of 16 BQ diameter diamond drill holes tested a very large silver/base metal geochemical anomaly, confirming the presence of a strata bound silver/lead/zinc deposit along a strike length of over 2,600 feet. Silver intercepts ran as high as **76.1 oz silver/ton** over narrow widths.

New gold and silver showings were also discovered on the Moose property in the "Porphyry Pearl" zone. Samples of vein material assayed as high as **0.2 oz gold/ton** and **54 oz silver/ton**.

Late in 1985 New Ridge elected to conclude their participation in the joint venture and all interest in the Moose property has reverted to Energex.

Significant gold and silver showings with promising potential to host open-pit deposits are present on the JD prospect. Trenching and diamond drilling from previous exploration seasons indicate the near-surface presence of gold related to a shallow dipping fault. The best drill hole intersected **15.49 feet of 1.307 oz gold/ton (JD84-1) including 7.38 feet of 2.66 oz gold/ton**.

No work is scheduled for the Moose and JD properties during 1986. Both properties have exceptional showings and have returned extremely favorable precious metals assays from previous exploration. However, the Company has chosen to concentrate on bringing the deposits on the AI property to production as quickly as possible and to pursue the exploration targets on the Moose and JD properties at a later date or through joint ventures.



Gold Springs Project

The Gold Springs project consists of 251 claims (5,100 acres) located 150 miles northeast of Las Vegas straddling the Nevada/Utah border. Energex's significant land holdings in the district encompass 13 former producing mines within a geological setting that is highly prospective for epithermal precious metals deposits.

The district was discovered in the 1870's. At its height the Gold Springs camp supported five separate mills. Between 1900 and 1940 incomplete records document production of high grade gold-silver ore from seven mines. Six other mines in the camp apparently also produced large unreported tonnages of high grade ore. Gold-silver ore, grading 0.32 ounces gold/ton was mined from both disseminated and vein deposits hosted by altered Tertiary volcanic rocks.

The Gold Springs district lies on the south rim of a large caldera complex. A series of fault systems associated with caldera collapse appear to be the main hosts of mineralization. Caldera complexes similar to the Gold Springs system have hosted world-class precious metals deposits including the Cripple Creek camp which had a total estimated production of 19 million ounces of gold.

There are three types of precious metals targets on the Gold Springs claim group:

- **Quartz-carbonate stockwork systems with potential for large to very large open-pittable reserves;**
- **High-grade quartz veins with moderate tonnage potential;**
- **Silver-base metal vein systems with moderate to very large tonnage potential.**

During 1985 Energex as operator carried out a successful exploration program on the Gold Springs project under two joint venture agreements. Diamond drilling on the north end of the Thor vein system produced very encouraging results, confirming the presence of ore-grade gold values in the Thor vein and locating as well a second precious metals zone at depth. Drill values ranged from 0.17 to 0.37 oz gold/ton over widths from 4.5 feet to 7.0 feet.

Exploration on the Gold Springs project is currently being carried out by Energex as operator of the Geostar Joint Venture. 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 expenditure of \$460,000 over the years 1984 to 1986, of which \$265,000 has been spent to date. No pro-rata interest is earned for expenditure of less than \$460,000.

In June of 1986 an additional 1230 feet of reverse circulation drilling was completed in seven holes with an objective of expanding reserves in the Thor vein system. All drill holes intersected the mineralized zone with gold values to **0.316 oz gold/ton (2 foot length)** encountered across narrow widths. Broader intercepts were also present with gold values to **0.117 oz/ton across widths of up to 9 feet.**

Energex's 1986 Gold Springs drilling program successfully demonstrated the excellent continuity of gold mineralization within the Thor vein system. The mineralized zone is consistent, very predictable, and carries economic precious metals values. The deposit is open down dip and along strike; potential to

increase reserves substantially is considered to be very high.

The Gold Springs Joint Venture is planning a major reverse circulation drilling program with the Thor vein as focal point. The program's objective will be to establish target production reserves of 250,000 to 1,000,000 tons.

Ore grade values across mining widths encountered in all exploration programs to date as well as the continuity of gold mineralization make the Thor vein system a priority for further exploration.

Negotiations are currently underway with several parties interested in participating in joint ventures to explore the other properties held by Energex in the Gold Springs camp.

Giddings, Ltd. Gas Field System

Energex owns a 10% interest in Giddings, Ltd., a Texas limited partnership. This limited partnership holds a 25.25% interest in a \$95 million facility consisting of a gas processing plant and approximately 420 miles of transmission pipeline connecting some 350 wells to two major distribution outlets.

A resumption of cash flow has occurred following settlement of contractual disputes with the major purchaser of gas.

Energex's equity in the earnings of Giddings, Ltd. for the twelve months ended May 31, 1985 was \$481,369, an improvement of over \$340,000 compared with the previous report period. Cash flow from the Giddings system increased by over \$860,000 during the year. Since acquisition of the Giddings system in 1980, Energex has received \$2,328,029 in total cash distributions and accounted for \$3,131,533 in equity in earnings of Giddings, Ltd.

Management remains confident of the economic viability of this transportation and processing system for the future despite recent fluctuations in hydrocarbons pricing. Steady cash flow and profitability continue to benefit the Company in spite of the industry's depressed prices, confirming the value of Energex's original long-term investment objective.



CONSOLIDATED BALANCE SHEET

As At May 31, 1986

ASSETS

	1986	1985
Current Assets		
Cash	\$1,241,720	\$ 165,851
Cash - Joint venture funds	41,216	—
Accounts receivable	73,261	53,418
Share subscription receivable	256,186	107,925
Employee share purchase loans (note 2)	28,800	108,000
Marketable securities, at cost	17,300	—
	<u>1,658,483</u>	<u>435,194</u>
Gas Transportation and Processing Interests (note 3)	1,950,283	2,534,879
Mineral Interests (note 4)	2,179,411	947,176
Oil and Gas Interests	60,468	225,512
Investments (note 5)	226,143	265,663
Fixed Assets	<u>95,437</u>	<u>73,908</u>
	<u>\$6,170,225</u>	<u>\$4,482,332</u>

LIABILITIES

Current Liabilities		
Accounts payable and accrued liabilities	\$ 145,239	\$ 50,876
Joint venture funds payable	41,216	—
	<u>186,455</u>	<u>50,876</u>

SHAREHOLDERS' EQUITY

Share Capital (note 6)	8,637,928	6,872,377
Deficit	<u>2,654,158</u>	<u>2,440,921</u>
	5,983,770	4,431,456
	<u>\$6,170,225</u>	<u>\$4,482,332</u>

Commitments (note 8)
Subsequent events (notes 2 and 6(c))

Approved by the Board

R.C. Atkinson

Director

A.H. Munro

Director

CONSOLIDATED STATEMENT OF EARNINGS
For the Year Ended May 31, 1986

	1986	1985
REVENUE		
Equity in earnings of Giddings, Ltd. (note 3)	\$ 481,369	\$ 140,646
Interest	116,518	7,570
Project management fees	59,072	27,163
Oil and gas sales	21,271	51,511
Mineral options	47,500	—
Gain on sale of fixed assets	1,500	—
Gain on sale of marketable securities	1,042	—
	<u>728,272</u>	<u>226,890</u>
EXPENSE		
Administration costs	461,761	245,960
Oil and gas exploration costs	160,000	308
Amortization of interest in Giddings, Ltd. (note 3)	191,200	191,200
Equity in loss of Canyon Resources Inc. (note 5)	21,720	16,623
Amortization of interest in Canyon Resources, Inc. (note 5)	17,800	17,800
Depreciation	16,630	15,292
Mineral exploration costs	15,974	328,029
Oil and gas taxes and operating costs	6,875	12,747
Depletion of oil and gas interests	5,236	12,299
Interest	—	2,558
	<u>897,196</u>	<u>842,816</u>
NET LOSS	<u>\$ 168,924</u>	<u>\$ 615,926</u>
LOSS PER SHARE	<u>2¢</u>	<u>11¢</u>
CASH FLOW PER SHARE		
Basic	<u>8¢</u>	<u>(3¢)</u>
Fully Diluted	<u>6¢</u>	<u>(3¢)</u>

CONSOLIDATED STATEMENT OF DEFICIT
For the Year Ended May 31, 1986

DEFICIT AT BEGINNING OF YEAR		
AS RESTATED (note 3(b))	\$2,440,921	\$1,767,829
Loss for the year	168,924	615,926
Share issue costs	44,313	57,166
DEFICIT AT END OF YEAR	<u>\$2,654,158</u>	<u>\$2,440,921</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended May 31, 1986

	1986	1985
OPERATING ACTIVITIES		
Operations (note 7)	\$ 634,516	\$(165,583)
Increase in accounts payable	94,363	3,971
Decrease (Increase) in accounts receivable	<u>(19,843)</u>	<u>5,178</u>
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>709,036</u>	<u>(156,434)</u>
FINANCING ACTIVITIES		
Issue of shares	1,765,551	726,965
Funding by mineral joint venture partners	443,981	185,585
Repayment of employee share purchase loans	79,200	—
Increase in joint venture funds payable	41,216	—
Share issue costs	(44,313)	(57,166)
Share subscription receivable	(148,261)	(107,925)
Repayment of bank loan	<u>—</u>	<u>(58,787)</u>
CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,137,374</u>	<u>688,672</u>
INVESTING ACTIVITIES		
Exploration, development and property acquisition	1,701,407	478,241
Purchase of fixed assets	38,160	13,760
Proceeds from sale of marketable securities	(8,742)	—
Proceeds from sale of fixed assets	<u>(1,500)</u>	<u>—</u>
CASH USED IN INVESTING ACTIVITIES	<u>1,729,325</u>	<u>492,001</u>
INCREASE IN CASH	1,117,085	40,237
CASH AT BEGINNING OF YEAR	<u>165,851</u>	<u>125,614</u>
CASH AT END OF YEAR	<u><u>\$1,282,936</u></u>	<u><u>\$ 165,851</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended May 31, 1986

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 financial results of 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) 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 cash distributions received and 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 consist 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 and cash flow per share are calculated using the weighted average number of shares outstanding during the fiscal period.

Fully diluted per share amounts are calculated using the year-end number of shares outstanding increased by the number of shares reserved for share issue.

2. 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, aggregating \$108,000, were interest free and repayable by February 28, 1986, and the shares held in trust as security. As at May 31, 1986 \$79,200 had been repaid and \$28,800 was repaid subsequently.

3. 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. The Company 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. To date aggregate preferential distributions of \$US888,333 have been received. The Company 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.

During the year ended May 31, 1986 the Company received \$Cdn874,765 in total cash distributions.

(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.

During the year, the 1984 litigation between Perry and the major purchaser of gas concerning volumes of gas to be purchased and the pricing basis of such purchases was settled. Accordingly, gas transportation and processing interests have been increased and deficit decreased by \$257,000 at May 31, 1985.

(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:

	1986	1985
Acquisition Cost	\$2,341,779	\$2,341,779
Equity in Earnings Since Acquisition	3,131,533	2,650,164
Cash Distributions Received	(2,328,029)	(1,453,264)
Amortization of Purchase Excess	(1,195,000)	(1,003,800)
	<u>\$1,950,283</u>	<u>\$2,534,879</u>

4. MINERAL INTERESTS

	1986	1985
Toodoggone Project - Gold and Silver Liard Mining Division, B.C.	\$1,188,266	\$127,972
Gold Springs Project - Gold and Silver Lincoln County, Nevada and Iron County, Utah	841,997	711,415

4. MINERAL INTERESTS (continued)

Gold Claims - Gold		
Osoyoos Mining Division, B.C.	17,727	16,857
Other interests	131,421	90,932
	<u>\$2,179,411</u>	<u>\$947,176</u>

On the Toodoggone Project the Company has incurred, on behalf of certain investors, a total of \$536,186 in eligible exploration expenditures under sub-paragraph 66.1(6)(a)(v) of the Income Tax Act (Canada) ("eligible exploration expenditures"). These investors will receive the related income tax benefits arising from such eligible exploration expenditures.

5. INVESTMENTS

(a) Investments consist of:

	1986	1985
Canyon Resources, Inc.	\$200,443	\$239,963
Other companies	25,700	25,700
	<u>\$226,143</u>	<u>\$265,663</u>

(b) Canyon Resources, Inc.

The Company owns 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:

	1986	1985
Acquisition Cost	\$376,861	\$376,861
Equity in Loss Since Acquisition	(97,818)	(76,098)
Amortization of Purchase Excess	(78,600)	(60,800)
	<u>\$200,443</u>	<u>\$239,963</u>

6. SHARE CAPITAL

(a) Authorized

25,000,000 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

(b) Issued and Committed:

	Common Shares	
	Number	Amount
As at May 31, 1985	6,542,425	\$6,962,277
Issued during the year		
For cash at \$0.42/share		
On exercise of warrants	293,250	123,165
On exercise of stock options	360,000	151,200
For cash at \$1.00/share	600,000	600,000
For cash at \$1.10/share	200,000	220,000
For cash at \$1.35/share	100,000	135,000
For cash at \$1.40/share	200,000	280,000
	8,295,675	8,471,642
Less 10% of Giddings, Ltd. investment in Energex	(38,900)	(89,900)
	8,256,775	8,381,742
Committed as at May 31, 1986	251,780	256,186
	<u>8,508,555</u>	<u>\$8,637,928</u>

As at May 31, 1986, the Company was committed to issuing 251,780 common shares in consideration for eligible exploration expenditures, which had been incurred by the Company on behalf of certain investors.

(c) Future Share Issue Commitments

The Company has reserved the following common shares for possible future issue:

	Number of Shares
(i) under agreements to issue common shares in consideration for the incurring of eligible exploration expenditures.	
February 17, 1986 @ \$1.0175/share	781,377
February 25, 1986 @ \$1.0175/share	195,344
March 28, 1986 @ \$1.01/share	198,021
July 7, 1986 @ \$0.885/share	542,373
	1,717,115
(ii) under directors' and employees' incentive option agreements expiring May 1, 1991 @ \$0.85/share.	829,560
Total future share issue commitment	<u>2,546,675</u>

7. CASH GENERATED FROM OPERATIONS

	1986	1985
Loss for the year	\$(168,924)	\$(615,926)
Items not involving cash		
Equity in earnings of Giddings, Ltd. (net of cash received \$874,765: 1985 - \$14,414)	393,396	(126,232)
Amortization of interest in Giddings, Ltd.	191,200	191,200
Equity in loss of Canyon Resources, Inc.	21,720	16,623
Amortization of interest in Canyon Resources, Inc.	17,800	17,800
Depletion of oil and gas interests	5,236	12,299
Property write-downs		
Oil and gas exploration costs	160,000	—
Mineral	—	323,361
Depreciation	16,630	15,292
Gain on sale of marketable securities	(1,042)	—
Gain on sale of fixed assets	(1,500)	—
Cash Flow (Deficiency)	<u>\$ 634,516</u>	<u>\$(165,583)</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, 1987 aggregating \$US90,800 and \$Cdn23,600 to maintain its interests in 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. SEGMENTED INFORMATION

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

	SEGMENT									
	USA Gas Transportation & Processing		USA Oil & Gas Exploration & Production		USA Mineral Exploration		Canada Mineral Exploration		Consolidated Totals	
	(\$000's)		(\$000's)		(\$000's)		(\$000's)		(\$000's)	
	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985
Revenue from External Customers	481	141	21	52	19	25	88	2	609	220
Corporate Revenue									119	7
TOTAL REVENUE									<u>728</u>	<u>227</u>
Earnings (Loss) Before Unallocated Items	290	(51)	(190)	(8)	11	(242)	79	(59)	190	(360)
Corporate Revenue									119	8
Administration Expenses									462	246
Depreciation									16	15
Interest Expense									—	3
LOSS FOR THE YEAR									<u>169</u>	<u>616</u>
Segment Assets	1,950	2,535	261	465	849	717	1,330	230	4,390	3,947
Corporate Assets									1,780	535
TOTAL ASSETS									<u>6,170</u>	<u>4,482</u>
Capital Expenditure	—	—	—	1	132	310	1,569	167	1,701	478
Corporate									38	14
									<u>1,739</u>	<u>492</u>
Depletion and Amortization	191	191	23	30	—	—	—	—	214	221
Corporate									17	15
									<u>231</u>	<u>236</u>

Auditors' Report

To the Shareholders of Energex Minerals Ltd.

KMG Thorne Riddell

We have examined the consolidated balance sheet of Energex Minerals Ltd. as at May 31, 1986 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1986 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
July 25, 1986

Thorne Riddell
Chartered Accountants

Corporate Data

DIRECTORS

ROBERT H. ALLEN
Private Investor
Houston, Texas

RICHARD C. ATKINSON*†
President, Getty Resources Limited
Vancouver, B.C.

ARNE O. BIRKELAND
President, Energex Minerals Ltd.
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IAN D. BROWN
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LAUCH F. FARRIS*
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GORDON C. GUTRATH†
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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

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

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SHARES LISTED

Toronto Stock Exchange
Trading Symbol — **EGX**
Vancouver Stock Exchange
Trading Symbol — **EGX**

