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Annual Report

EUREKA CORPORATION LIMITED



For the Year Ended 30th September, 1954

EUREKA CORPORATION LIMITED

2810 - 25 King Street West, Toronto

1841 - 230 Park Avenue, New York

OFFICERS

T. LINDSLEY.....*President*
G. W. MITCHELL.....*Vice-President*
M. R. JENNINGS.....*Secretary*
P. W. ZECKHAUSEN.....*Treasurer*

DIRECTORS

T. LINDSLEY	W. B. MAXWELL
G. W. MITCHELL	J. M. EASSON
A. J. ANDERSON	A. G. FULTON

M. R. JENNINGS

GENERAL MANAGER

GEORGE W. MITCHELL

TRANSFER AGENTS

TORONTO SHARE TRANSFER CO., LTD.

302 BAY STREET, TORONTO, ONTARIO

REGISTRAR AND TRANSFER CO. REGISTRAR AND TRANSFER CO.

50 CHURCH STREET, NEW YORK 7 15 EXCHANGE PLACE, JERSEY CITY, N.J.

AUDITORS

GRIFFITH AND COMPANY

Certified Public Accountants

NEW YORK

EUREKA CORPORATION LIMITED

Report of Directors

Toronto, Ontario.
March 17th, 1955.

TO THE SHAREHOLDERS,
EUREKA CORPORATION LIMITED:

Your Directors submit herewith the Annual Report of your Company which includes the Report of the Vice-President and General Manager, the Financial Statement for the year ended September 30th, 1954 and the Auditors' Report thereon.

During the year activities have been concentrated upon the new T.L. Shaft which is being sunk to open up the Buffam Ore Zones in the Adams Hill Area. To date this shaft is at a depth of 906 feet. The horizon is 1100 feet. This work is more fully described in the Report of the Vice-President and General Manager.

By an agreement dated February 1st, 1955, Ventures Limited has agreed to loan your Company \$500,000 at the rate of 3% and have been given the alternative of accepting shares at the price of \$1.30 per share in full discharge of the loan on or before September 30th, 1955.

The working conditions of the lease and the requirement to drill two holes to penetrate the Fad Shaft block of the Eldorado dolomite are expected to be amended so as to provide for a postponement from July 1, 1955 to July 1, 1956.

On behalf of the Board,

T. LINDSLEY,
President.

EUREKA CORPORATION LIMITED

Report of Vice-President and Managing Director

March 9, 1955.

President and Directors,
Eureka Corporation Limited,
25 King Street West,
Toronto, Ontario.

GENTLEMEN:

The following is a summary of progress at your property during the fiscal year ending September 30, 1954 and continuing through February 1955.

Rotary Drilling

In October 1953 rotary hole No. 106, in the Adams Hill (Cyanide-Holly-Bullwhacker) area, was completed and in November and December 1953 a whipstocked (deflected) hole, No. 2A, was finished in the Fad Shaft area. Results of this drilling were covered in detail in the September 30, 1953 report but a summary is worthy of repetition here.

The intersections in the two holes add very materially to the ore picture in each of the areas.

Two mineralized zones are present in Hole No. 2A and two are indicated in deep underground diamond drill holes "B" and "C" farther west. It is possible that diamond drill Hole "E", about 400 feet west of Hole No. 2A, might also have intersected a second zone had it been drilled completely through the favorable Eldorado dolomite.

Average assays of Hole No. 2A — Fad Shaft Area:

<u>Feet from Surface</u>	<u>Oz. Gold</u>	<u>Oz. Silver</u>	<u>% Lead</u>	<u>% Zinc</u>	<u>Gross Value* per ton</u>
2334 to 2375.5	.332	16.7	10.6	8.9	\$ 76.25
2414 to 2480	.1625	10.5	7.72	9.78	\$ 57.86

All of the ore in Hole No. 2A is of the "sulfide" type.

Hole No. 106, in the Adams Hill Area, proved the existence of ore at points 500 feet apart and at a similar depth.

Average assays of Hole No. 106 — Adams Hill Area:

<u>Feet from Surface</u>	<u>Oz. Gold</u>	<u>Oz. Silver</u>	<u>% Lead</u>	<u>% Zinc</u>	<u>Gross Value* per ton</u>
853 to 868	.19	20.8	25.5	1.4	\$104.67
908 to 910	1.10	2.3	15.5	1.4	\$ 89.87

*NOTE: Value of metals used in the calculations are: Gold \$35 per ounce, Silver 90¢ per ounce, Lead 15¢ per pound and Zinc 10¢ per pound. Lead and zinc prices in February 1955 are somewhat higher.

All of the ore drilled in the Adams Hill area is in the zone of oxidation, is, therefore, of the "oxide" type though very minor amounts of sulfide ore are present. Practically all of the intersections indicate the ore to be of shipping (direct smelting) grade, probably requiring no prior metallurgical treatment.

TL Shaft

Because of the favorable intersections of ore in the Adams Hill area and the relatively shallow depth of the mineralized zone, a decision was reached in December 1953 to sink a shaft to continue exploration underground. The shaft has been named "TL", honoring our President, Mr. Thayer Lindsley.

A site was selected midway between rotary holes No. 103 and No. 106. Five hundred feet separate the two holes and both contain excellent ore intersections. The shaft is timbered in 4 compartments, the rock excavation section being 11 x 11 feet. Levels are planned at 600 (a pump station), 850, 950 and 1050 and the ultimate depth 1100 feet.

Construction of a 6,000 foot power line from the Fad Shaft power house to the TL Shaft site, and the TL mining plant consisting of a headframe, hoist, compressors and other necessary equipment was completed during January to March 1954.

Shaft sinking was commenced March 16, 1954. On September 30, the end of the fiscal year, it had progressed to 783 feet below the surface. Prior to this time the 600 pump station had been cut and was in service.

In October, a mineralized fault striking north-south was intersected in the shaft at 842 and two smaller mineralized fractures striking approximately east-west were found on the 850 station. The mineralization is narrow but is evidence that the mineralized zone has been reached. At 885 a vein, averaging about 8 inches wide and containing excellent grade ore typical of the area, was penetrated but time has not permitted its further exploration. The average assay of the latter vein where exposed in the shaft is in excess of 35% lead, a half ounce of gold and 30 ounces of silver with about 1% zinc. The character, composition and value is quite similar to the ore mined during the 1870-1880's in the oxide zone at Ruby Hill adjacent to our Fad Shaft about a mile to the south.

Water at the TL Shaft has been in moderate volume though it has accounted for numerous delays in progress. The water table or ground water level was reached at 635 feet. From this depth to 906 the volume increased from about 5 g.p.m. to approximately 500 g.p.m. Practically all of the volume, in February 1955, is coming from the mineralized fractures between 842 and 906, possibly because oxidation of sulfide ore creates an acid which attacks adjacent limestone and dolomite forming solution cavities.

In November 1954, the small stream of water issuing from the fault at the 850 station caused crushed dolomite in the fault to wash into the shaft. The condition was under control late in November but progress was retarded during December and early January because care had to be exercised to prevent a possible recurrence of the wash. In late January and during February heavy blasting on the 850 station and drifts caused no difficulty.

The presence of mineralization in the TL Shaft immediately above and below the 850 Level and the ore in Hole No. 106 a short distance below but 250 feet north of the shaft encouraged a decision to explore this horizon before continuing the shaft to greater depth. Thus, some preliminary exploration of the ore zone can be accomplished at the earliest time possible. Furthermore, the horizontal work on the 850 Level will allow the time to draw down the water table above it and alleviate water problems on the deeper levels.

At the end of February 1955, the 850 station and loading pocket were completed and 97 feet of additional lateral work done. The objective is the area north and adjacent to Hole No. 106. Long holes are drilled from the drift faces to determine the ground and water conditions ahead to anticipate and prepare for anything abnormal. A steel water door will probably be placed in the drift adjacent to the station as additional protection against an abnormal flow of water. Pump capacity in February was about two and a half times the flow but measures are being taken to more than double this safety factor. Experience at our Fad Shaft has indicated the desirability of these precautions though there appears to be little similarity in conditions at the two shafts.

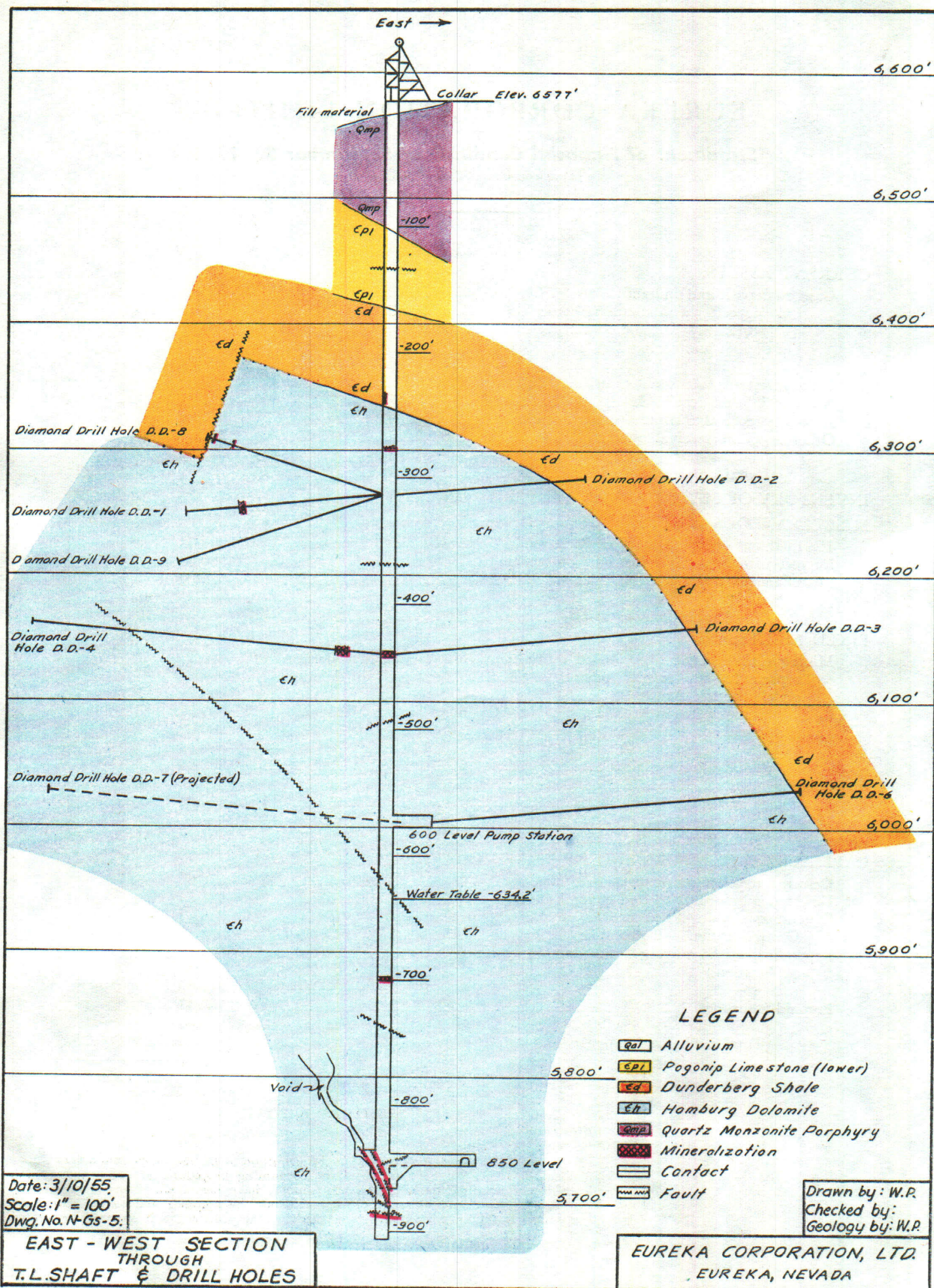
As the TL Shaft was being sunk, diamond drill stations were cut at vertical intervals of about 150 feet after the Hamburg dolomite, the ore bearing formation, was entered. The total footage drilled was 1747. Flat holes of about 300 feet maximum depth were drilled east and west to check structure, formation and possible mineralization. Some small indications of mineralization were disclosed in two of the holes. These are significant geologically but they are not at present considered to be of commercial importance. Exploratory drilling was suspended in November 1954, but will be resumed when the 850 level north drift has been extended near rotary hole No. 106.

In conclusion, I wish to commend the staff and crew for the splendid work they have done.

Respectfully submitted,

GEORGE W. MITCHELL,

Vice-President and General Manager.



EUREKA CORPORATION LIMITED

Statement of Financial Condition at September 30, 1954

(Stated in United States Dollars)

ASSETS

CURRENT ASSETS:

Cash on deposit and on hand:

On deposit in Canadian banks (Canadian funds \$8,425.42)	\$ 8,688.71	
On deposit and on hand in United States	31,696.39	
	\$ 40,385.10	

United States Government securities, at cost	200,000.00	
Accrued interest receivable	531.25	
Accounts receivable from associated companies	31,960.00	
Other accounts receivable	2,790.64	
	\$ 275,666.99	

Total current assets \$ 275,666.99

INVENTORY OF MATERIALS AND SUPPLIES, AT COST 191,336.72

MISCELLANEOUS ASSETS:

16,915 shares of capital stock of Richmond-Eureka Mining Co., at cost	\$ 100,364.63	
Deposit with Nevada Industrial Commission	2,500.00	
Miscellaneous deposits	675.00	
	103,539.63	

Total miscellaneous assets 103,539.63

FIXED ASSETS:

Mining claims in Nevada, owned outright at cost, \$10,000 less portion represented by royalty payments \$7,340.29, charged to deferred development expenses	\$ 2,659.71	
Cost of mining claims in Nevada assigned to Richmond-Eureka Mining Co.	302,503.81	
Payments made on options to purchase mining claims in Nevada	35,200.00	
	\$ 340,363.52	

Total mining claims	\$ 340,363.52	
Buildings	369,373.85	
Machinery and equipment	1,605,146.04	
	2,314,883.41	

Total fixed assets 2,314,883.41

CAPITALIZED EXPENSES AND DEFERRED CHARGES:

Deferred development expenses — Schedule A-1	\$5,354,670.66	
Deferred administrative and general expenses	551,821.35	
Expenditures and advances for outside exploration, Los		
Castros option — Costa Rica	\$ 14,200.47	
Expenditures and advances for outside exploration, other		
explorations	10,047.19	
	24,247.66	

Prepaid insurance	8,160.47	
	5,938,900.14	

Total capitalized expenses and deferred charges 5,938,900.14

\$8,824,326.89

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
EUREKA CORPORATION LIMITED:

We have examined the statement of financial condition of Eureka Corporation Limited, as at September 30, 1954. We have reviewed the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted

EUREKA CORPORATION LIMITED

Statement of Financial Condition at September 30, 1954

(Stated in United States Dollars)

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts payable for supplies, expenses, etc.	\$ 1,292.39
Current accounts payable to associated companies:	
Payable in Canadian dollars (\$1,808.79)	1,865.32
Payable in United States dollars	1,631.63
Workmen's compensation insurance and payroll taxes accrued or withheld	11,062.09
Loans payable to associated companies payable in Canadian dollars, (\$263,410.93)	271,642.52
Total current liabilities	\$ 287,493.95

CAPITAL:

Capital shares (all shares equal in rank as to dividends,
voting rights and participation):

Par value \$1.00 Canadian funds:

Authorized	5,000,000 shares	
Unissued	148,545 shares	
Issued and outstanding	4,851,455 shares	\$4,593,780.91

Authorized	10,000,000 shares	
Unissued	6,612,354 shares	

Issued and outstanding	3,387,646 shares	833,245.24
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Par value \$0.25 Canadian funds: (Note 4)

Paid-in surplus:

With respect to par value \$1.00 Canadian funds	\$2,085,150.69
With respect to par value \$0.25 Canadian funds (Note 4)	1,108,579.32
	3,193,730.01

Deficit (Schedule A)	\$8,620,756.16
	83,923.22

Total capital	8,536,832.94
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\$8,824,326.89

auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying statement of financial condition, when read in conjunction with the related footnotes, presents fairly the position of Eureka Corporation Limited at September 30, 1954, in conformity with generally accepted accounting principles applied on a consistent basis.

630 Fifth Avenue, New York, N.Y.
October 15, 1954.

GRIFFITH AND COMPANY,
Certified Public Accountants.

EUREKA CORPORATION LIMITED

Notes to Statement of Financial Condition at September 30, 1954

Note 1: Canadian funds in bank and amounts payable in Canadian funds have been converted to United States dollars at the exchange rate at the close of business on September 30, 1954, at which time Canadian dollars were selling at a premium of approximately 3.125% in the United States.

All other funds in bank, receivables and payables, are due in United States dollars. Inventories, investments, fixed assets, deferred charges and capital are stated at the United States dollar equivalent at the time of each original transaction.

Note 2: The Company's principal development work has been on properties in Nevada leased from Richmond-Eureka Mining Company, an American Corporation, under a lease expiring in 1985 with a 15-year renewal privilege. The lease calls for a payment as rental and royalty of a sum equal to 15% of the net mill smelter or reduction plant returns before deduction of freight and/or transportation charges from the mine to the mill smelter or reduction plant. In addition to rental, the lease imposes an obligation on the company to carry on certain exploration and development work.

The Company also purchased certain contiguous mining claims for a total consideration of \$302,503.81 and has assigned or agreed to assign these claims to Richmond-Eureka Mining Company at cost whereupon these claims become a part of the property included in the general lease.

The Company has obtained option purchases agreements on two other groups of contiguous claims in Nevada. The total purchase price for these claims was \$125,000.00 upon which \$35,200.00 has been paid. Upon completion of payments under each of these agreements, and at the election of Richmond-Eureka Mining Company, these claims are also subject to assignment to that Company under the same terms as other claims mentioned in the preceding paragraph.

Note 3: Buildings, machinery and equipment are stated at cost; no depreciation has been included as an item of deferred development expense. The supplementary agreement with the lessor dated June 22, 1949, expressly provided that all buildings, and all machinery and equipment attached thereto or installed therein, as well as the water supply system, power lines and all equipment below the surface of the ground shall be a part of the realty and that title thereto is and shall be vested in the lessor, Richmond-Eureka Mining Company.

Note 4: The Company increased its authorized capital stock from 5,000,000 shares having a par value of \$1.00 (Canadian), by authorizing the issue of 10,000,000 common shares having a par value of \$.25 (Canadian). The two classes of common shares have exclusive voting powers, each share having one vote, and are entitled in liquidation to a pro-rata share of the net assets of the Company.

As described in a prospectus dated November 5, 1951, the Company offered to shareholders of record on November 9, 1951, rights to purchase shares of stock, par value 25 cents (Canadian) at 55 cents (Canadian) per share, and warrants to purchase such stock. Each shareholder could subscribe for two shares of such stock for each three shares of stock, par value \$1.00 Canadian, held on the record date. These rights expired on November 30, 1951. Subscribers received, for each three shares subscribed, a warrant to purchase one share of stock, par value 25 cents (Canadian), at \$1.25 (Canadian) until June 1, 1953, which has been extended to March 1, 1955.

Based on the number of \$1.00 par shares outstanding on November 9, 1951 (4,851,455) the complete offering was as follows:

<u>Stated in Canadian Dollars</u>	<u>Price to Shareholders and Proceeds to Company</u>	
	<u>Per Share</u>	<u>Total</u>
3,234,303 shares, par value \$.25	\$.55	\$1,778,866.65
1,078,101 shares, par value \$.25 purchase warrants	—	—
1,078,101 shares, par value \$.25	1.25	1,347,626.25

At September 30, 1954, the capital accounts of the company indicated the following sales of these shares to have been consummated:

<u>Number of Shares</u>	<u>Per Share (Can.)</u>	<u>Total Proceeds</u>	
		<u>(Can. Dollars)</u>	<u>(U.S. Dollars)</u>
3,234,303	\$.55	\$1,778,864.29	\$1,747,751.75
153,343	1.25	191,694.27	194,072.81
		<u>\$1,970,558.56</u>	<u>\$1,941,824.56</u>
Credited to capital stock account			\$ 833,245.24
Credited to paid-in surplus			1,108,579.32
			<u>\$1,941,824.56</u>

Most shares sold at 55 cents were sold when Canadian dollars were at a discount in the United States; shares sold at \$1.25 were sold when Canadian dollars were on a par or at a premium in the United States.

Note 5: The Company has an agreement with a stockholder which provides that \$50,000 (Canadian) shall be paid to such stockholder at the expiration of one year following the initiation of dividends on the Company's capital stock, in consideration of options and leases turned over to the Company and for services in organizing the Company and securing subscriptions to Capital Stock.

SCHEDULE A

EUREKA CORPORATION LIMITED

Analysis of Deficit Account for the Year Ended September 30, 1954

DEFICIT, OCTOBER 1, 1953	\$83,923.22
No change during current year ended September 30, 1954	
DEFICIT, SEPTEMBER 30, 1954	<u>\$83,923.22</u>

SCHEDULE A-1

EUREKA CORPORATION LIMITED

Analysis of Deferred Development Expenses, September 30, 1954

	Balance at October 1, 1953	Additions at Cost	Materials Recovered and Returned to Stores	Balance at September 30, 1954
MINE DEVELOPMENT EXPENSES:				
Fad Shaft:				
Shaft sinking		144,394.95		144,394.95
Station cutting		12,294.73		12,294.73
Drifting and crosscutting	114,040.45			114,040.45
Raising	8,484.92			8,484.92
Mine unwatering	687,042.62			687,042.62
Mine maintenance	412,745.98		18,550.43	394,195.55
T. L. Shaft:				
Shaft sinking		144,394.95		144,394.95
Station cutting		12,294.73		12,294.73
Locan Drift:				
Drifting	12,656.81			12,656.81
Mine services	10,937.43			10,937.43
Mine maintenance	8,539.60			8,539.60
Other developments (prior to 1943)	119,403.73			119,403.73
Mining expenses (prior to 1942)	42,403.17			42,403.17
Total mine development expenses	\$3,514,403.64	\$156,689.68	\$18,550.43	\$3,652,542.89
DIAMOND DRILLING	91,615.83	7,444.53		99,060.36
ROTARY DRILLING	436,759.26	50,608.95		487,368.21
OFFICE AND SUPERVISION EXPENSES AT PROPERTY	521,938.16	55,860.04		577,798.20
GENERAL EXPENSES AT PROPERTY	597,709.63	56,986.27		654,695.90
	\$5,162,426.52	\$327,589.47	\$18,550.43	\$5,471,465.56
DEDUCT:				
Net returns from ore (prior to 1943)	116,794.90			116,794.90
NET DEFERRED DEVELOPMENT EXPENSES	<u>\$5,045,631.62</u>	<u>\$327,589.47</u>	<u>\$18,550.43</u>	<u>\$5,354,670.66</u>