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EUREKA CORPORATION L I M I T E D

.....***annual report***

**Y E A R E N D E D
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EUREKA CORPORATION LIMITED

EXECUTIVE OFFICE

3100 - 25 King Street West, Toronto

OFFICERS

N. O'Donnell, President

R. S. Thomson, Secretary

Jesse R. Robinson, Treasurer

DIRECTORS

T. Lindsley

B. S. W. Buffam

J. M. Easson

J. A. Harquail

N. O'Donnell

G. W. Tower

GENERAL SUPERINTENDENT

R. N. Breckenridge

TRANSFER AGENTS

Crown Trust Company, 302 Bay St., Toronto, Ontario

Registrar and Transfer Co., 50 Church St., New York 7

Registrar and Transfer Co.,
15 Exchange Place, Jersey City, N.J.

AUDITORS

Griffith and Company, Certified Public Accountants
Philadelphia

ORDINARY GENERAL MEETING OF MEMBERS

Algonquin Room
Royal York Hotel, Toronto
Thursday, March 12, 1959
2:00 in the afternoon (Toronto Time)

EUREKA CORPORATION LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

Your directors submit the Annual Report of your Company, together with the financial statements and auditors' report thereon for the year ended September 30, 1958.

Shareholders were advised at the last annual meeting that drilling exploration was being suspended and the property put on a caretaker basis. No significant mining operations have taken place since that time, and consequently no report of the General Superintendent is now issued. However all of the stockpiled ore mined from the T.L. shaft has been shipped, and as of February 1 settlements had been received on 30,531 tons of the total 30,920 tons mined. The settlement value, determined at the various smelters on the 30,531 tons was \$1,650,985.97 U.S. Deduction of hauling, freight, smelting charges and royalties left a sum of \$518,090.11 U.S. received by the mine for these ores or \$16.97 per ton.

In last year's Annual Report, attention was drawn to the fact that disputes as to rights under the property lease had arisen between your Company and Richmond-Eureka Mining Company, lessor of the properties at Eureka, Nevada, which were then unsettled. These disputes and differences remain unreconciled. Under date of November 20, 1958, a letter was sent to all shareholders advising them that your Company's directors had authorized institution of legal proceedings in Nevada to determine the rights of your Company. Subsequently Richmond-Eureka served a notice alleging default under the lease, which default is not admitted by your Company.

On December 30, 1958, Eureka Corporation filed suit in the Third Judicial District of the State of Nevada for Eureka County, for the recovery of all the properties and machinery purchased by Eureka Corporation, for the repayment of royalties, and for the rescission of the

lease of the original Richmond-Eureka property. The case is being actively prosecuted but may not be brought to trial within the next six months. In the meantime, the mine remains on a caretaker basis.

The letter to shareholders of November 20, 1958, reported that Northfield Mines Inc. had acquired certain additional shareholdings and became the principal shareholder of your Company. At that time Mr. Anderson and Mr. Fulton retired from the Board, Mr. Tower and Mr. Harquail were appointed directors, and the undersigned elected President. Northfield released the Company of a certain large indebtedness, as is shown in note 8 to the audited statement enclosed. The current cash position of the Company is indicated by a supplementary unaudited balance sheet as at January 31, 1959, issued herewith.

Your directors have devoted much time and their best efforts in the past year to further the interests of the Company, which are now so immediately linked with the results of the pending litigation. For the conduct of this litigation the services of two highly recommended legal firms in Nevada have been engaged.

The board wishes to extend to the Company's limited staff its appreciation of their co-operation and loyalty during the past year.

Respectfully submitted, on behalf of the Board by

NEIL O'DONNELL,
President.

Toronto, Ontario,
February 12, 1959.

EUREKA CORPORATION LIMITED

Balance Sheet at September 30, 1958

(Stated in United States Dollars)

ASSETS

CURRENT ASSETS:

Cash on deposit and on hand, United States funds	\$	2,227.32	
Accounts receivable		544.62	
Total current assets	\$		2,771.94

INVENTORY OF MATERIALS AND SUPPLIES, AT COST (Note 4)			172,701.84
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MISCELLANEOUS ASSETS:

22,415 shares of capital stock of Richmond-Eureka Mining Co., at cost	\$	132,677.13	
Deposit with Nevada Industrial Commission		400.00	
Total miscellaneous assets			133,077.13

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 or to be assigned to Richmond-Eureka Mining Co. (Note 3)		367,503.81	
Payments made on options to purchase mining claims in Nevada (Note 3)		59,037.50	
Total mining claims	\$	429,201.02	
Buildings (Note 4)		410,142.58	
Machinery and equipment (Note 4)		1,562,240.33	
Total fixed assets			2,401,583.93

CAPITALIZED EXPENSES AND DEFERRED CHARGES:

Deferred development expenses (Note 5)	\$	7,295,996.43	
Deferred administrative and general expenses (Note 5)		865,081.67	
Expenditures and advances for outside exploration, Los Castros option, Costa Rica	\$14,200.47		
Expenditures and advances for outside explorations	11,067.07	25,267.54	
Prepaid expenses		56,206.81	
Total capitalized expenses and deferred charges			8,242,552.45
			<u>\$10,952,687.29</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

EUREKA CORPORATION LIMITED

Balance Sheet at September 30, 1958

(Stated in United States Dollars)

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Notes payable, bank (Canadian funds \$125,000.00)	\$	128,125.00
Accounts payable for supplies, expenses, etc.:		
Payable in Canadian dollars (Canadian funds \$8,840.43)		9,061.44
Payable in United States dollars		24,413.04
Current loans and accounts payable to associated companies:		
Payable in United States dollars		152,355.42
Payable in Canadian dollars (Canadian funds \$428,076.16) (Note 8) ..		438,778.06
Accrued wages payable		3,488.34
Workmen's compensation insurance and payroll taxes accrued or withheld		5,641.12
		<hr/>
Total current liabilities (Note 8)	\$	761,862.42

CAPITAL:

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

Par value \$1.00 Canadian funds:		
Authorized, issued and outstanding	5,000,000 shs.	\$ 4,742,325.91
Par value \$0.25 Canadian funds:		
Authorized	10,000,000 shs.	
Unissued	5,044,154 shs.	
		<hr/>
Issued and outstanding	4,955,846 shs.	1,225,402.81
		<hr/>
Paid-in surplus:		
With respect to par value \$1.00	\$	2,129,714.19
With respect to par value \$0.25		2,718,815.52
		<hr/>
		4,848,529.71
		<hr/>
		\$10,816,258.43
Deficit from operations, per statement attached		625,433.56
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Total capital		10,190,824.87

\$10,952,687.29

The accompanying Notes to Financial Statements are an integral part of this statement.

EUREKA CORPORATION LIMITED

Analysis of Deficit Account For the Year Ended September 30, 1958

DEFICIT, OCTOBER 1, 1957	\$625,433.56
No change during current year ended September 30, 1958	
DEFICIT, SEPTEMBER 30, 1958	<u>\$625,433.56</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Analysis of Deferred Development Expenses, September 30, 1958

	Balances at September 30, 1957	Additions at Cost	Balances at September 30, 1958
MINE DEVELOPMENT EXPENSES:			
Fad Shaft:			
Shaft sinking	\$1,313,985.08	\$	\$1,313,985.08
Station cutting	784,163.85	.....	784,163.85
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	394,195.55	.....	394,195.55
T.L. Shaft:			
Shaft sinking	144,394.95	.....	144,394.95
Station cutting	158,884.04	.....	158,884.04
Drifting and crosscutting	537,803.65	.....	537,803.65
Raising	31,143.46	.....	31,143.46
Mining	228,957.82	59,121.24	288,079.06
Mine maintenance	94,535.77	52,558.40	147,094.17
Mine plant standby and maintenance expense		14,066.96	14,066.96
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	<u>\$4,691,572.90</u>	<u>\$ 125,746.60</u>	<u>\$4,817,319.50</u>
DRILLING EXPENSES:			
Diamond drilling	\$ 302,947.50	\$	\$ 302,947.50
Rotary drilling	799,470.25	199,655.00	999,125.25
Churn drilling	33,634.80	.....	33,634.80
Long hole drilling	10,627.12	.....	10,627.12
Total drilling expenses	<u>\$1,146,679.67</u>	<u>\$ 199,655.00</u>	<u>\$1,346,334.67</u>
OFFICE AND SUPERVISION EXPENSES AT PROPERTY	\$ 741,245.13	\$ 18,259.78	\$ 759,504.91
GENERAL EXPENSES AT PROPERTY	\$ 886,978.03	\$ 39,789.84	\$ 926,767.87
	<u>\$7,466,475.73</u>	<u>\$ 383,451.22</u>	<u>\$7,849,926.95</u>
DEDUCT: Net returns from ore produced as an incident to development:			
Prior to September 30, 1943	\$ 116,794.90	\$	\$ 116,794.90
After September 30, 1955	171,680.48	265,455.14	437,135.62
Total net returns from ore	<u>\$ 288,475.38</u>	<u>\$ 265,455.14</u>	<u>\$ 553,930.52</u>
NET DEFERRED DEVELOPMENT EXPENSES	<u>\$7,178,000.35</u>	<u>\$ 117,996.08</u>	<u>\$7,295,996.43</u>

EUREKA CORPORATION LIMITED

Auditors' Report

To the Shareholders of
Eureka Corporation Limited

We have examined the balance sheet of Eureka Corporation Limited as of September 30, 1958 and the related statement of deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of deficit present fairly the financial position of Eureka Corporation Limited at September 30, 1958, in conformity with generally accepted accounting principles applied on a consistent basis, except that in the year ended September 30, 1955 development costs were charged to profit and loss as explained in Note 5 of the Notes to Financial Statements.

Griffith and Company,
Certified Public Accountants.

December 31, 1958 as of
November 20, 1958
Philadelphia, Pa.

EUREKA CORPORATION LIMITED

Notes to Financial Statements at September 30, 1958

NOTE 1: Amounts payable in Canadian funds have been converted to United States dollars at the exchange rate at the close of business on September 30, 1958, at which time Canadian dollars were selling at a premium of approximately 2½% 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: During the year the Company engaged in removing ore from areas under exploration and development and stockpiled it on the surface. Of this ore, 14,830 tons were shipped and treated at smelters, the net smelter receipts from which amounted to \$265,455.14. The balance of the ore stockpiled was estimated by management to contain 10,276 tons dry weight as of September 30, 1958.

NOTE 3: The Company's title to this asset is subject to pending litigation.

The Company's principal development work has been on properties in Nevada leased from Richmond-Eureka Mining Company, an American corporation, under a lease made June 30, 1937, since amended, and 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 contains a provision that the Company carry on certain exploration and development work in search of a certain ore body believed to exist in an area commonly called the "Fad Shaft area".

The Company also purchased certain contiguous mining claims for a total consideration of \$367,503.81 and has assigned these claims to Richmond-Eureka Mining Company at cost to be repaid out of royalties, and under the terms of the lease and agreements these claims become a part of the property included in the general lease.

The Company has obtained option purchase agreements on three other groups of contiguous claims in Nevada. The total purchase price for these claims was \$104,000.00 upon which \$59,037.50 had been paid at September 30, 1958. 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.

On the basis of engineering advice, management has concluded that mineralized material in the Fad Shaft area is not mineable at a profit and therefore is not ore, and that further work in search of this assumed ore body is futile. Accordingly, no work in this area has been carried on since April 30th, 1958, and the mine has been on a caretaker basis.

The lessor, Richmond-Eureka Mining Company, does not agree with the Company's conclusions and alleges a default in the terms of the lease in respect of failure to perform work subsequent to May 1, 1958, and by formal notice in writing served on the Company on December 8, 1958, claimed a right to forfeiture and cancellation of the lease 30 days from said date, in the event of failure of resumption of work, which has not been undertaken, and required the Company to peacefully surrender up to the lessor possession of all mining and real property subject to the lease and of all buildings, structures, machinery, equipment and inventories.

The Company has instituted legal proceedings for the determination of its rights. By Bill of Complaint filed on December 30, 1958 in the Third Judicial District Court for the State of Nevada, for the County of Eureka, in which the Company is named as plaintiff and Richmond-Eureka Mining Company as defendant, the Company alleges full compliance and performance of its obligations under the lease and sets up certain failures of consideration and makes claim for the retransfer to the Company of the mining claims previously assigned by the Company to Richmond-Eureka Mining Company and the machinery and equipment, previously purchased by the Company, now situated on any of the properties and the royalties previously paid by the Company to Richmond-Eureka Mining Company and asks the Court to order it to surrender to Richmond-Eureka Mining Company the original leased properties and to declare the lease terminated. Alternatively the Company claims damages.

NOTE 4: The Company's title to this asset is subject to pending litigation.

Buildings, machinery and equipment are stated at cost; no depreciation has been included as an item of expense or 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.

During the fiscal year ended September 30, 1956, major items of equipment were sold for \$130,000.00. These funds were released to Eureka Corporation Limited under a supplementary agreement with the lessor dated July 1, 1957, which pledged the inventory of materials and supplies as collateral for the above amount until such time as the \$130,000.00 be expended for buildings, machinery or equipment or be set aside in a special fund for the lessor. To the end of the current fiscal year, \$765.96 had been so expended.

Reference is made in Note 3 above to the notice of forfeiture and legal proceedings by which the title to buildings, structures, machinery, equipment and inventory is in dispute between the Company and Richmond-Eureka Mining Company.

NOTE 5: Mine development costs (including administrative and general expenses applicable to development) have been deferred consistently during all years, including the current year, with the exception of the fiscal year ended September 30, 1955. In that year, the development costs (\$541,510) were charged to profit and loss account pursuant to an election made by the Company as permitted by the United States Internal Revenue Code.

The development work has been done and administrative expense was incurred in relation to mining properties the leasehold and/or title to which is subject to dispute as outlined in Note 3 above. The major portion of these items was expended on the properties originally leased from Richmond-Eureka Mining Company.

NOTE 6: Under a Stock Ownership Plan approved by the Board of Directors in 1955, the Company is authorized to grant to key employees options to purchase up to 125,000 shares of the Company's common stock. Under the Plan the price to be paid for the common stock is to be not less than 95% of the fair market value of the common shares on the date upon which the option is granted and must be exercised while in the employ of the Company and within a period of not more than ten years. At September 30, 1958, there were no options outstanding.

NOTE 7: 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.

NOTE 8: Important transactions subsequent to September 30, 1958.

By Assignment dated November 17, 1958 Northfield Mines Inc. acquired all the shareholdings of Ventures Limited in the Company, (thereby becoming the principal shareholder) and all debts owed by the Company to Ventures Limited and to Frobisher Limited, which amounted to \$570,848.16 Canadian funds plus accrued interest (consisting of \$427,848.16 included in the annexed financial statement and \$143,000.00 advanced after September 30, 1958 and prior to the Assignment).

By Indenture dated November 17, 1958, Northfield Mines Inc. released and discharged Eureka Corporation Limited from the said debt of \$570,848.16 and accrued interest.

EUREKA CORPORATION LIMITED

Balance Sheet as at January 31, 1959

(Stated in United States Dollars)

ASSETS

CURRENT:

Cash in bank	\$ 210,046.36	
Accounts receivable	556.55	\$ 210,602.91

INVENTORY OF SUPPLIES — at cost

169,896.68

MISCELLANEOUS ASSETS:

22,415 shares of Richmond-Eureka Mining Co. stock at cost	\$ 132,677.13	
Miscellaneous deposits	400.00	133,077.13

FIXED:

Mining claims in Nevada	\$ 430,701.02	
Buildings, machinery and equipment	1,972,382.91	2,403,083.93

CAPITALIZED EXPENSES AND DEFERRED CHARGES:

Deferred development expenses (Schedule 2)	\$ 7,240,201.82	
Deferred administrative and general expenses	897,073.31	
Expenditures and advances for outside exploration:		
Los Castros (Costa Rica)	\$ 14,200.47	
Other	11,067.07	25,267.54
Prepaid expenses	7,627.64	8,170,170.31
		<u>\$11,086,830.96</u>

LIABILITIES

CURRENT:

Bank loan	\$ 128,750.00	
Accounts payable	47,659.12	
Accrued taxes	4,741.36	
Loan from Northfield Mines Inc. @ 3%	129,200.00	\$ 310,350.48

CAPITAL:

	Par \$1.00 Can.		Par 25¢ Can.	
Authorized:	5,000,000		10,000,000	
Issued:	5,000,000	\$5,000,000.00	4,955,846	\$1,238,961.50
Paid in surplus (including exchange adjustment) ..		1,872,040.10		2,705,256.83
		<u>\$6,872,040.10</u>		<u>\$3,944,218.33</u>
Contributed Surplus				585,655.61
				<u>\$11,401,914.04</u>
Less: Deficit to September 30, 1958				625,433.56
				<u>\$10,776,480.48</u>
				<u>\$11,086,830.96</u>

(The above statement is subject to audit.)

EUREKA CORPORATION LIMITED

3100 - 25 KING STREET WEST

TORONTO, ONTARIO

Notice of Ordinary General Meeting of Members

Notice is hereby given that the Ordinary General Meeting of the Members of Eureka Corporation Limited will be held in the Algonquin Room, Royal York Hotel, Toronto, Ontario, Canada, on

THURSDAY, THE 12th DAY OF MARCH, 1959

at the hour of 2.00 o'clock in the afternoon (Toronto time), for the purpose of,

- (a) receiving the report of the directors dated February 12, 1959, and financial statements and auditors' report thereon for the fiscal year ended September 30, 1958
- (b) electing directors for the ensuing year
- (c) appointing auditors
- (d) transacting such other business as may properly come before the meeting.

Enclosed herewith is a copy of the Annual Report of the Company.

DATED at Toronto this 12th day of February, 1959.

By order of the board,

R. S. THOMSON,
Secretary.

NOTE: Any member not able to be present in person is entitled to be represented at the meeting by proxy.

EUREKA CORPORATION LIMITED

Deferred Development Expense, January 31, 1959

	Balance at Sept. 30/58	Additions Jan. 1959	Additions Year to Date	Balance at Jan. 31/59
MINE DEVELOPMENT EXPENSE:				
T.L. Shaft				
Shaft Sinking	\$ 144,394.95			\$ 144,394.95
Station Cutting	158,884.04			158,884.04
Drifting	537,803.65			537,803.65
Raising	31,143.46			31,143.46
Stoping	288,079.06			288,079.06
Mine Maintenance	147,094.17			147,094.17
	<u>\$1,307,399.33</u>			<u>\$1,307,399.33</u>
Fad Shaft	3,301,912.47			3,301,912.47
Locan Shaft	32,133.84			32,133.84
Other Developments prior to 1943	119,403.73			119,403.73
Mine Expense prior to 1942	42,403.17			42,403.17
	<u>\$4,803,252.54</u>			<u>\$4,803,252.54</u>
Diamond, Churn, Rotary and Long Hole Drilling	1,346,334.67			1,346,334.67
Administrative & General Expense at Property	1,686,272.78	\$ 4,075.25	\$ 15,914.76	1,702,187.54
Mine Plant Standby and Maintenance Expense	14,066.96	2,404.45	9,245.12	23,312.08
	<u>\$7,849,926.95</u>	<u>\$ 6,479.70</u>	<u>\$ 25,159.88</u>	<u>\$7,875,086.83</u>
LESS:				
Return from ore — prior to 1953 (net)	116,794.90			116,794.90
Return from ore — current (net)	437,135.62	20,952.54	80,954.49	518,090.11
	<u>\$ 553,930.52</u>	<u>\$ 20,952.54</u>	<u>\$ 80,954.49</u>	<u>\$ 634,885.01</u>
Net Deferred Development Expense	<u>\$7,295,996.43</u>	<u>(\$ 14,472.84)</u>	<u>(\$ 55,794.61)</u>	<u>\$7,240,201.82</u>

(The above statement is subject to audit.)