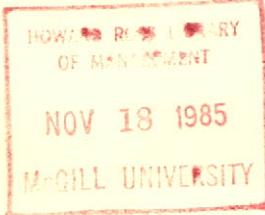

SPOONER
MINES AND OILS LIMITED

**ANNUAL
REPORT**

FOR THE YEAR ENDED
JUNE 30, 1985



SPOONER MINES AND OILS LIMITED

<i>Head Office:</i>	Suite 916 111 Richmond Street West Toronto, Ontario M5H 2G4
<i>Directors:</i>	J.A. Francis R.N. Granger, Q.C. J.F.K. McNutt E.F. Merringer C.E. Page B.V. Reed, Q.C. J.S. Thompson
<i>Officers:</i>	R.N. Granger, Q.C. Chairman of the Board, President and Chief Executive Officer
	C.E. Page Vice-President, Exploration
	J.A. Francis Vice-President, Finance
	I.D. Wallace Treasurer
	W.S. Vaughan Secretary
	S. Smith Assistant Secretary
<i>Transfer Agent and Registrar:</i>	Central Trust Company
<i>Legal Counsel:</i>	Tilley, Carson & Findlay Toronto, Ontario
<i>Auditors:</i>	Thorne Riddell Toronto, Ontario
<i>Share Listing:</i>	The Toronto Stock Exchange The Alberta Stock Exchange

SPOONER MINES AND OILS LIMITED

Directors' Report

TO THE SHAREHOLDERS:

Your Directors hereby submit the Annual Report for the year ended June 30, 1985. Also enclosed is the Quarterly Report for the three months ended September 30, 1985.

Over the past twelve months, the Company was active primarily in Western Canada developing its oil and gas interests in the Dodsland Area of Saskatchewan and in Turner Valley, Alberta.

OIL AND GAS

Dodsland Area, Saskatchewan

Spooner Mines and Oils Limited has a .56906% interest in the Central Glenneath oil producing unit which is operated by Erskine Resources Limited. There are 146 producing Viking oil wells in the unit and 36 injector wells. During the past year, Spooner has participated in drilling 17 infill wells which have already paid out. Revenue from the new wells has enhanced the Company's cash flow from the Dodsland Area.

In the Glenneath South sector of the same field where the Company's interest ranges from 6.25% to 17.5%, Spooner is participating in a waterflood to enhance oil recovery.

In the Cook Lake Area, Spooner is receiving minor revenue from its 5% interest in a producing gas well. This well was drilled in 1953 and has just recently been put on stream.

Turner Valley, Alberta

The Company holds a 2.0445% and 0.715% interest in two natural gas producing units in the Turner Valley Area of Alberta. Over the past year, the Company has participated as to approximately a 0.2% interest in constructing the Diamond Valley Gas Plant to replace the previous Turner Valley Plant. The new plant is experiencing startup difficulties but is expected to be at full capacity some time in the fourth quarter of 1985. Due to the new plant startup the Company's revenue from this field has been curtailed.

MINING

Croinor Gold Deposit, Quebec

The Company retains a 5% non-contributing interest in the Croinor gold property which consists of 98 claims totalling 3,820 acres. The property is located in Pershing Township approximately 35 miles east of Val d'Or, Quebec. Dominion Explorers Inc. and Sullivan Mines Inc. each hold a 50% undivided working interest in this property and Sullivan acts as the Operator. To date, various reserve calculations have been carried out on the deposit ranging from 425,470 tons grading 0.16 oz. gold per ton to 926,672 tons grading 0.175 gold per ton. During 1985, Dominion Explorers and Sullivan carried out a surface stripping program on one of the gold zones to expose the mineralization and derive a clearer understanding of the deposit's structural characteristics. Any major future development of this property will depend on an increase in the price of gold.

Lake George Antimony Mine, New Brunswick

The Company has a management contract with Durham Resources Inc. relating to the Lake George Antimony Mine near Fredericton, New Brunswick. This contract is cost plus 2% of the net profits of the operation. At the Lake George Mine, a second antimony orebody is being developed with full production planned for later this year. Currently, the mill is treating development material which is producing a quality concentrate. Sales of concentrate have begun and Spooner anticipates revenues from this contract during the current fiscal year.

PLACER VENTURE, YUKON

The Company has negotiated an arrangement with an experienced operator to participate on an equal basis in carrying out a placer gold mining operation in the Yukon Territory. The operation is scheduled to commence in 1986 along a 7-mile section of unworked gravels in Seymour Creek, located approximately 45 miles west of Carmacks in southcentral Yukon. Under the terms of the arrangement Spooner will advance to the project necessary capital to assemble a bulldozer-derocker-sludge box type operation and share on a 50%-50% basis the net gold recovered. Ongoing operating costs of the project will be equally shared and the Company will own 100% of the equipment it purchased.

FINANCIAL STATUS

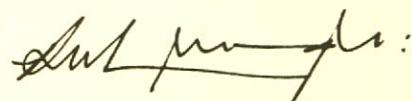
The Company continues to maintain a comfortable cash balance on hand in order to take advantage of exploration and development opportunities as they arise. The Company has recently recorded a profit on the sale of investments of \$128,000 a portion of which is reflected in the accompanying three month interim statement. Other investments in securities presently held continue to maintain good market value. Gross revenue from oil and gas operations has more than doubled in the past three years from \$157,000 in 1982 to \$338,000 in 1985 which has provided the Company a good working capital base.

CORPORATE AFFAIRS

Your Directors recommend that the Company consolidate its issued common shares on the basis of three old shares for one new share in order to facilitate the financing of future projects and to provide the Company with greater flexibility. The Toronto Stock Exchange requires that, concurrent with the proposed stock consolidation, the Company's name be substantially different from its existing name. Accordingly, the Directors recommend the name be changed to Canadian Spooner Resources Inc. Shareholders are asked for their affirmative support in voting for these corporate resolutions.

Mr. V. N. Harbinson has recently stepped down as Chairman of the Board and President of the Company after 30 years association with Spooner. The Directors wish to extend their sincere appreciation to Mr. Harbinson for his insight, dedicated service and overall guidance. Sincere appreciation is also extended to Messrs. B. V. Reed, J. S. Thompson and U. Abolins for their respective contributions to Spooner during the years which they served as directors.

On Behalf of the Board,



R.N. Granger, Q.C.
Chairman of the Board,
President and
Chief Executive Officer

Toronto, Canada
October 28, 1985

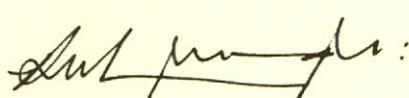
SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Balance Sheet

	June 30,	
	1985	1984
ASSETS		
CURRENT		
Cash and term deposits	\$ 194,836	\$ 383,509
Accounts receivable	105,667	75,791
	300,503	459,300
INVESTMENTS (quoted market value \$1,372,299; 1984 — \$1,514,383)	745,874	566,124
OIL AND GAS INTERESTS	135,316	90,643
MINING CLAIMS AND DEFERRED EXPENDITURES (note 2)	286,529	286,529
FIXED ASSETS	31,016	41,123
	<u>\$1,499,238</u>	<u>\$1,443,719</u>
LIABILITY		
CURRENT		
Accounts payable and accrued liabilities	\$ 29,216	\$ 27,407
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 3)		
Issued — 9,386,788 common shares	4,383,979	4,383,979
DEFICIT	<u>2,913,957</u>	<u>2,967,667</u>
	<u>1,470,022</u>	<u>1,416,312</u>
	<u>\$1,499,238</u>	<u>\$1,443,719</u>
Subsequent event (note 7)		

Approved by the Directors:



R.N. GRANGER, Director



E.F. MERRINGER, Director

AUDITORS' REPORT

To the Shareholders of
Spooner Mines and Oils Limited

We have examined the balance sheet of Spooner Mines and Oils Limited as at June 30, 1985 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at June 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
July 18, 1985
(October 3, 1985 as to note 7)

Thorne Riddell
Chartered Accountants

SPOONER MINES AND OILS LIMITED

Year ended June 30,

1985

1984

Statement of Income

Revenue

Net revenue from oil and gas operations (gross revenue \$337,696;		
1984 — \$312,913)	\$ 198,445	\$ 176,863
Gain on sale of fixed assets		467
Interest	34,015	71,969
	232,460	249,299
Administrative expenses	178,750	170,078
NET INCOME FOR THE YEAR	\$ 53,710	\$ 79,221
EARNINGS PER SHARE	\$ 0.004	\$ 0.01

Statement of Deficit

DEFICIT AT BEGINNING OF YEAR	\$2,967,667	\$3,046,888
Net income for the year	53,710	79,221
DEFICIT AT END OF YEAR	\$2,913,957	\$2,967,667

Statement of Changes in Financial Position

WORKING CAPITAL DERIVED FROM

Net income for the year	\$ 53,710	\$ 79,221
Items not involving working capital		
Depletion	6,900	4,612
Depreciation	20,256	20,313
Gain on sale of fixed assets		(467)
	80,866	103,679
Proceeds on disposal of fixed assets		13,200
Decrease in non-current accounts receivable		82,000
	80,866	198,879

WORKING CAPITAL APPLIED TO

Oil and gas interests	60,974	28,889
Fixed assets	748	35,452
Investments	179,750	166,250
	241,472	230,591
DECREASE IN WORKING CAPITAL	(160,606)	(31,712)
WORKING CAPITAL AT BEGINNING OF YEAR	431,893	463,605
WORKING CAPITAL AT END OF YEAR	\$ 271,287	\$ 431,893

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements — June 30, 1985

1. ACCOUNTING POLICIES

(a) Investments

Investments, substantially all of which are in related companies, are recorded at the lower of cost and net realizable value. Because of the large number of shares held in some of the companies, the amount that may be realized on disposal of these shares may be more or less than the quoted market value.

(b) Recovery of costs

Oil and gas interests, mining claims and deferred expenditures are capitalized in the accounts and are to be amortized when production is attained or the balance thereof written off when disposition occurs. These assets are recorded at cost and are not intended to represent present or future values.

(c) Depletion and depreciation

The company uses the successful efforts method of accounting for oil and gas properties all of which are located in Canada. Depletion has been provided on the unit of production method at rates calculated to amortize the lease costs and development expenditures in the proportion production bears to estimated reserves of oil and gas.

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at annual rates of 10%, 20% and 30%.

Accumulated depletion and depreciation consist of:

	1985	1984
Oil and gas interests	\$250,957	\$234,657
Fixed assets	66,218	55,362

2. MINING CLAIMS AND DEFERRED EXPENDITURES

The company holds a 5% non-contributing interest in certain mining claims in Pershing Township, Quebec (the Croinor property), which is defined as 5% of the net cash flow from commercial production, after depletion and amortization.

3. CAPITAL STOCK

(a) Authorized

Unlimited number of

Class "A" shares issuable in series, redeemable and one vote per share;

Class "B" shares issuable in series, redeemable and five votes per share;

Common shares one vote per share.

The rights and other features of each series of class "A" and "B" shares will be determined by resolution of the Board of Directors prior to their issue.

The common and class "A" shares have identical rights with respect to dividends whereas the class "B" shares shall be entitled to dividends of $1\frac{1}{2}$ in proportion.

(b) Options

Under an incentive stock option plan dated October 23, 1979, 400,000 shares were set aside for options to officers, directors and key employees. At June 30, 1985, no options have been granted on these shares.

Under a previous stock option plan dated November 22, 1977, there remains 28,000 shares unallocated at June 30, 1985.

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements — June 30, 1985 (continued)

4. INCOME TAXES

At June 30, 1985, the company has a tax loss carry-forward of approximately \$22,000 available until 1987 to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts. In addition, the company has costs of oil and gas interests and mining exploration expenditures available for tax purposes at June 30, 1985 of approximately \$880,000.

5. MANAGEMENT CONTRACT

Under an agreement dated December 1, 1981, with respect to an antimony property at Lake George, New Brunswick, held by a related company, the company provides overall operating management, at cost plus 2% of net profits from the operations (as defined therein), until December 31, 1991.

6. RELATED PARTY TRANSACTIONS

- (a) Professional Management Services (P.M.S.) is controlled by a director of the company. During part of the year P.M.S. provided administrative management and head office facilities for a cost of \$40,600 (1984 — \$64,600). During the remainder of the year, administrative management and head office facilities were provided by Durham Resources Inc. (a related company) for \$37,000.
- (b) Accounts receivable includes \$71,491 receivable from related parties. \$41,491 of this amount bears interest at a bank prime rate. During the year, \$4,529 in interest was accrued. Subsequent to the year end the full amount due was collected.

7. SUBSEQUENT EVENT

Subject to shareholders' approval, the company proposes to consolidate the 9,386,788 issued common shares into 3,128,929 common shares and change the company's name to Canadian Spooner Resources Inc.

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Management Proxy Circular

Solicitation of Proxies

This Management Proxy Circular (the "Circular") is furnished in connection with the solicitation by and on behalf of the management of Spooner Mines and Oils Limited (the "Corporation") of proxies to be used at the Annual and Special Meeting (the "Meeting") of Shareholders of the Corporation to be held on Wednesday, December 4, 1985 at the hour of 11:00 o'clock in the forenoon, local time, at the Engineers' Club, 105 Victoria Street, Toronto, Ontario, M5C 2B3 for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Corporation at nominal cost. The cost of any such solicitation by management will be borne by the Corporation.

Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy are Directors and/or Officers of the Corporation. A shareholder desiring to appoint some other person to represent him at the Meeting may do so by inserting such person's name, who need not be a shareholder of the Corporation, in the blank space provided in the form of proxy and striking out the names of the three persons specified or by completing another proper form of proxy. In all cases, the completed proxy is to be delivered to the registered office of the Corporation or to Central Trust Company prior to the day of the Meeting or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

Any shareholder giving a proxy may, in addition to any other manner of revocation permitted by law, revoke the proxy by depositing an instrument in writing executed by the shareholder or by his attorney authorized in writing, or if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, at the registered office of the Corporation or at Central Trust Company's office at 38th floor, One First Canadian Place, Toronto, Ontario M5X 2G4, prior to the day of the Meeting or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

Exercise of Discretion by Proxies

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, such shares will be voted FOR the election of Directors, FOR the appointment of auditors and FOR the special items of business as more particularly described in this Circular.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to any amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the time of printing this Circular, management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.

Voting Shares and Principal Holders Thereof

On October 28, 1985, the Corporation had outstanding 9,386,788 common shares without nominal or par value, each carrying the right to one vote per share. Any registered shareholder of record at the time of the Meeting will be entitled to attend and vote at the Meeting.

To the knowledge of the Directors and senior officers of the Corporation, the following are the only persons or companies beneficially owning, directly or indirectly, or exercising control or direction over, greater than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation entitled to vote at the Meeting, as of October 28, 1985:

<u>Name and Address</u>	<u>Number of Shares Beneficially Owned, Controlled or Directed</u>	<u>Percentage of Issued Shares</u>
DURHAM RESOURCES INC. 916-111 Richmond St. West Toronto, Ontario M5H 2G4	1,475,500	16%

Election of Directors

The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom, with the exception of Messrs. Latta and Vaughan, are now members of the Board of Directors and have been since the dates indicated. Management does not contemplate that any of the nominees will be unable to serve as a Director but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each Director elected will hold office until the next annual meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Corporation.

The following table sets forth the names of all the persons proposed to be nominated for election as Directors, all other positions and offices with the Corporation now held by them, their principal occupation or employment, the year in which they became Directors of the Corporation, and the approximate number of shares of the Corporation beneficially owned, directly or indirectly, by each of them as of October 28, 1985. With respect to each nominee who is not now a director of the Corporation or who was not elected to his present term of office by a vote of shareholders, being Messrs. Granger, McNutt, Latta and Vaughan, the information relating to his principal occupation is for the last five years. The Corporation is required to have an Audit Committee, the proposed members of which are indicated by an asterisk. The present members of the Corporation's Executive Committee are Messrs. R.N. Granger, C.E. Page and J.F.K. McNutt.

<u>Name and Office Held</u>	<u>Principal Occupation</u>	<u>Became a Director</u>	<u>Shares(1)</u>
J.A. Francis Vice-President, Finance	Officer and/or Director of various companies associated with the Durham Resources Group.	1982	NIL
*R.N. Granger, Q.C. Chairman, President and Chief Executive Officer	Barrister and Solicitor, Partner, Aird & Berlis, Barristers and Solicitors	1985	NIL
W.H.W. Latta	Stockbroker with McDermid St. Lawrence Limited or one of its predecessor companies, St. Lawrence Securities Limited	—	NIL
*J.F.K. McNutt	President of William Milne & Sons Limited, Lumber Operators	1985	NIL
*E.F. Merringer	Barrister and Solicitor, Partner, Tilley, Carson & Findlay, Barristers and Solicitors	1976	25
C.E. Page Vice-President, Exploration	Geologist. Officer and/or Director of various companies associated with the Durham Resources Group	1978	NIL
W.S. Vaughan Secretary	Barrister and Solicitor, Partner, Aird & Berlis, Barristers and Solicitors	—	NIL

- (1) The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually.

If any of the above nominees is unable to serve as a Director, proxies in favour of management will be voted for another nominee in their discretion unless the shareholder has specified in the proxy that his shares are to be withheld from voting in the election of directors.

Remuneration of Management and Others

The following table sets forth the aggregate sum paid or payable in respect of the Corporation's last completed financial year by the Corporation to or for the benefit of the Directors and Senior Officers of the Corporation.

Nature of Remuneration			
	From Office, Employment and Employer contribution	Cost of Pension Benefits	Other Remuneration
I DIRECTORS (Total Number: 7)			
(a) From the Corporation and wholly-owned subsidiaries:	\$2,100	NIL	NIL
(b) From partially-owned subsidiaries:	NIL	NIL	NIL
Total:	\$2,100	NIL	NIL
II 5 SENIOR OFFICERS			
(a) From the Corporation and wholly-owned subsidiaries:	NIL	NIL	NIL
(b) From partially-owned subsidiaries:	NIL	NIL	NIL
Total:	NIL	NIL	NIL

Interest of Management and Others in Material Transactions

Administrative, management and registered office facilities were provided to the Corporation until December 31, 1984 by Professional Management Services, a sole proprietorship of V.N. Harbinson, a former director and President of the Corporation. In respect of the portion of the financial year from July 1, 1984 to December 31, 1984, the sum of \$40,600 has been paid by the Corporation to Professional Management Services. During the remainder of the Corporation's financial year, administrative, management and head office facilities were provided by Durham Resources Inc. for \$37,000. Durham Resources Inc. owns 16% of the issued shares of the Corporation.

Consolidation of Shares and Change of Name

In order to facilitate the financing of future projects and to provide the Corporation with greater flexibility, the Board of Directors recommends that the Corporation's articles be amended to provide that the issued common shares of the Corporation be consolidated on the basis that every three common shares issued and outstanding immediately prior to the articles of amendment consolidating such shares becoming effective is consolidated into one common share. Currently, there are 9,386,788 issued common shares of the Corporation. If the articles of the Corporation are amended as aforesaid, the Corporation would then have 3,128,929 issued common shares rounded down to the nearest whole number to eliminate the fraction created by such consolidation.

The Toronto Stock Exchange requires that concurrent with the proposed stock consolidation, the Corporation's name be changed to a name substantially different from its existing name. Accordingly, the Board of Directors recommends that the name of the Corporation be changed from Spooner Mines and Oils Limited to **Canadian Spooner Resources Inc.**

The shareholders of the Corporation are requested to pass the special resolution which appears as Appendix A to this Circular providing for the consolidation of the Corporation's common shares and the change of its name as set out above. The affirmative vote of not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the Meeting is required to pass such resolution. The amendment of the Corporation's articles will not become effective until articles of amendment have been delivered to the Director under the Canada Business Corporations Act and the appropriate Certificate of Amendment has been issued in accordance therewith.

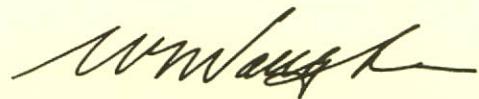
Appointment of Auditors

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Thorne Riddell, Chartered Accountants, as auditors of the Corporation to hold office until the next Annual Meeting of Shareholders and to authorize the Directors to fix their remuneration.

General

The information contained herein is given as of October 28, 1985. Management knows of no matters to come before the Meeting other than the matters referred to in the Notice of Meeting. Receipt at such Meeting of reports of the Directors and auditors and the Corporation's financial statements for its last completed financial year will not constitute approval or disapproval of any matters referred to therein. If any matters which are not now known should properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person voting it.

The contents and the sending of the Circular to shareholders have been approved by the Board of Directors of the Corporation.



W.S. Vaughan
Secretary

Toronto, Ontario
October 28, 1985

APPENDIX A

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Special Resolution to Amend the Articles of Spooner Mines and Oils Limited

BE IT RESOLVED THAT:

1. the Articles of the Corporation be amended by:
 - (a) consolidating the issued common shares of the Corporation on the basis that every three common shares issued and outstanding immediately prior to the articles of amendment consolidating the said shares becoming effective is consolidated into one common share, provided that the number of shares to be held by each shareholder as a result thereof shall be rounded to the nearest whole number in the event that such shareholder would otherwise be entitled to a fraction of a share; and
 - (b) changing the name of the Corporation from Spooner Mines and Oils Limited to **CANADIAN SPOONER RESOURCES INC.**
2. any director or officer of the Corporation be, and hereby is authorized and directed, for and on behalf of the Corporation to execute and deliver Articles of Amendment, in duplicate, to the Director appointed under the Canada Business Corporations Act and to sign and execute all other documents and to do all other things necessary or advisable in connection with the foregoing.

