

PASS LAKE RESOURCES LTD.

ANNUAL REPORT
1988

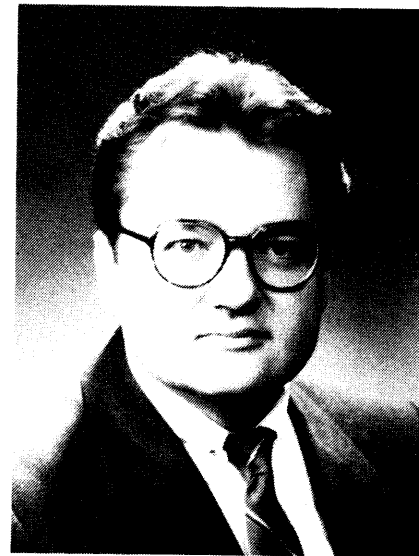
APPOINTMENTS

In August, 1988, Jan E. Christoffersen, P.Eng. was appointed President of the Company. Mr. Christoffersen is a geological engineer with 20 years in mineral exploration, 15 years of which were with Amax Exploration in western Europe and Africa. Mr. Christoffersen recently completed the course requirements for a Master of Business Administration degree from the University of British Columbia.

Also in August, 1988, Donald D. Sharp, C.A. was appointed Secretary -Treasurer and a Director of the Company. Mr. Sharp is a financial consultant to mining companies and has a background in mineral exploration. Mr. Sharp was previously chief financial officer of Whitehorse Copper Mines and Queenstake Resources.



Jan E. Christoffersen, P. Eng.
President



Donald D. Sharp, C.A.
Secretary-Treasurer

PASS LAKE RESOURCES LTD.

ANNUAL REPORT

REVIEW OF ACTIVITIES

During 1988, your Company underwent many changes. Formerly Champagne Resources, Ltd., a 1 for 2 share consolidation and name change to Pass Lake Resources Ltd. (named for the Kamloops, B.C. mineral property optioned from Esso) was effected. In conjunction with the reorganization, the Company raised \$157,250 in a public financing. Subsequent to year-end, exercise of stock options and of warrants related to the public financing yielded an additional \$226,000.

Following the \$70,000 1987 exploration program, it was determined that the Pass Lake property did not meet the Company's criteria for further exploration and the property was returned to the optionor.

In June, 1988, the Company acquired the TREK mineral property in the Galore Creek camp, north of Stewart, British Columbia. The Company's activities in this area are described in the detailed project report following. To fund the initial work on the TREK property, Pass Lake entered in to an agreement providing that Lorica Resources Ltd. can earn a 51% interest in the property by spending \$500,000 in exploration and providing a portion of the property acquisition cost. Lorica has, to date, spent \$92,000 on the first phases of exploration on the property. To increase Pass Lake's land position in the Galore Creek gold camp, the Company purchased, in early September, an additional 140 units (8,650 acres) covering promising exploration targets.

Management's strategy for the Company's development is to build a strong land position and local expertise in the emerging gold camp at Galore Creek. This is to be achieved while preserving working capital and avoiding equity dilution by acquiring properties through primary exploration programs and then utilizing farm-out agreements to fund active field programs. In this manner, Pass Lake will have significant interests in a larger number of well situated precious metal projects than most of our peer group companies, yet will not have to satisfy the continuing drain of exploration funding associated with such an activity level.

The Company is soundly funded with no debt and free cash balances in excess of \$120,000. Flow through share issues will provide the limited amount of direct exploration which must be funded by the Company. Some cash flow is anticipated from farm-out arrangements.

On behalf of the Board of Directors, we wish to thank the Pass Lake shareholders for their support during the Company's reorganization and subsequent business development activities.

September 12, 1988

A handwritten signature in dark ink, appearing to read "J. E. Christoffersen", written over a horizontal line.

Jan E. Christoffersen, P. Eng.
President

A handwritten signature in dark ink, appearing to read "D. Sharp", written over a horizontal line.

Donald D. Sharp, C.A.
Secretary-Treasurer

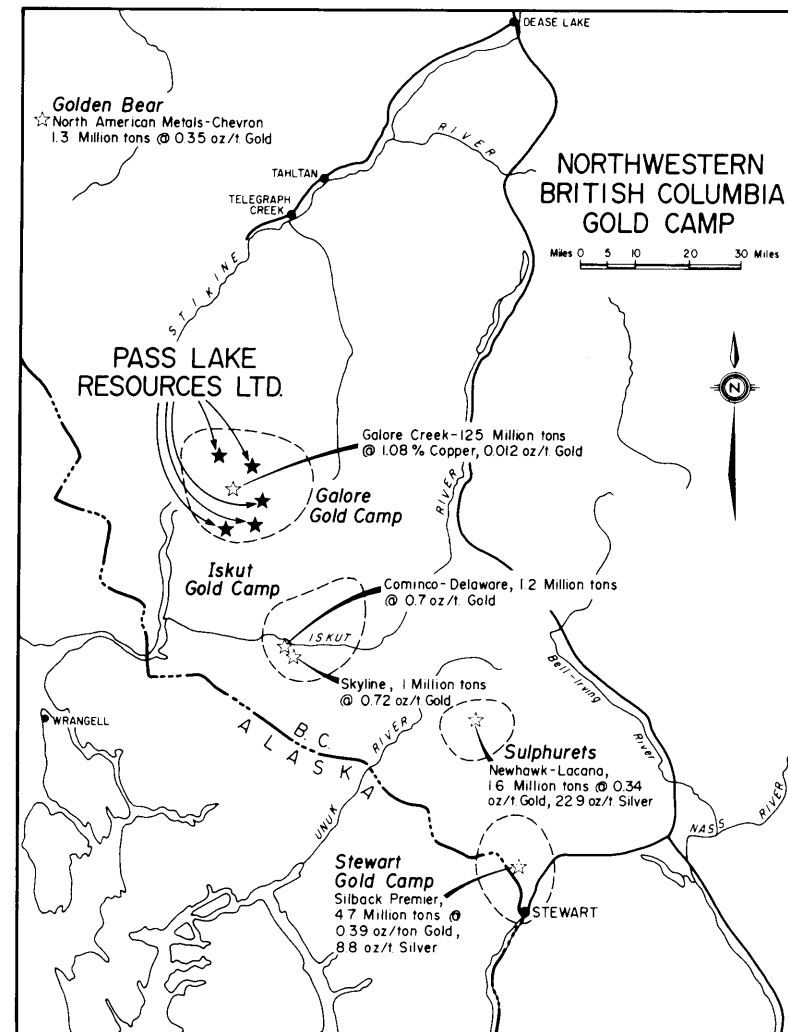
GALORE CREEK PROJECT AREA

Since mid-1988, the Company's efforts have focussed on the Galore Creek area, in north western British Columbia. Galore Creek lies in the centre of an exciting gold belt extending 250 km (155 miles) north from the town of Stewart. Major developing mines in the belt include Silbak-Premier (Westmin), Sulphurets (Newhawk-Granduc), Reg (Skyline), Snip (Cominco-Delaware) and Golden Bear (Chevron-North American Metals). Total contained gold in these deposits is estimated to exceed four million ounces based on known ore reserves.

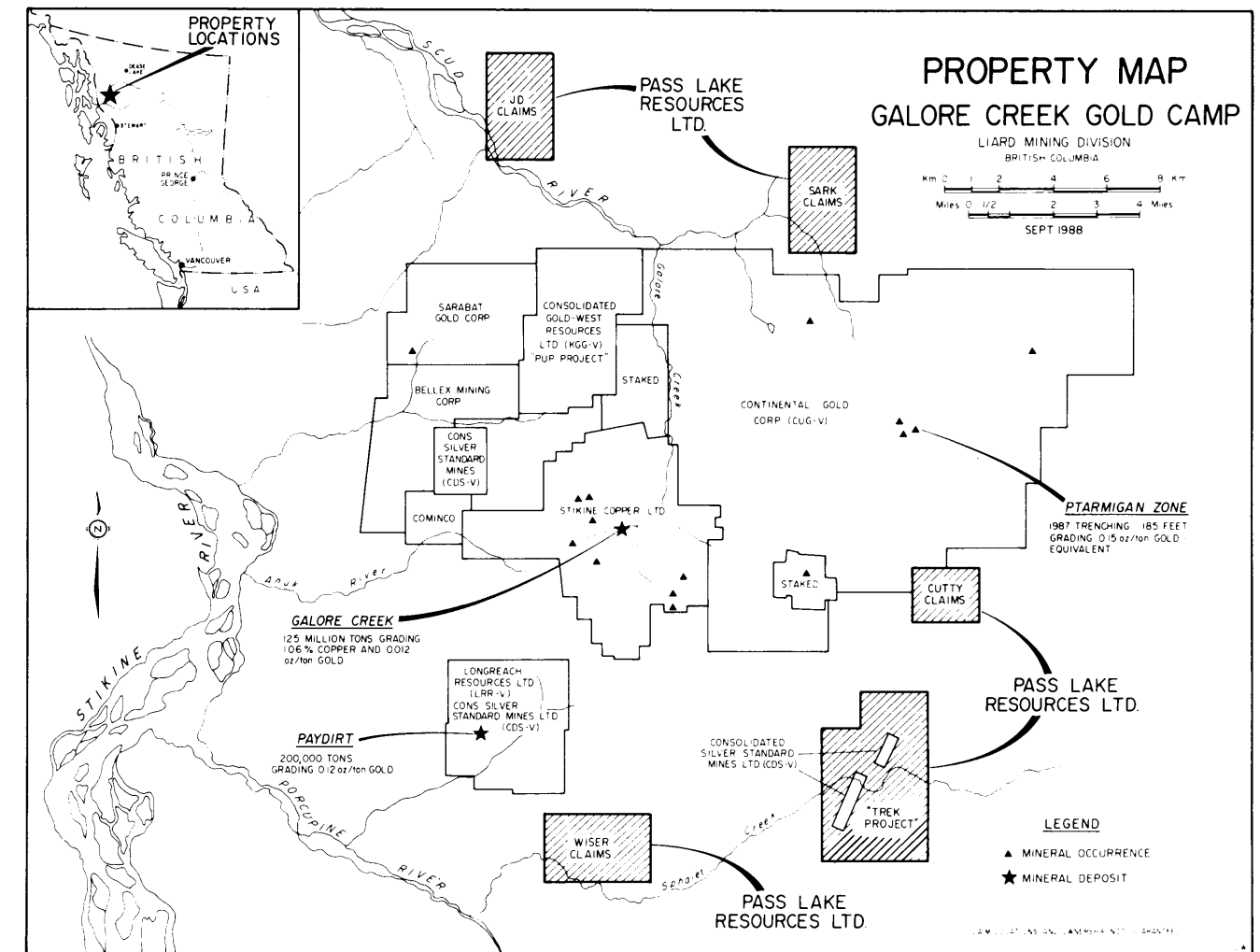
The deposits are unified by virtue of their occurrence in a similar geological environment along the north-east flank of the Coast Crystalline complex. Typically, they form high-grade veins and replacements in altered mafic to intermediate volcanic rocks of Upper Triassic to Lower Jurassic age. Alkalic intrusive bodies (syenite, monzonite porphyries) are spatially related to several of the deposits.

Galore Creek has become well known over the last three decades as a significant porphyry gold-copper district. The Stikine deposit, associated with a complex of alkalic porphyries, alone amounts to 125 million tons grading 1.06% copper and 0.013 ounces /ton gold, equivalent to 1.6 million ounces of contained gold. However, this deposit and other similar occurrences in the area were explored during the period of a low gold price, when the metal constituted a minor by-product of copper ore.

Within the last year, renewed exploration in the Galore Creek camp has demonstrated the presence of significant precious metals in major vein/ shear structures peripheral to the porphyry copper systems. In April, 1988, Continental Gold Corp acquired the large (71 square mile) Trophy property, situated immediately east of the Stikine copper-gold deposit. Announcements by Continental indicate the existence of three wide gold-silver structures, all striking north-north easterly, including the Ptarmigan Zone with reported assays of 0.15 ounces/ton gold equivalent over widths up to 185 feet (56 metres).

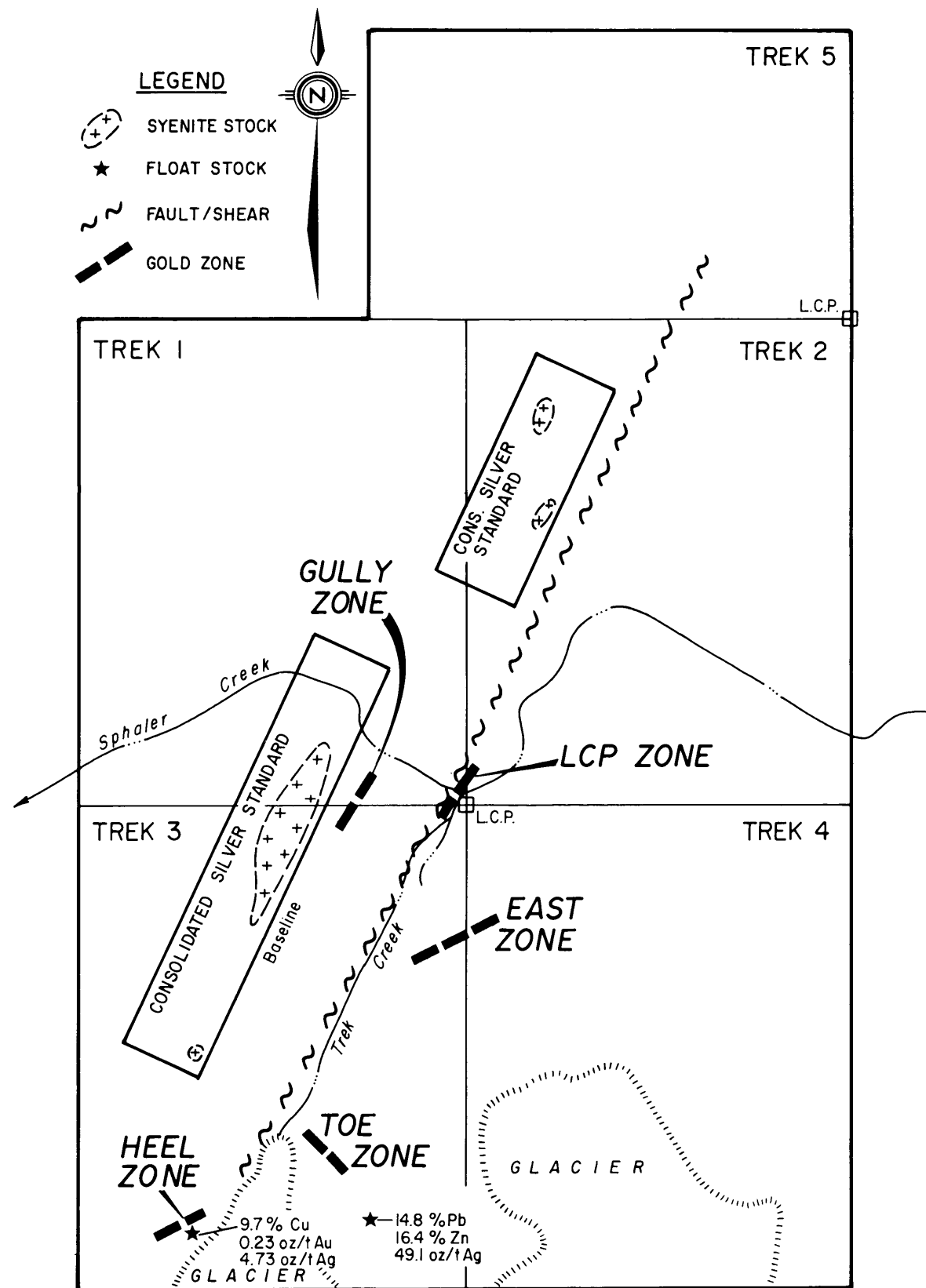


In June, 1988, your Company acquired the TREK property, comprising 95 units (5,850 acres) immediately south of Continental's Trophy block. The claims cover favourable Upper Triassic volcanic rocks surrounding a number of altered syenite stocks associated with porphyry-style gold-copper occurrences discovered in the 1960's. Eight valid claims, owned by Consolidated Silver Standard, still cover these copper showings. A number of important vein/shear systems with base-metal sulphides and precious metals are known to traverse the TREK property.



PASS LAKE RESOURCES 1988 PROPERTY ACQUISITIONS

In early September, 1988, your Company acquired a 100% interest in four additional claim blocks totalling 140 units (8,650 acres). The blocks are all well located within 24 km (15 miles) of the TREK ground. Further property acquisitions, either by staking or purchase, are planned for this winter.



PASS LAKE RESOURCES LTD.

TREK PROPERTY

GOLD ZONES FOUND
IN 1988 PROGRAM

m 0 500 1000 2000 m

1988 Exploration Program

TREK Property

To fund the initial work on the TREK claims, Pass Lake entered into an agreement with Lorica Resources Ltd., which, as subsequently amended, provides that Lorica must spend \$500,000 on exploration by December 31, 1991 and contribute a portion of the property acquisition cost in order to earn a 51% interest in the TREK property.

Lorica's expenditures on the property during the 1988 field season amounted to \$92,000. The program initially consisted of preparatory work (orthophoto, grid layout, camp set-up) followed by prospecting, reconnaissance and detailed geochemical sampling (9 heavy sediments, 430 soils and 148 rocks), geophysical surveys (VLF-EM and magnetometer) and geological mapping. Five new mineralized zones discovered in the course of the campaign are described below:

- 1) Gully Zone- is a north-north-east striking vein discovered by grid-soil geochemistry (up to 1,920 ppb gold) in the centre of the claim block. The zone was confirmed by follow-up rock geochemistry (up to 4,670 ppb gold or 0.14 oz/ton) over 60 metres (200 feet) strike length. Soil geochemical and VLF-EM data suggest an additional minimum 210 metre (700 feet) strike extension under overburden. Ore minerals comprise semi-massive to massive pyrite-pyrrhotite-magnetite-chalcopyrite up to two metres (6.6 feet) wide in altered andesitic fragmental rocks.
- 2) LCP Zone- is a wide pyritic shear zone striking north-north-easterly across the entire claim block. Limited sampling indicates low gold values, but overall exposure is poor. The Gully Zone may form a parallel vein within the much wider LCP shear structure.
- 3) East Zone- situated east of Trek Creek, comprises a series of east-north-east parallel veins forming zones at least 250 metres (820 feet) in length and two metres (6.6 feet) wide. Veins comprise grey quartz with semi-massive pyrite-chalcopyrite-sphalerite-galena. Gold contents range up to 2,000 ppb (0.06 oz/ton) and silver over 200 ppm (6.4 oz/ton), the upper geochemical detection limit. Locally, copper, lead and zinc all exceed the upper geochemical detection limit of 10,000 ppm (1.0%).
- 4) Toe Zone- lies at the foot of a glacier in the southern part of the property. South-easterly striking parallel veins form a zone up to 3 - 4 metres (10 - 13 feet) wide, exposed over a length of 50 metres (160 feet). The strike extension is obscured by glacial moraine. Vein minerals consist of grey quartz, pyrite, chalcopyrite and sphalerite. Gold reaches in excess of 1,000 ppb and silver 200 ppm, the upper geochemical detection limit.
- 5) Heel Zone- is situated in the south-west part of the claims near the western margin of a glacier. One narrow (10 cm) vein within a two-metre-wide altered envelope returned +10,000 ppb gold (0.29 oz/ton), the upper geochemical detection limit, and 100 ppm silver (3.2 oz/ton). The zone is exposed over an east-north-east strike length of 100 metres (330 feet) where it pinches out but is covered by glacial debris to the west. Elsewhere in this area, a boulder of massive pyrite-chalcopyrite-

PASS LAKE RESOURCES LTD.
(formerly Champagne Resources Ltd.)

BALANCE SHEET

APRIL 30, 1988

	<u>1988</u>	<u>1987</u>
ASSETS		
CURRENT		
Cash	\$ 22,618	\$ 50,000
DEFERRED EXPLORATION EXPENDITURES	77,000	-
INCORPORATION COST	-	600
	<u>\$ 99,618</u>	<u>\$ 50,600</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 5,384	\$ 50,757
Agreement payable	-	318,979
	<u>5,384</u>	<u>369,736</u>
ACCOUNTS PAYABLE TO BE SETTLED BY THE ISSUANCE OF SHARES	-	4,850
DUE TO SHAREHOLDERS	-	71,113
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
20,000,000 Common shares without par value		
Issued		
2,765,817 Common shares (1987 - 1,007,977)	648,065	411,257
DEFICIT	(553,831)	(806,356)
	<u>94,234</u>	<u>(395,099)</u>
	<u>\$ 99,618</u>	<u>\$ 50,600</u>

molybdenite also gave geochemical results in excess of 10,000 ppb gold and 10,000 ppm copper with silver above 100 ppm.

As this report goes to press, some assays carried out on geochemically anomalous rock samples were received by the Company. These are shown on the following table and confirm previously reported analytical results.

TREK ASSAY RESULTS (ROCK)

<u>Zone</u>	<u>Copper %</u>	<u>Lead %</u>	<u>Zinc %</u>	<u>Gold(oz/t)</u>	<u>Silver(oz/t)</u>
Gully	3.71	--	--	0.146	0.28
Gully	0.67	--	--	0.086	0.16
East	--	6.71	--	0.026	6.31
East	0.80	--	--	0.086	2.60
Toe	5.22	0.42	1.06	0.036	7.81
Toe	0.86	0.57	1.46	0.020	3.01
Toe	0.60	--	0.05	0.016	1.40
SE of Toe (Float)	--	14.80	16.40	tr.	49.10
Heel	1.76	--	--	0.428	3.55
Heel (Float)	9.73	--	--	0.230	4.73

-- = not assayed

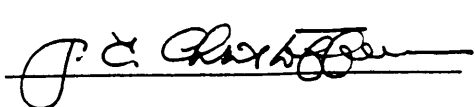
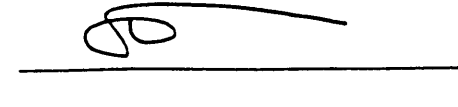
Of particular note are two float samples. The first is a chalcopyrite-rich sample found in the area of the Heel Zone as previously noted and assays 9.7% copper, 0.23 oz/t gold and 4.73 oz/t silver. The second was found as abundant boulders probably near their source some 400 metres (1300 feet) south-easterly from the Toe Zone. It assayed a remarkable 14.8% lead, 16.4% zinc and 49.1% oz/t silver with trace gold. The host rock is limestone with much quartz and garnet-bearing skarn noted in the vicinity. This discovery may represent an entirely new style of high-grade mineralization not previously identified on the property. Further prospecting before season's end will be conducted in the vicinities of the two high-grade float discoveries to establish their bedrock sources.

Other Claim Blocks

A preliminary program of reconnaissance heavy sediment, soil and rock sampling and prospecting will be carried out in September on portions of the four new properties recently acquired by the Company. The work will ensure that minimum assessment requirements are met and provide a basis for more detailed exploration in the 1989 field season.

In conclusion, the Company has enjoyed a successful exploration season in the Galore Creek gold camp. Five favourably located properties have been acquired. Five encouraging gold-silver targets have been identified on the TREK claims alone, all of which merit detailed evaluation during the 1989 field season. Positive initial results are anticipated from the Company's four additional claim blocks, requiring more extensive exploration in the next season.

Approved by the Board of Directors

PASS LAKE RESOURCES LTD.
(formerly Champagne Resources Ltd.)

STATEMENT OF OPERATIONS AND DEFICIT

FOR THE YEAR ENDED APRIL 30, 1988

	<u>1988</u>	<u>1987</u>
REVENUE		
Interest income	\$ <u>2,730</u>	\$ <u>-</u>
EXPENSES		
Audit and accounting	3,200	6,305
Interest and bank charges	1,789	-
Legal	30,638	6,801
Management fees	24,000	30,000
Office rent, telephone and sundry	4,593	2,373
Regulatory authorities	5,684	2,064
Transfer agent	1,617	2,173
Write off incorporation cost	600	-
	<u>72,121</u>	<u>49,716</u>
LOSS BEFORE THE FOLLOWING	(69,391)	(49,716)
GAIN ON SETTLEMENT OF ACCOUNTS PAYABLE	2,937	2,210
GAIN ON CANCELLATION OF AGREEMENT PAYABLE	318,979	-
WRITE OFF DRILLING ADVANCE	<u>-</u>	<u>(8,170)</u>
NET INCOME (LOSS) FOR THE YEAR	252,525	(55,676)
DEFICIT, BEGINNING OF YEAR	(806,356)	(750,680)
DEFICIT, END OF YEAR	\$ <u>(553,831)</u>	\$ <u>(806,356)</u>

PASS LAKE RESOURCES LTD.
(formerly Champagne Resources Ltd.)

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED APRIL 30, 1988

	<u>1988</u>	<u>1987</u>
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 252,525	\$ (55,676)
Add item not involving an outlay of cash		
Write off incorporation cost	600	-
	<u>253,125</u>	<u>(55,676)</u>
(Increase) decrease in non cash working capital items	(364,352)	30,279
	<u>(111,227)</u>	<u>(25,397)</u>
FINANCING ACTIVITIES		
Shares issued for cash	232,875	-
Shares issued to settle debts	3,933	21,000
Shareholder loans	(71,113)	71,113
Accounts payable to be settled by the issuance of shares	(4,850)	(16,716)
	<u>160,845</u>	<u>75,397</u>
FINANCING ACTIVITIES		
Exploration expenditures	(77,000)	-
INCREASE (DECREASE) IN CASH	(27,382)	50,000
CASH, BEGINNING OF YEAR	50,000	-
CASH, END OF YEAR	\$ <u>22,618</u>	\$ <u>50,000</u>

PASS LAKE RESOURCES LTD.
(formerly Champagne Resources Ltd.)

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES

FOR THE YEAR ENDED APRIL 30, 1988

	<u>1988</u>	<u>1987</u>
EXPLORATION EXPENDITURES		
Geochemistry	\$ 6,746	\$ -
Geology	21,863	-
Transportation and accommodation	2,307	-
Sampling and assays	737	-
Drilling	35,098	-
Supervision	1,560	-
Overhead	<u>8,689</u>	<u>-</u>
	77,000	-
DEFERRED EXPENDITURES, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
DEFERRED EXPENDITURES, END OF YEAR	<u>\$ 77,000</u>	<u>\$ -</u>

TIERNEY & WHITE
CHARTERED ACCOUNTANTS

To the Shareholders of
Pass Lake Resources Ltd.
(previously Champagne Resources Ltd.)

AUDITORS' REPORT

We have examined the balance sheet of Pass Lake Resources Ltd. as at April 30, 1988 and the statements of operations and deficit, deferred exploration expenditures 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 test 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 April 30, 1988 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.

September 2, 1988
Vancouver, B.C.

James White
Chartered Accountants

PASS LAKE RESOURCES LTD.
(formerly Champagne Resources Ltd.)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 1988

1. SIGNIFICANT ACCOUNTING POLICY

Mineral Property and Related Deferred Expenditure

The company defers all direct expenditures on mineral properties in which it has a continuing interest to be amortized over the productive period when a property reaches commercial production. On abandonment of any property, applicable accumulated deferred expenditures will be written off.

The amount shown for mineral property represents cost to date and does not necessarily represent present or future value.

2. MINERAL PROPERTY

Pass Lake Property - Kamloops, B.C.

The company has entered into an option agreement for the acquisition of a 49% interest in six contiguous mining claims comprising 99 units known as the Pass Lake property. In order to earn its interest the company must contribute funds for exploration of the property as follows:

\$ 70,000 for the 1987 work program
\$ 80,000 for the 1988 work program
\$100,000 for the 1989 work program

As at April 30, 1988 the company has met its funding obligation for the 1987 work program. (See Note 5(d))

3. SHARE CAPITAL

(a) Changes in the company's outstanding common share capital during the year were as follows:

	<u>Number of Shares</u>	<u>Amount</u>
BALANCE - APRIL 30, 1987	1,007,977	\$ 411,257
Additional principal's shares issued	281,250	5,625
Shares issued pursuant to a public offering	1,000,000	157,250
Flow through shares issued pursuant to a private placement	466,667	70,000
Shares issued to settle debts	<u>9,923</u>	<u>3,933</u>
BALANCE - APRIL 30, 1988	<u>2,765,817</u>	<u>\$ 648,065</u>

3. SHARE CAPITAL - continued

- (b) In connection with the flow-through share private placement the company has incurred Canadian Exploration Expenditures (CEE) in an amount equal to the consideration received and has renounced to the shareholders the tax benefits associated with the CEE incurred.

In addition the subscribers to the flow-through shares received warrants for the purchase of up to 466,667 additional shares at \$0.20 per share for a period of one year.

- (c) During the year the shareholders of the company approved the consolidation of the company's authorized and issued common shares on the basis of one post-consolidation common share for every two pre-consolidation common shares.
- (d) During the year the shareholders of the company approved an increase in the company's authorized capital to 20,000,000 common shares without par value.
- (e) As at April 30, 1988 there were outstanding director and employee stock options for the purchase of up to 276,000 shares at \$0.17 per share to January 27, 1990.
- (f) Of the company's issued and outstanding shares 656,250 are held in escrow, their release being subject to the approval of the regulatory authorities.
- (g) As consideration for agreeing to purchase any shares not sold in the public offering the company has granted the agent non-transferable share purchase warrants for the purchase of up to 500,000 shares, at \$0.20 per share, to a date one year from the public offering date.

4. RELATED PARTY TRANSACTIONS

During the year the company paid \$12,000 to a director and \$12,000 to a company controlled by a second director for management of the company's affairs.

5. SUBSEQUENT EVENTS

- (a) Subsequent to April 30, 1988 the company entered into an option agreement, subject to regulatory approval, to acquire a 100% interest, subject to a 1 1/2 % net smelter royalty, in the Trek 1 through 4 mineral claims located in the Liard Mining Division, British Columbia.

Consideration payable under the agreement is as follows:

- cash payment of \$25,000 and the issuance of 50,000 shares on execution of the agreement
- an additional 50,000 shares on the anniversary date of the agreement for each of the next three years

In addition the company has agreed to make expenditures totalling \$500,000 on the property over the next three years.

5. SUBSEQUENT EVENTS - continued

Annual advance royalties of \$25,000 per year commence in June 1993. The advance royalty will be reduced to \$10,000 per year if the company continues to spend \$100,000 per year in exploration in the property. The company may purchase the net smelter royalty at any time for \$1,500,000 less advance royalties prior to date.

- (b) Subsequent to April 30, 1988, the company has issued shares from the treasury as follows:
- (i) 500,000 shares for cash proceeds of \$100,000 as a result of the exercise of the agent warrants referred to in Note 3 (g)
 - (ii) 466,667 shares for cash proceeds of \$93,333 as a result of the exercise of the private placement warrants referred to in Note 3 (b)
 - (iii) 192,000 shares for cash proceeds of \$32,640 on the exercise of a portion of the director and employee stock options referred to in Note 3 (e)
- (c) Subsequent to April 30, 1988 the company has granted, subject to regulatory approval, additional director and employee stock options for the purchase of up to 200,000 shares at \$0.40 to June 24, 1990.
- (d) Subsequent to April 30, 1988 the company has abandoned its Pass Lake property.
- (e) Subsequent to April 30, 1988 the company has signed a letter of intent granting a second company an option to acquire up to a 51% interest in the Trek 1-4 mineral claims referred to in Note 5 (a). In order to earn its interest the second company must incur exploration expenditures totalling \$500,000 as follows:
- \$ 80,000 by December 31, 1988
 - \$100,000 by December 31, 1989
 - \$120,000 by December 31, 1990
 - \$200,000 by December 31, 1991

In addition the second company will issue one-half of the share consideration for the next three years and will assume a 51% share of the other obligations detailed in Note 5 (a).

- (f) Subsequent to April 30, 1988 the company issued a letter of credit to Protector Industries Corp. ("Protector") in the amount of \$50,000 (U.S.). The company was subsequently required to make payment in accordance with the letter of credit. Protector has since been called upon to repay the amounts advanced by the company, and Protector and the company are negotiating repayment arrangements.

CORPORATE DIRECTORY

Directors

Jan E. Christoffersen
Donald D. Sharp*
Leonard Brownlie*
Andrew Sovio*

Audit Committee*

Capitalization

20,000,000 shares authorized - no par value
3,924,484 shares issued as of September 12, 1988

Stock Exchange Listing

Vancouver Stock Exchange - Symbol **PLJ**

Registered and Records Office

1700 - 401 West Georgia Street
Vancouver, B.C.

Solicitors

Holmes Greenslade
1700 - 401 W. Georgia Street
Vancouver, B.C.

Auditors

Tierney & White
214 - 131 Water Street
Vancouver, B.C.

Bankers

Toronto-Dominion Bank
Pender and Granville Street
Vancouver, B.C.

Registrar and Transfer Agent

National Trust Company
900 Park Place Tower
666 Burrard Street
Vancouver, B.C.

Annual Meeting

Pass Lake's annual meeting will be held at 10:00 A.M., Monday, October 31, 1988 at 1700 - 401 West Georgia Street, Vancouver, B.C.