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MOYIE RIVER PROPERTY
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Queenstake Resources Ltd.

1986 ANNUAL REPORT

Including 1987 First Quarter Report

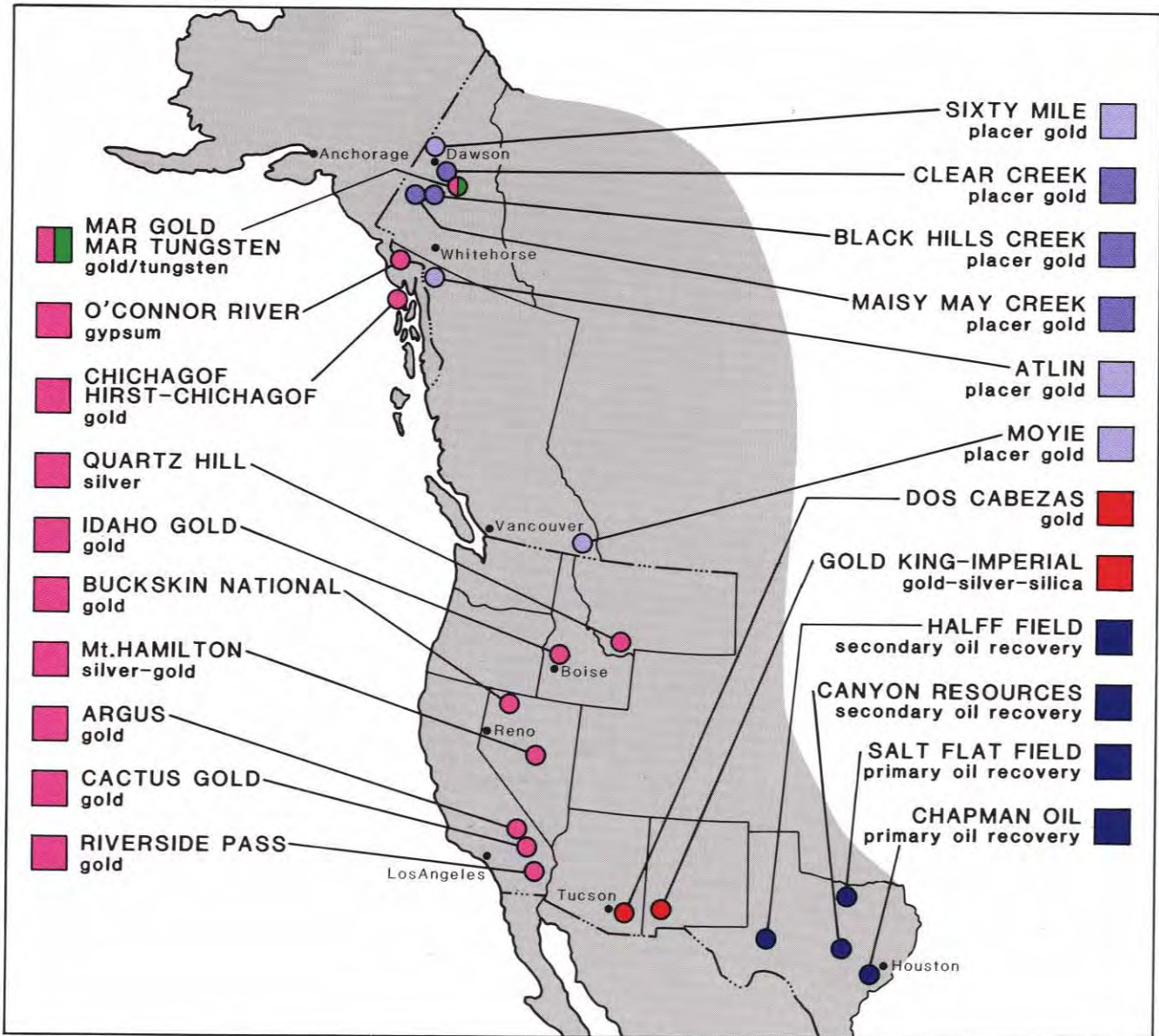


cover - Core from diamond drill hole 84-3, Gold King-Imperial Mine

1987 will be the year of greatest drilling activity ever for Queenstake - with drill exploration programs on eleven precious metals properties planned for the next six months.

Queenstake Property	O'Connor River
Locations (inside front)	Gypsum Deposit, B.C. 7
President's Report/Highlights 1	Placer Gold Operations/
Financial Review and Outlook 2	Exploration:
Five Year Financial Summary 2	Clear Creek, Yukon 8
Mineral Reserves 3	Maisy May Creek, Yukon 8
Mineral Properties:	Black Hills Creek, Yukon 8
Dos Cabezas, Arizona 3	Moyie River, B.C. 9
Argus, California 4	Mar Gold/Tungsten
Gold King-Imperial,	Property, Yukon 9
New Mexico 5	Financial Statements:
Westmont Joint Ventures:	1986 10
Mt. Hamilton, Nevada 5	1987 First Quarter 16
Riverside Pass, California 5	Management's Analysis of
Chichagof Gold Mines, Alaska 6	Operating Results 13
Bolero Joint Ventures:	Company History
Quartz Hill Property,	(10th Annual Report) 15
Montana 6	Corporate Directory (inside back)
Buckskin National Mine,	
Nevada 7	

Queenstake Property Locations



- | | |
|--------------------------------------------|---------------------------------------|
| tungsten reserve | placer reserves and royalty interests |
| hardrock projects funded by joint ventures | placer properties in production |
| hardrock projects funded by Queenstake | oil properties |

PRESIDENT'S REPORT

On behalf of the board of directors, I am pleased to present the tenth Annual Report of your Company together with the audited financial statements for the year ended December 31, 1986 and financial statements for the quarter ended March 31, 1987.

Queenstake's corporate philosophy has been to concentrate its activities in precious metal (primarily gold) exploration and development in Western Canada and the United States.

It has successfully developed a cash flow base from placer gold operations in the Yukon and is now expanding into placer operations in British Columbia. Utilizing its placer gold income, equity and joint venture financing, the Company has developed an impressive inventory of hardrock gold and silver properties with the majority of these at an advanced exploration stage.

Seven of the hardrock projects are funded by joint venture partners while Queenstake is directly funding the exploration and development of the Gold King-Imperial Mine and the Dos Cabezas project.

To continue exploration of its U.S. and Canadian properties and to provide additional working capital, \$1.85 million of new equity financing has been completed. Agreements with joint venture participants will provide additional funding for drilling and related exploration programs.

The Chichagof Gold Mines project will be funded through a new company, Sitka Gold Inc.

Management has conducted a thorough review of the book value of Queenstake's resource properties and equipment and has written down the Company's investments where the economic value of the property has declined due to reductions of reserves or abandonment due to poor exploration results. In addition to the write downs of mineral properties, management has reduced the cost base of all of its oil properties due to low crude prices and has written down two of its Yukon dredges for which we have as yet not found economic placer reserves. Since resource property carrying costs have not been increased on exploration success, this 1986 write down has resulted in a significant loss for the year. However, this will allow future growth to be reflected more accurately in increased earnings per share.

The gold price has increased substantially over the 1986 level, and this will result in an improved cash flow from placer operations in 1987. The recent increase in the silver price has added to the value of the reserves of our Quartz Hill and Gold King-Imperial properties.

Queenstake looks forward to an exciting year of growth with eleven advanced exploration precious metals projects underway which will include drilling and development work on a wide spectrum of properties.

The Board of Directors takes this opportunity to thank the shareholders for their ongoing support and the Company's employees for their continued efforts.

Gordon C. Gutrath,
President

HIGHLIGHTS

- Acquisition of the Dos Cabezas gold mine with developed and indicated economic gold reserves that can be placed into production in 1987. Stockwork gold bearing structures may be amenable to surface or underground bulk mining methods.
- Drill program at Buckskin National Mine indicates 138,000 tons grading 0.36 ounces per ton gold and 3.37 ounces per ton silver. Additional reserve potential is excellent and drilling will continue in 1987.
- Drill program at the Mar Gold property in the Yukon intersected three narrow but very high grade gold intercepts ranging from 1.30 ounces to 2.10 ounces of gold per ton.
- In 1987 nine hardrock properties will be drilled with seven of these projects being funded by joint venture partners. Queenstake will also carry out two exploratory placer gold drilling programs.
- In March, 1987 the Company completed \$1.85 million of new equity financing.



The Executive Committee of Queenstake, (seated) Gordon C. Gutrath (L), Wayne Lenton (R), (standing) Lauch F. Farris (L), Donald D. Sharp (R).





Yukon placer operation:
Bulldozers push pay gravels to the sluice box where a 3,000 gallon per minute water flow washes the gravel over a series of riffles, trapping the heavy gold particles. A loader removes and stacks the tailings.



David Hembree, U.S. Exploration Manager, sampling the walls of a stope in the Gold Prince Mine, Dos Cabezas project.

FINANCIAL REVIEW AND OUTLOOK

Queenstake has completed a two year program of farming out interests in selected hardrock precious metals properties to continue an active level of property exploration without the undue dilution of shareholders equity that would result if such programs were funded solely by share issues. The majority of Queenstake's projects are now funded by third parties while internal funds are applied to property acquisition and programs that are expected to add significantly to reserves with near term production potential.

The completion of \$1.85 million of equity financing in March, 1987 (including the \$600,000 of flow through funding which will be applied to increase Queenstake's Canadian placer gold reserves) has provided working capital for seasonal placer equipment fleet maintenance, fuel purchases and site mobilization. Operating cash flow from placer mining will fund programs on the Gold King-Imperial and Dos Cabezas projects and should leave a cash surplus by year end.

FIVE YEAR FINANCIAL SUMMARY

	(\$000's except per share amounts)				
	1986	1985	1984	1983	1982
Balance Sheet:					
Total Assets	14,821	18,004	17,114	15,708	14,112
Liabilities	2,245	2,314	2,058	1,531	1,072
Shareholders					
Equity	12,576	15,690	15,056	14,177	13,040
Equity per common share	\$2.06	\$3.05	\$3.12	\$3.16	\$2.93
Earnings:					
Revenues	1,701	2,383	2,959	4,584	1,867
Earnings (loss)	(4,915)	(776)	(685)	1,012	115
Earnings (loss) per share	\$(0.86)	\$(0.16)	\$(0.15)	\$0.23	\$0.03
Cash Flow:					
Working capital from operations	(195)	335	331	2,363	605
Cash from operating activities	(109)	449	521	2,178	708
Cash from operating activities per share	\$(0.02)	\$0.09	\$0.11	\$0.49	\$0.16



MINERAL RESERVES

The Company is continuing its strategy of reserve acquisitions and extension of existing reserves through intensive exploration programs. Reserves and reserves per share have increased steadily as a result of this strategy.

Based on net issued capital at December 31, 1986 of 6.1 million shares, the Company's per share interest in drill indicated reserves of various commodities is as follows:

Gold	.04 oz/share
Silver	.32 oz/share
Tungsten	.77 stu (15 lbs)/share
Gypsum	1.1 tonnes/share

MINERAL PROPERTIES:

DOS CABEZAS, ARIZONA

Queenstake has recently acquired a 100% leasehold interest in the Dos Cabezas mine properties (twenty contiguous patented mining claims (322 acres) and eleven unpatented lode claims) which contain the principle former producing gold mines (Gold Prince, Gold Ridge and Dives) of the Dos Cabezas mine district of south-eastern Arizona. The Gold Prince was reopened by Phelps Dodge Corporation and from 1984 to March of 1986 produced 14,238 tons of ore at 0.313 ounces per ton gold.

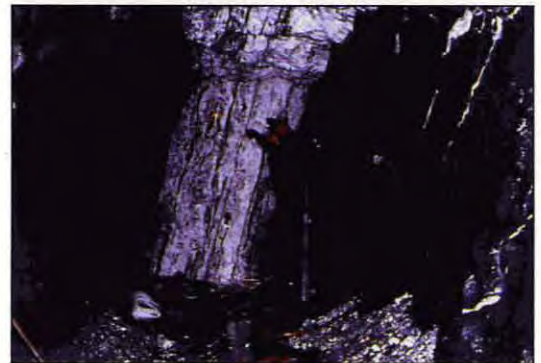
Exploration conducted by Phelps Dodge, including 9,006 feet of diamond core drilling in forty-two holes and extensive, detailed production sampling, has defined about 45,000 tons of reserves grading in the order of 0.40 oz. per ton gold within the area of the rehabilitated mine workings. Sampling and production data supplied by the owners for areas undeveloped by Phelps Dodge indicate additional ore potential to the west of the Phelps Dodge work and in the upper levels of the mine.

In addition to the vein hosted reserves at the Dos Cabezas property, there are wide zones of disseminated and veinlet hosted gold mineralization along the vein system which may provide bulk tonnage ore deposits. An oxidized ore body of this type would be amenable to open-pit mining and cyanide leaching technology. The shear zone which contains this mineralization is over two miles long and from 100 to 500 feet wide. Several wide zones of consistent gold mineralization were intercepted in the Phelps Dodge drilling, confirming the potential for this ore target.

Queenstake Mineral Reserves*

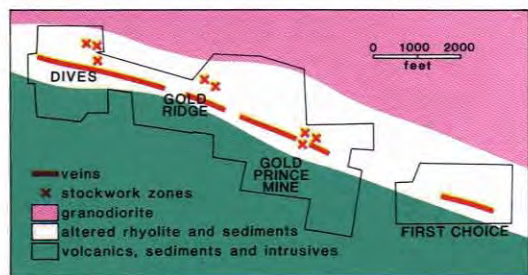
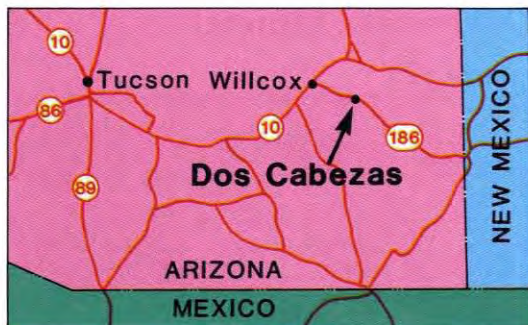
GOLD VARIOUS PROPERTIES 246,000 troy ounces 74,000 ounces: placer properties 172,000 ounces: hardrock properties
SILVER QUARTZ HILL and GOLD KING PROPERTIES 2 million troy ounces
GYPSUM O'CONNOR RIVER DEPOSIT 7 million tonnes
TUNGSTEN MAR DEPOSIT 4.8 million stu (96 million lbs)

* These figures include mineralization in all reserve categories. Exploitation of the reserves is dependent on development of detailed mining plans and market prices for the commodities.



Typical Chichagof ore shoot structure is evident here in the Big Croppings vein, including five foot width and ribbony quartz veining.





Phelps Dodge left the Dos Cabezas - Gold Prince Mine workings in good condition, allowing for a very quick production start.

The Dos Cabezas mine properties contain both developed and exploratory ore potential of excellent grade and extent. There are a number of mineralized zones along the Gold Prince vein system which may be quickly explored and developed using the recently rehabilitated mine workings with most services still intact. A surface and underground sampling and mapping program is planned for early 1987, to be followed by surface and underground diamond drilling, concentrating upon expanding known reserves and evaluation of the vein stockworks bulk tonnage potential.

The Dos Cabezas mine project is of particular importance to the hardrock exploration program, since it not only has an ore reserve partially developed for mining but also has excellent exploration potential for both high grade vein hosted mineralization and bulk tonnage stockworks and disseminated gold deposits suitable for open pit or bulk tonnage underground mining methods. The mine is unique because it can be placed into production as a silica flux-gold mine within six months and at a very low capital cost compared with a typical hardrock mine of similar size.

ARGUS GOLD PROPERTY, CALIFORNIA

Queenstake has signed an agreement with Childs International Inc., the American subsidiary of an Australian mining group headed by Barrie Childs of Sydney, New South Wales in which Childs International can earn a 60% interest in Queenstake's Argus gold mines project near Bakersfield, California by spending \$1 million U.S. in exploration, development and production capital on the Argus property by 1989.

The Company has recently completed a review of the Davenport and Arondo Mines on the Argus property. On the Davenport vein, the drill indicated reserves total 423,000 tons grading 0.053 ounces of gold per ton. Potential tonnage in the Davenport (at a 300-foot deep pit limit) is two million tons.

The conceptual mine plan is for open-pit mining and heap-leaching (using carbon-in-column gold recovery from pregnant solutions).

Subject to completion of certain agreements with landowners, a 1987 drilling program is planned for the Davenport property.



GOLD KING-IMPERIAL, NEW MEXICO

Queenstake holds a 50% interest in 22 patented and unpatented claims which include the Gold King-Imperial and Jim Crow mines located in Grant County in southwest New Mexico and has the right to increase its interest to 100% by making a payment of \$300,000 U.S.

Development and exploration drifting carried out by Queenstake at the Jim Crow workings has explored the vein system to a depth of 300 feet, and at the Imperial shaft to the 200 foot level. Exploration at the Gold King-Imperial mine project since 1981 has delineated two shoots approximately 200 feet apart in the Imperial Mine and at least one shoot in the Jim Crow Mine, with potential reserves in excess of 180,000 tons at an average grade of 0.10 ounces gold per ton and 3.5 ounces silver per ton.

A three hole diamond drill program carried out in late 1984 expanded the reserve base and confirmed the potential for very high grade "bonanza" type ore at a relatively shallow depth below the present Imperial Mine workings, and at the same elevation as the Jim Crow 300 level. The Imperial vein, cut in diamond drill hole 84-3, contained a one foot section of sulfide vein which assayed 2.2 ounces gold and 412 ounces silver per ton, with ten feet of vein averaging 0.269 ounces gold and 45.53 ounces silver per ton. A drilling program is planned for April of 1987 to expand on the known reserves both along strike and down dip from the previous drill intercepts.

WESTMONT JOINT VENTURES:

Queenstake is participating in two joint ventures with Westmont Mining Inc. (formerly Nicor Mineral Ventures) of Denver, Colorado, wherein Westmont has provided exploration program funding for acquisition of an interest in the properties.

Mt. Hamilton, Nevada

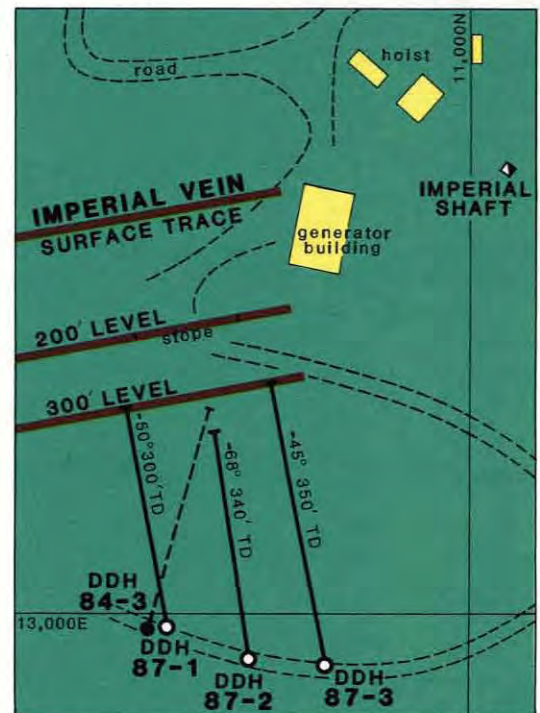
At Mount Hamilton, in eastern Nevada, the joint venture is continuing to evaluate a sediment-hosted bulk tonnage gold deposit peripheral to a deeper porphyry-skarn hosted tungsten-copper-molybdenum deposit.

Westmont is planning to carry out a \$250,000 U.S. exploration program on the properties in 1987. Queenstake has elected not to participate in this exploration program and, accordingly, expect to have our interest in the property converted to a 2½% net returns royalty.

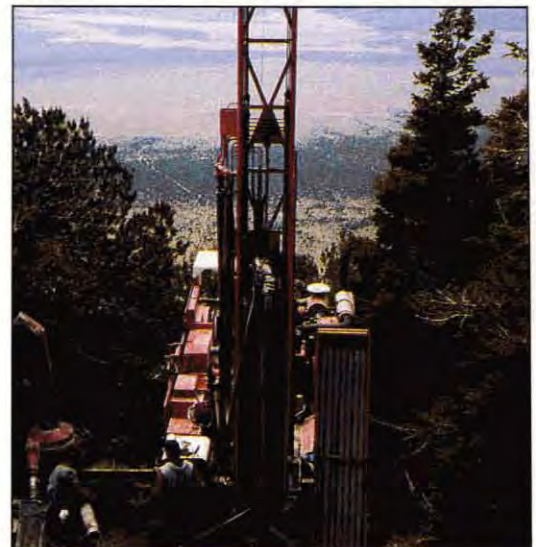
Riverside Pass, California

At Riverside Pass, Imperial County, California, Westmont is planning to carry out a program of reverse circulation drilling on geophysical targets defined in 1986 at this detachment-hosted disseminated gold target. Surface mapping and geophysical and geochemical surveys have defined an area of gold mineralization controlled by low-angle detachment faulting which was confirmed by drilling in 1985. Westmont has proposed a \$288,000 U.S. exploration program consisting of 35 reverse circulation drill holes and three diamond drill holes to evaluate four target areas on the claims block. Queenstake retains a 25% carried interest in this project.

Gold King - Imperial Mine Site



The 1987 first phase of drilling at the Gold King-Imperial Mine will test for extensions of the high grade intercept in DDH 84-3 (see front cover).

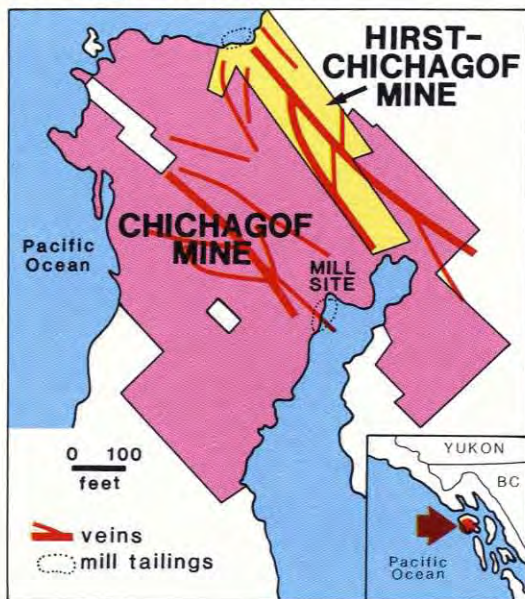


Westmont's drilling at the Mt. Hamilton Mine property has indicated zones of sediment hosted bulk tonnage gold mineralization.



CHICHAGOF GOLD MINES, ALASKA

Chichagof Gold Mines



Gordon Gutrath, examines the drift face in the Big Croppings vein, a quartz vein which appears to be a typical Chichagof ore shoot.

Kilborn Engineering is presently conducting a valuation review of the Chichagof and Hirst Chichagof Mines, located approximately 50 miles northwest of Sitka, Alaska. The Chichagof Joint Venture (Queenstake Resources - 37.5%, Exvenco - 32.5% and Ventures Trident Vector Mining - 30%) intends to transfer all of its interest in the Chichagof and Hirst Chichagof properties to a new company, Sitka Gold Inc., for shares of that company and then plans to take Sitka Gold Inc. public.

The Venture partners have spent \$3 million on the property and developed fourteen gold targets. In the highest priority target, the "Big Croppings" vein, gold mineralization was traced for 500 feet along surface and drill holes intersected the vein at 200 and 400 feet under the surface. A 1930's production drift was extended to intercept the vein 600 feet below surface and exposed the vein for 290 feet along strike with a vein width up to 5.0 feet. The grade, geometry, and statistical studies all indicate that this vein may be a typical high-grade Chichagof ore shoot.

In 1986 the Venture acquired the adjacent Hirst-Chichagof mine, the second primary target. Early workings were reopened giving access to the Kay vein, and a crosscut was driven to allow the vein to be drilled. Historical data regarding the Kay vein and the drill results indicate that the vein geometry and grade suggest a typical Chichagof ore shoot.

A \$2 million budget is planned to continue the development of these veins and to drill one or more of the remaining 12 targets. The planned exploration program has the potential of demonstrating adequate reserves in the Kay and Big Croppings shoots to advance the project to production feasibility by year-end.

The schedule for the public financing of Sitka Gold Inc. would provide cash proceeds in July - August, 1987. Until that time holding costs for the property are to be funded from a private share placement to raise \$200,000.

BOLERO JOINT VENTURES:

Queenstake has funded exploration of four of its U.S. hardrock precious metals properties through a joint venture with Vancouver based Bolero Resources Inc.

Quartz Hill Property, Montana

In January of 1987, Queenstake and Bolero entered into a joint venture agreement to continue exploration of the Quartz Hill property consisting of 4,500 acres of patented and unpatented claims in Beaverhead County, southwestern Montana, whereby Bolero may earn 51% of Queenstake's optional 80% interest in the project by expending \$350,000 U.S. in exploration on or before December 31, 1989 and may increase its interest to 60% by spending an additional \$100,000 U.S. prior to December 31, 1990. Exploration conducted by Queenstake has defined 102,225 tons of drill indicated and inferred geological reserves at an average grade of 12.22 ounces per ton of silver on three parallel vein systems in the northern part of the district. Ongoing exploration of the property will consist of diamond drilling to extend the known ore blocks along strike and down dip, as well as deeper drilling to test replacement targets.

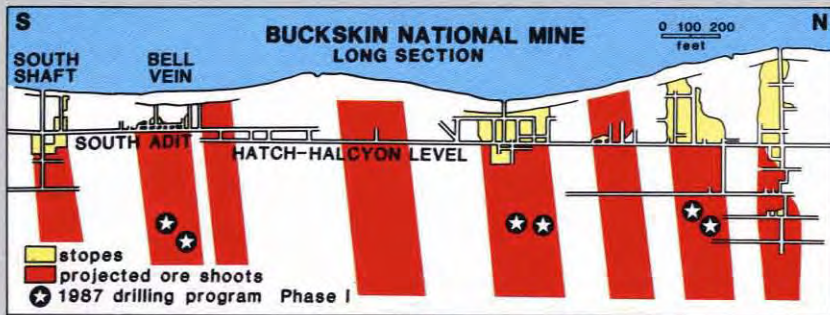


Buckskin National Mine, Nevada

The primary property of interest in the joint venture is the Buckskin National Mine located twenty miles south of the Nevada-Oregon border. The Bell Mine on the property produced 24,000 ounces of gold and 300,000 ounces of silver from 34,000 tons of ore (0.705 ounces gold per ton, 8.82 ounces silver per ton) between 1906 and 1941. Queenstake holds an option to earn a 60% interest in the property and Bolero can earn one-half of this interest by funding exploration of the property.

An exploration drilling program consisting of eight diamond core holes was completed in 1986, substantiating the reserve estimates of ASARCO. Additional reserves were located in the southern portion of the Bell mine. Total drill indicated and inferred geological reserves for the mine now stand at 138,351 tons at an average grade of 0.363 ounces per ton gold and 3.37 ounces per ton silver.

Additional diamond drilling is planned in 1987 to further define the grade and tonnage of reserves along strike of the Bell vein system, both in the area of the known reserves and to the north.

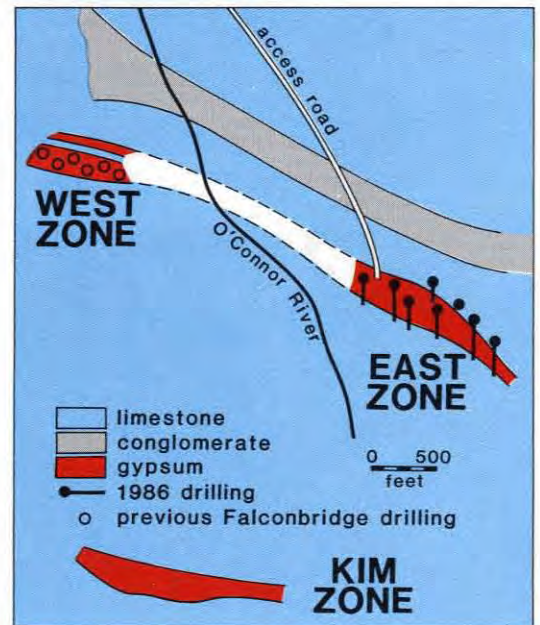
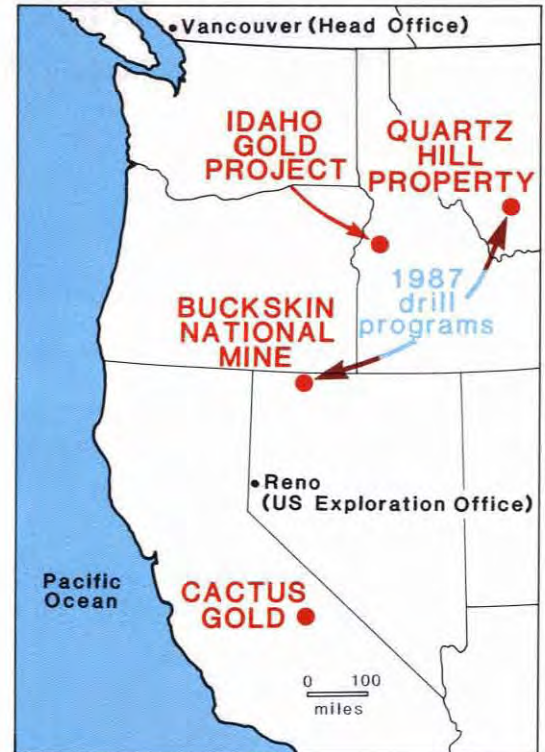


O'CONNOR RIVER GYPSUM PROPERTY, BRITISH COLUMBIA

Queenstake holds a participating 50% interest in this north-west B.C. deposit. Following the 1986 drilling program in which the tonnage and grade of the East Zone of the O'Connor River gypsum deposit was established a market study was commenced, with government assistance, and a gypsum transportation study is planned for 1987.

Queenstake Resources Ltd.

Bolero Joint Venture Property Locations





Hydraulic ground sluicing uses high pressure water jets for a low cost removal of thawed organic cover from the pay gravels.



A Queenstake 350 ton bucketline dredge in operation at Clear Creek, Yukon.



Placer gold nuggets, as recovered from the sluice box, command a premium price in sales to commercial jewellery factories.



PLACER GOLD OPERATIONS/EXPLORATION

A full season of B.C. and Yukon placer mining and exploration programs are planned. Queenstake is continuing its evaluation of B.C. and Yukon placer operations to expand its reserves and production rate.

Clear Creek, Yukon

From 1981 to 1986 the bucketline dredge operation on Clear Creek has processed 1,207,046 cubic yards of gravel recovering 11,900 ounces of gold. In 1986 the dredge processed 199,500 cubic yards recovering 1,136 ounces of gold. The volume and grade to be mined in 1987 are expected to be very similar to 1986.

The dredge is expected to start mining on June 15 and continue until October 15, 1987 processing 204,000 cubic yards. Careful attention will be given to digging the deeper portion of the gravels and to minimize dilution by panning samples from the bucket line on a regular daily shift basis. Limited stripping will be done in 1987 since the ground is already prepared for mining resulting in somewhat lower operating costs than in 1986.

The dredge is in its eighth year of continuous operation. The final 200,000 cubic yards of dredgeable reserves will allow the operation to continue through the 1988 mining season.

Maisy May Creek, Yukon

In 1986, 165,350 cubic yards were mined producing 2,105 ounces of gold. In October, 1986, three lines of 11 holes were drilled to assist in developing the 1987 mining plan.

An additional six monitors have been built over the winter and with additional pipe on site the hydraulic monitoring program will reduce stripping costs in 1987.

The grade of the reserves continues to improve as the mining progresses upstream. The drilling completed in late 1986 indicates that a grade of 0.013/cubic yard can be achieved for the reserves to be mined in 1987. In 1983, a bulk mining program 5,000 feet upstream processed 10,000 yds grading 0.022 oz/cubic yard. In 1986 a 100 cubic yard check sample sluiced from this same area recovered a grade of 0.018 oz/cubic yard.

Black Hills Creek, Yukon

Since 1975, 27,252 ounces of gold (10,420 ounces by Queenstake) were recovered from 1,705,834 cubic yards (948,000 cubic yards by Queenstake) with an average grade of 0.016 ounces per cubic yard.

In 1986 a total of 225,900 cubic yards of gravels were processed producing 2,460 fine ounces of gold. In 1987 a trommel screen gravel classifying unit will be used to process material in the upper reserve area of Black Hills Creek. This system is expected to improve gold recovery from the tailing reserves. The downstream operation will be limited to a reserve area already developed for mining in 1986. Low cost stripping will continue in the area to prepare the reserves for full scale mining in 1988.

It is estimated that the reserves at Black Hills in all categories is 1.4 million cubic yards with an average grade in the range of 0.01 ounces per cubic yard.

There are 400,000 cubic yards upstream from the 1987 reserve area estimated to have a grade ranging from 0.013 oz/cubic yard to 0.02 oz/cubic yard. There are an estimated 246,000 cubic yards downstream that is partially developed with a grade ranging from 0.01 oz/cubic yard to 0.03 oz/cubic yard. Downstream from the above areas there is a potential 1,900,000 cubic yards at an inferred grade of 0.01 oz/cubic yard. This area will be explored in 1987.

Moyie River, B.C.

In 1985, Queenstake acquired six kilometers of placer leases on the Moyie River in southeastern B.C., near Cranbrook. From Cranbrook the property is accessible by a 14 mile all-weather road.

A drill program is planned to evaluate the Moyie River pay channel upstream from the 1986 testing area. The success of Moyie River placer project will add significant placer gold reserves and will allow for a much longer mining season than is possible in the Yukon. The first phase of the 1987 drilling program has indicated that the gradient and nature of the bedrock is ideal for the entrapment of placer gold. The area to be bulk sampled in 1987 is still being drilled and preliminary results are very encouraging. A major diversion channel to allow these reserves to be bulk sampled has just been completed.

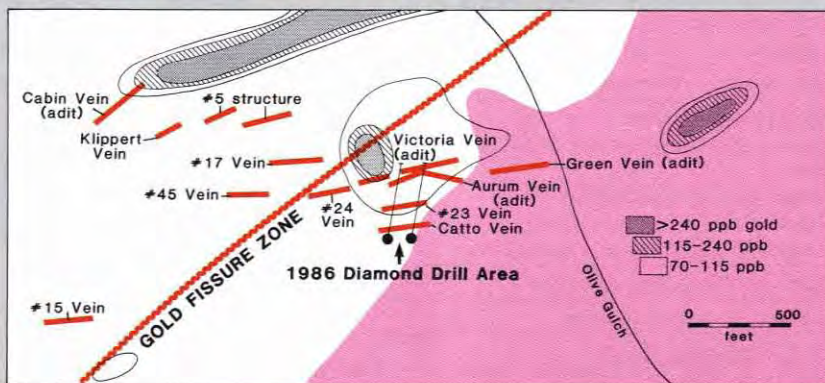
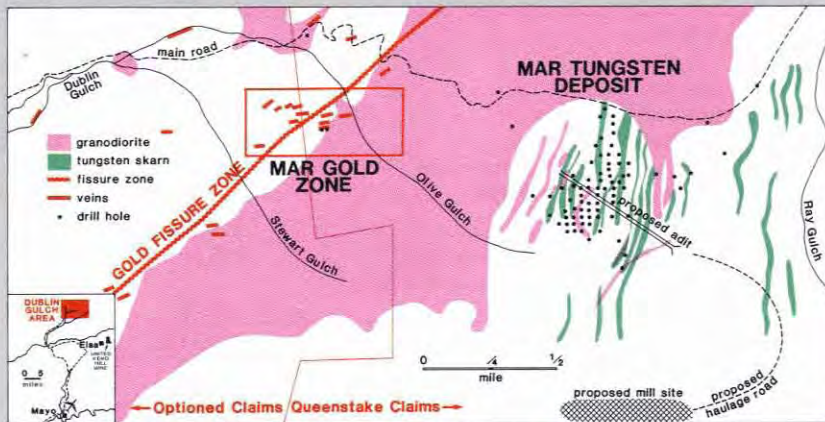
The reserve potential at the Moyie River project is in the order of 400,000 cubic yards with a grade of 0.05 to 0.08 ounces per cubic yard.



In the 1986 bulk sample at Moyie River, B.C., a hoe-scraper operation excavates a 40 foot deep pit to expose the bedrock pay channel.

MAR GOLD/TUNGSTEN PROPERTY, YUKON

On claims contiguous to the Company's Mar Tungsten deposit, the Mar Gold Vein System near Mayo, Yukon has been traced for a distance of 20,000 feet. Within this system a shear zone-quartz-sulphide system containing 14 known veins extends over a strike length of 2,500 feet and a width of 900 feet. During 1986 four of these veins were tested by diamond drilling indicating excellent down dip and strike continuity. The drilled section of the Catto vein in Hole 86-4 assayed 1.30 ounces per ton gold over 1.4 feet and in Hole 86-2, 300 feet to the west, assayed 1.76 ounces per ton gold over 1.4 feet. The drill section from the No. 23 vein assayed 2.177 ounces per ton gold over 1.64 feet. Further drilling is required to evaluate the extent of these vein systems and the correlation between high gold values and their proximity to an intrusive contact. A third major gold geochemical anomaly occurs over a distance of 1,700 feet and is underlain by the granodiorite stock. Grab samples of quartz material from the eastern end of this anomaly assayed 0.926, 0.768 and 1.60 ounces per ton gold. Additional trenching, drilling and sampling is planned to evaluate these zones in 1987.



Consolidated Statement of Earnings and Retained Earnings

	Note	Year Ended December 31,	
		1986	1985
Revenues			
Gold sales		\$ 1,339,928	\$ 2,102,719
Oil sales		77,450	136,325
Management fees and other		283,930	144,249
		<u>1,701,308</u>	<u>2,383,293</u>
Costs and expenses			
Direct operating		1,411,382	1,656,062
Depreciation and depletion		1,269,920	916,058
General and administrative		327,988	242,397
Interest	5	157,261	149,651
		<u>3,166,551</u>	<u>2,964,168</u>
Write down of resource properties and equipment	3	3,688,872	523,135
		<u>6,855,423</u>	<u>3,487,303</u>
Operating loss before income taxes		5,154,115	1,104,010
Recovery of income taxes	7	372,400	379,000
Operating loss		4,781,715	725,010
Share of loss of Canyon Resources, Inc.		132,975	50,528
Net loss		<u>\$ 4,914,690</u>	<u>\$ 775,538</u>
Net loss per share	8	\$ (0.86)	\$ (0.16)
Retained earnings, beginning of year		\$ 253,949	\$ 1,029,487
Net loss		4,914,690	775,538
Retained earnings (deficit), end of year		<u>\$(4,660,741)</u>	<u>\$ 253,949</u>

Consolidated Cash Flow Statement

	Year Ended December 31,	
	1986	1985
Operating activities		
Net loss	\$(4,914,690)	\$ (775,538)
Items not involving cash		
Depreciation and depletion	1,269,920	916,058
Deferred income taxes	(372,400)	(379,000)
Share of loss of Canyon Resources, Inc.	132,975	50,528
Write down of resource properties and equipment	3,688,872	523,135
Working capital from (used for) operations	(195,323)	335,183
Net increase in accounts receivable, inventories and payables	86,005	113,525
Cash from (used for) operating activities	<u>(109,318)</u>	<u>448,708</u>
Investing activities		
Resource property costs recovered	473,298	336,956
Premiums from flow-through shares	640,111	391,000
Expenditures on resource properties and equipment	(2,882,166)	(2,802,879)
Cash used for investing activities	<u>(1,768,757)</u>	<u>(2,074,923)</u>
Financing activities		
Issue of and subscriptions for shares (net of issue costs)	2,539,230	1,407,052
Shares held by a subsidiary	(738,000)	-
Share subscriptions receivable	220,493	(370,493)
Long-term debt (net of repayments)	(182,323)	646,190
Cash from financing activities	<u>1,839,400</u>	<u>1,682,749</u>
Increase (decrease) in cash	<u>(38,675)</u>	<u>56,534</u>
Cash, beginning of year	84,759	28,225
Cash, end of year	<u>\$ 46,084</u>	<u>\$ 84,759</u>



Consolidated Financial Statements and Auditors' Report to the Shareholders

Year Ended December 31, 1986

	Note	December 31, 1986	December 31, 1985
Assets			
Current assets			
Cash		\$ 46,084	\$ 84,759
Accounts receivable		576,074	81,001
Share subscriptions receivable	6	150,000	370,493
Inventories	2	148,900	244,280
		921,058	780,533
Investment in Canyon Resources, Inc.		69,654	202,629
Resource properties and equipment	3	13,830,708	17,020,743
		\$14,821,420	\$18,003,905
Liabilities			
Current liabilities			
Operating bank loan	4	\$ 424,177	\$ 400,000
Accounts payable and accrued liabilities		635,981	150,283
Current portion of long-term debt	5	300,000	300,000
		1,360,158	850,283
Long-term debt	5	884,602	1,091,102
Deferred income taxes		-	372,400
		2,244,760	2,313,785
Shareholders' Equity			
Share capital	6	17,837,366	15,014,478
Share subscriptions	6	138,035	421,693
Retained earnings (deficit)		(4,660,741)	253,949
		13,314,660	15,690,120
Less cost of shares held by a subsidiary	6	(738,000)	-
		12,576,660	15,690,120
		\$14,821,420	\$18,003,905

Approved by the board of directors



Director

Director

Queenstake Resources Ltd.

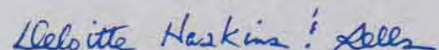
Consolidated Balance Sheet

Auditors' Report

To the Shareholders of
Queenstake Resources Ltd.:

We have examined the consolidated balance sheet of Queenstake Resources Ltd. as at December 31, 1986 and the consolidated statements of earnings and retained earnings and of cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



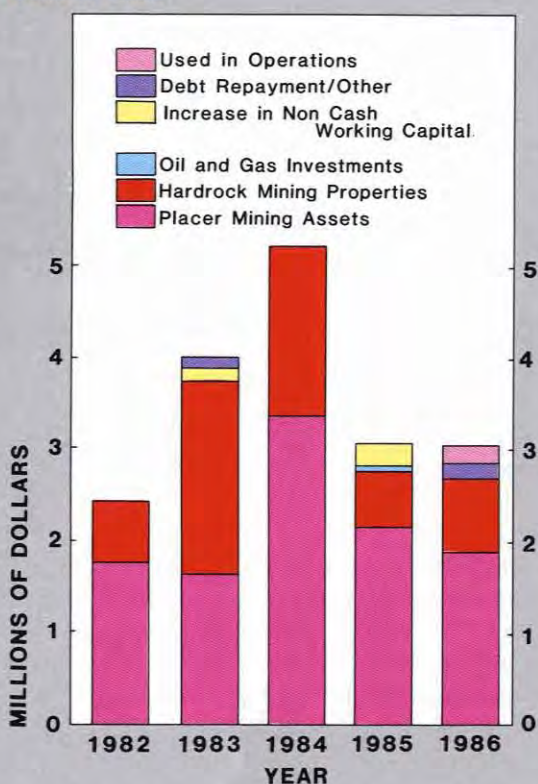
Chartered Accountants
March 20, 1987



Notes to the Consolidated Financial Statements

Year Ended December 31, 1986

Uses of Cash



Uses of cash - Almost all of the Company's cash resources have been applied to the acquisition, exploration, development and equipping of placer and hardrock mineral properties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation. The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Queenstake Resources U.S.A., Inc. and QT Resources Ltd.

Joint Ventures

Some of the company's mining and oil and gas activities are conducted jointly with others. These financial statements reflect only the company's proportionate interests in such activities.

Foreign currencies

Accounts maintained in U.S. dollars have been translated into Canadian dollars as follows:

- Monetary assets and liabilities - at the rate of exchange prevailing at the balance sheet dates.
- Non-monetary assets including depreciation and depletion - at exchange rates prevailing at the time of acquisition of the assets.
- Revenues and other expenses - at exchange rates prevailing on the dates of the transactions.

Gains and losses on translation are included in earnings.

Inventories

Inventories of gold are valued at the lower of the average cost of production and net realizable value. Inventories of supplies and materials are valued at approximate average cost.

Investment in Canyon Resources, Inc.

The company's 12½% interest in Canyon Resources, Inc. (Canyon) is accounted for using the equity method whereby the company's share of earnings and losses is included in earnings and the company's investment therein is adjusted by a like amount. The difference between the original cost of the investment and the company's share of the net assets of Canyon at the date of acquisition, net of accumulated amortization, was charged to earnings in the year.

Mineral properties and equipment

The company accounts for its mineral properties whereby all costs (including overhead charges; 1986 - \$160,000, 1985 - \$227,380) net of preproduction revenue and government assistance, relative to the acquisition of, exploration for and development of these properties are capitalized by property. For this purpose, the placer gold properties in selected historically productive areas are, in each area, treated as one property. All sales and option proceeds received are first credited against the costs of the related properties, with any excess credited to earnings. No gains or losses are recognized on the partial sale or disposition of properties except in circumstances which result in significant dispositions of reserves. Provision is made, where appropriate, for permanent declines in value. Once commercial production has commenced, these net costs are charged to future operations on a unit-of-production method based on estimated recoverable reserves, by property. The net costs related to abandoned properties are charged to earnings.

Buildings and equipment are carried at cost. Depreciation is provided using the straight-line method at annual rates ranging from 4% to 20%. No depreciation is provided on mining equipment until put into use for either exploration, development or production purposes.

Oil and gas properties

The company follows the "successful efforts" method of accounting for its oil and gas properties whereby all costs relative to the acquisition of, exploration for and development of these properties are capitalized by field. Such costs include lease acquisition costs, geological and geophysical expenses, lease rentals on undeveloped properties, costs of drilling productive wells and all technical expenses directly related to exploration and development activities. Provision is made, where appropriate, for permanent declines in value. No gains or losses are recognized on the sale or disposition of properties except in circumstances which result in significant dispositions of reserves. Depletion of net capitalized costs is charged to future operations on a unit-of-production method based on the estimated life of recoverable reserves, by field. Costs associated with dry holes and abandonments are charged to earnings.

Revenues

Revenues from metals and hydrocarbon production are net of royalties and treatment charges.

Revenues from the sale of metals are recognized when legal title passes to the buyer. Settlement adjustments arising from final determination of metal weights and assays are reflected in sales when received. Sales include gains and losses arising from forward sales contracts.

Placer preparation costs

Production preparation costs of operating placer properties and related overhead charges (including depreciation) are charged to earnings over the year in which they are incurred.

Flow-through shares

Share premiums from issues of flow-through shares are excluded from share capital and share subscriptions. Such premiums relating to tax advantages passed on to the investors are credited to the related exploration costs.



2. INVENTORIES

	December 31,	
	1986	December 31, 1985
Gold	\$ 8,900	\$ 34,280
Supplies and materials	140,000	210,000
	\$ 148,900	\$ 244,280

3. RESOURCE PROPERTIES AND EQUIPMENT

	December 31,		December 31,	
	1986	December 31, 1985	1986	December 31, 1985
	Cost	Accumulated depreciation and depletion	Net	Net
Mineral properties				
- operating	\$ 7,956,530	\$ 4,943,517	\$ 3,013,013	\$ 5,799,039
- exploration and development	7,021,041	—	7,021,041	6,406,615
Mining equipment				
- operating	4,053,504	1,270,051	2,783,453	2,742,144
- exploration and development	811,661	119,132	692,529	1,150,616
Building under capital lease	150,000	—	150,000	—
Oil and gas producing properties	1,378,397	1,312,988	65,409	823,052
Office equipment	161,147	55,884	105,263	99,277
	\$ 21,532,280	\$ 7,701,572	\$ 13,830,708	\$ 17,020,743

As a result of the abandonment and write down of certain United States and Canadian exploration properties and equipment, \$3,688,872 was charged to earnings in 1986 (1985 - \$523,135). The total write down includes a provision against the Yukon Area of Interest placer properties, idle mining equipment and oil and gas interests.

The carrying values of mineral properties include \$2,883,028 of costs incurred on behalf of investors on issues of and subscriptions for flow-through shares which are not deductible by the company for income tax purposes. An amount of \$1,031,111 representing the premium on issues of flow-through shares has been deducted from the cost of mineral properties.

4. OPERATING BANK LOAN

The company has an operating bank line of credit in the amount of \$500,000 with interest at bank prime rate plus ½%. As at December 31, 1986, \$424,177 (December 31, 1985, \$400,000) was drawn down. This loan is secured by an assignment of accounts receivable and inventory of minerals and related products.

5. LONG-TERM DEBT

	December 31,	
	1986	December 31, 1985
Bank loan	\$ 675,000	\$ 975,000
Agreements payable	409,602	416,102
Obligation under capital lease	100,000	—
	1,184,602	1,391,102
Less: amounts due within one year	300,000	300,000
	\$ 884,602	\$ 1,091,102

The company has a term bank loan of \$675,000 with interest at bank prime rate plus 1% payable in equal monthly payments of principal plus interest. This loan is secured by certain pieces of mobile heavy equipment and matures on March 8, 1989 with options for early repayment on October 26 in 1987 and 1988.

Dredge purchase agreements (\$294,000 at December 31, 1986 and at December 31, 1985) are interest-free and are payable at a rate of 5% of the company's net profits (after recovery of all capital and operating costs) from mineral properties on which the company may operate the dredges, with any unpaid amount due by December 31, 1990. No amounts are expected to be payable within the next twelve months.

A property purchase agreement (\$115,602 at December 31, 1986 and \$122,102 at December 31, 1985) is payable at a rate of 5% of gold produced from the property or, at the option of the vendor, by the issue of common shares of the company at any time on or before September 30, 1988. The indebtedness is interest free and no amounts are expected to be payable in the next twelve months.

The company has an obligation under capital lease of \$100,000 for a warehouse constructed in Whitehorse and used as repair facilities. The lease is payable over eight years, commencing in 1989, with interest of 10% per annum.

Interest on the long-term debt amounted to \$98,645 (1985 - \$97,516).

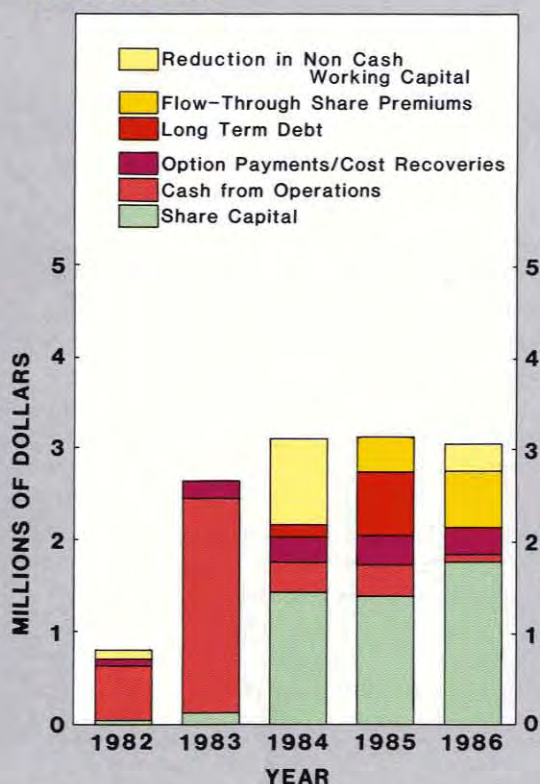
MANAGEMENT'S ANALYSIS OF OPERATING RESULTS

Gold sales revenues for 1986 include only part of the 6,375 fine ounces of gold produced (1985 production-6,246 fine ounces). Of total 1986 gold production, 1,950 ounces were transferred to a limited partnership under an agreement which financed production costs and resulted in a net increase in operating cash flow. Sales proceeds from the 1,097 ounces of gold recovered from bulk sampling programs were applied to reduce the carrying value of resource properties.

The major item in the Company's 1986 earnings statement is the reduction in carrying values of its resource properties and equipment. This reduction is an aggregate of write downs of resource properties where the value was considered reduced or impaired through lowered reserves (chiefly at Preido Hill and Black Hills Creek) or poor exploration results, write downs of the cost of Queenstake's two 450 ton bucketline dredges in the Central Yukon which are idled, awaiting acquisition of an economic reserve and an across the board write down of the Company's investment in oil properties which have performed poorly due to weak crude prices. These write downs, totalling \$3,688,872, reduce the stated book value of assets and result in a cumulative deficit. However, balance sheet values are now more conservative, and this leaner base will improve future Queenstake earnings.



Sources of Cash



Sources of Cash - Share capital, operating cash flow and a limited amount of debt have provided the funds for Queenstake's mineral exploration and production activities.

6. SHARE CAPITAL

Authorized - 10,000,000 common shares without par value

Issued and outstanding:

	Number of Shares	Amount
Balance at December 31, 1984	4,825,200	\$ 14,026,519
Issued in 1985		
Flow-through shares for cash (net of issue expenses)	189,394	566,869
In exchange for mineral properties	130,410	441,990
For stock options exercised	6,000	12,400
Less stock options cancelled	(5,000)	(33,300)
Balance at December 31, 1985	5,146,004	15,014,478
Issued in 1986		
Flow-through shares for cash (net of issue expenses)	627,139	1,213,967
In exchange for mineral properties	92,831	200,038
In exchange for mining equipment	20,000	37,750
In exchange for gold	657,039	1,371,133
Balance at December 31, 1986	6,543,013	\$ 17,837,366

At December 31, 1986 the company had received subscriptions of \$138,035 for 78,582 shares (which were issued by February, 1987). During the year, a company which is now a subsidiary purchased 431,026 shares of the company for \$738,000.

Under the company's employee and directors' incentive stock option plan, ten-year options are granted to employees and directors at market value which may be exercised by employees as to 20% per year on a cumulative basis, and by directors at any time. Options outstanding under this plan are as follows:

December 31, 1986		
Year Exercisable	Number of Shares	Average Exercise Price
1987	233,600	\$2.10
1988	45,800	\$2.08
1989	45,800	\$2.08
1990	45,800	\$2.08
1991	3,000	\$1.77
	374,000	

Options include share appreciation rights which entitle the optionee to receive cash in lieu of shares and terminate the option.

The company has a share purchase plan for its employees and contributes one-half of the cost of shares purchased. During the year 25,532 shares were purchased under this plan and are included in share subscriptions at December 31, 1986.

7. INCOME TAXES

The company's effective tax rate differs from its statutory tax rates for the following reasons:

	Year Ended December 31,			
	1986	1985		
	Amount	%	Amount	%
Operating loss	\$ (5,154,115)		\$ (1,104,010)	
Recovery of income taxes thereon at the statutory rates	\$ 2,391,509	46.4	\$ 512,261	46.4
Increase (decrease) resulting from:				
Losses for which future tax benefits were not recognized	(2,017,905)	(39.2)	(155,411)	(14.1)
Resource allowance	—		17,167	1.6
Other	(1,204)	—	4,983	.4
Recovery of income taxes	\$ 372,400	7.2	\$ 379,000	34.3

The company has a loss carry-forward for accounting purposes of approximately \$3,700,000 which arose primarily from charges to earnings in excess of amounts deducted for income tax purposes. Queenstake Resources U.S.A., Inc., has a loss carry-forward for accounting purposes of approximately U.S. \$1,800,000 which expires principally in the years 1995 to 1999. No future tax benefits have been recognized for these loss carry-forwards.

8. LOSS PER SHARE

The loss per share is based on the weighted average number of shares outstanding (excluding the shares held by the subsidiary) during each year. The potential effect on the loss per share of the outstanding options outlined in Note 6 was insignificant in both 1986 and 1985.



9. RELATED PARTY TRANSACTIONS

Canada Tungsten Mining Corporation Limited, which owned approximately 32% of the outstanding shares of the company at December 31, 1986 (38% at December 31, 1985), participates in several agreements and operations with the company. During the year Canada Tungsten terminated its option of the Mar Tungsten property for which \$483,000 of option payments had been made in the years 1980 through 1985.

During the year the company acquired a mining property owned in part by one of its directors in exchange for 12,000 shares of the company.

10. SEGMENTED INFORMATION

The classes of business of the company have been determined on the basis of its principal areas of investment - Mineral Properties and Oil and Gas Properties. Identifiable assets by class of business are those assets that are used in the company's operations in each class.

Information by class of business and geographic area as at December 31, 1986 and 1985 and for the years then ended are as follows:

	INDUSTRY SEGMENTS		Consolidated Total
	Mining	Oil & Gas	
1986			
Total revenues	\$ 1,623,858	\$ 77,450	\$ 1,701,308
Segment operating loss	(3,927,248)	(874,593)	(4,801,841)
General and administrative expenses			(327,988)
Interest expense			(157,261)
Income tax recovery			372,400
Net loss			(4,914,690)
Identifiable assets	14,682,269	139,151	14,821,420
Capital expenditures	2,882,166	—	2,882,166
Depreciation and depletion	1,133,056	136,864	1,269,920
1985			
Total revenues	\$ 2,246,968	\$ 136,325	\$ 2,383,293
Segment operating loss	(638,833)	(123,657)	(762,490)
General and administrative expenses			(242,397)
Interest expense			(149,651)
Income tax recovery			379,000
Net loss			(775,538)
Identifiable assets	16,944,537	1,059,368	18,003,905
Capital expenditures	2,760,835	42,044	2,802,879
Depreciation and depletion	813,118	102,940	916,058

	GEOGRAPHIC SEGMENTS		Consolidated Total
	Canada	United States	
1986			
Total revenues	\$ 1,591,863	\$ 109,445	\$ 1,701,308
Segment operating loss	(3,654,395)	(1,147,446)	(4,801,841)
General and administrative expenses			(327,988)
Interest expense			(157,261)
Income tax recovery			372,400
Net loss			(4,914,690)
Identifiable assets	8,749,062	6,072,358	14,821,420
1985			
Total revenues	\$ 2,241,013	\$ 142,280	\$ 2,383,293
Segment operating loss	(381,653)	(380,837)	(762,490)
General and administrative expenses			(242,397)
Interest expense			(149,651)
Income tax recovery			379,000
Net loss			(775,538)
Identifiable assets	11,088,957	6,914,948	18,003,905

11. SUBSEQUENT EVENT

In March 1987, the company issued 989,900 units, each unit consisting of one common share and one share purchase warrant, for net proceeds of \$1,230,070. Each share purchase warrant entitles the holder to purchase one common share for \$1.44 at anytime until June 30, 1990. If this issue of shares had taken place on January 1, 1986, the pro-forma loss per share for 1986 would have been \$0.71.

COMPANY HISTORY
(10th Annual Report)

Queenstake Resources Ltd. had its beginnings ten years ago as a joint venture of its four founders; John A. McLallen and Patrick M. Reynolds, Lauch F. Farris and Gordon C. Guttrath. The joint venture was incorporated as Queenstake in 1977 after the acquisition of the Mar Tungsten property which subsequently was drilled by Canada Tungsten Mining Corporation Limited ("CTMC") resulting in substantial drill indicated and inferred tungsten reserves. The Company next acquired placer reserves at Clear Creek, Yukon and three large (350 to 450 ton) bucketline dredges, commencing dredge renovation and reserve preparation at Clear Creek in 1979.

In 1979-1980, CTMC, a subsidiary of Amax, Inc., invested directly for a controlling interest in the Company and participated in the exploration of placer gold and tungsten properties optioned from Queenstake. Queenstake has since increased its equity base adding cash flow from annual placer gold production of 6,000 to 8,000 ounces per year and acquiring and exploring an extensive inventory of precious metal reserves.



1987 First Quarter Report
- unaudited

**ANALYSIS OF
FIRST QUARTER
FINANCIAL RESULTS**

The first quarter of each year is a period of planning and preparation for the upcoming placer mining season, commencing in early June. The Company's winter maintenance program of the equipment fleet is well underway, and the budget and mine plans for the 1987 season are finalized.

The gold sales for the first quarter are proceeds from sale of gold inventory and do not include any gain or loss on forward sales contracts as it did last year. With the strong current gold price the Company has not sold forward any of its 1987 gold production.

Capital expenditures on resource properties were decreased from \$413,385 in the first quarter of 1986 to \$166,958 for the first quarter of 1987. The Company's major exploration projects commenced in April, 1987, financed primarily from flow-through share issues, exploration joint ventures and placer cash flow.

In March, the Company issued 989,900 units consisting of one common share and one share purchase warrant, for net proceeds of \$1,230,070, of which \$520,000 was received after March 31, 1987. The proceeds will be used to retire the Company's operating bank line of credit and to finance working capital, particularly the costs associated with the start-up of Queenstake's 1987 placer operations.

CONSOLIDATED STATEMENT OF EARNINGS

Three months ended March 31

	1987	1986
Revenues		
Gold Sales	\$ 6,812	\$ 171,425
Oil sales	18,016	18,427
Interest	1,827	1,439
Management fees and other	7,913	(962)
	<u>34,568</u>	<u>190,329</u>
Costs and expenses		
Direct operating	21,618	34,745
Depreciation and depletion	6,690	37,736
General and administration	48,046	34,770
Interest	37,197	50,536
Resource properties abandoned	—	10,492
	<u>113,551</u>	<u>168,279</u>
Operating earnings (loss) before income taxes	(78,983)	22,050
Provision for income taxes	—	(35,000)
Operating loss	(78,983)	(12,950)
Share of loss of Canyon Resources, Inc.	(4,180)	(10,770)
Net loss	\$ (83,163)	\$ (23,720)
Loss per share	(1¢)	(0¢)

CONSOLIDATED CASH FLOW STATEMENT

Three months ended March 31

	1987	1986
Operating activities		
Net loss	\$ (83,163)	\$ (23,720)
Items not involving cash		
Depreciation and depletion	6,690	37,736
Deferred income taxes	—	35,000
Resource properties abandoned	—	10,492
Share of loss Canyon Resources, Inc.	4,180	10,770
Working capital from (used for) operations	(72,293)	70,278
Accounts receivable	(78,652)	(213,428)
Inventories	(304,143)	(226,882)
Accounts payable	(444,442)	116,889
Cash used for operating activities	(899,530)	(253,143)
Investing activities		
Resource property costs recovered	13,603	—
Premiums from flow-through shares	—	90,000
Expenditures on resource properties and equipment	(166,958)	(413,385)
Cash used for investing activities	(153,355)	(323,385)
Financing activities		
Issue of and subscriptions for shares (net of issue costs)	1,252,344	220,837
Share subscriptions receivable	150,000	370,493
Bank loans (net of repayments)	(391,503)	(65,000)
Cash from financing activities	1,010,841	526,330
Decrease in cash	(42,044)	(50,198)
Cash, beginning of period	46,084	84,759
Cash, end of period	\$ 4,040	\$ 34,561
Working capital, end of period	\$ 512,597	\$ (177,019)

These statements have been prepared without audit
On behalf of the Board of Directors

 Director

 Director



Directors

RICHARD C. ATKINSON^{2,3}

Mining Engineer, P.Eng.
President and Chief Executive Officer of Getty Resources Ltd.

MERVYN K. COFFIN²

Administrator. Formerly Secretary, Canada Tungsten Mining Corporation Limited

LAUCH F. FARRIS¹

President, Fargo Resources Ltd. and Caprock Energy Ltd.

WAYNE D. LENTON^{1,2,3}

Metallurgical Engineer, P.Eng.
President and Chief Executive Officer, Canada Tungsten Mining Corporation Limited and President of Amax of Canada Limited

JOHN A. McLALLEN

Director, Westmin Resources; Chairman, Queenstake.

JOHN J. CROWHURST

Mining Engineer, P.Eng.
Director of Canada Tungsten Mining Corporation Limited

PATRICK M. REYNOLDS³

C.A., Vice Chairman, Queenstake

DONALD D. SHARP¹

C.A.
Vice President, Finance of Queenstake

RODNEY A. SNOW

Barrister and Solicitor Davis & Co.

COMMITTEES OF DIRECTORS:

1. Executive Committee
2. Audit Committee
3. Compensation Committee

Officers and Senior Employees

JOHN A. McLALLEN
Chairman of the Board

PATRICK M. REYNOLDS
Vice Chairman

GORDON C. GUTRATH
President

DONALD D. SHARP
Vice President, Finance

BEVERLY D. DOWNING
Corporate Secretary

DORIS A. MEYER
Controller

DAVID R. HEMBREE
Exploration Manager, Reno, Nevada

WAYNE J. LERNER
Yukon Placer Manager, Whitehorse, Yukon

Solicitors

Lawrence & Shaw
25th Floor, Bentall III
Vancouver, B.C.

DuMoulin, Black
1004 - 595 Howe Street
Vancouver, B.C.

Auditors

Deloitte Haskins & Sells
2000 - 1055 Dunsmuir Street
Vancouver, B.C.

Bank

Canadian Imperial Bank of Commerce
Burrard and Hastings Sts.
Vancouver, B.C.

Registrar & Transfer Agent

Royal Trust Company
555 Burrard Street
Vancouver, B.C. V7X 1K2

Subsidiaries

Queenstake Resources U.S.A., Inc.
QT Resources Ltd.

Listings

Toronto Stock Exchange (Symbol QTR)
The company's shares are also traded over the counter in the United States - market maker - National Securities, Seattle, Washington.

Capitalization

10,000,000 shares authorized
— no par value
7,223,457 issued as at April 12, 1987
Registered and Records Office
900 - 850 West Hastings Street
telephone: (604) 684-1218
Vancouver, B.C. V6C 1E1
telex: 04-508875

GORDON C. GUTRATH

Geologist, P.Eng. - 25 years in the mining industry as an exploration geologist and consultant. Mr. Gutrath has managed geological, mining engineering and contracting on many hardrock and placer projects in Canada, the United States and Mexico. President and Chief Executive Officer of Queenstake since 1977.

Queenstake Share Price vs. Price of Gold



ANNUAL MEETING

To be held on Wednesday, May 27, 1987 at 2:30 p.m. in the Social Suite West, Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C. An audiovisual presentation will be made and a Reception with Directors and Officers will follow the Meeting.