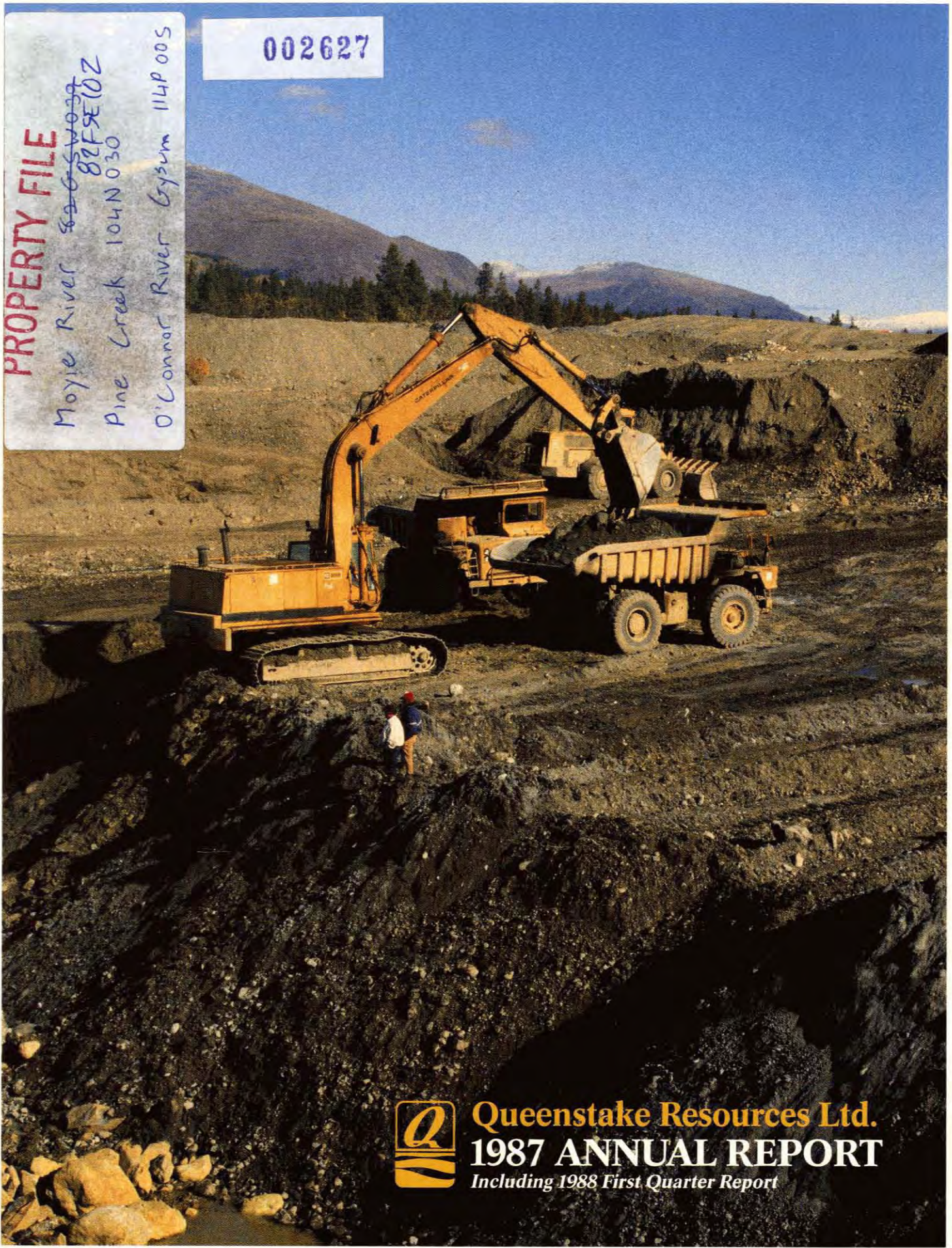


**PROPERTY FILE**

Moyie River ~~8905W039~~  
82F9E10Z  
Pine Creek 104N030  
O'Connor River Gypsum 114P005

002627



**Queenstake Resources Ltd.**

**1987 ANNUAL REPORT**

*Including 1988 First Quarter Report*



**1987 Annual Report**

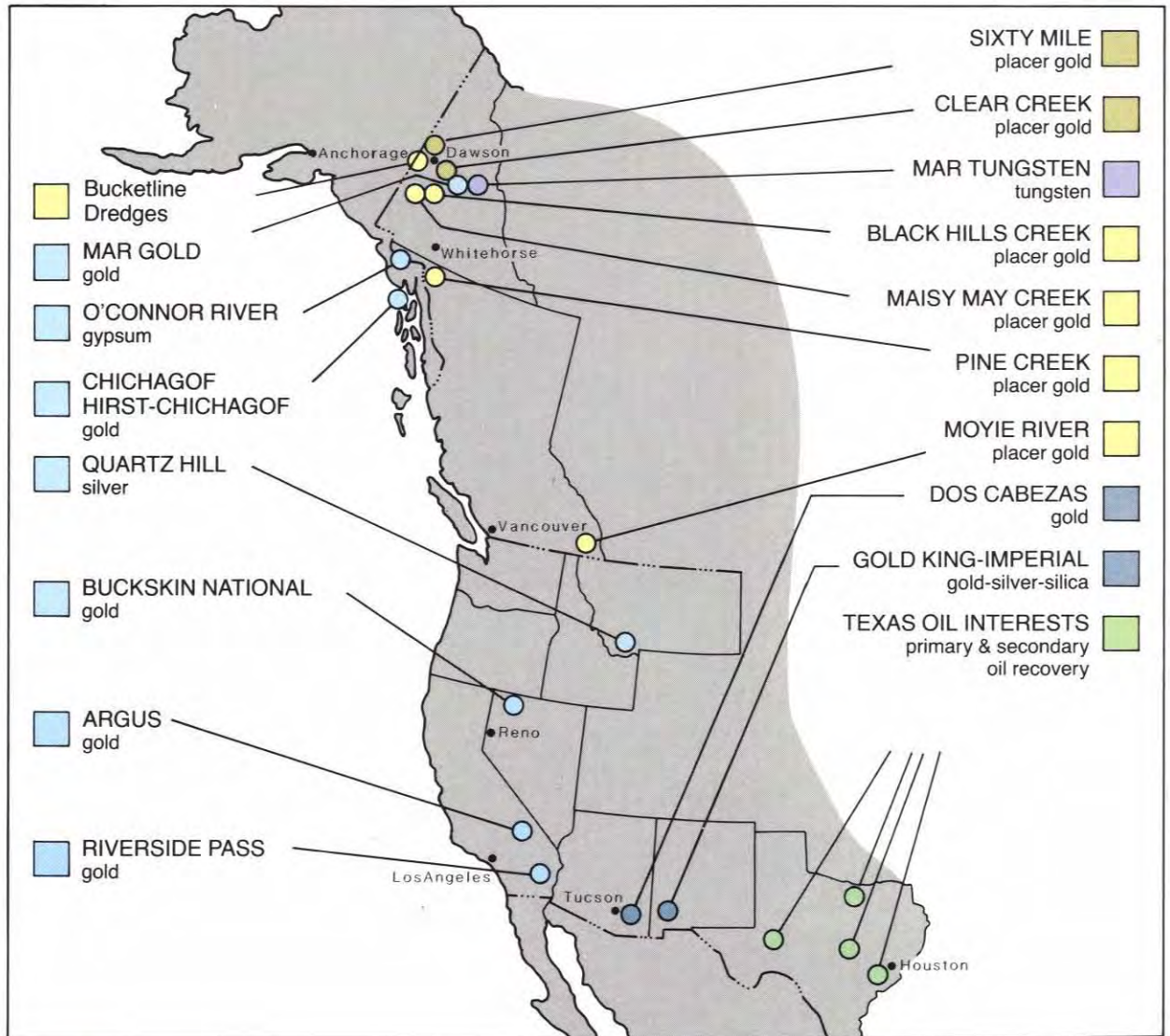
including 1988 First Quarter Report

**Front cover:**

Wayne Lerner, Yukon placer manager, and Ed Kolody, 1987 Pine Creek Manager inspecting Queenstake's Pine Creek, B.C. mining operation. A large excavator loads rock trucks which carry the pay gravels to a fixed washing plant where the placer gold is recovered. In 1987, the Pine Creek operation produced 7,002 ounces of gold.

Queenstake Property Locations .....	(inside front)	Argus Gold, California .....	10
President's Report/Highlights ...	1	Mar Gold and Tungsten Properties, Yukon .....	11
Financial Review and Outlook ...	2	O'Connor River Gypsum Deposit, B.C. ....	11
Ten Year Financial Summary ....	2	Dos Cabezas Mine, Arizona ...	12
Placer Gold Mining Operations:		Buckskin National Mine, Nevada .....	14
Placer Gold Production and Revenue .....	4	Quartz Hill Property, Montana .....	14
Pine Creek, Atlin, B.C. ....	5	Westmont Joint Ventures:	
Moyie River, British Columbia .....	6	Riverside Pass, California ...	14
Maisy May Creek, Yukon .....	7	Mt. Hamilton, Nevada .....	15
Black Hills Creek, Yukon .....	8	Gold King-Imperial Mine, New Mexico .....	15
Clear Creek, Yukon .....	8	Financial Statements:	
Bucketline Dredges .....	8	— 1987 .....	16
1987 Placer Mining Statistics ....	6	— 1988 First Quarter .....	23
Hardrock Exploration and Development:		Management's Analysis of Operating Results .....	19
Golden Sitka Resources Inc. Chichagof Gold Mines, Alaska .....	9	Corporate Directory ... (inside back)	

**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 eleventh Annual Report of your Company together with the audited financial statements for the year ended December 31, 1987 and financial statements for the quarter ended March 31, 1988.

In 1987, Queenstake achieved record gold production volumes, sale revenues and cash flow in its placer division, while increasing placer reserves with the acquisition of the Pine Creek property. Management is now undertaking a more active investor relations/market development program with the objective of ensuring that the market price of Queenstake shares increases to the level of standard industry multiples for reserves, gold production and cash flow.

In the hardrock Division the Dos Cabezas project was well advanced, and initial gold production is expected this year. Drill indicated gold reserves at the Argus property were increased from 23,000 ounces to 65,000 ounces by the Davenport Vein drill program.

Three million dollars was raised to carry out exploration and development work on the Chichagof Gold Mine by transferring the project to a new company, Golden Sitka Resources Inc., which then completed a primary public financing through the Vancouver Stock Exchange. Queenstake holds a 26% shareholding in Golden Sitka. Queenstake also increased its working capital during the year, and had a year-end cash balance of \$2.7 million.

During 1988, Queenstake will continue to aggressively evaluate new placer and hardrock projects. Placer reserves will be maintained and production increased, but the present corporate objective is to acquire a hardrock gold producer to increase and diversify cash flow.

Late in the year, a 19.9% shareholding in the Company was sold by Canada Tungsten Mining Corporation to a wholly owned subsidiary of Sandhurst Mining N.L. of Sydney, Australia at a price of \$1.76 per share. Sandhurst's investment in Queenstake is very positive given their expertise in development of placer deposits and in international finance. Richard Tinsley, Managing Director of Sandhurst, and Le Furlong, Deputy Chairman and Executive Director, have joined Queenstake's Board to take an active role in assisting Queenstake's growth.

Based on the doubling of Queenstake's gold production in 1987 which yielded net earnings of \$618,808 (9¢ per share) and operating cash flow of \$2,070,325 (29¢ per share), the board of directors has today declared the Company's initial semi-annual dividend payment of 2½¢ per share.

Thanks to the continuing efforts of Queenstake employees and the support of our shareholders, the Company expects to continue 1987's growth in placer gold revenues and cash flows, and we anticipate bringing one or two hardrock properties forward to the feasibility stage in 1988.

Gordon C. Gutrath  
President and Chief Executive Officer  
April 25, 1988

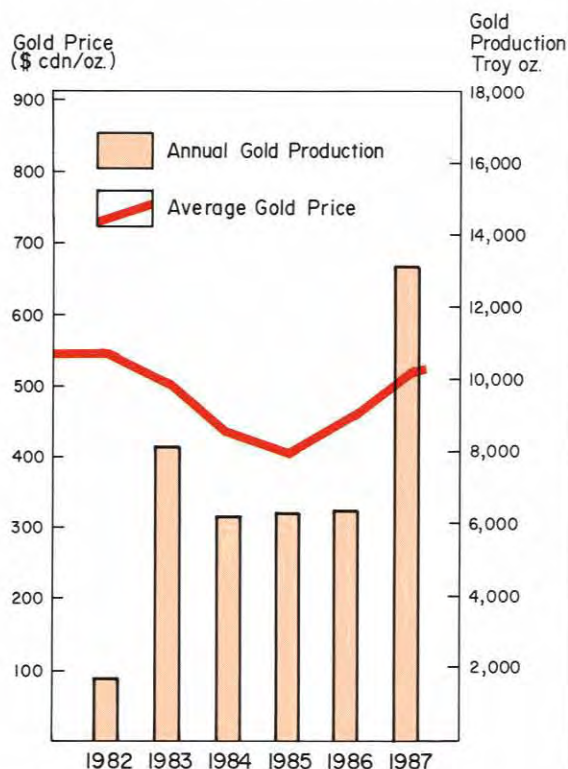
## 1987 HIGHLIGHTS

- Queenstake's placer gold production increased by 107%, from 6,375 ounces in 1986 to 13,222 ounces in 1987.
- With increased gold production, higher gold prices and the Company receiving the proceeds from 100% of net production, Queenstake's placer gold sales revenue increased by 417%, from \$1.3 million in 1986 to \$6.9 million in 1987.
- With the acquisition of the Pine Creek, Atlin property and equipment in mid-1987, Queenstake added 7,000 ounces of annual placer gold production capacity and approximately 23,000 ounces to the Company's placer gold reserves.
- In October, 1987, a 19.9% controlling share position in Queenstake was sold by Canada Tungsten Mining Corporation Limited to Sandhurst Mining N.L. at a price of \$1.76 per share.
- In October, 1987, \$3 million was raised by a new company, Golden Sitka Resources Inc., to fund ongoing Chichagof exploration. After the public distribution, Queenstake held 26% of the shares of Golden Sitka.
- Late 1987 drilling on the Argus project resulted in reserve increases (Davenport vein — 1,016,600 tons grading 0.064 ounces gold per ton).

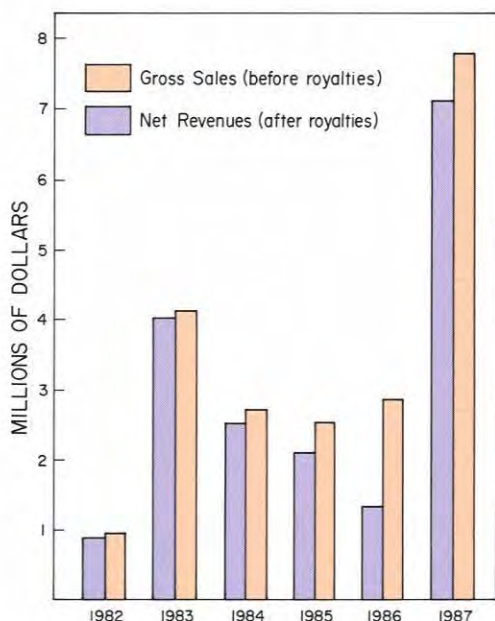


Queenstake was incorporated in 1977 by four founders: (seated) John A. McLallen (l), Gordon C. Gutrath (r), (standing) Patrick M. Reynolds (l), Lauch F. Farris (r).





The substantial 1987 increase in the value of Queenstake's gold production is due to a doubling of ounces produced and an increase in average gold price received.



In 1987, the percentage increase in net revenue was greater than the increase in value of production due to a 1986 hedging loss and a 1986 joint venture funding arrangement, not used in 1987.



## Financial Review and Outlook

For the year ended December 31, 1987, Queenstake's earnings were \$618,808 (9¢ per share) and cash flow from operating activities was \$2,070,325 (29¢ per share). This compares to a loss of \$4,914,690 (86¢ per share) and cash used for operating activities of \$109,318 (2¢ per share) for 1986. Queenstake's 1987 gold sales revenue were \$6,922,559 compared to \$1,339,928 in 1986.

From 1984 through 1986, Queenstake operated with a continual working capital deficiency, utilizing bank credit lines or bullion loans to bridge finance placer gold operations while maintaining its program of capital expenditures in presently non-income producing hardrock exploration and development projects.

In 1987, to restore working capital, Queenstake raised \$3.3 million from equity financings and purchased, for \$2.1 million, the Pine Creek, Atlin, B.C. placer property and equipment, which in turn produced operating cash flow of \$2.3 million, recovering its capital cost within four months of its acquisition and adding reserves for several more years of production at the same rate.

In March, 1988, Queenstake placed with a subsidiary of Sandhurst Mining NL, an equity issue of 400,000 units for net proceeds of \$532,000, increasing working capital and completing the Company's long term equity issues program. No further equity issues are planned unless warranted for larger scale project acquisitions.

The Company's 1988 placer gold mining operations are expected to show a marginal increase in output over 1987, and 4,500 ounces of 1988 gold production has been hedged at a price of U.S. \$504 per ounce with a floor price program for an

## Ten Year Financial Summary of Consolidated Financial Information

(\$000's except per share amounts)

	1987	1986	1985	1984
<b>Balance Sheet:</b>				
Total Assets	18,459	14,821	18,004	17,114
Liabilities	1,836	2,245	2,314	2,058
Shareholders Equity	16,623	12,576	15,690	15,056
Equity per common share	\$ 1.89	\$ 2.06	\$ 3.05	\$ 3.12
<b>Earnings:</b>				
Revenues	7,176	1,701	2,383	2,959
Earnings (loss)	619	(4,915)	(776)	(685)
Earnings (loss) per share	\$ .09	\$ (.86)	\$ (.16)	\$ (.15)
<b>Cash Flow:</b>				
Working capital from operations	2,089	(195)	335	331
Cash from operating activities	2,070	(109)	449	521
Cash from operating activities per share	\$ .29	\$ (.02)	\$ .09	\$ .11

additional 5,000 ounces, thus ensuring a good average gold price and strong placer cash flow for the year.

For 1989, the price of 3,000 ounces of production has been fixed at U.S. \$525 per ounce with a floor price minimum of U.S. \$375 per ounce for a further 5,000 ounces.

With initial cash flow expected from the Dos Cabezas Mine in 1988 and possible production from the Argus Mines in 1989, Queenstake's revenue and cash flow should achieve new highs in the next few years.



Gold bars cast by Degussa, Queenstake's gold refiner.

## Queenstake Resources Ltd.



Queenstake's share price historically has fluctuated around the price of gold.



Queenstake uses water monitors such as this hydraulic set-up at Maisy May Creek to inexpensively remove thawed overburden from pay gravels.

1983	1982	1981	1980	1979	1978
15,708	14,112	13,883	12,430	3,833	716
1,531	1,072	984	351	187	21
14,177	13,040	12,899	12,079	3,646	695
\$ 3.16	\$ 2.93	\$ 2.92	\$ 2.74	\$ 1.10	\$ .36
4,584	1,867	1,970	343	63	—
1,012	115	704	48	(116)	—
\$ .23	\$ .03	\$ .16	\$ .01	\$ (.04)	—
2,363	605	1,501	132	(116)	—
2,178	708	1,178	188	(203)	—
\$ .49	\$ .16	\$ .27	\$ .04	\$ (.07)	—





Queenstake mechanic, Simon Cant, performing a diesel engine overhaul in the Whitehorse shops.



Queenstake overhauls its heavy equipment fleet during the winter at its Whitehorse maintenance shops.



Van Schuyler, Queenstake mechanic, completing wheel loader maintenance.

## Placer Mining Operations

In 1987, Queenstake had five placer mines in production, three in the Yukon and two in B.C. The Yukon mines are all located in the Dawson area on creeks peripheral to the Klondike gold fields. Queenstake has operated the only bucketline dredge in Canada for the past seven years, but in 1987 the last of the dredgeable reserves on Clear Creek were mined out. Queenstake's two other Yukon mines are on Black Hills Creek and Maisy May Creek. These are bulldozer-trommel-slucie operations and have reserves for approximately five to ten years of mining.

In 1987, Queenstake acquired the Pine Creek placer property at Atlin, B.C. and upgraded the existing operation. Pine Creek produced over 50% of Queenstake's placer gold in 1987. The Moyie River placer property near the town of Cranbrook in southern, B.C. was placed into full scale production late in 1987 after two and one half years of exploration.

During the winter of 1987, Queenstake's equipment fleet was overhauled in our Whitehorse maintenance facility and a new large excavator, rock truck and other operating units were purchased.

In April, 1988, the mine crew and equipment fleet mobilized to the properties on schedule, benefitting from good weather conditions, and it is now expected that 1988 gold production will show a modest increase over 1987.

### Placer Gold Production and Revenue

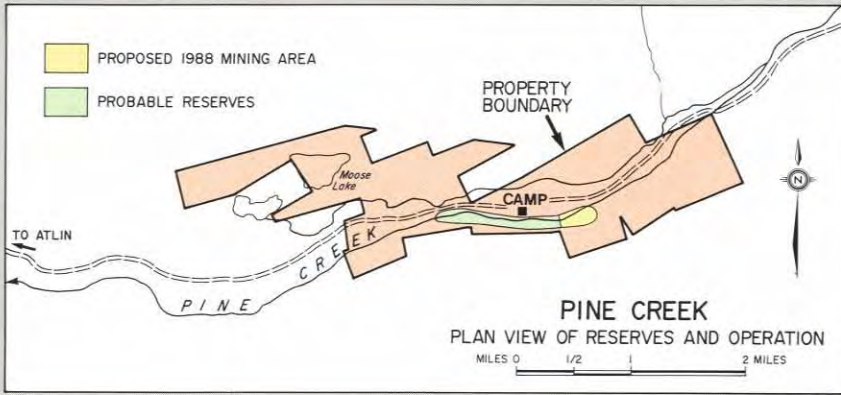
	1987	1986
Gold Production: (troy ounces)		
Clear Creek	679	1,136
Black Hills Creek	1,763	2,460
Maisy May Creek	2,334	2,105
Moyie River	1,444	182
Pine Creek	7,002	—
Other	—	492
Total production	13,222	6,375
Royalties	(537)	(148)
Inventory change	(268)	58
Partner's share	—	(1,950)
Net Metal Sold	12,417	4,335
Average sale price (\$ Cdn/oz)	\$ 604	\$ 383*
Net sale proceeds	\$7,496,439	\$1,660,847
Allocation of sale proceeds:		
Revenues	\$6,922,559	\$1,339,928
Cost recoveries	\$ 573,880	\$ 320,919

\*after deduction of 1986 hedging loss

### Pine Creek, B.C.

In 1987, Queenstake acquired the Pine Creek project and expanded output, producing 7,002 fine troy ounces of gold. The 1988 mining program commenced on schedule at Pine Creek, 5 miles from Atlin, B.C. The major equipment





overhaul throughout the winter was completed and relining of the trommels on site was under way in April.

The 1988 mine plan provides for a marginal increase in production on the following basis:

Mining Season:	Start up date	April 5
	Stripping	April 15 - November 15
	Mining	June 1 - October 20
	Shut down date	November 20

25 Person Crew: (plus manager)	1 Foreman
	1 Mechanic
	1 Welder
	8 Plant operators
	8 Mining equipment operators
	2 Stripping operators
	1 Labourer
	1 Gold man
	1 Cook
	1 Bullcook

Major Equipment Components:	1 D10 Caterpillar Bulldozer
	1 D9H Caterpillar Tractor
	2 988B Caterpillar Loaders
	1 966 Caterpillar Loader
	1 245 Caterpillar Excavator
	1 235 Caterpillar Excavator
	2 769B Caterpillar Rock Trucks
	1 769C Rock Truck

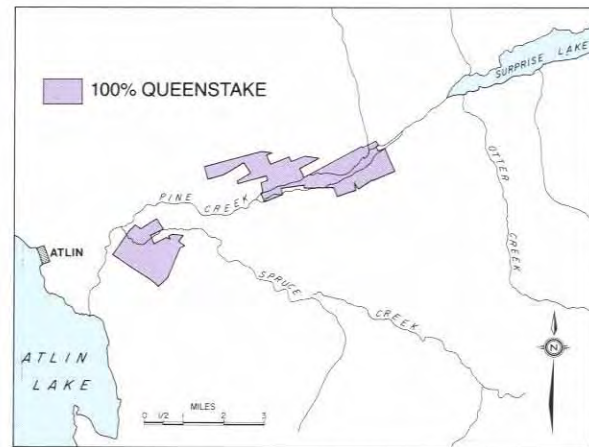
Mine Plan: To process an estimated 300,000 cubic yards of pay gravels, two trommels have been set up at the east end of the property. Remnant reserves from the 1987 mine area to the west will be trucked to a stockpile site at the trommels. Tailings from earlier placers in this area will be separately stockpiled and processed. Stripping of the virgin reserves peripheral to the earlier mining area and continuing upstream is now under way. Drill programs will be carried out during the 1988 mining season to define extensions of reserves and for grade estimates in 1989 mine planning.



This 50,000 cubic yard ore stockpile at Pine Creek was mined and processed in 1987.



Herman Liedtke, machinist, working in the Company's Whitehorse machine shop.



Queenstake is increasing its holdings in the Atlin placer camp, expanding production and increasing gold reserves.

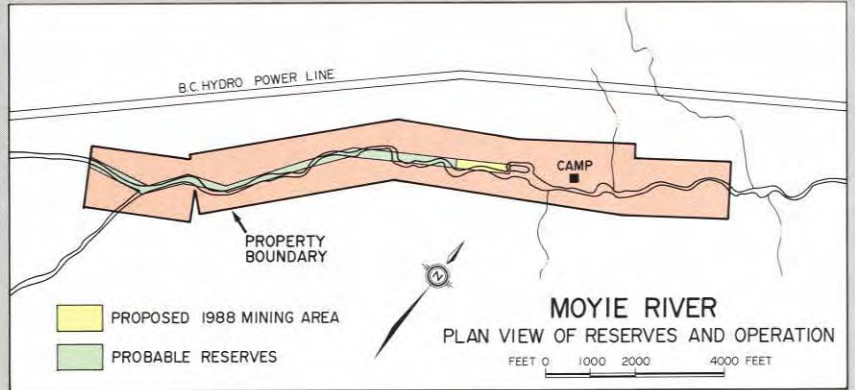




Gus Fiorentino, contractor, provides equipment and crews to mine Queenstake's Moyie River property.

## Moyie River, B.C.

The Moyie River placer property in south-east B.C., is Queenstake's first placer gold property capable of year round production. A 1987 exploration program, consisting of drilling and bulk sampling, was successful in outlining the gold bearing channel and the bulk sample confirmed the grade in the reserves.



In September, 1987, the property was placed into full scale production. In the 1987 exploration, bulk sampling and production programs at the Moyie River placer property, 239,000 cubic yards of gravels were excavated, of which 65,000 cubic yards were washed, recovering 1,444 fine troy ounces of gold.



At Moyie River, a 3.75 cubic yard excavator loads scrapers which haul the ore to the gold recovery plant.

The winter production program was completed on schedule, the pay gravels being stockpiled for washing in the spring. The winter work plan included 189,000 cubic yards of

### 1987 Placer Mining Statistics

	Maisy May	Black Hills
Overburden Stripped (cubic yards)	412,964	40,000
Gravel Stripped (cubic yards)	90,000	90,000
Gravel Processed (cubic yards)	170,000	255,000
Total Material Handled (cubic yards)	672,964	745,000
Fine Gold Produced (troy ounces)	2,334	1,763
Grade (fine oz./cu. yd.)	0.014	0.007





gravels excavated, of which 29,000 cubic yards were stockpiled for washing in May, 1988. Work at Moyie River is being carried out by Fiorentino Bros. Contracting, based in Cranbrook.

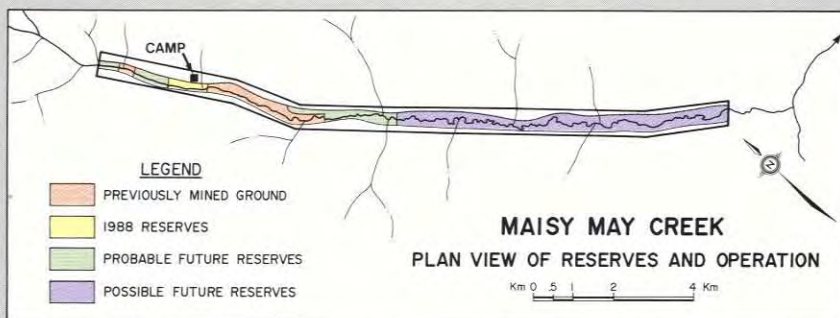
The 1988 mine plan will utilize the following Fiorentino equipment:

- 2 D9H Caterpillar Bulldozers
- 2 627 Caterpillar Scrapers
- 1 245 Caterpillar Excavator
- 1 235 Caterpillar Excavator

Fiorentino employees carry out all project activities except for engineering and gold recovery systems directed by Queenstake manager Michael Henrick. A full production year is planned for 1988 on an operating period from January 10 to December 20.

## Maisy May Creek, Yukon

**P**roduction at Maisy May Creek, 50 miles south of Dawson City, Yukon was 2,334 fine troy ounces of gold in 1987.



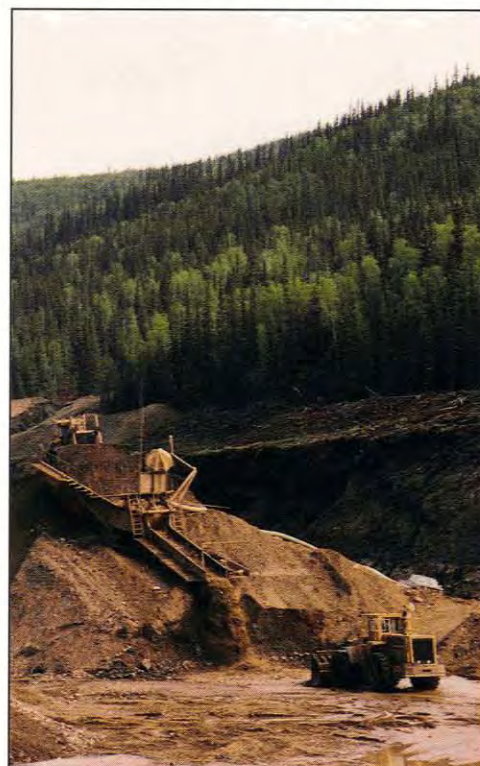
The 1988 mine plan provides for a marginal increase in production with the following parameters:

Mining Season:	Start up date	April 20
	Stripping	April 25 - October 15
	Mining	June 10 - September 30
	Shut down date	October 15
12 Person Crew:	1 Foreman (plus shared manager)	
	5 Dozer operators	
	2 Plant operators	
	1 Cook	
	1 Mechanic/Welder	
	1 Labourer	
	1 Gold man	
Major Equipment Components:	2 D9L Caterpillar Tractors	
	1 980C Caterpillar Loader	
	1 100C Hough Loader	
	1 300EL Caterpillar Excavator	
Mine Plan:	180,000 cubic yards of gravel to be processed with an approximate grade of .014 ounces gold per cubic yard.	

Clear Creek	Pine Creek	Moyie River	Total/Average
0	0	0	452,964
50,000	664,100	184,651	1,078,751
191,415	166,025	65,036	847,476
241,415	830,125	249,687	2,739,191
679	7,002	1,444	13,222
0.004	0.042	0.022	0.016

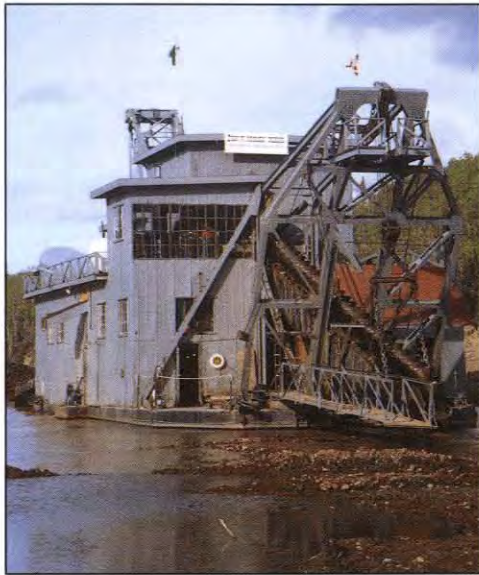


Bruce Rittel, mine technologist employed by Queenstake since 1981, manages the Black Hills and Maisy May placer operations.



At Maisy May Creek, bulldozers push gravels to a sluice box and tailings are stacked by wheel loaders. In 1988, a rotating trommel screen will be added to improve gold recoveries.





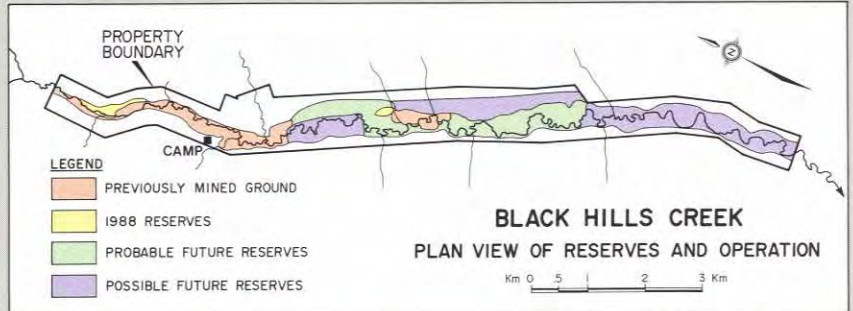
Queenstake's 350 ton bucketline dredge, acquired and renovated at a cost of one million dollars, has now completed its seven year mining operation at Clear Creek, Yukon. The dredge can now be disassembled for transport to a new mine site, presently being sought.



Wayne Lerner, Manager of Queenstake's Yukon mining operations, directs dredging operations and all equipment acquisition and maintenance from the Company's Whitehorse base.

## Black Hills Creek, Yukon

Production at Black Hills Creek, 55 miles south of Dawson City, Yukon was 1,763 fine troy ounces of gold in 1987. 1988 mine preparations were under way on schedule with excellent spring weather.



A significant increase in output is expected under the following 1988 mine plan:

Mining Season:	Start up date	April 15
	Stripping	April 25 - October 15
	Mining	June 10 - September 30
	Shut down date	October 15
11 Person Crew:	1 Foreman (plus shared manager)	
	4 Equipment operators	
	2 Plant operators	
	1 Cook	
	1 Mechanic/Welder	
	1 Labourer	
	1 Gold man	
Major Equipment Components:	3 D9H Caterpillar Tractors	
	1 D355A Komatsu Tractor	
	1 D8K Caterpillar Tractor	
	1 980C Caterpillar Loader	
	1 980B Caterpillar Loader	
	1 225 Caterpillar Excavator	
Mine Plan:	Processing 130,000 cubic yards of gravels at an average grade of 0.02 ounces of gold per cubic yard.	

## Clear Creek, Yukon

In 1987, the gold content of the Clear Creek gravels continued to decline, reducing gold production to 679 fine troy ounces. Even with the very low operating cost at Clear Creek (\$2.31 per cubic yard of gravels processed) this was uneconomic, and the Clear Creek dredging operation was terminated at the close of the 1987 season.

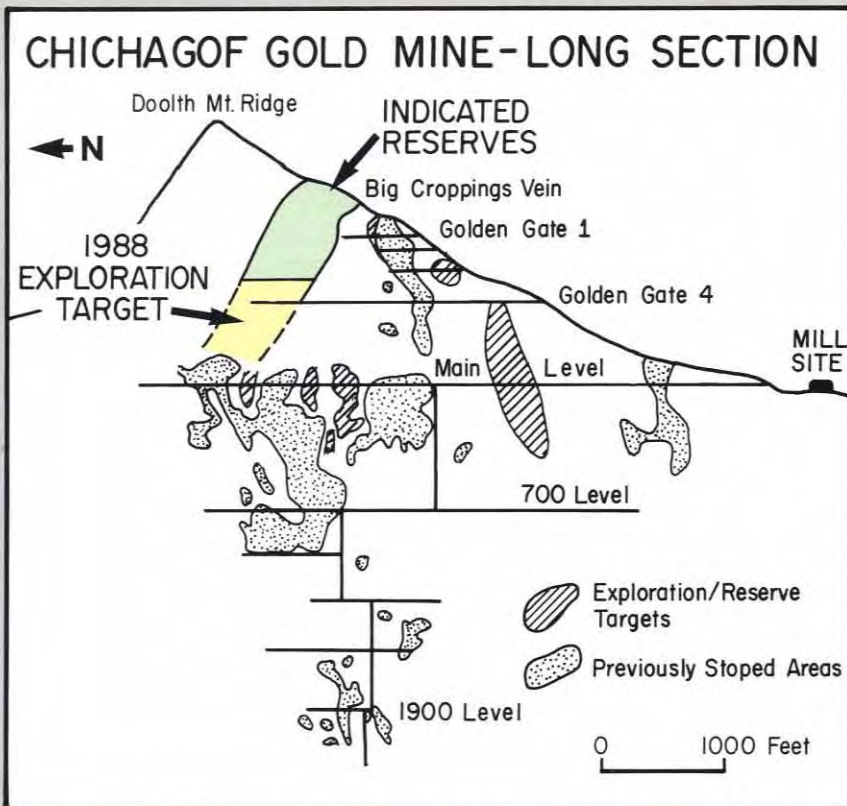
## Bucketline Dredges

The 350 ton Clear Creek dredge is now available for relocation to a new mining operation along with Queenstake's two larger (450 ton) dredges located on Yukon River tributaries. Queenstake is now investigating placer joint ventures on dredgeable reserves throughout North America to put these excellent mining units back to work.



**Golden Sitka Resources Inc.  
— The Chichagof Gold Mines**

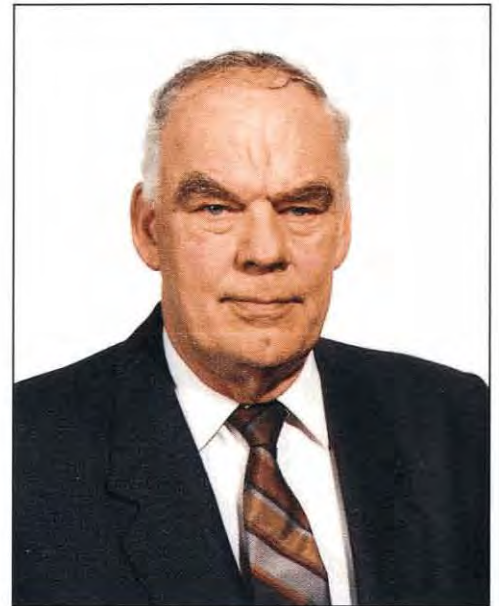
On completion of the \$3.0 million public financing in October, 1987, Golden Sitka began hiring personnel and purchasing and leasing equipment for mobilization to the Chichagof property. The work program started in January, 1988, with installation of services in the Hirst-Chichagof Mine main level to dewater and sample the Kay vein workings and to drill the lower extension of the Kay vein, commencing in early May, 1988.



Work also commenced on the Golden Gate #4 adit of the Chichagof Mine with approximately 1,000 feet of adit rehabilitated with new track laid and services installed as of April, 1988. By mid-year, it is expected that the rehabilitation will be completed to the drift face to start the drift extension and diamond drilling program to determine the extent of the Big Croppings vein reserves.

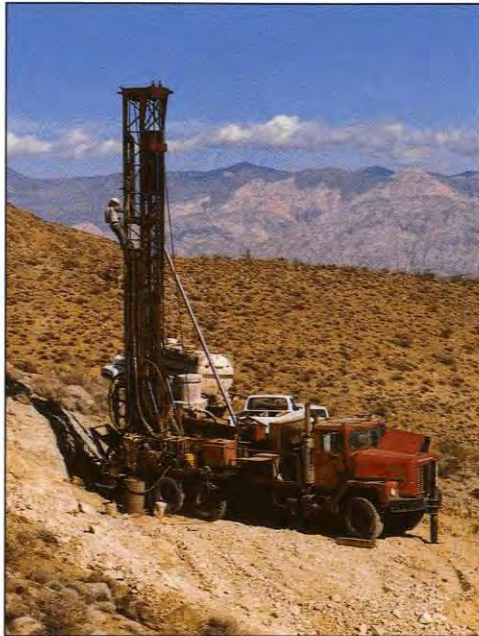


Golden Sitka Resources Inc. was incorporated in 1987 by members of the Chichagof Joint Venture, including Queenstake, to finance exploration and development of the Chichagof and Hirst-Chichagof Gold Mines. Golden Sitka was listed on the Vancouver Stock Exchange (Symbol — GSZ) after completing a \$3 million financing in October, 1987.



Hal McKenzie, President of Golden Sitka and a former President of Hudson Bay Mining and Smelting, is a mining engineer with long experience in underground mine development.

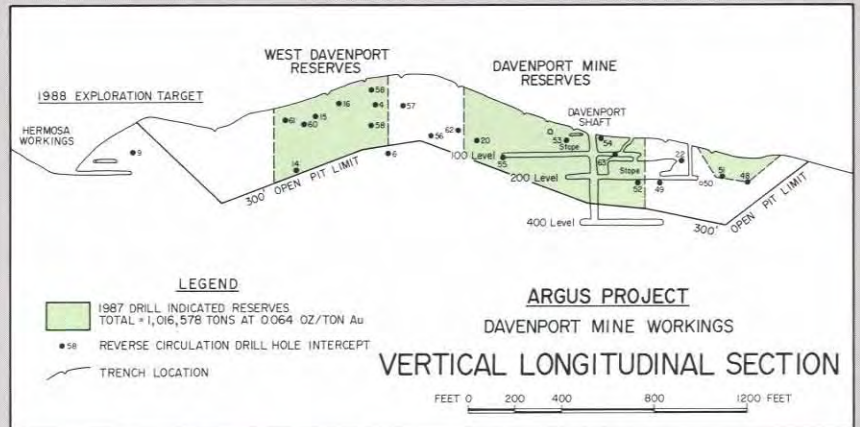




Reverse circulation drilling on the Davenport Vein (Argus project) in 1987 resulted in a 200% increase in drill indicated heap leachable gold reserves to 1,016,600 tons grading 0.064 ounces of gold per ton.

## Argus Gold Project, California

During 1987, Childs International Inc., funded a reverse circulation drilling program on the Davenport vein where previously drill indicated reserves were 423,000 tons grading 0.053 ounces of gold per ton. Drilling on 100 foot centres, the 1987 program increased the Davenport drill indicated reserves to 1,016,600 tons grading 0.064 ounces of



gold per ton. Surface sampling for an additional 1,200 feet to the west of the drilled areas has located several wide zones of gold mineralization, including a section of the Hermosa Mine workings grading 0.055 ounces of gold per ton over a 155 foot wide zone.

In March, 1988, Bateman Metallurgical Laboratories of Sparks, Nevada completed its analysis of a composite of Argus drill samples and reported that the Argus ores are extremely amenable (71% recovery) to heap leach cyanidization with moderate cyanide and low lime consumption.

Childs has now committed to fund a 1988 program budgeted at U.S. \$238,000 which will include 11,000 feet of drilling on the Davenport and Hermosa veins to bring the Davenport reserves to the feasibility stage and to add reserves in the Hermosa Mine. This drill program was under way in April, 1988. This budget also includes funds for detailed surface mapping (5 foot elevation contours) and environmental and engineering studies to prepare for mine feasibility and permit applications.

Childs must spend an additional U.S. \$600,000 on exploration, development, permitting or production capital in 1989 to earn a 60% joint venture interest in the Argus project.

## Mar Gold Project, Yukon

Queenstake has granted an option to Can Pro Development Inc. to earn a 50% joint venture interest in the Mar Gold property adjacent to Queenstake's Mar Tungsten deposit near Mayo, Yukon. Can Pro may earn the interest by spending \$300,000 in exploration programs on the Mar Gold property over three years and issuing 120,000 Can Pro shares to Queenstake. A diamond

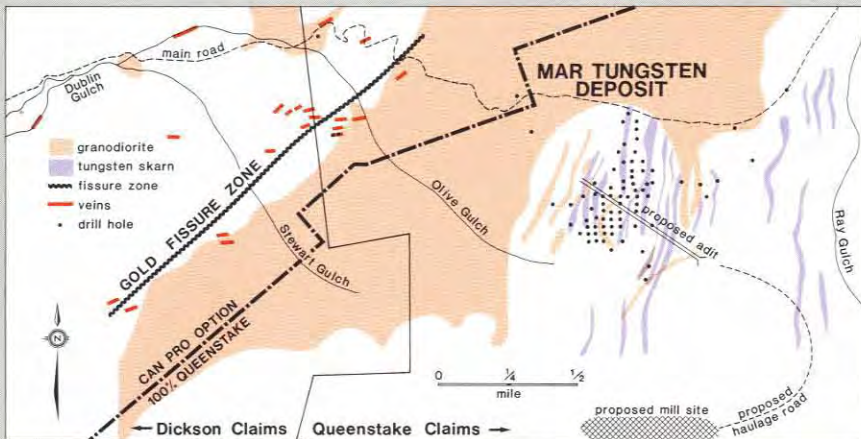


drilling and surface sampling program is planned to be carried out in the next few months.

The Mar Gold vein system 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 at a width of 900 feet. 1986 drilling by Queenstake produced several drill intersections on the Catto and No. 23 veins grading in excess of one ounce of gold per ton.

### Mar Tungsten Property, Yukon

Queenstake's 100% owned Mar Tungsten deposit was explored by Canada Tungsten Mining Corporation from 1978 to 1983 at a cost of \$4 million — including 45,000 feet of diamond drilling — indicating reserves of 6 million tons grading 0.8% WO<sub>3</sub>, including sections of higher grade scheelite mineralization. According to recent forecasts of the Canadian government department of Energy, Mines and Resources, "Prices of Tungsten contained in ores and concentrates are forecast to rise over the next three years, increasing from a current range of U.S. \$60-65 to \$90-100 in 1990".



As prices increase, Queenstake will endeavour to develop joint ventures with tungsten consumers for the development of the Mar Tungsten reserves.

### O'Connor River Gypsum Deposit, B.C.

In April, 1988, Haines Gypsum Inc. indicated that it will fund and carry out a large bulk sample/mining program on the O'Connor River deposit in 1988, mining and shipping up to 50,000 tons of gypsum to Pacific Northwest cement and wallboard producers. This program requires the construction of a mine haulage road and preparation of the deposit for mining and shipping.

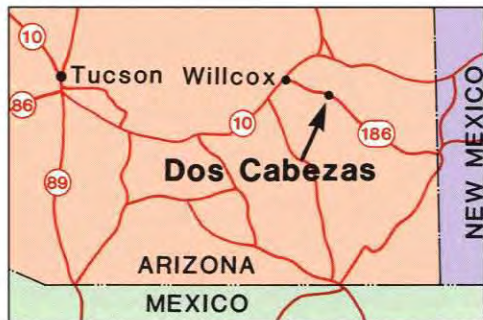
This program is intended to demonstrate the commercial viability of mining the O'Connor River gypsum deposit. Queenstake's 50% participating interest will be reduced marginally in respect of certain capital expenditures of long term benefit made by Haines Gypsum, but the Company retains an option to increase its interest by a further 20% by making a \$175,000 payment to Haines Gypsum.



1986 diamond drilling on the east zone of the O'Connor River gypsum deposit indicated extensive gypsum reserves. A 1988 bulk sampling program is planned to demonstrate economic marketability of the gypsum.



## Dos Cabezas, Arizona

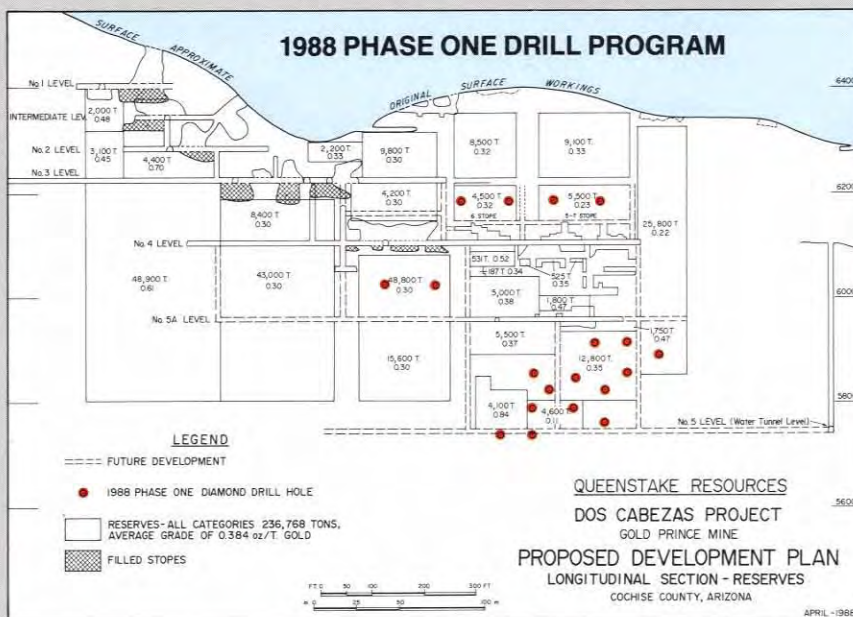


In 1987, Queenstake conducted an intensive underground sampling program at the Gold Prince Mine, aggregating over 600 samples. All principal structures were sampled at 5 or 10 foot centers. Following the sampling program, underground rehabilitation, construction of surface facilities, installation of services and mining equipment acquisition were completed.

A 6,000 foot underground diamond drilling program is planned at the mine to evaluate the extensions of ore reserves defined in Queenstake's 1987-1988 mapping and sampling program and by 9,000 feet of previous diamond drilling done by Phelps Dodge Corporation between 1983 and 1986. A series of three en echelon gold bearing quartz-sulfide veins will be tested in the program, with the goal of bringing the reserves to the drill indicated category. A feasibility study will then be undertaken to evaluate the deposit and define a mining development plan.

Drilling will be conducted by a contractor using a new underground drill recently purchased by Queenstake. The drilling will be done from both existing underground drill stations on the 5A Level and from new stations being constructed on the 5A and 4 Levels of the mine. The vein system will be tested along nearly 1000 feet of strike length and 500 feet of vertical extent.

Preliminary flotation and cyanidation test work conducted by Bateman Metallurgical Laboratories in Sparks, Nevada has been completed, with satisfactory gold recoveries using a combination gravity-flotation-cyanidation circuit. Additional testing is planned to further define grinding and selective flotation variables for the ores. Column leach cyanide testing is planned on near surface stockwork-hosted oxide ores which may be amenable to open pit heap leach technology.

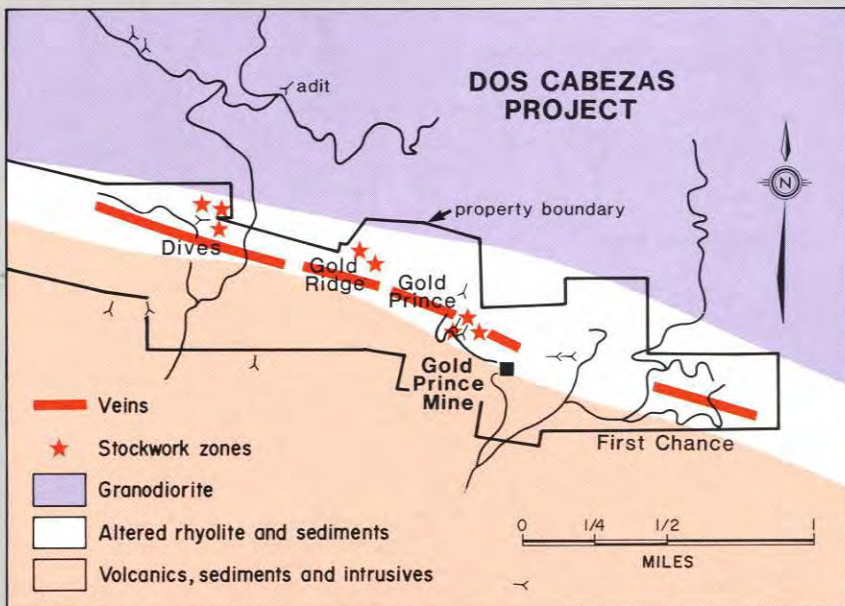


Mine equipment purchases from former operator Phelps Dodge Corporation helped to speed the project to completion at substantial savings over projected equipment costs.



View from the Gold Prince Mine, Dos Cabezas, looking past the home of Kay and Lewis Stickradt (head of mine security) to the flats.

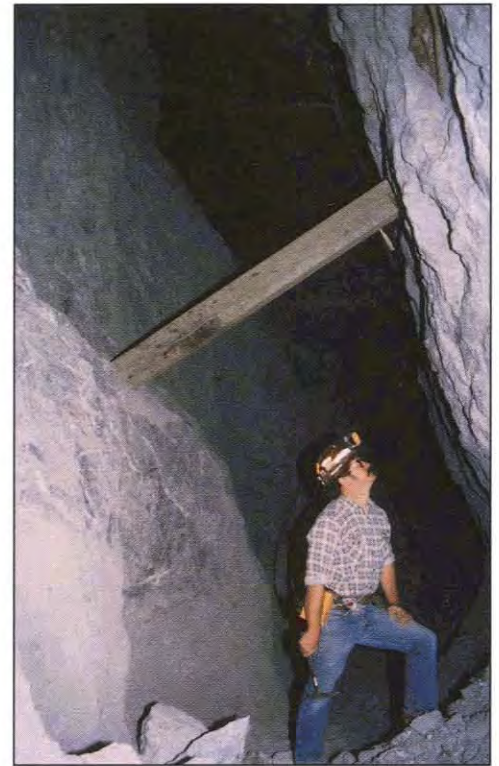
Additional claim locations made by Queenstake have almost doubled the project area, including both lode and mill site locations.



The mine rehabilitation program was directed by Mine Manager, Al Voirin, with Project Geologist, Tim Pearson.



Al Voirin, Dos Cabezas mine manager (l) and Tim Pearson, project geologist (r), inspecting Dos Cabezas structure.



Dave Hembree, Queenstake's U.S. manager of exploration, examining underground workings in the Gold Prince Mine, Dos Cabezas project. In 1988, a 6,000 foot underground drilling program is planned to define reserves for a production decision.

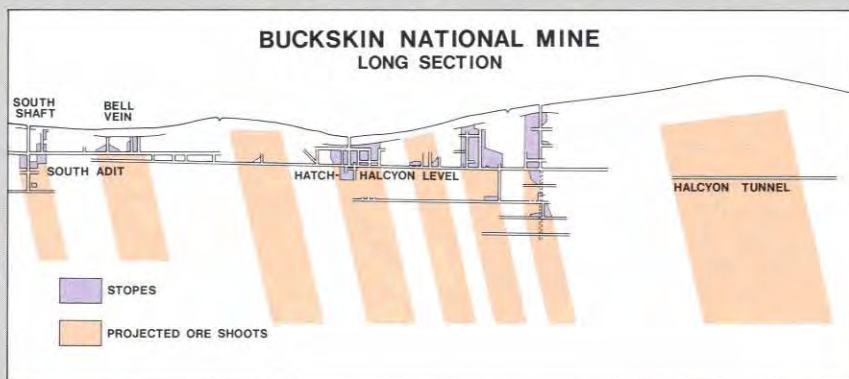




In 1987 a small drill program was completed on the north extension of the Bell vein in the Buckskin National Mine.

## Buckskin National Mine, Nevada

In 1988, Queenstake may complete exploration work to exercise its option to earn a 60% interest in the Buckskin National Mine property and will enter into a joint venture with ASARCO for further exploration and development of the property. The principal exploration targets remain the Bell vein (drill indicated and inferred reserves of 138,000 tons grading 0.36 ounces of gold per ton and 3.4 ounces of silver per ton) and the stockwork zone below Buckskin Peak located in previous ASARCO drilling. Recommended future exploration includes surface mapping and sampling to fill gaps in previous exploration work and correlation of Queenstake and ASARCO assay values to refine the continuing exploration model for the Buckskin National property prior to advancing the drill program.



## Quartz Hill Property, Montana

Queenstake is currently seeking a joint venture partner to assist with a continuing exploration/reserve addition program on the Quartz Hill property. 1987 diamond drilling through the Hasmark formation yielded a section of promising alteration which requires further exploration. Drill indicated reserves in the northern vein group remain at 102,000 tons grading 12.2 ounces of silver per ton.

## WESTMONT JOINT VENTURES

### Riverside Pass, California

In 1987, Westmont Mining completed its \$250,000 expenditure requirement to earn a 50% joint venture in the Riverside Pass property. Queenstake retains a 25% working interest.

1988 exploration plans provide for the use of track mounted drills similar to the drill rig shown in the accompanying Mt. Hamilton photo (top right) to carry out reverse circulation and diamond drilling on two gold mineralization targets.





## Mt. Hamilton, Nevada

In 1987, Westmont continued its drill exploration program at Mt. Hamilton. Since Queenstake did not contribute funds for this program, the Company's interest was reduced and then converted to a 2½% net returns royalty against any future production from the property.

## Gold King-Imperial, New Mexico

Queenstake is seeking joint venture participation to continue the exploration of the Gold King-Imperial Mine and the Company's other property holdings in the Steeplerock area. Potential reserves in the Imperial and Jim Crow veins remain at 180,000 tons at an average grade of 0.10 ounces of gold and 3.5 ounces of silver per ton.

## Mineral Reserves

In 1987, Queenstake continued to define reserves in its extensive mineral property holdings, bringing several hardrock projects closer to the feasibility/production stage and adding to economically mineable placer reserves.

Queenstake's mineral reserves, in all reserve categories, as of April, 1988, are summarized as follows:

Gold: —	placer	85,000 ounces
—	hardrock	175,000 ounces
		<hr/> 270,000 ounces
Silver:		2,000,000 ounces
Tungsten:		4.8 million short ton units (WO <sub>3</sub> )
Gypsum:		7 million tonnes

Presented on behalf of the board of directors

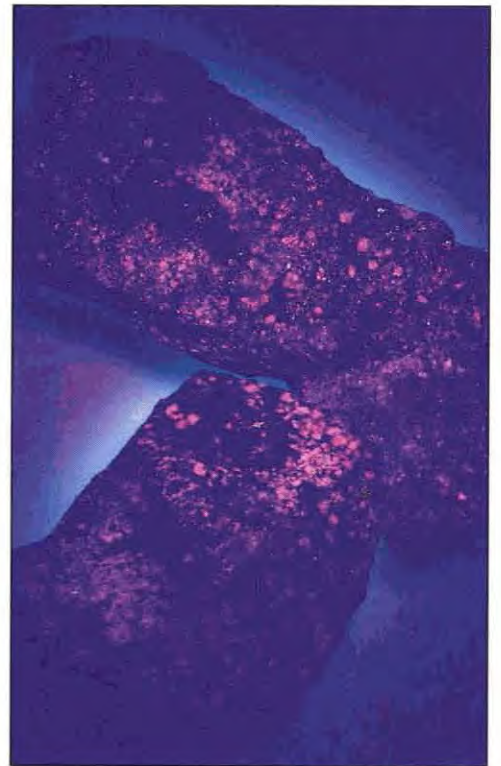
Chairman:

President:

## Queenstake Resources Ltd.



At Mount Hamilton, track mounted drill rigs have been used for off-road drilling with minimal environmental disturbance.



Scheelite (tungsten ore) fluoresces under ultraviolet light. The Mar tungsten deposit at Dublin Gulch, Yukon, is a high grade scheelite skarn.



## 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, 1987 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 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, 1987 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.

*Deloitte Haskins & Sells*

Chartered Accountants  
March 25, 1988



## Consolidated Financial Statements and Auditors' Report to the Shareholders

Year Ended December 31, 1987

	Note	December 31, 1987	December 31, 1986
<b>Assets</b>			
Current assets			
Cash		\$ 2,742,407	\$ 46,084
Accounts receivable		395,268	576,074
Share subscriptions receivable		—	150,000
Inventories	2	366,195	148,900
		<b>3,503,870</b>	<b>921,058</b>
Investments	3	1,742,133	154,571
Resource properties and equipment	4	13,212,637	13,745,791
		<b>\$18,458,640</b>	<b>\$14,821,420</b>
<b>Liabilities</b>			
Current liabilities			
Operating bank loan		\$ —	\$ 424,177
Accounts payable and accrued liabilities		654,032	635,981
Current portion of long-term debt	5	450,000	300,000
		<b>1,104,032</b>	<b>1,360,158</b>
Long-term debt	5	732,102	884,602
		<b>1,836,134</b>	<b>2,244,760</b>
<b>Shareholders' Equity</b>			
Share capital	6	21,030,685	17,837,366
Share subscriptions	6	35,442	138,035
Deficit		(4,041,933)	(4,660,741)
		<b>17,024,194</b>	<b>13,314,660</b>
Less cost of shares held by a subsidiary	6	(401,688)	(738,000)
		<b>16,622,506</b>	<b>12,576,660</b>
		<b>\$18,458,640</b>	<b>\$14,821,420</b>

Approved by the board of directors

*Director* *Director*

Director

Director

Year Ended December 31

	Note	1987	1986
<b>Revenues</b>			
Gold sales		\$ 6,922,559	\$ 1,339,928
Oil sales		57,085	77,450
Management fees and other		196,674	283,930
		7,176,318	1,701,308
<b>Costs and expenses</b>			
Direct operating		4,318,979	1,411,382
Depreciation and depletion		1,357,566	1,269,920
General and administrative		555,107	327,988
Interest	5	96,096	157,261
		6,327,748	3,166,551
Write down of resource properties and equipment	4	106,869	3,688,872
		6,434,617	6,855,423
Operating earnings (loss) before income taxes		741,701	(5,154,115)
(Provision for) recovery of income taxes	7	(117,373)	372,400
Operating earnings (loss)		624,328	(4,781,715)
Share of loss of Canyon Resources, Inc.		(5,520)	(132,975)
Net earnings (loss)		\$ 618,808	\$ (4,914,690)
Net earnings (loss) per share	8	\$ 0.09	\$ (0.86)
(Deficit) retained earnings, beginning of year		\$ (4,660,741)	\$ 253,949
Net earnings (loss)		618,808	(4,914,690)
Deficit, end of year		\$ (4,041,933)	\$ (4,660,741)

Year Ended December 31

	1987	1986
<b>Operating activities</b>		
Net earnings (loss)	\$ 618,808	\$ (4,914,690)
Items not involving cash		
Depreciation and depletion	1,357,566	1,269,920
Deferred income taxes	—	(372,400)
Share of loss of Canyon Resources, Inc.	5,520	132,975
Write down of resource properties and equipment	106,869	3,688,872
Working capital from (used for) operations	2,088,763	(195,323)
Net (decrease) increase in accounts receivable, inventories and payables	(18,438)	86,005
Cash from (used for) operating activities	2,070,325	(109,318)
<b>Investing activities</b>		
Resource property costs recovered	727,358	473,298
Premiums from flow-through shares	89,352	640,111
Expenditures on investments, resource properties and equipment	(3,341,073)	(2,882,166)
Cash used for investing activities	(2,524,363)	(1,768,757)
<b>Financing activities</b>		
Issue of and subscriptions for shares (net of issue costs less income tax reduction)	3,090,726	2,539,230
Shares held by a subsidiary	336,312	(738,000)
Share subscriptions receivable	150,000	220,493
Debt issues	2,296,708	124,177
Debt repayments	(2,723,385)	(306,500)
Cash from financing activities	3,150,361	1,839,400
Increase (decrease) in cash	2,696,323	(38,675)
Cash, beginning of year	46,084	84,759
Cash, end of year	\$ 2,742,407	\$ 46,084

## Consolidated Statement of Earnings and Retained Earnings

## Consolidated Cash Flow Statement



## Notes to the Consolidated Financial Statements

Year ended December 31, 1987



Don Sharp, C.A., was appointed Vice President, Corporate Development. Mr. Sharp will be active in project acquisition and evaluation as well as directing an expanded investor relations program.



Doris Meyer, C.G.A., succeeds Mr. Sharp as Vice President, Finance. Mrs. Meyer has served Queenstake as accounting manager and controller since 1982.

### 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, materials and stockpiled pay gravels are valued at approximate average cost.

#### Investments

The company's 26% interest in Golden Sitka Resources Inc., and 12½% interest in Canyon Resources, Inc., are 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. Portfolio investments are carried at the lower of cost and market.

#### Mineral properties and equipment

The company accounts for its mineral properties whereby all costs (including overhead charges 1987 — \$95,000, 1986 — \$160,000) 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.

Certain of the company's mineral properties are in the exploration stage as it has not yet been determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the deferred exploration and other costs relating to these properties is dependent upon the existence of economically recoverable reserves, the ability of the company to finance their development and upon future profitable production.

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 realized 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, 1987	December 31, 1986
Gold	\$ 139,195	\$ 8,900
Supplies and materials	198,000	140,000
Stockpiled pay gravels	29,000	—
	<b>\$ 366,195</b>	<b>\$ 148,900</b>

**3. INVESTMENTS**

	December 31, 1987	December 31, 1986
Investments on equity basis —		
Golden Sitka Resources Inc.	\$ 1,615,707	\$ —
Canyon Resources, Inc.	64,134	69,654
	<b>1,679,841</b>	<b>69,654</b>
Portfolio investments —		
Western Continental, Inc.	59,292	59,292
Bolero Resources Inc.	—	8,125
Eldorado Minerals and Petroleum Corp.	3,000	17,500
	<b>\$ 1,742,133</b>	<b>\$ 154,571</b>

**4. RESOURCE PROPERTIES AND EQUIPMENT**

	December 31, 1987		December 31, 1986	
	Cost	Accumulated depreciation and depletion	Net	Net
Mineral properties				
— operating	\$ 9,602,286	\$ 5,731,117	\$ 3,871,169	\$ 3,013,013
— exploration and development	4,753,756	—	4,753,756	6,936,124
Mining equipment				
— operating	5,802,360	1,871,028	3,931,332	2,783,453
— exploration and development	408,241	41,502	366,739	692,529
Building under capital lease	147,000	14,700	132,300	150,000
Oil and gas producing properties	1,378,397	1,323,588	54,809	65,409
Office equipment	174,898	72,366	102,532	105,263
	<b>\$22,266,938</b>	<b>\$ 9,054,301</b>	<b>\$13,212,637</b>	<b>\$13,745,791</b>

As a result of the abandonment and write down of certain United States and Canadian exploration properties and equipment, \$106,869 was charged to earnings in 1987 (1986 — \$3,688,872).

The carrying values of mineral properties include \$3,117,234 of costs incurred on behalf of investors on issues of flow-through shares which are not deductible by the company for income tax purposes. An amount of \$1,120,463 representing the premium on issues of flow-through shares has been deducted from the cost of mineral properties.

**Management's Analysis of Operating Results**

The increase in gold revenue for 1987 is attributable to several factors:

- 13,222 fine ounces of gold was produced in 1987, compared to 6,375 fine ounces of gold produced in 1986, due to the acquisition of the Pine Creek, Atlin, B.C., property in May of 1987.
- The Company received a higher gold price for its product in 1987, averaging Cdn. \$604 per ounce, compared to an average gold price of Cdn. \$452 per ounce before loss on hedging in 1986.
- A greater proportion of 1987's production after royalties was for the Company's account. In 1986 there was an agreement which financed initial startup production costs by transferring 1,950 ounces of gold production to a limited partnership.
- Gold revenues in 1987 did not include gains or losses on forward sales of gold (\$5 million hedging loss in 1986).

The direct operating cost of gold production for 1987 was Cdn. \$355 per ounce compared to Cdn. \$469 per ounce in 1986. The decrease in cost per ounce was caused by the increase in gold produced.

General and administrative costs increased by 30% over 1986 due to growth in the size and activities of the Company. In 1987 only 15% of general and administrative costs were capitalized and deferred, compared to 33% in 1986.

The Company's reduction of long-term debt resulted in a lower interest expense in 1987. No write downs were deemed necessary due to permanent decline in values of resource properties or equipment in 1987 as were taken in 1986.

Working capital at December 31, 1987 is \$2.4 million compared to a working capital deficit of \$4 million at December 31, 1986 as a result of the improvement in placer cash flow.



5. LONG-TERM DEBT

	December 31, 1987	December 31, 1986
Term bank loan	\$ 375,000	\$ 675,000
Agreements payable	707,102	409,602
Obligation under capital lease	100,000	100,000
	<b>1,182,102</b>	<b>1,184,602</b>
Less: amounts due within one year	450,000	300,000
	<b>\$ 732,102</b>	<b>\$ 884,602</b>

The company has a term bank loan of \$375,000 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 an option for early repayment on October 26, 1988.

Dredge purchase agreements (\$294,000 at December 31, 1987, and at December 31, 1986) 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 (\$113,102 at December 31, 1987, and \$115,602 at December 31, 1986) 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.

A property purchase agreement, \$300,000 at December 31, 1987, is payable, without interest, equally over two years.

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

Interest on the long-term debt amounted to \$69,388 (1986 — \$98,645).

6. SHARE CAPITAL

Authorized — 50,000,000 common shares without par value, increased from 10,000,000 common shares on May 27, 1987.

Issued and outstanding:

	Number of Shares	Amount
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
Issued in 1987		
For private placement (net of issue expenses of \$227,469 less income tax reduction of \$117,373)	1,913,000	2,691,505
Flow-through shares for cash	199,320	283,043
In exchange for mineral properties	29,476	55,875
For stock options exercised	2,000	3,600
For employee share purchase plan	46,368	83,714
For repayment of debt	76,900	99,970
For warrants exercised	36,000	55,440
Reacquired and cancelled	(40,000)	(79,828)
	<b>8,806,077</b>	<b>\$21,030,685</b>

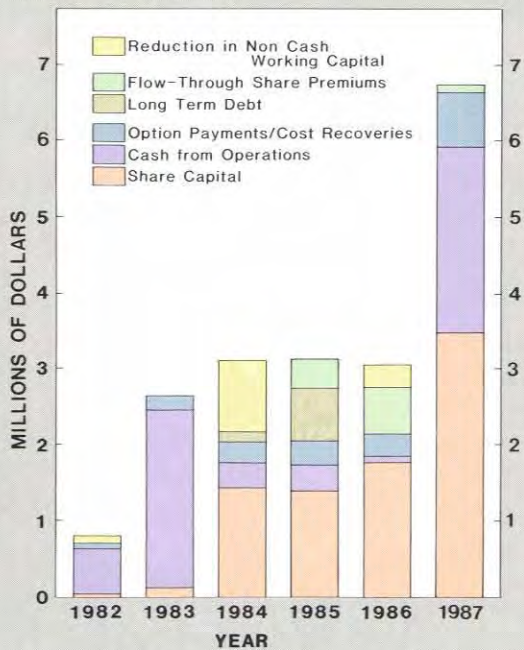
At December 31, 1987, share subscriptions included 28,133 for \$35,442 that were issued in February, 1988, under the employee share purchase plan.

A subsidiary company held 240,626 shares of the company at a cost of \$401,688 at December 31, 1987 (431,026 shares at a cost of \$738,000 at December 31, 1986).

Under the company's employee and directors' incentive stock option plan, ten-year options are granted to employees and directors at market value at the date of grant which may be exercised by employees as to 33 1/3% per year on a cumulative basis, and by directors at any time. At December 31, 1987, there were options outstanding to purchase 546,000 shares at \$1.10 per share. These options, which expire on November 20, 1997, include share appreciation rights which entitle the optionee to receive cash in lieu of shares and terminate the option.

Notes continued

Sources of Cash



Sources of cash — 1987's significant cash increase is principally due to improvements in operating cash flow and completion of the Company's equity financing program.



The company issued 989,900 common share purchase warrants in March, 1987, in connection with the private placement of 989,900 shares for cash and repayment of debt. Each warrant entitles the holder to purchase one common share for \$1.44 per share at any time on or before June 30, 1990. In addition the company issued 500,000 common share purchase warrants in August, 1987, in connection with the private placement of 1,000,000 shares for cash. Each warrant entitles the holder to purchase one common share for \$1.85 per share at any time on or before June 30, 1988.

**7. INCOME TAXES**

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

	Year Ended December 31,			
	1987		1986	
	Amount	%	Amount	%
Operating earnings (loss)	\$ 741,701		\$ (5,154,115)	
Recovery of (provision for) income taxes thereon at the basic statutory rates	\$ (382,718)	(51.6)	\$ 2,391,509	46.4
Increase (decrease) resulting from:				
Losses for which future tax benefits were not recognized	(29,704)	(4.0)	(2,017,905)	(39.2)
Resource allowance	179,457	24.2	—	—
Earned depletion	115,592	15.6	—	—
Other	—	—	(1,204)	—
<b>(Provision for) recovery of income taxes</b>	<b>\$ (117,373)</b>	<b>(15.8)</b>	<b>\$ 372,400</b>	<b>7.2</b>

The provision for income taxes of \$117,373 has been offset by income taxes recovered as a result of the deduction for share issue expenses as disclosed in Note 6.

The company has a loss carry-forward for accounting purposes of approximately \$5.4 million 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. \$1.9 million which expires principally in the years 1995 to 2000. No future tax benefits have been recognized for these loss carry-forwards.

**8. EARNINGS PER SHARE**

The earnings (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 earnings (loss) per share of the outstanding options and share purchase warrants outlined in Note 6 was insignificant in both 1987 and 1986.

**9. COMMITMENTS**

The company has sold forward 4,500 ounces of its 1988 gold production at an average rate of U.S. \$504 per ounce, and 3,000 ounces of its 1989 gold production at an average price of U.S. \$525 per ounce.

On March 1, 1988, the company entered into a floor price protection program to guarantee a minimum gold price of U.S. \$375 per ounce on 15,000 ounces of gold production equally (5,000 ounces per year) over the next three years. If the gold price exceeds U.S. \$485 per ounce on June 1, 1989 or June 1, 1990, the Company must sell 3,825 ounces of gold on each date at that price.

The company has unsecured loss limits, as protection from margin calls, totalling U.S. \$1.9 million.

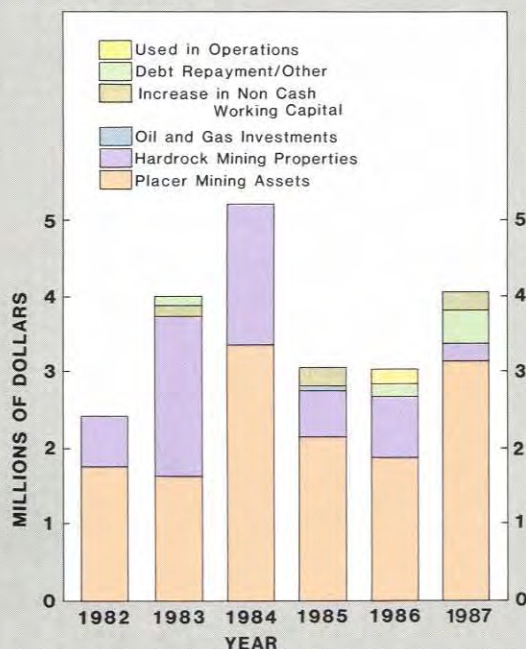


**Beverly Downing, A.C.I.S., Corporate Secretary and Land Records Administrator completed 10 years of service with Queenstake in 1988.**



Notes *continued*

Uses of Cash



Uses of cash — Almost all of the Company's cash resources are applied to the acquisition, exploration, development and equipping of placer and hardrock mineral reserves.

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, 1987 and 1986 and for the years then ended are as follows:

	INDUSTRY SEGMENTS		Consolidated Total
	Mining	Oil & Gas	
<b>1987</b>			
Total revenues	\$ 7,119,233	\$ 57,085	\$ 7,176,318
Segment operating earnings (loss)	1,398,399	(11,015)	1,387,384
General and administrative expenses			(555,107)
Interest expense			(96,096)
Income taxes			(117,373)
Net earnings			618,808
Identifiable assets	18,338,181	120,459	18,458,640
Capital expenditures	3,341,073	—	3,341,073
Depreciation and depletion	1,346,966	10,600	1,357,566
<b>1986</b>			
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
<b>GEOGRAPHIC SEGMENTS</b>			
	Canada	United States	Consolidated Total
<b>1987</b>			
Total revenues	\$ 7,037,893	\$ 138,425	\$ 7,176,318
Segment operating earnings	1,422,094	(34,710)	1,387,384
General and administrative expenses			(555,107)
Interest expense			(96,096)
Income taxes			(117,373)
Net earnings			618,808
Identifiable assets	12,179,153	6,279,487	18,458,640
<b>1986</b>			
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

11. SUBSEQUENT EVENT

The option for Bolero Resources Inc. to earn a joint venture interest in the Buckskin National, Quartz Hill and two other minor property interests was terminated in February, 1988, as a result of Bolero's failure to provide necessary project funding. Bolero has disputed the basis for this termination, demanding the return of approximately U.S. \$75,000. Counsel has advised that the termination is effective and the demand for funds is without merit.

In March, 1988, the Company issued 400,000 units, each consisting of one common share and one share purchase warrant, for net proceeds of \$532,000. Each warrant entitles the holder to purchase one common share for \$1.65 at any time on or before February 15, 1991. If this issue of shares had taken place on January 1, 1987, the pro-forma earnings per share for 1987 would approximate the earnings per share reported.





# 1988 First Quarter Report – Unaudited

Queenstake Resources Ltd.

## CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 1988	December 31, 1987
Current assets	\$ 3,688,088	\$ 3,503,870
Current liabilities	(1,087,744)	(1,104,032)
Working capital	2,600,344	2,399,838
Investments	1,739,353	1,742,133
Resource properties and equipment	13,456,145	13,212,637
Long-term debt	(657,102)	(732,102)
Shareholders' Equity	\$17,138,740	\$16,622,506

## CONSOLIDATED STATEMENT OF EARNINGS

Three months ended March 31

	1988	1987
Revenues		
Gold sales	\$ 135,483	\$ 6,812
Oil sales	7,882	18,016
Interest	46,083	1,827
Management fees and other	42,515	7,913
	231,963	34,568
Costs and expenses		
Direct operating	141,684	21,618
Depreciation and depletion	7,339	6,690
General and administrative	101,485	48,046
Interest	11,407	37,197
	261,915	113,551
Operating loss	29,952	78,983
Share of loss of Canyon Resources, Inc.	440	4,180
Net loss	\$ 30,392	\$ 83,163
Loss per share	0c	1c

## CONSOLIDATED CASH FLOW STATEMENT

Three months ended March 31

	1988	1987
<b>Operating activities</b>		
Net loss	\$ (30,392)	\$ (83,163)
Items not involving cash		
Depreciation and depletion	7,339	6,690
Share of loss of Canyon Resources, Inc.	440	4,180
Working capital used for operations	(22,613)	(72,293)
Accounts receivable	98,852	(78,652)
Inventories	(490,013)	(304,143)
Accounts payable	(16,287)	(444,442)
Cash used for operating activities	(430,061)	(899,530)
<b>Investing activities</b>		
Resource property costs recovered	—	13,603
Expenditure on investments, resource properties and equipment	(387,720)	(166,958)
Cash used for investing activities	(387,720)	(153,355)
<b>Financing activities</b>		
Issue of and subscriptions for shares (net of issue costs)	546,626	1,252,344
Share subscriptions receivable	—	150,000
Debt repayments	(75,000)	(391,503)
Cash from financing activities	471,626	1,010,841
Decrease in cash	(346,155)	(42,044)
Cash, beginning of period	2,742,407	46,084
Cash, end of period	\$2,396,252	\$ 4,040

These statements have been prepared without audit  
On behalf of the board of directors

 Director

 Director

## Analysis of First Quarter Financial Results

The Company's extensive winter maintenance program is now finished and all of the heavy mobile equipment is in good running order to start the 1988 mining season in late May and early June.

The gold sales for the first quarter are proceeds from sale of a portion of the gold inventory remaining from 1987 production. The Company's major capital expenditures for the quarter were for exploration on the Dos Cabezas project and on mining equipment for placer projects.

In March, the Company issued 400,000 units, each consisting of one common share and one share purchase warrant, for net proceeds of \$532,000. Each warrant entitles the holder to purchase one common share for \$1.65 at any time on or before February 15, 1991. The proceeds were applied to working capital.





Gordon Gutrath has directed Queenstake's activities since incorporation, assembling a professional and technical management team to continue a second decade of expansion in placer and hardrock mining operations.

Organization plan — Queenstake management is organized functionally, with a small management team responsible for overall administration, and geographically with operations managers for each project or group of projects. Senior managers presently report to the president, but, as larger hardrock operations are brought on stream a Vice President, Operations will be appointed to coordinate these activities.



Sandhurst Mining N.L., through a wholly-owned subsidiary, purchased 1,755,948 Queenstake shares from Canada Tungsten Mining Corporation Limited in October, 1987. In March, 1988, Sandhurst increased its equity interest in Queenstake to 24% through a private placement of 400,000 units.



## Corporate Directory

### Directors

Richard C. Atkinson<sup>2,3</sup>  
Mining Engineer, P.Eng.  
Former President and Chief Executive Officer of Getty Resources Ltd.

Gordon C. Gutrath<sup>1,3</sup>  
Geologist, P.Eng.  
President and Chief Executive Officer of Queenstake

Lauch F. Farris<sup>1,2</sup>  
President, Fargo Resources Ltd.

C. Richard Tinsley<sup>1,2,3</sup>  
Mining Engineer  
Managing Director,  
Sandhurst Mining N.L.

John A. McLallen  
Director, Westmin Resources;  
Chairman, Queenstake

Patrick M. Reynolds<sup>3</sup>  
C.A., Vice Chairman, Queenstake

Donald D. Sharp<sup>1</sup>  
C.A., Vice President, Corporate Development

V. Le R. Furlong  
Geophysicist  
Executive Director,  
Sandhurst Mining N.L.

### Officers and Senior Employees

John A. McLallen  
Chairman of the Board

Patrick M. Reynolds  
Vice Chairman

Gordon C. Gutrath  
President and Chief Executive Officer

Donald D. Sharp  
Vice President, Corporate Development

Doris A. Meyer  
Vice President, Finance

Beverly D. Downing  
Corporate Secretary

David H. Hembree  
U.S. Exploration Manager,  
Reno, Nevada

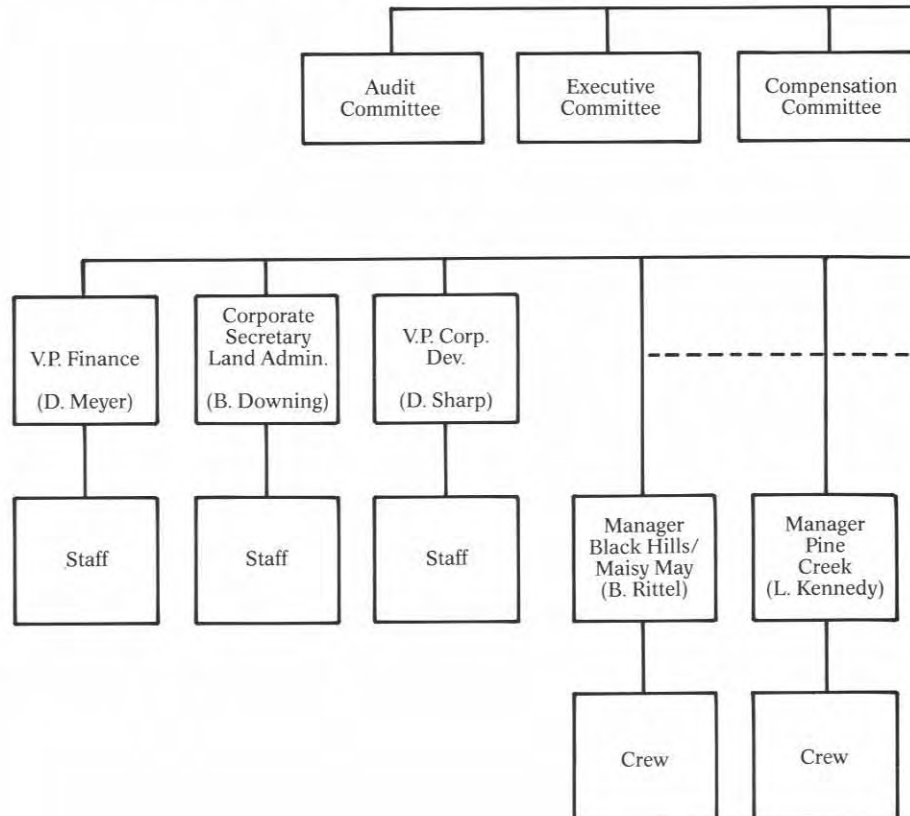
Wayne J. Lerner  
Yukon Placer Manager,  
Whitehorse, Yukon

### Committees of Directors

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

## QUEENSTAKE RESOURCES LTD.

### Consolidated Organization Chart



**Capitalization**

50,000,000 shares authorized  
— no par value  
9,234,210 issued as at  
April 20, 1988

**Registered and Records Office**

900-850 West Hastings Street  
Vancouver, B.C. V6C 1E1  
Telephone: (604) 684-1218  
Facsimile: (604) 684-9959  
Telex: 04-508875

**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.

**Bankers**

Canadian Imperial Bank of  
Commerce  
Burrard and Hastings Streets  
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.

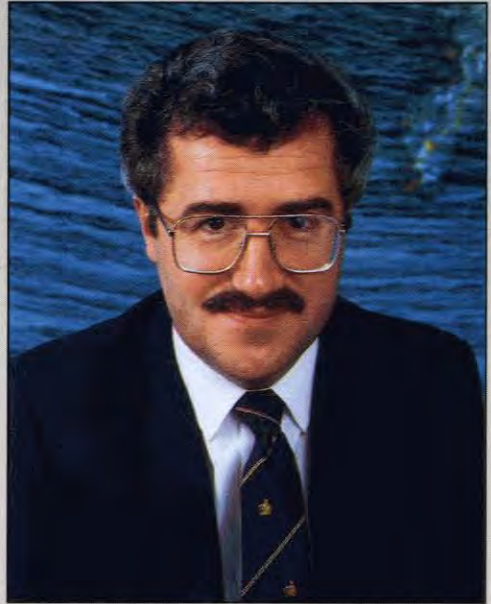
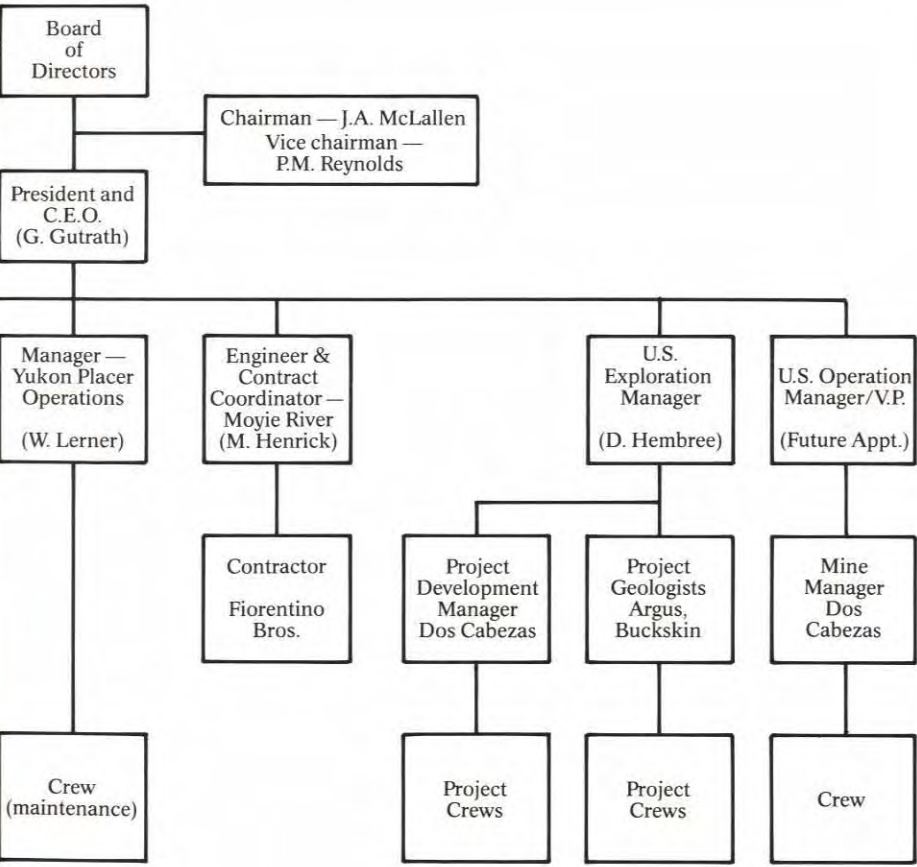
**Listings**

Toronto Stock Exchange  
(Symbol QTR)  
The company's shares are also  
traded over the counter in the  
United States.

**ANNUAL MEETING**

Queenstake's annual meeting will  
be held at 2:30 p.m., Thursday,  
June 9, 1988 at the Waddington  
Room, Hotel Vancouver,  
Vancouver, B.C.

On April 25, 1988, Queenstake's board of directors declared an initial semi-annual dividend payment of 2½¢ per share to all shareholders of record as at June 30, 1988 and payable July 10, 1988. Shareholders presently holding unregistered shares should contact Royal Trust Company (Toronto or Vancouver) to register their shares in order to ensure prompt receipt of their dividend entitlement.



C. Richard Tinsley, managing director of Queenstake's largest shareholder, was appointed a Queenstake director and member of all board committees in November, 1987. Mr. Tinsley is a mining engineer with particular experience in minerals finance, industry analysis and mining projects.



V. Le R. Furlong, executive director of Sandhurst, was appointed a Queenstake director in November, 1987. Mr. Furlong is a geophysicist with exploration, project management and merchant banking experience.





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Queenstake Resources Ltd.,  
9th Floor, 850 West Hastings Street  
Vancouver, B.C., Canada  
V6C 1E1

# 4

**MAILING  
LIST  
CONFIRMATION**



Name: \_\_\_\_\_

Firm: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State/Prov. \_\_\_\_\_

Zip/

Postal Code: \_\_\_\_\_ Phone (     ) \_\_\_\_\_

- Please add me to Queenstake's information mailing list.
- Please keep me on Queenstake's information mailing list.
- Please correct my address/Phone number on the mailing list.

I am a:

- Current Shareholder
- Portfolio Manager
- Investment Counselor
- Brokerage Librarian
- Registered Representative
- Individual Investor
- Security Analyst
- Other: \_\_\_\_\_

**IMPORTANT**

**If this card is not returned your name will not be included on Queenstake's information mailing list.**