



Gallant Gold Mines Ltd.

Suite 1900, Daon Building
999 West Hastings Street
Vancouver, B.C. V6C 2W2
Telephone: (604) 687-6600
Telecopier: (604) 687-3932
Telex: 04-508326 (Angela VCR)

ANNUAL REPORT TO SHAREHOLDERS

The Board of Directors is pleased to present the annual report of Gallant Gold Mines Ltd. for the year ended December 31, 1985.

During the year, the legal dispute regarding the FCD oil and gas revenue in Oklahoma, U.S.A. was settled, resulting in the receipt of \$229,000 which represented substantially all of the Company's claim. The FCD program continues to provide a steady cash flow of approximately \$4,000 per month although recently this has dropped to approximately \$2,000 per month due to declining production levels and falling oil prices.

The Company is presently in a strong working capital position as a result of two private placements of treasury shares to net the Company \$382,000, a public financing in March, 1986 to net \$543,900 and \$550,000 of flow-through share funds. These funds will now allow the Company to actively explore its mineral properties in 1986.

PATMORE (CROWSHORE) PROPERTY

The Company's Crowshore Property consists of eight patented mining claims situated in one of the highest grade gold camps in the Canadian Precambrian shield. The Pickle-Crow Central Patricia gold camp produced over 4.9 million tons of ore averaging .42 oz. gold/ton prior to closure of the Pickle-Crow mine in 1966. Gallant's claims are contiguous to Highland-Crow Resources Pickle-Crow property and cover the northeasterly extension of the main iron formation which hosts the Pickle-Crow Central Patricia and Dona Lake deposits (the Dona Lake deposit is reported to contain 1.4 million tons grading 0.22 oz. gold/ton). Previous work on the Crowshore property dates back to the 1930's.

To date there are seven known gold occurrences on the property. These consist of shear zones and quartz vein sulphide zones associated with iron formation. Results from the C Zone, a shear zone on which surface trench sampling has been carried out, returned gold values of 0.49 oz. gold/ton over an average width of 4.3 ft.

The Company will conduct a comprehensive exploration program this year, consisting of detailed geological mapping, intense prospecting, trenching and stripping, geophysical surveying, geochemical sampling and diamond drilling.

PROPERTY FILE

8: FSW149

GEORGIA CLAIMS

82 FSW 149

The Georgia claims are situated about 2 kilometres from Rossland, B.C. and 15 kilometres from the Cominco smelter at Trail.

The Rossland gold camp, first discovered in 1887 resulted in the establishment of Cominco Ltd. and the Trail smelter. Nearly three million ounces of gold was produced from their Rossland property prior to 1927 with an average grade of 0.47 oz. gold/ton.

Gallant has assembled a sizeable package of land in the Rossland camp two kilometres along strike from the former Cominco mine. Previous exploration has shown vein type mineralization with good grades across widths of five to ten feet. Three of the claims are former producers ~~shipping ore grading 0.3 to 0.5 oz. gold/ton~~ and a fourth claim had drill indicated reserves of 38,500 tons averaging 0.228 oz. gold/ton when mining activity ceased in 1941.

Geological, geophysical and geochemical work has been carried out over the past three years by the Company. A number of strong conductors have been defined. Several of these are associated with exposed massive sulphide veins or mineralized zones and rock chip samples show many of the veins to assay high in gold and copper. This suggests that important gold concentrations can occur in the silicified country rock between the veins. A diamond drill program has been recommended and will be underway in the next few months.

PERRY CREEK (GOLD STREAM) CLAIMS

826/12

826(NW)067?

At Perry Creek near Kimberly, B.C., the site of the first placer gold discovery in British Columbia, the Company has assembled 96 mineral claim units covering some of the former workings. Lode gold was discovered in 1897 along the valley walls above Perry Creek. The showings, until recently, have never been assessed with modern exploration methods. Exploration work by Gallant commenced in 1979.

Recent geochemical work has identified two very important zones. On the Quartz Hill claim grab samples over the known quartz vein system have given repeated values well in excess of 1 oz. gold/ton. Reports indicate that in 1973, some 1,373 tons was mined from one vein in an open pit on this claim and returned 0.26 oz. gold and 0.20 oz. silver/ton in addition to lead, zinc and copper values.

The other, and potentially even more important zone is at the south end of Gallant's property where a 75 ft. wide pyritic cherty argillite zone has been sampled and returned a 10 ft. section averaging 0.115 oz. gold/ton. This suggests the possibility of a larger bedded type deposit.

The Company will commence shortly a \$200,000 exploration program consisting of geological mapping, magnetometer survey, basal till sampling, trenching and diamond drilling.

PROPERTY FILE

DAWSON CLAIMS

In perhaps the most productive and well known placer area in Canada, the Klondike, the Company holds 55 mineral claims and along with 8 other Hughes-Lang companies is participating in systematic exploration of mineral potential over the heart of this historic gold camp. Results of this work and of programs completed by the Federal and Territorial geological departments, have outlined extensive zones of hydrothermal alteration, suggesting potential for large epithermal gold deposits.

VIOR CLAIMS

In the very active Perron-Vior belt in Northwestern Quebec Gallant is participating with Standard Gold Mines Ltd. in an 83 claim prospect in Vanier and Celoron townships on the boundary of Ligneris township, site of the Vior finds. Gold occurrences are widespread in this belt with the most important results to date coming from Perron Gold Mines Ltd.'s property on trend to the East in Chaste township where drilling has indicated 1,500,000 tons grading an average 0.30 gold/ton in 10 zones. A \$200,000 exploration program has been recommended on this property and this program will be conducted during the year.

With a strong working capital position, the Company will be conducting extensive exploration programs on several of its mineral properties which will result in an active and promising 1986.

On Behalf of the Board of Directors

R.W. Hughes,
President

May 14, 1986

GALLANT GOLD MINES LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 1985

GALLANT GOLD MINES LTD.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. SIGNIFICANT ACCOUNTING POLICIES Cont'd.

e) Administrative Costs

Administrative costs are allocated each period on the basis of the ratio of invested capital in mineral properties to the invested capital in petroleum interests. Administration costs allocated to petroleum interests are charged to earnings in the fiscal year incurred.

f) Earnings per Share

Basic earnings per share has not been calculated as it would not be meaningful at this stage of the Company's operations.

2. FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>N e t</u>
	\$	\$	\$
Mining Equipment	32,825	21,830	10,995
Office Equipment	<u>2,977</u>	<u>2,001</u>	<u>976</u>
	<u>35,802</u>	<u>23,831</u>	<u>11,971</u>
	=====	=====	=====

3. MINERAL PROPERTIES

	<u>COST</u>
	\$
QUEBEC	
Gold Hawk property	222,700
Vassan township property	6,500
Vior claims	6,000
ONTARIO	
Patmore claims	30,000
Hemlo east claims	14,000
BRITISH COLUMBIA	
Goldstream property	6,250
Georgia claims	107,000
Utopia claim	952
A.T. Syndicate	12,000
YUKON	
Dawson claims	<u>-</u>
	<u>405,402</u>
	=====

The following royalties and obligations are payable in respect of the the above mineral properties:

Gold Hawk Property - \$25,000 is due within one year. Another company may earn a 40% interest in the net revenue from this property by contributing 40% of all ongoing costs.

GALLANT GOLD MINES LTD.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985

3. MINERAL PROPERTIES

Vior claims - \$39,500 is payable over a three-year period, of which 8,750 is due within one year. Paying a 1.5% Net Smelter Return with minimum Advance Royalties of \$10,000 per annum commencing May 3, 1990.

Patmore claims - a 10% Net Production Royalty after the recovery of all development costs.

Hemlo East claims - issuance of up to 200,000 shares of the Company as certain phases of the development of the property occur.

Georgia claims - \$1,017,000 is payable over a nine-year period, of which \$27,500 is due within one year. Issuance of up to 175,000 shares of the Company. A 1% Net Smelter Return on eight of the twenty-five claims.

Dawson claims - \$20,000 is payable within one year. A royalty of the greater of 21% of Net Profits or 2% of Net Smelter Returns is payable with minimum advance royalties of \$40,000 per annum commencing the earlier of commercial production or five years from the date of regulatory approval.

4. PETROLEUM INTERESTS

The Company has a fractional interest in the following oil and gas program:

FCD Program, Oklahoma, U.S.A. - cost	\$297,245
Less: Accumulated depletion	<u>(257,392)</u>
	\$ 39,853
	=====

5. SHARE CAPITAL

a) Share Capital has been issued for the following consideration:

	<u>1985</u>	<u>1984</u>
	\$	\$
3,009,687 shares for cash (1984 - 2,109,687 shares)	2,309,555	2,057,555
1,417,194 shares for mineral properties and exploration expenditures (1984 - 842,768 shares)	888,146	219,000
<u>4,426,881 shares</u>	<u>3,197,701</u>	<u>2,276,555</u>
	=====	=====