

Consolidated Stikine Silver Ltd. N.P.L.

CHAIRMAN'S REPORT

The past year has been a very exciting and rewarding one for the shareholders of Consolidated Stikine Silver Ltd. (N.P.L.). The Company, with their 50% joint venture partner, (Calpine Resources Inc.) has participated in a major new gold discovery on its Eskay Creek claims in northern British Columbia.

A preliminary independent report prepared for the Company by D.J. Barker of Keewatin Engineering Inc., has outlined open pit reserves estimated at 3,000,000 tons of 0.26 oz/ton gold equivalent, allowing for 8% dilution at 0.015 oz/ton grade.

The presence of a thick, high grade core near surface would make the entire resource mineable at an approximate 6:1 strip ratio. The configuration of the mineralized zones would permit the mining of large tonnages of 0.35 to 0.40 oz/ton gold equivalent material in the early years at low strip ratios. Sufficient resources are currently indicated which could support a 1,000 tonnes per day operation over an eight year mine life.

To date, 70 drill holes have been completed at a cost of \$4,500,000 of which Consolidated Stikine's share is \$1,800,000. Much of this work was carried out throughout the winter, during extreme snow and weather conditions. Based on this experience the Company does not foresee any problems with a year round mining operation.

The Company was able to arrange funding for the project with a minimum amount of dilution to the shareholders. This was accomplished by two private placements for a total of \$2,062,500. The first placement was for 100,000 flow-through shares at \$40.00 per share. The second placement was for 100,000 common shares at \$40.625 per share with 1 warrant per share exercisable at \$41.25 in the first year or \$42.25 in the second year, leaving the Company in excellent financial condition.

The 1989 summer program is planned to commence June 15. Phase I expenditures to the end of September will be in the order of \$4,000,000 on the project. Major aspects of this program will include:

- a) Aggressive surface exploration of the entire property.
- b) Immediate stepout drilling to the northeast.
- c) Initial drill testing of other well-mineralized zones on the property.
- d) Definition drilling, bulk sampling and surface trenching of the 21 Zone.
- e) Definitive metallurgical studies on bench scale and on bulk samples to be collected from surface trenching and drill core.

The objectives of the summer program are, firstly, to aggressively explore the entire property in order to assess the overall potential of the mineral inventory. The 21 Zone discovery that has outlined a 2.8 million ton open pit reserve resulted from a very limited program completed

on the property last summer. The knowledge gained from this and the subsequent winter drilling and airborne geophysical programs indicates excellent possibilities for a large tonnage reserve for the property.

The second objective of the summer program is to assess the commercial potential of the reserves currently outlined in the 21 Zone. Definition controlled drilling of the open pit reserves, surface trenching, geotechnical studies, detailed metallurgical testing, design engineering of the open pit and transportation routes will form the basis for this economic evaluation.

To fund this next phase, of which Consolidated Stikine's share is \$2,000,000, the Company has entered into another Private Placement agreement for 220,000 flow through shares at \$9.50 per share. This was accomplished despite very adverse market conditions.

During the year, the Company has expanded its land position in the area immediately surrounding the original claims. The Company has acquired an option from Calpine Resources Incorporated for a 50% interest in their 66.7% interest in the SKI 4 and GNC 1 to 3 claims. The Company has also acquired an option to earn a 25% interest in the SKI 1 to 3 claims and an option to earn a 25% interest in the Alpha, Beta, Epsilon, Gamma, Omega and RHO claims immediately to the northwest of the property.

During the past year, the Company has added three new members to the board in the persons of George Oughtred, Ron Nelolitzky and John Toffan. We very much regret the passing away of Andy Robertson, a long time member of the board who will not only be remembered by the Company but by the entire mining industry for his many contributions in the past.

The Board of Directors continue to remain optimistic for the future and eagerly await the results of this year's exploration program. It promises to be another exciting year for Consolidated Stikine Silver Ltd. N.P.L.

ON BEHALF OF THE BOARD OF DIRECTORS



John A. Toffan, Chairman
June 1, 1989

Calpine Resources
ESKAY Ck

TECHNICAL DISCUSSION

History

The history of the Eskay Creek property is closely associated with the founder of Consolidated Stikine Silver Ltd. It is a tribute to Mr. Tom Mackay's belief in the property, that the company he founded is a 50% participant in the major discovery made on this property.

It is important to note that the property is not a new prospect but has been actively explored since the 1930s when Tom Mackay first became involved. The presence of numerous mineralized occurrences on the property in geological environments considered favourable for both precious and base metal deposits has attracted the efforts of many major and junior exploration companies over the past 50 years.

1988 - 1989 Program

The 21 Zone discovery resulted from a 6-hole drill program completed in the fall of 1988 as part of a modest \$300,000 re-evaluation of the property. The success, to a large degree is related to the historical database. The



Figure 1

program of geological mapping and geochemistry was undertaken by Keewatin Engineering Inc. and funded by Colpine Resources Ltd.

The 21 Zone was selected as the initial drill target for the property based on historical trenching and drilling results that outlined a zone of intriguing mineralization that was open to the north. Five holes were planned to further test this mineralization. Three of these holes, (#3, #5 and #6) encountered ore grade intersections, although they did not penetrate the entire zone.

DDH #6 was the most spectacular hole, intersecting a style and intensity of mineralization hitherto unsuspected. A sixteen metre core interval returned 1.335 oz/ton gold and 1.99 oz/ton silver. Within this interval, zones of near massive stibnite, realgar and orpiment were identified.

The positive technical results led to a winter drill decision. From October to April, a further 64 holes were completed. Early in this program, it became evident that the interpreted orientation of the zone, based on surface trenching and historical drill information, was incorrect. The grid drilling was re-oriented to systematically test the zone perpendicular to strike. The results of all significant intersections are listed on Table 4 with the surface plan of drilling presented on Figure 3. Our current interpretation is that the historical 21 Zone represents a footwall feeder system which led us to the main 21 Zone mineralization.

Drill holes completed perpendicular to strike are illustrated on a longitudinal section in the plane of mineralization. A possible cross-fault has terminated the mineralization to the south. Holes to the south of the interpreted fault intersected unaltered rhyolite without significant mineralization. The deposit is currently open on strike to the north and to depth. The last fence of holes, (#67, 68, 69) appear to have encountered a new high grade ore shoot.

McNella

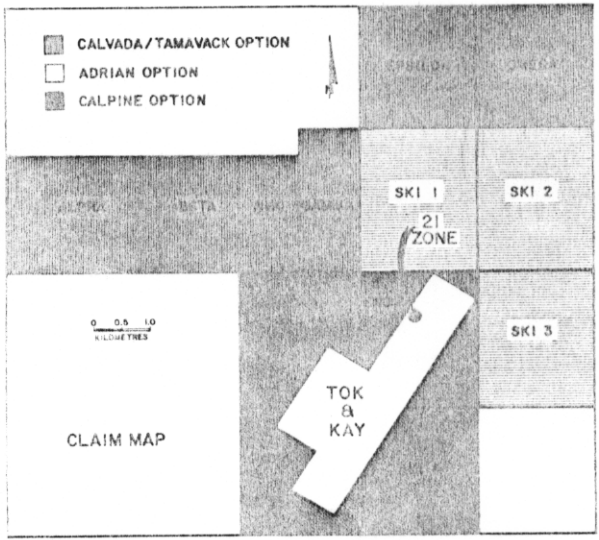


Figure 2

A cross-section (Figure 3) illustrates the general geological setting for the deposit. Mineralization is concentrated within altered rhyolites and within an overlying graphitic argillite horizon. Other precious and base metal enriched zones are present below the main zone within the rhyolite sequence and into underlying dacitic horizons. The best mineralization identified to date is developed along the argillite-rhyolite interface.

The mineralized sequence is capped by a series of pillowed andesitic flows with thin interbedded graphitic argillite beds. It is noteworthy that no significant mineralization has been identified within the andesitic sequence.

The 21 Zone is, at least, in part, a mineralogically complex deposit. In addition to the precious metals, minerals of antimony, arsenic, zinc, lead and mercury are locally present in significant quantities.

The mineralogy is characteristic of what are commonly referred to as refractory ores. Good precious metal recoveries are being obtained from similar ores worldwide. Proper metallurgical procedures are, however, necessary to maximize the benefits from this type of deposit.

Depending on the metallurgical procedures selected, it can be anticipated that concentrates containing metals such as antimony, mercury, zinc and arsenic may

be produced. The sale of such concentrates can defray, in part, the additional costs related to the treatment of refractory ores.

A preliminary geological reserve of 2.8 million tons of 0.23 oz/ton gold and 3.3 oz/ton silver has been calculated using drill holes as illustrated in Figure 5 within a possible open pit having an average of 6:1 strip ratio. The ore grade intersection in the northernmost fence of holes has not been included in the reserve estimates. A positive characteristic of the deposit is that the thickest and highest grade portions are near surface. The property is amenable to the extraction of higher grade reserves at a low strip ratio during the early years of an operation.

Proposed 1989 Program

A minimum \$7 million exploration program is planned for 1989 on the Eskay Creek project. An initial phase of \$4 million will systematically explore the entire property and will continue exploration of the 21 Zone, to

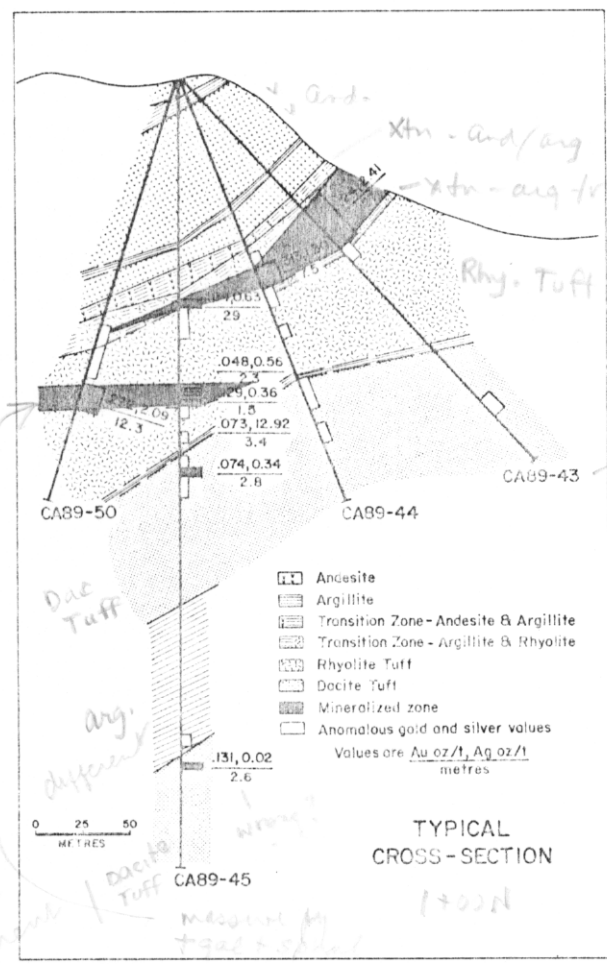


Figure 3

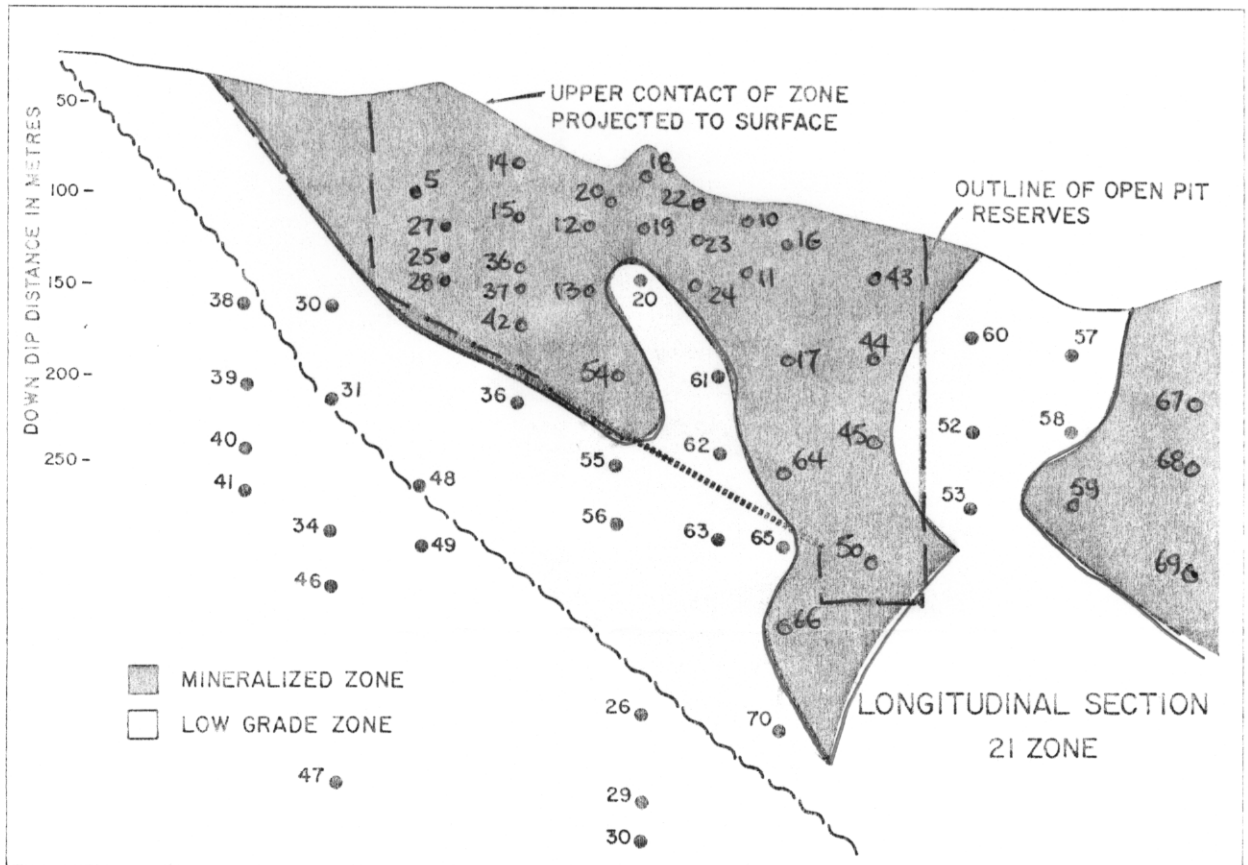


Figure 4

take this deposit from mineral inventory category to a drill proven category. Information necessary for mine feasibility will be obtained, including detailed metallurgical studies, environmental studies, and access route studies.

The 21 Zone is only one of many known zones of mineralization on the property. Information in the historic database indicates occurrences that could supply additional reserves through systematic drill programs.

An airborne geophysical survey conducted during the winter season has defined signatures common to the 21 Zone and other known mineralized zones. The initial thrust of the 1989 program will be to continue the step-out drilling of the 21 Zone to the northeast. The airborne geophysical results suggest that the zone could continue for at least 500 metres. The summer phase, which is anticipated to be completed by early September, should develop sufficient targets for detailed systematic diamond drilling which would be planned for the fall and winter season. Last season's program confirmed that winter drill programs can be completed in this area in a cost effective manner.

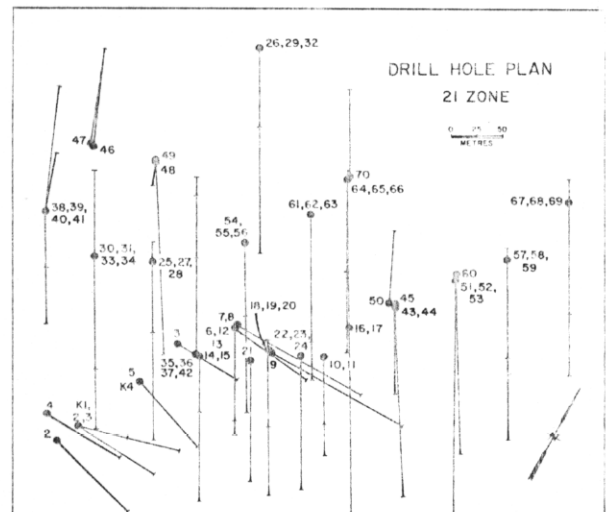


Figure 5

Table 1

Site	Interval (m)	Core Length (m)	Au	Ag	Hole	Interval (m)	Core Length (m)	Au	Ag	
CA-88-2	77.9-80.9	3.0	0.012	0.90	CA-89-35	66.5-83.0	16.5	0.099	3.40	
	83.9-88.4	4.5	0.058	0.83		86.0-92.0	6.0	0.053	0.71	
CA-88-3	86.5-93.0	6.5	0.200	0.43		102.5-114.5	12.0	0.156	1.76	
CA-88-4	111.7-123.2	11.5	0.075	1.64	OR	66.5-114.5	48.0	0.087	1.87	
CA-88-5	34.2-39.7	5.5	0.189	0.71		225.5-227.0	1.5	0.108	0.50	
	51.7-108.0	56.3	0.157	2.50		233.0-237.5	4.5	0.089	0.52	
CA-88-6	91.8-107.6	16.0	1.335	1.99	CA-89-36	14.5-16.0	1.5	0.066	0.19	
	111.8-119.2	7.4	0.076	0.11		141.0-142.5	1.5	0.023	3.66	
CA-88-7	107.7-118.2	10.5	0.422	0.62		147.0-150.0	3.0	0.074	6.46	
	140.7-155.7	15.0	0.208	0.21		297.0-297.5	1.5	0.077	0.66	
CA-88-8	93.1-96.1	3.0	0.119	0.30	CA-89-37	90.0-94.5	4.5	0.272	0.67	
	124.6-127.6	3.0	0.330	0.15		206.5-207.0	1.5	0.063	0.26	
CA-88-9	61.4-79.4	18.0	0.575	2.77		210.0-211.5	1.5	0.050	0.12	
	86.9-92.9	6.0	0.084	0.34	CA-89-38	No significant intersections				
	95.9-98.9	3.0	0.013	5.85	CA-89-39	No significant intersections				
	106.4-113.4	7.0	0.052	2.11	CA-89-40	No significant intersections				
	125.4-126.9	1.5	0.163	13.76	CA-89-41	No significant intersections				
	137.4-144.9	7.5	0.251	1.02	CA-89-42	105.0-109.5	4.5	0.407	2.07	
CA-88-10	87.0-88.5	1.5	0.062	0.44	CA-89-43	95.5-122.5	27.0	0.240	2.41	
CA-88-11	57.0-64.5	7.5	0.143	0.50		245.5-247.0	1.5	0.001	15.00	
	69.0-73.0	3.0	0.098	0.03	CA-89-44	111.0-118.5	7.5	0.313	1.30	
	75.0-87.0	12.0	0.150	0.03	CA-89-45	118.3-124.2	2.9	0.184	0.63	
	148.5-151.5	3.0	0.054	0.66		162.1-163.6	2.5	0.048	0.56	
	169.0-169.5	0.5	0.095	0.25		166.6-166.1	1.5	0.119	0.34	
CA-88-12	81.7-137.0	55.3	0.256	4.82		171.8-175.2	3.4	0.073	12.92	
	66.2-93.7	7.5	0.265	21.93		208.1-210.9	2.8	0.074	0.54	
	117.5-122.0	4.5	1.143	11.56		364.1-366.7	2.6+	0.131	0.62	
CA-88-13	86.1-101.6	16.5	0.203	2.75	CA-89-46	No significant intersections				
	96.1-99.6	4.5	0.445	8.47	CA-89-47	No significant intersections				
	108.6-114.6	6.0	0.068	0.08	CA-89-48	127.5-130.5	3.0	0.100	0.06	
	129.6-131.1	1.5	0.360	0.06		181.5-182.0	7.5	0.058	4.22	
CA-88-14	49.5-55.5	6.0	0.165	1.58	CA-89-49	No significant intersections				
	87.0-90.0	3.0	0.062	0.12	CA-89-50	169.4-181.7	12.3	0.272	2.09	
CA-88-15	52.5-61.5	9.0	0.047	3.81	CA-89-51	No significant intersections				
	72.0-78.0	6.0	0.137	24.56	CA-89-52	117.3-123.8	6.5	0.086	0.98	
	81.0-82.5	1.5	0.110	1.52		230.5-241.7	11.2	0.109	0.77	
CA-88-16	76.2-92.7	16.5	0.112	4.89		252.9-254.4	2.5	0.060	0.43	
	98.7-101.7	3.0	0.191	0.63	CA-89-53	127.1-129.5	2.4	0.124	0.22	
CA-89-17	97.5-99.0	1.5	0.256	0.27		159.7-161.2	1.5	0.078	0.08	
	108.0-123.0	15.0	0.296	0.24		162.7-164.2	1.5	0.050	0.44	
	171.0-172.5	1.5	0.053	0.17		165.7-167.2	3.0	0.072	0.66	
	174.0-175.0	1.0	0.056	0.21	OR	159.7-168.7	9.0	0.058	0.14	
	180.0-183.0	3.0	0.096	0.48		250.4-251.9	1.5	0.477	0.29	
CA-88-18	46.5-90.0	43.5	0.218	3.35	CA-89-54	110.5-118.5	18.0	0.196	0.65	
	94.0-97.0	3.0	1.660	5.55		222.0-223.5	1.5	0.065	0.67	
CA-88-19	57.0-73.5	16.5	0.260	7.97	CA-89-55	158.5-163.0	4.5	0.032	0.88	
	81.0-93.0	12.0	1.59	1.59	CA-89-56	267.0-269.0	2.0	0.126	1.37	
CA-88-20	78.0-81.0	3.0	0.316	0.20	CA-89-57	96.6-98.1	1.5	0.150	3.30	
	157.5-159.0	1.5	0.108	6.49		122.8-124.3	1.5	0.048	0.08	
CA-88-21	50.6-92.6	42.0	0.442	7.09	CA-89-58	105.0-107.0	2.0	0.072	0.70	
	96.6-74.6	18.0	0.586	10.40		136.0-142.0	6.0	0.071	0.16	
CA-88-22	69.7-67.7	7.0	0.093	0.12		248.0-249.0	1.0	0.125	1.21	
	73.7-75.2	1.5	0.073	50.03	CA-89-59	114.0-120.6	6.0	0.070	4.25	
CA-88-23	48.0-66.0	18.0	0.719	1.84		243.0-244.0	1.0	0.098	0.34	
	70.5-82.5	12.0	0.170	5.84		278.0-280.0	2.0	0.072	0.89	
	OR	48.0-82.5	34.5	0.436	3.01		329.0-331.0	2.0	0.060	0.68
		159.0-166.5	7.5	0.145	0.16	CA-89-60	113.0-114.0	1.0	0.048	0.20
CA-88-24	65.1-80.1	15.0	0.807	0.86		117.0-118.0	1.0	0.082	0.05	
	99.6-101.1	6.0	0.076	1.31		136.0-138.0	2.0	0.054	0.65	
	146.1-147.6	1.5	0.080	0.22	CA-89-61	Geochemically anomalous intervals				
CA-89-25	131.1-137.1	6.0	0.224	1.32	CA-89-62	162.0-163.0	1.0	0.089	0.04	
	140.1-158.1	18.0	0.143	4.21		238.0-239.0	1.0	0.055	0.36	
	OR	131.1-158.1	27.0	0.149	3.12	CA-89-63	105.0-106.0	1.0	0.429	0.45
		171.6-176.1	4.5	0.262	0.51		264.0-279.0	15.0	0.070	0.44
CA-89-26	No significant intersections				CA-89-64	142.0-143.0	1.0	0.325	0.58	
CA-89-27	63.3-66.0	2.7	0.535	2.70		278.0-279.0	1.0	0.074	4.17	
	132.0-133.5	1.5	0.072	0.14		148.0-172.0	14.0	0.261	3.59	
	165.0-166.5	1.5	0.078	2.58		183.0-185.0	2.0	0.107	0.18	
CA-89-28	64.8-73.4	8.6	1.059	0.20		286.0-287.0	1.0	0.050	1.67	
	145.9-150.4	4.5	0.133	1.55	CA-89-65	253.0-254.0	1.0	0.065	0.29	
CA-89-29	No significant intersections					123.0-126.0	3.0	0.070	0.56	
CA-89-30	104.2-105.7	1.5	0.058	0.07		234.0-235.0	1.0	0.561	1.11	
	122.7-124.2	1.5	0.105	0.54	CA-89-66	84.7-85.7	1.0	0.088	1.20	
CA-89-31	97.0-98.5	1.5	0.065	4.00		107.5-113.5	6.0	0.128	0.20	
	106.0-111.5	7.5	0.154	0.52	CA-89-67	102.0-111.0	9.0	0.421	5.61	
	258.0-269.0	3.0	0.077	1.84		118.0-122.0	4.0	0.087	2.74	
	263.5-269.5	6.0	0.080	0.31	CA-89-68	135.0-147.0	12.0	0.090	2.93	
	266.0-297.5	1.5	0.083	1.02		165.0-166.3	3.0	0.268	2.74	
CA-89-32	No significant intersections				CA-89-69	129.0-134.0	5.0	0.080	3.56	
CA-89-33	No significant intersections					135.0-142.0	7.0	0.091	0.32	
CA-89-34	No significant intersections				CA-89-70	147.3-149.3	2.0	0.081	0.53	