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In our view, an excellent strategy for aggressive investors is to seek to identify emerging gold producers with the prospects of becoming a profitable producer within the next 12-18 months. Obviously, the capital gains potential is strongly influenced by the profitability of the new producer.

In our view, Skyline has the potential to become established as a very profitable gold producer within 10 to 12 months.

Summary and Conclusions:

Skyline's Reg property in West Central British Columbia has been explored directly and by Joint-Venture partners (Placer and Anaconda) since the early 1980's.

The 1986 program involved underground development of veins previously identified by surface diamond drilling. Data resulting from this underground verification program have proved the gold zone to be both richer and larger than suggested by surface drilling. Indicated reserves clearly hold the potential for a small but very profitable gold operation.

Management has been significantly strengthened by Norm Anderson's arrival as Chairman late in 1986. Key operating staff are now in place to tackle the 1987 field program on a "fast track" basis.

An ambitious but pragmatic program is now in place to confirm sufficient tonnage of high grade ore (0.85 oz./ton - minimum) to justify a production decision on a small 200 ton per day mill as quickly as July 1987. Engineering and procurement for a mill facility is already well advanced. If say 300,000 tons can be confirmed by July, an immediate production decision is highly probable.

Construction and start-up of a small 200 ton per day gold mine is not a major task, but the relatively remote location and the fly-in logistics will undoubtedly impact capital costs, operating costs and scheduling. The timeframe being targeted by management leaves negligible scope for slippage.

Earnings projections, albeit tentative at this juncture, suggest limited downside risk to the current share price of $14.50 Can., and a relatively open-ended upside potential of say 100% to 300%, or more - barring a precipitous drop in bullion prices.

If and as Skyline proceeds through the feasibility stage (July '87), construction stage (Jan. '88), start-up stage (QI '88), ore reserve building stage ('88), expansion stage (late '88), and dividend stage ('89-'90), the shares are likely to prove progressively more attractive to institutional investors and European investors. Throughout this sequential process, the shares are likely to enjoy an on-going multiple expansion from current levels to say 20X-30X, albeit in an erratic pattern.

Recommendation:

We believe that Skyline has exceptional capital appreciation potential and strongly recommend purchase at current prices.

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Consulting Mining Analyst

Management:

Mr. Reg E. Davis founded Skyline and has been President since its formation in the late 1960's. About 1980, Skyline expanded its claim holdings by picking up the Reg claims which host the Stonehouse project. Mr. Davis' primary involvement in the mining industry has been as a diamond drilling contractor. This background is ideally suited to a project requiring mobilization of exploration/drilling/developmental personnel to a remote location lacking infrastructure; such as Skyline's Stonehouse Project.

In late 1986, Mr. M. Norman Anderson joined Skyline and is devoting the bulk of his time to this project. Mr. Anderson is a mining engineer and spent most of his career with Cominco. Early assignments at Cominco included Mine Manager for small operations in Canada and the U.S., which were experiencing start-up problems. In 1978, Mr. Anderson was appointed President of Cominco and in 1980 became Chairman and Chief Executive Officer. This top role with Cominco terminated following acquisition of Cominco by Teck Corporation in 1986.

On balance, the skills and expertise of Messrs. Davis and Anderson complement each other. It is quite unusual for a junior resource entity to have a management team as strong as Skyline.

Since the beginning of the year Skyline has hired experienced personnel to fill key roles as Mine Manager, Mine Superintendent, and V.P. Finance.

Property History:

Skyline acquired this gold prospect in the early 1980's. Based on preliminary exploration work by the Company, Placer optioned the property in 1983 and was granted the right to earn a 65% interest in the project by spending $1.75 million by the end of 1984. Budget constraints at Placer led to a sub-option to Anaconda Canada Explorations Ltd. in 1984. Anaconda had an obligation to announce a production decision by the end of 1986, but decided in 1984 to terminate its Canadian exploration activities. The property therefore reverted unencumbered to Skyline.

1986 Program by Skyline:

An exploratory adit was driven in 1986 to intersect the discovery zone and the "16" zone as outlined by surface diamond drilling. Characteristically, gold deposits, especially high grade deposits, are very erratic. Consequently, underground exploration to confirm surface drill results is a crucial test for such deposits. Confirmation of surface drill results by the exploratory adit at Stonehouse has proven to be exceptionally favourable. The length and widths of the known zones have met or exceeded surface drill indications. More importantly, gold grades have maintained or exceeded expectations from surface drilling. Moreover, a new porphyry vein system has been discovered which adds measurably to mineral inventory potential.

The 1986 program by Skyline demonstrated the exceptional potential of the Reg Project. Field results were accompanied by a share price move from less than $1.00 to more than $12.00 during 1986.

1987 Exploration/Development Program:

In mid-February, Skyline mobilized field crews for 1987. The next several months will be the most interesting and potentially the most rewarding in the history of Skyline.

The immediate target is to double the known ore reserves above the adit level to 300,000 tons by July at a grade of at least 0.85 oz./ton. If this objective can be achieved, the Stonehouse Project would support a mill of 200 tons per day as an initial production rate - AND A PRODUCTION DECISION WOULD BE TAKEN IMMEDIATELY.

It must be recognized that the field program through July 1987 is very ambitious. Some of the 1986 work, especially underground sampling, was done hastily and under adverse conditions. A top priority is to resample veins developed during 1986 to upgrade the confidence in the grade calculations to acceptable levels. The adit will be extended to verify the discovery zone to its full length, verify the "16" zone to its full length, develop the "16" Hanging Wall zone to full length.

Raises will be driven from the adit level to surface. This will further confirm the grade of the veins in the third dimension. In addition, these raises will be used to develop ore blocks above the adit level if and when production begins. It might be noted that underground development usually represents the bottleneck in bringing an underground mine into production. Careful planning will permit exploration excavations to be utilized as production access thereby foreshortening or eliminating this bottleneck.

Skyline is assuming that there is a high probability that the tonnage and grade targets can be met. Consequently, bids for a 200 ton per day mill were solicited in March and a contract to design a mill has now been let. The capital cost of the mill represents the largest unknown capital cost item at this juncture. By July, it is likely that definitive bids will be available for a mill and this unknown will be quantified.

Environmental permitting represents another uncertainty for the Stonehouse Project. There are numerous small gold mining operations throughout central and northern B.C. The Province is mindful of the favourable employment impact resulting from a new mine. Consequently, it is not unreasonable to assume that environmental permits will be forthcoming on a timely basis. Nonetheless, permitting does represent a project risk and therefore merits careful monitoring.

Ore Reserves:

Based on surface diamond drilling and sampling from the adit level, mineral reserves at the Reg Project are summarized as follows:

	tons	oz./ton Gold
Measured	80,000	1.3
Drill Indicated	154,000	0.6
Drill Inferred	705,000	0.7
TOTAL:	939,000	0.73

It should be noted that the grades encountered on the adit were measurably higher than grades interpreted from surface diamond drilling results.

As a more general statement, Skyline has estimated the geological potential of the Reg Project to be 4,000,000 tons grading 0.5 oz./ton. Upgrading this "potential" to reality, however, will require several years of on-going exploration and diamond drilling.

The 1987 program will focus almost entirely on proven ore reserves above the adit level. It is anticipated that drifting, raising and detailed sampling of the three veins opened up by the adit in 1986 can build tonnages to the 300,000 target, which represents threshold tonnage for a production decision at 200 tons per day. The capacity of Skyline to undertake other exploration below the adit level and elsewhere on this large 26,000 acre property during 1987 will be relatively limited because of the commitment of manpower and management resources to completion of a Feasibility Study by July, (and start-up by early 1988).

On balance, Skyline's target of outlining 300,000 tons of ore by July above the adit level grading a minimum of 0.85 oz./ton appears ambitious but achievable.

Feasibility Study:

Skyline has scheduled an aggressive exploration/development program for the first half of 1987 which could permit a production decision by July. An underground drifting and raising program is currently underway. As development work is completed, a great deal of detailed sampling and ore reserve calculations will be required; which in turn permit engineering of an appropriate mining method.

As mentioned above, a contract to engineer and design a 200 ton/day mill is currently underway. Detailed metallurgical testing to optimize the mill circuit was based on bulk samples brought out in late 1986. A decision has been made to predesign the mill to expand in stages to 400 tons per day, if and as ore reserves permit.

Skyline is currently extending the airstrip from 3,500 feet to 5,000 feet to accommodate larger aircraft.

If Skyline adheres to this ambitious development schedule, a Feasibility Study will be completed by July. Mill construction could commence immediately thereafter and mine development/stope preparation would undoubtedly be accelerated during the last half of 1987.

The current tentative start-up target of early 1988 is achievable, but includes very little contingency for slippage.

Financial Position/Capital Costs:

Skyline currently has cash reserves of $3.3 million. Options are currently in place which, if exercised, could inject an additional $4.3 million dollars. A very preliminary capital cost estimate is $19-$20 million (±20%).

Because Skyline share prices responded dramatically to 1986 field results (see share price chart), equity financing is an obvious source of financing. In very general terms, an additional 20% equity dilution would probably finance Skyline to production on a debt-free basis. Alternately, gold loans are commonly available in the current market climate which could provide Skyline with financing on more favourable terms (better leverage).

Although Joint-Venturing with an established gold producer for a direct property interest is an option, it is likely that Skyline would prefer to retain 100% ownership.

Alternately, bank debt is a possibility, especially for the working capital component.

On balance, the Reg Project appears to be readily financable under current market conditions. Moreover, production financing is unlikely to translate to excessive equity dilution. Obviously, a precipitous drop in bullion prices might impair current market conditions.

Earnings Potential:

It is clearly premature to calculate earnings potential with any implied degree of precision. Nonetheless, an order of magnitude estimate is instructive. Utilizing the parameters set out for the July 1987 target objectives, earnings might be crudely calculated as follows:

	Phase I	Phase II
Daily Production Rate (tons per day)	200	400
Annual Tonnage (short tons)	70,000	140,000
Recovered Ounces	53,500	107,000
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Revenue @ $400 U.S./oz. of gold ($ Can.)	28.1	56.2
Operating Costs @ $150/ton (Phase 1 - $200/t.)	14.0	21.0
Profit before tax:	14.1	35.2
Profit per share before tax (7.0 MM outstanding):	$2.00	$5.15
Profit per share after tax:	N/A	$2.50

Taxes are likely to be fully shielded during years 1 and 2. An effective tax rate of about 53% is likely to begin about year 3.

These preliminary earnings estimates disregard silver and copper revenue. Moreover, the degree of accuracy of the profit determinants at this early stage is such that we would expect this earnings estimate could readily vary ±30%.

Ore Reserve Potential:

Assuming that the initial threshold tonnage of 300,000 tons is outlined by July 1987, a 200 ton/day operation would have a life of about four years. Immediately following start-up, Skyline is likely to implement a program to build ore reserves. Specifically, a second adit can be driven closer to the valley floor which would gain mining access to considerably more potential ore. Assuming that a rational Phase II production target for Skyline would be to double the production rate to 400 tons per day and establish a ten year life index, ore reserves would have to be built to 1.4 million tons. Accepting the current total reserves ("measured", "drill indicated", and "drill inferred") of 938,000 tons (0.76 oz./ton) and the "potential" reserves of 4.0 million tons (0.5 oz./ton), a target of 1.4 million tons does not seem to be unrealistic. It should also be noted that the 4.0 million ton "potential" reserves cited by the Company are predicated on liberal and optimistic projections of relatively limited geological evidence.

It is likely that Skyline would aggressively implement a program to build ore reserves as soon as start-up is achieved. Any new operation with open-ended ore reserve potential would immediately target to build the life index to at least ten years, i.e., 700,000 tons. The next logical ore reserve target would be 1.4 million tons, which would justify a doubling of throughput. If justifiable, such an expansion would likely be taken in steps and could be readily financed from cash flow.

Achievement of these ore reserve targets is likely to remain an unknown for at least a year or two.

In more general terms, Skyline has a large property (viz. 26,000 acres). Several gold zones outside the Stonehouse area have been identified which merit detailed geological follow-up; including the B1, B2, and B3 zones, the McFadden zone, and the C1, C2 and C3 zones. It is likely that a systematic program to explore these and other zones will be implemented in an orderly manner over the next several years.

Share Price Outlook:

Share prices of gold equities are influenced by a number of factors, notably including:

- earnings per share
- ore reserve life index
- ore grade
- potential for expanding operations
- exploration exposure
- debt/equity/dividends.

Under an optimistic scenario, Skyline could be producing more than 50,000 oz. of gold annually and earning in excess of $2.00 per share (pre-tax) as early as 1988 (9 months).

By 1989, it is likely that Skyline will have built ore reserves substantially. In fact, a doubling of throughput (with some sacrifice in grade) is not a totally unrealistic target by say year three of production.

If Skyline completes a Feasibility Study by July and makes a production decision, it is likely that the market will begin to discount 1988 earnings. We conservatively judge that the market could assign a multiple of 10X to 15X to projected earnings of $1.50 to $2.00 per share for Skyline which translates to a share price of $15.00 to $30.00 per share. It is a common pattern for share prices to languish during the construction stage. News during construction is frequently predominated by adverse news such as delays, overruns, logistical problems, labour problems, etc. In fact, Skyline appears to have set very aggressive targets for a production decision and start-up; which increase the probability of adverse news. Management attention is focused almost entirely on start-up priorities and the excitement associated with diamond drilling and expanding ore reserves is temporarily put on the back burner. Consequently, a share price correction during the construction phase cannot be ruled out. In the case of Skyline, the projected construction phase is extremely brief; thus, a waning of speculator interest during the construction period could well be relatively modest.

Further share price appreciation beyond such levels would depend on considerations which are difficult to predict with certainty at this early stage of development. Specifically:

- further expansion of ore reserves
- discovery of some ore of higher than average grade
- increasing the throughput rate
- reduction of unit operating costs.

Undoubtedly, it will be more practical to attempt to gauge these aspects of the operation about 12 to 18 months hence.

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