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Skyline Explorations Ltd. Annual Report 1987



## THE COMPANY

Skyline Explorations Ltd. is an active company involved in the exploration for and development of minerals, principally gold, in the Province of British Columbia. Skyline owns 100% of the Reg mineral claims covering approximately 15,900 acres located in Northwestern British Columbia. The Johnny Mountain Gold Mine, located on a portion of Reg claims, is under development. Underground stopes are being developed to ensure an adequate supply of ore for the mill. Mill construction is expected to be completed by the end of the first quarter of 1988. After start-up of the mill the initial production is projected at 200 tons per day with an average ore grade of 1 oz. of gold per ton.



**COVER:** Rock sample of visible gold obtained from the Number 2 raise in the 16 vein of the Johnny Mountain Gold Mine.

## REPORT TO SHAREHOLDERS

We are pleased to report that Skyline Explorations Ltd. made substantial progress during 1987 towards achieving its objective of becoming a significant gold producer. The Board of Directors' decision to develop the gold deposit on the Reg mineral claims reflects management's confidence in the economic viability of the project. The relatively short construction period for foundation work necessitated an early production decision to procure the equipment for the mill and to obtain the required government permits. All the essential components were in place by mid July and site preparation for the mill and related surface facilities commenced.

The existing air strip was lengthened to 4800 feet and widened to 100 feet to accommodate Hercules aircraft; mill foundation and floor concrete was completed; the kitchen, dining and recreation building was erected. The mill machinery, mill building components and the accommodation trailers were assembled in Vancouver and barged to Wrangell, Alaska.

Exceptionally bad weather in September and October slowed the Hercules airlift and subsequent mill erection. To speed up the process additional S-61 Helicopter airlifts were instituted and at the time of writing, over 75% of the total material has been transported to the mine site.

Currently the permanent accommodations for 64 employees are complete and in operation. On completion of the airlift additional accommodations for up to 42 additional employees will be available. Mill structural steel is being erected and heavy mill equipment is being placed as it arrives. Your Board of Directors is optimistic that the airlift will be completed in time to enable completion of the mill construction by the end of the first quarter of 1988.

During 1987, your Company conducted an extensive geophysical program on the Reg mineral claims. The program confirmed the extension of the Discovery and 16 Veins to the East and West of the current underground workings. To date, only a small portion of the Reg claims has been explored in detail and the preliminary results of the geophysical program indicated several additional structures that warrant further evaluation by surface diamond drilling. The opportunity exists to greatly expand the reserve potential of the Reg claims in these other areas as well as to expand the reserves of the Discovery and 16 Veins. The Discovery and 16 Veins are presently open at depth and at both ends.

During the year two surface and two underground diamond drills operated and approximately 42,300 feet were drilled. Underground development continued on the Discovery Vein and the 16 Vein with approximately 3,860 feet of drifting and 1,130 feet of raises of which approximately 1,150 feet were driven in ore. Extensive samples have been taken and the assay results have been consistently higher than the assay results from the diamond drill cores. The first stope in the 16 Vein is well advanced and will be ready to provide the initial mill feed. Ore reserves in this stope are estimated to be 45,000 tons grading in excess of 1.0 ounces of gold per ton. The development of the first stope in the Discovery Vein has commenced.

Edward W. Grove, Ph.D., P.Eng. consulting geologist estimated the current Ore reserves to be as follows:

Reserve Classification	Estimated Tons	Gold Ounces per Ton
Measured	121,000	1.25
Drill indicated	197,700	.58
	318,700	.83
Inferred	680,000	.67
TOTAL	<u>999,700</u>	<u>.72</u>

These reserves are preliminary estimates because at the time of writing this report gold assays were not available on 25 new drill holes. The assay data on these holes and new reserves estimates will be announced when available.

The data on the silver and copper content of the reserves are incomplete but Dr. Grove estimated the reserves will average 1 oz./Ton silver and 1% copper.

A second adit approximately 150 feet below the first adit, and two raises between the levels are underway. This second adit will be the main haulage level for ore to the mill and should be completed to the Discovery Vein by the end of the year. Completion of the second level adit will explore the full lateral extent of the Discovery and 16 Veins and allow expansion of ore reserves to depth by diamond drilling.

The mill is designed to process up to 400 tons of ore per day. The start-up is scheduled to commence during the second quarter of 1988 with initial production at 200 tons per day of ore

*MILK*

containing approximately one ounce of gold per ton. Initial annual production is estimated to be approximately 60,000 ounces of gold and is expected to increase to approximately 100,000 ounces of gold over the next two years.

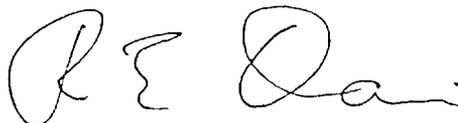
The Company successfully raised \$21.9 million in equity capital through private placement and public offering of shares and exercise of employee stock options. An additional \$6.6 million was raised by the issuance of a \$6.0 million debenture and \$.6 million of gold purchase warrants. Your company has raised sufficient funds to meet the financial obligations and commitments to complete the mill construction during the first quarter of 1988.

## OUTLOOK

These are uncertain times for the economies of the world, especially North America. The continuation of government deficits and relatively large growth in the money supply in both Canada and the United States of America will inevitably lead to increased inflation. This should result in an increase in demand for gold and higher gold prices. With the new mill scheduled for completion during the first quarter of 1988, your company is well positioned to take advantage of any increase in demand for gold.

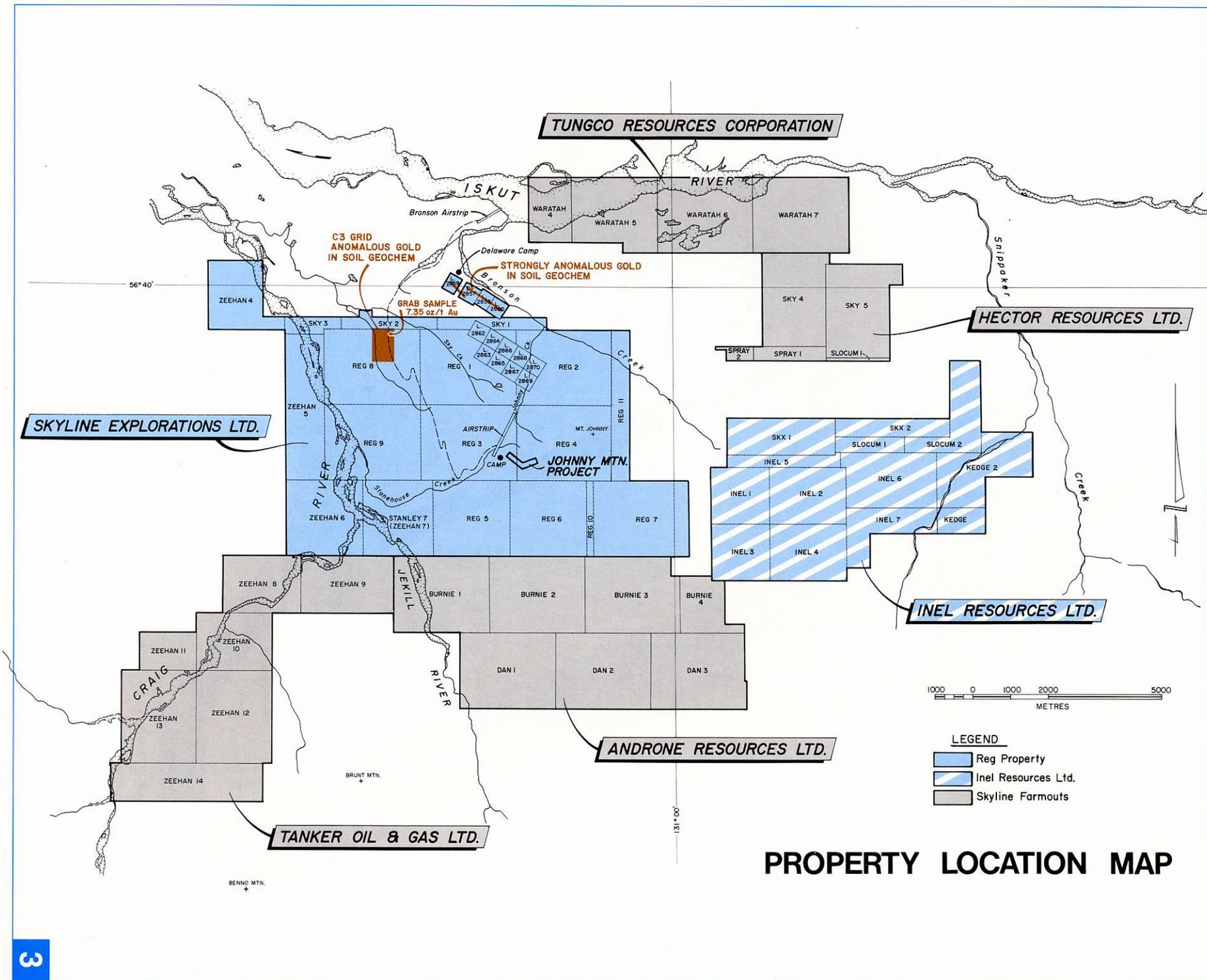
Our success in being in this enviable position is directly attributable to the exceptional efforts of our employees in the performance of their work. Based on the strengths and dedication of our employees and with the continued support of our shareholders, we are able to look forward with confidence to the future growth and success of your Company.

On Behalf of the Board



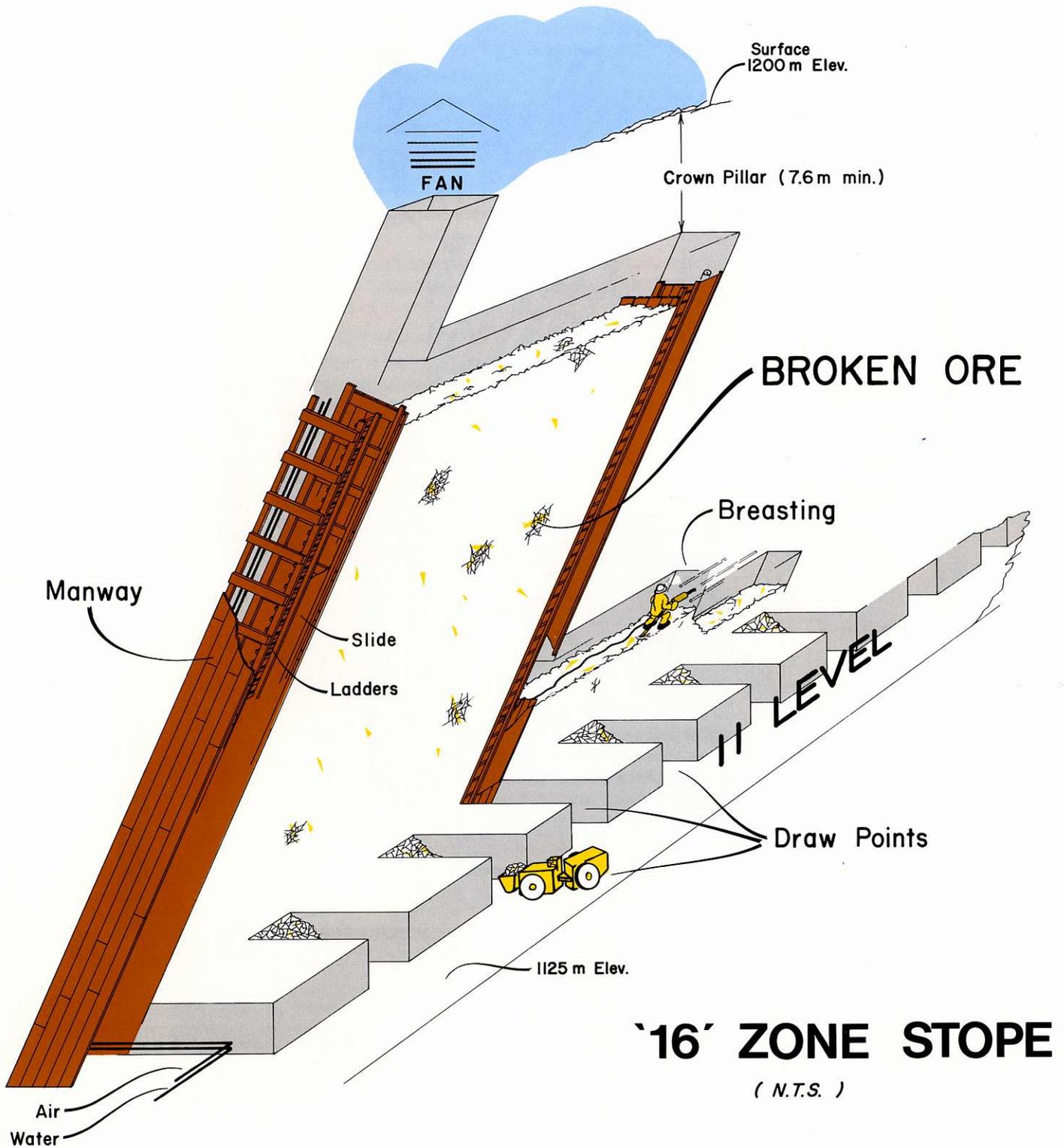
R.E. DAVIS  
President

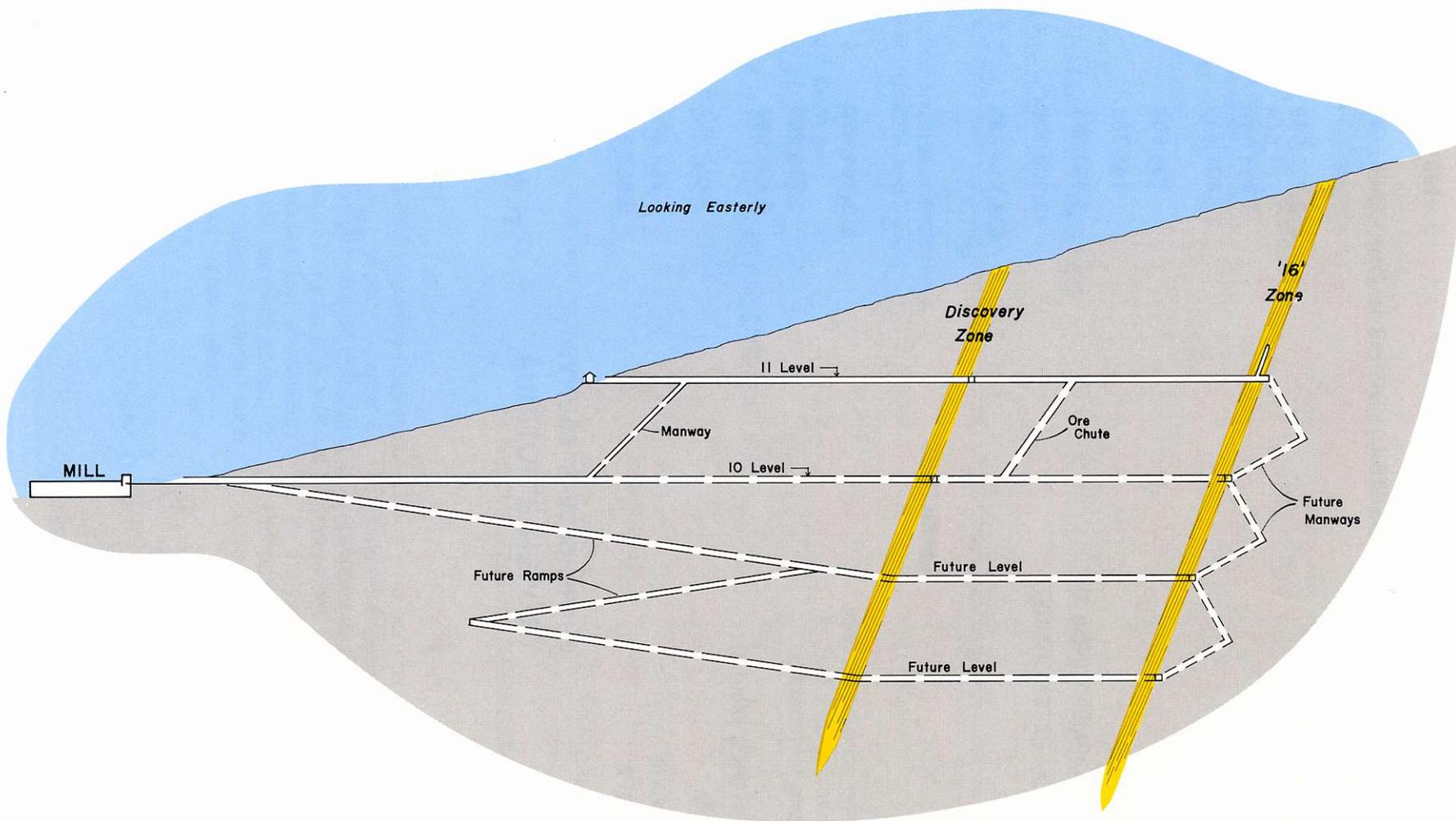
December 4, 1987



# PROPERTY LOCATION MAP

Stope assays averaged .958 oz./T Au over 260 feet with an average width of 7.7 feet. The western portion of the stope averaged 1.361 oz./T Au over 100 feet with an average width of 9.0 feet.





**MINE CROSS SECTION**

**CONSOLIDATED BALANCE SHEET**

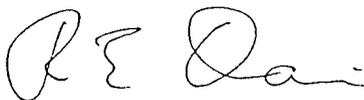
AS AT OCTOBER 31, 1987

	1987	1986
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and short term deposits	<b>\$12,222,089</b>	\$ 165,530
Accounts receivable	<b>71,544</b>	802,060
Supplies and prepaid expenses	<b>111,316</b>	8,259
	<b>12,404,949</b>	975,849
INVESTMENTS (Note 2)	<b>106,500</b>	—
DEPOSITS	<b>145,785</b>	—
PROPERTY, PLANT AND EQUIPMENT (Note 3)	<b>9,333,311</b>	455,638
DEFERRED PREPRODUCTION EXPENDITURES	<b>13,524,138</b>	4,042,049
	<b>\$35,514,683</b>	\$ 5,473,536

<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<b>\$ 3,101,650</b>	\$ 567,208
Obligation to invest in shares	<b>—</b>	350,751
Current portion of long term debt	<b>1,750,000</b>	84,743
	<b>4,851,650</b>	1,002,702
OBLIGATION TO ISSUE SHARES (Note 4)	<b>—</b>	350,751
LONG TERM DEBT (Note 5)	<b>4,250,000</b>	44,501
DEFERRED REVENUE (Note 6)	<b>588,000</b>	—
	<b>9,689,650</b>	1,397,954

<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 7)	<b>26,539,522</b>	4,790,071
CONTRIBUTED SURPLUS	<b>16,100</b>	16,100
DEFICIT	<b>(730,589)</b>	(730,589)
	<b>25,825,033</b>	4,075,582
	<b>\$35,514,683</b>	\$ 5,473,536

Approved by the Directors:



Director



Director

**CONSOLIDATED STATEMENT OF DEFERRED PREPRODUCTION EXPENDITURES**

YEAR ENDED OCTOBER 31, 1987

	1987	1986
<b>EXPLORATION AND DEVELOPMENT EXPENDITURES</b>		
Wages and benefits	<b>\$ 2,217,382</b>	\$ 431,654
Consulting fees	<b>536,369</b>	113,886
Travel and accommodation	<b>676,825</b>	33,230
Materials and supplies	<b>2,528,799</b>	475,053
Transportation	<b>2,060,945</b>	249,068
Contract drilling	<b>829,787</b>	—
Depreciation	<b>329,000</b>	40,414
	<b>9,179,107</b>	1,343,305
<b>ADMINISTRATION EXPENDITURES</b>		
Depreciation	<b>11,000</b>	2,523
Interest	<b>120,454</b>	4,342
Legal and audit	<b>150,611</b>	56,874
Office	<b>253,373</b>	83,427
Salaries and management fees	<b>201,325</b>	60,000
Public relations and travel	<b>147,943</b>	42,185
	<b>884,706</b>	249,351
Less: interest income	\$ 348,814	
option payments	232,910	
	<b>581,724</b>	109,134
<b>NET DEFERRED PREPRODUCTION EXPENDITURES</b>	<b>9,482,089</b>	1,483,522
<b>BALANCE, BEGINNING OF YEAR</b>	<b>4,042,049</b>	2,603,457
Less amounts written off	—	44,930
<b>BALANCE, END OF YEAR</b>	<b>\$ 13,524,138</b>	\$ 4,042,049

**AUDITOR'S REPORT**

To the Shareholders of  
Skyline Explorations Ltd.

We have examined the consolidated balance sheet of Skyline Explorations Ltd. as at October 31, 1987 and the consolidated statements of deferred preproduction expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 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.



Chartered Accountants

Vancouver, Canada  
November 27, 1987

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

YEAR ENDED OCTOBER 31, 1987

	1987	1986
<b>OPERATING ACTIVITIES</b>		
Exploration and development expenditures, excluding depreciation	<b>\$ (9,374,999)</b>	\$(1,540,585)
Less amounts paid for by others:		
For shares and warrants (Note 4)	<b>616,018</b>	996,470
Government grant	<b>—</b>	100,000
	<b>(8,758,981)</b>	(444,155)
Option payments	<b>232,910</b>	
Cash provided by changes in non-cash working capital items	<b>4,476,407</b>	99,127
	<b>(4,049,664)</b>	(344,988)
<b>FINANCING ACTIVITIES</b>		
Issue of shares for cash and settlement of debt	<b>21,090,691</b>	1,205,461
Increase in long term debt	<b>4,205,499</b>	44,504
Issue of gold purchase warrants	<b>588,000</b>	—
	<b>25,884,190</b>	1,249,965
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	<b>1,963,309</b>	286,055
Construction in progress costs	<b>7,254,364</b>	—
Investment in redeemable preferred shares (Note 4)	<b>308,0109</b>	498,235
Acquisition of shares and deposits	<b>252,285</b>	—
	<b>9,777,967</b>	784,290
<b>INCREASE IN CASH FOR THE YEAR</b>	<b>12,056,559</b>	120,687
<b>CASH, BEGINNING OF YEAR</b>	<b>165,530</b>	44,843
<b>CASH, END OF YEAR</b>	<b>\$ 12,222,089</b>	\$ 165,530

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED OCTOBER 31, 1987

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The company is engaged solely in the exploration and development of gold properties in British Columbia.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Tuksi Mining and Development Company Limited (N.P.L.) and Petro-World Energy Corp.

(b) Property, Plant and Equipment

The Company records its interest in mining properties, plant and equipment at cost less amounts written off. Preproduction expenditures relating to mining properties are deferred until either the properties are brought into commercial production, at which time the deferred expenditures are amortized against production from that property, or until the properties are sold, allowed to lapse or abandoned, at which time the deferred expenditures are expensed.

(c) Depreciation and Amortization

Depreciation on equipment used in the exploration and development of mineral properties is based on its estimated useful life and is charged to deferred preproduction expenditures. Depreciation is not provided for on assets under construction.

On the commencement of commercial production, the cost of properties, plant, equipment and deferred preproduction expenditures will be amortized and depreciated over the lesser of the estimated useful life of the asset or the estimated life of the ore reserves.

(d) Flow-Through Shares

During 1986, the Company financed a significant portion of its exploration program with the proceeds from the issue of flow-through shares. Exploration expenditures so incurred are recorded as preproduction and development expenditures and a corresponding credit made to share capital and warrants or obligation to issue shares and warrants.

In accordance with the flow through share agreement the Company invested one half of the funds received in retractable preferred shares of a private company which holds the warrants as security. These shares are retractable thirty days after the exercise of the warrants or retractable after May 31, 1992, in either cash or the return of the warrants. Because of the contingent value of such investments the cost of the preferred shares has been deducted from the issue price of the warrants.

**2. INVESTMENTS IN COMMON SHARES**

	1987	1986
Inel Resources Ltd.	\$ 7,500	\$ —
Other (market value \$57,500)	<u>99,000</u>	<u>—</u>
	<u>\$ 106,500</u>	<u>—</u>

The Company purchased 750,000 common shares of Inel Resources Ltd. (Inel), which are held in escrow, for \$7,500. Inel was granted an option to acquire from the Company a 100% ownership in the Inel mineral claims by incurring expenditures of at least \$1,000,000 per year until \$4,800,000 of expenditures has been spent on these mineral claims. To fund the exploration program, Inel issued 7,393,155 shares for \$3,696,577 under a public share and rights offering and, as a result, the Company's ownership has been reduced to below 10%.

Shares in other public companies were received pursuant to three mineral property option agreements entered into by the Company. The investments are recorded at the market value of the shares on the date the shares were issued to the Company.

**3. PROPERTY, PLANT AND EQUIPMENT**

	1987		1986	
	Cost	Accumulated depreciation and amortization	Net	Net
Mineral properties	\$ 150,000	\$ —	\$ 150,000	\$ 150,000
Machinery and equipment	2,351,220	422,273	1,928,947	305,638
Construction in progress	7,254,364	—	7,254,364	—
	<u>\$ 9,755,584</u>	<u>\$ 422,273</u>	<u>\$ 9,333,311</u>	<u>\$ 455,638</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED OCTOBER 31, 1987

The Company's mineral properties are recorded at a cost of \$150,000 and all other costs associated with the claims have been either charged to deficit or included in deferred preproduction expenditures.

The mineral properties are located in the Liard Mining Division in the Province of British Columbia. The Company has retained the Reg group of mineral claims (including the Tuksi crown granted claims) and has entered into various option agreements on the remaining mineral claims requiring minimum exploration expenditures over a four to five year period.

**4. OBLIGATION TO ISSUE SHARES**

During 1986 the Company entered into a flow-through agreement with a partnership, under which the partnership agreed to incur exploration expenditures in consideration for which the Company was to issue, for each \$10 so incurred, one treasury share together with one warrant to purchase a further treasury share at \$0.01 per share. The warrants are exercisable at any time up to September 30, 1993. The Company may require the warrants to be exercised if the market value of the Company's shares exceeds \$6 per share for any 30 consecutive days commencing one year after issue of the warrants. The agreement was amended to provide for further expenditure by the partnership on similar terms but for which the company was to issue one share and one warrant for each \$15 of exploration expenditure and the company may require the warrants to be exercised if the market value of the shares exceeds \$9 per share for any 30 consecutive days commencing one year after the issue of the warrants.

**5. LONG TERM DEBT**

	1987	1986
Demand debenture payable	<b>\$6,000,000</b>	—
Finance contracts payable	—	\$ 129,244
	<b>6,000,000</b>	129,244
Less principal due within one year	<b>1,750,000</b>	84,743
	<b>\$4,250,000</b>	\$ 44,501

The Debenture is secured by a floating charge on the assets of the Company. Interest is payable monthly at 1% over the prime lending rate of a Canadian chartered bank. The debenture is repayable at any time with minimum monthly principal repayment of \$350,000 commencing June 1, 1988 and the balance due on August 31, 1989.

**6. DEFERRED REVENUE**

	1987	1986
Gold Purchase Warrants	<b>\$ 588,000</b>	\$ —

Pursuant to a public offering 1,200,000 gold purchase warrants valued at \$0.49 each were issued. Under the Gold Purchase Warrant Indenture, 100 gold purchase warrants entitle the holder to purchase from the Company one ounce of gold for U.S. \$500 for a two year period commencing October 1, 1988. The Indenture also places certain restrictions on the Company issuing additional warrants or options to purchase gold or securities convertible into gold.

**7. CAPITAL STOCK**

(a) Authorized

The Company is authorized to issue 10,000,000 Common Shares without par value.

(b) Common shares issued during the year:

	1987		1986	
	Number	Amount	Number	Amount
Balance, beginning of year	5,401,028	\$ 4,790,071	4,188,643	\$ 3,437,125
Issued for:				
Settlement of debts	—	—	82,888	70,461
Exploration	111,227	658,760	29,497	147,485
Cash - private placement	1,222,000	6,313,846	600,000	510,000
Cash - public financing	1,200,000	14,142,000 (1)	500,000	625,000
Cash - exercise of stock options	415,900	634,851	—	—
Balance, end of year	<b>8,350,155</b>	<b>\$ 26,539,528</b>	5,401,028	\$ 4,790,071

(1) After deduction of \$858,000 for commissions paid to underwriting agent.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED OCTOBER 31, 1987

At October 31, 1987 there were outstanding 1,200,000 Special Warrants convertible at no cost to the holders into 1,200,000 common shares and 1,200,000 Gold Purchase warrants on or before January 29, 1988. As the Company believes that all of these Special Warrants will be so converted, cash received for these Special Warrants has been credited to share capital and Gold Purchase warrants outstanding.

(c) Stock options outstanding to purchase Common Shares:

	Number of Shares	Option Price	Expiry Date
Officers and Directors	50,000	\$ 6.625	December 15, 1991
	300,000	9.00	February 14, 1992
	<u>75,000</u>	13.25	March 18, 1992
	<u>425,000</u>		
Employees	500	13.50	May 5, 1992
	8,000	9.00	February 5, 1990
	<u>30,000</u>	13.00	May 19, 1990
	<u>38,500</u>		
Total	<u>463,500</u>		

(d) Warrants outstanding to purchase Common Shares:

	Number of Shares	Exercise Price	Expiry Date
Private Placement warrants	150,000	\$ 5.35	January 6, 1988
Debenture warrants (Note 9)	400,000	15.00	August 14, 1988
		or 16.00	January 14, 1990
Flow-through financing warrants (Note 4)	140,724	\$806,245	September 30, 1993
Less investment in preferred shares (Note 1)		<u>806,245</u>	
		<u>NIL</u>	
Exercise price		\$ .01	

**8. INCOME TAXES**

The Company has incurred certain resource related expenditure which can be used to reduce taxable income in future years. No future tax benefit of these expenditures has been recognized in the accounts.

Income tax deductions related to the gross expenditures incurred with flow-through share proceeds in prior years are allocated to the investor and accordingly the Company will not receive any tax deductions for these expenditures.

**9. RELATED PARTY TRANSACTIONS**

No Directors' fees were paid during the year. The Company received \$6,000,000 pursuant to a debenture issued to a company controlled by one of the Directors and the Company paid \$114,397 interest on this debenture during the year. Two Directors and companies controlled by one Director participated in a private placement of shares and warrants.

Other related party transactions are disclosed elsewhere in these consolidated financial statements.

**10. COMMITMENTS AND CONTINGENT LIABILITIES**

(a) As at October 31, 1987, the Company has outstanding purchase commitments under contracts of approximately \$2,000,000.

(b) Three lawsuits are outstanding: two suits regarding employee stock options to purchase a total of 75,000 treasury shares and one suit alleging unfair dismissal.

**11. COMPARATIVE FIGURES**

Certain 1986 comparative figures have been reclassified to conform with the current year's presentation.

SKYLINE EXPLORATIONS LTD.  
**CORPORATE INFORMATION**

**DIRECTORS**

- △ R.E. ADIE, C.A.  
Vice President, Finance
- N.M. ANDERSON, P. ENG.  
Director
- J.A. DAVIS  
Secretary
- R.E. DAVIS  
President
- △ R.J. GIFFORD, P. ENG.  
Consultant
- △ R. SHON  
Director

△ Audit Committee

**OFFICERS**

Reginald E. Davis  
President

Ronald E. Adie  
Vice President, Finance

Joyce A. Davis  
Secretary

**Mine Manager**

Harry Skoglund

**ADDRESS**

Skyline Explorations Ltd.  
Suite 301  
675 West Hastings Street  
Vancouver, B.C.  
V6B 1N2

Telephone (604) 683-6865  
Telecopier (604) 683-7449

**REGISTRAR AND TRANSFER AGENT**

Guaranty Trust Company of Canada  
Vancouver, Toronto

**AUDITORS**

Morgan & Co.  
Chartered Accountants  
Vancouver, B.C.

**LEGAL COUNSEL**

Sobolosky Anfield  
Barristers and Solicitors  
Vancouver, B.C.

**BANKERS**

The Toronto-Dominion Bank  
Vancouver, B.C.

**STOCK EXCHANGE LISTING**

Vancouver Stock Exchange  
Symbol: SKX

**ISSUED CAPITAL**

As at October 31, 1987  
7,150,155 common shares issued  
1,200,000 conversion of warrants  
(public financing)  
8,350,155 common shares issued after  
conversion of warrants

**GEOLOGICAL CONSULTANT**

E.W. Grove Consultants Ltd.  
(E.W. [Ted] Grove, Ph.D., P. Eng.)

**ANNUAL GENERAL MEETING**

Banquet Room  
The Engineers Club  
640 West Pender Street  
Vancouver, B.C. V6B 1V8  
10:00 a.m., Tuesday  
January 12, 1988

