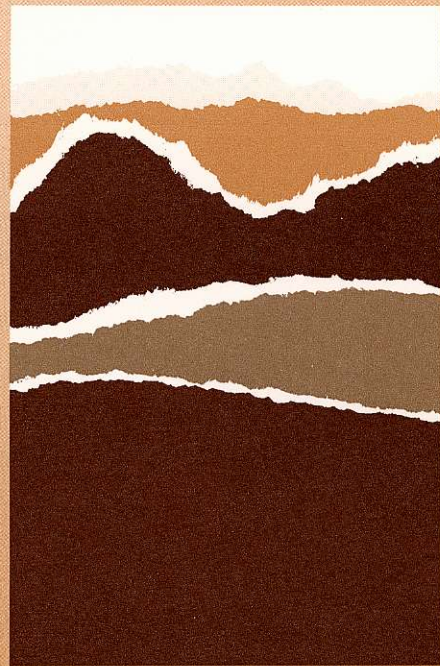


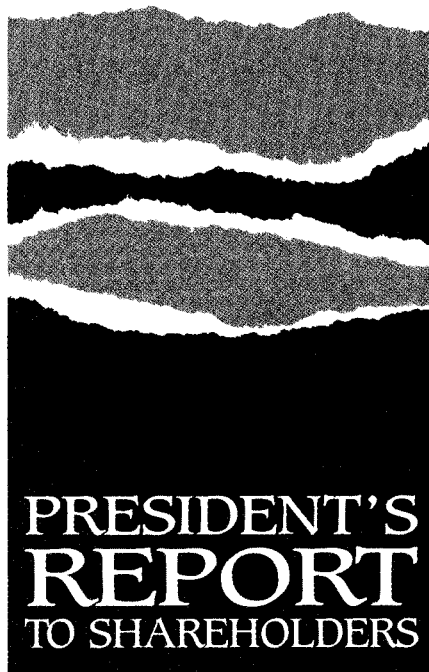
ANNUAL REPORT 1987



**NORTH AIR
MINES LTD.**

This 1987 Annual Report documents a significant step forward in the affairs of Northair and describes the resources which will combine to create the strong growth planned for your Company. During the year, we were able to report mineable reserves at Willa with a significant increase in gold values. Coupled with a generally rising trend for metals prices, Willa continued to demonstrate its potential for becoming Northair's next producing mine. Shareholders will learn from reading this report that exploration conducted on Willa, completed on time and on budget, was successful in delineating a significant gold deposit.

Our expertise lies in precious metals exploration and development. To broaden our asset base, we sought involvement with senior partners in additional precious metal properties. Thus Northair entered a joint venture with Noranda Exploration on the Stewart property near Thunder Bay, Ontario and a joint venture



with BP Selco on the Long Lake property in Newfoundland. Initial exploration results on these properties have confirmed the validity of these ventures.

The asset base was also dramatically enhanced through Northair's holdings in associated companies. The very positive results of Newhawk's exploration on the Sulphurets property has increased the value of Northair's share position in Newhawk by approximately \$1 million at current prices.

Newhawk is conducting a major

surface and underground exploration program on Sulphurets which, if the success of the 1986 program is repeated, will see Sulphurets placed in production in 1988.

Recently, there was an important addition to the Board of Directors. We were pleased to welcome to the Board, Mr. Henry J. Ewanchuk, President and Chief Executive Officer of Mascot Gold Mines Ltd. and Senior Vice President, Exploration of both International Corona Resources Ltd. and Royex Gold Mining Corporation. Mr. Ewanchuk's position and international experience bring valuable assistance and a broad perspective to Northair's Board.

To meet capital needs in 1986, we have utilized flow through funding. This innovative form of financing serves Northair well. Our participation in flow through funds consisting of both junior and senior concerns increases our recognition in capital

markets. In the past year Northair has completed in excess of \$1.8 million in exploration programs using flow through funds, leaving our balance sheet strong.

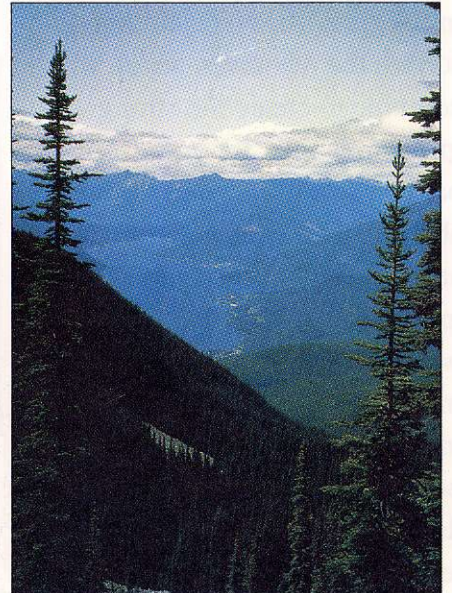
Northair entered 1987 well situated to proceed on course. 1988 promises tangible rewards. We foresee production at Willa as early as June of next year with gold production for the last six months of 1988 estimated in the order of 18,000 ounces, increasing to annual production of 36,000 ounces of gold and three million pounds of copper commencing in 1989.

Northair's business strategy is to expedite developing properties to production as quickly as possible. The resulting cash flow would allow the resumption of dividend payments and provide funds to explore and develop Northair's inventory of explora-

tion projects into additional producers. Northair will continue to seek exploration, development and mining projects through joint venture participation or outright acquisitions.

We now look forward to the years ahead with eager anticipation. Efforts which heretofore have been concentrated on simply preserving shareholder value can now be confidently directed toward new opportunities for expanding and enhancing shareholder value, through ongoing exploration, property acquisitions and production.

The Board wishes to recognize the hard work during the year of all employees who have contributed to the much improved status of Northair and we express our gratitude for the support of our shareholders, which further strengthens our confidence in the future.



Donald A. McLeod

Donald A. McLeod,
President and
Chief Executive Officer

June 15, 1987

EXPLORATION AND DEVELOPMENT REVIEW

Willa

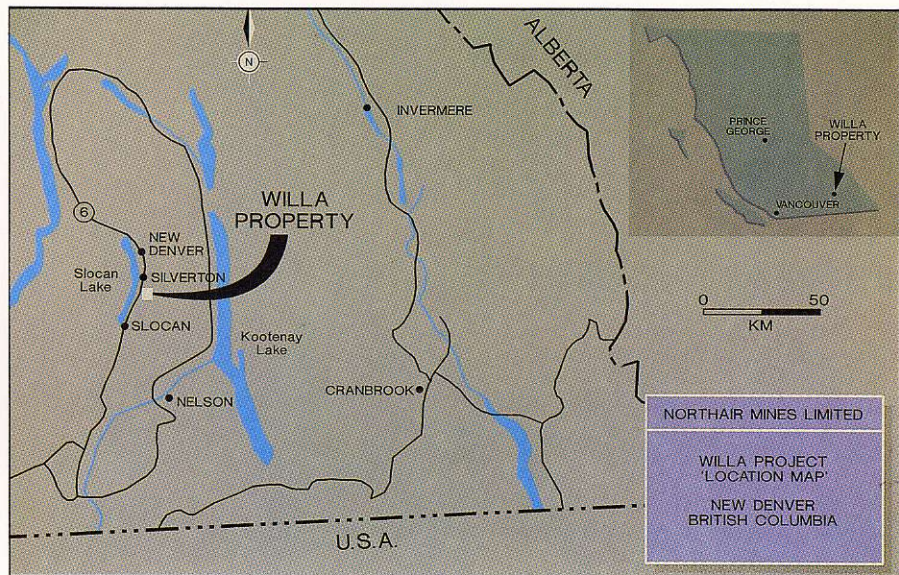
Joint Venture

Northair Mines Ltd. 57%

BP Selco/Rio Algom 43%

During the year, the majority of Northair's exploration funds was directed toward the development of the Willa property near New Denver, in southeastern British Columbia. Since 1979, over 7 million dollars have been spent on the exploration and development of Willa. This exploration has been successful in delineating several potentially economic zones, the most important to date being the West Zone.

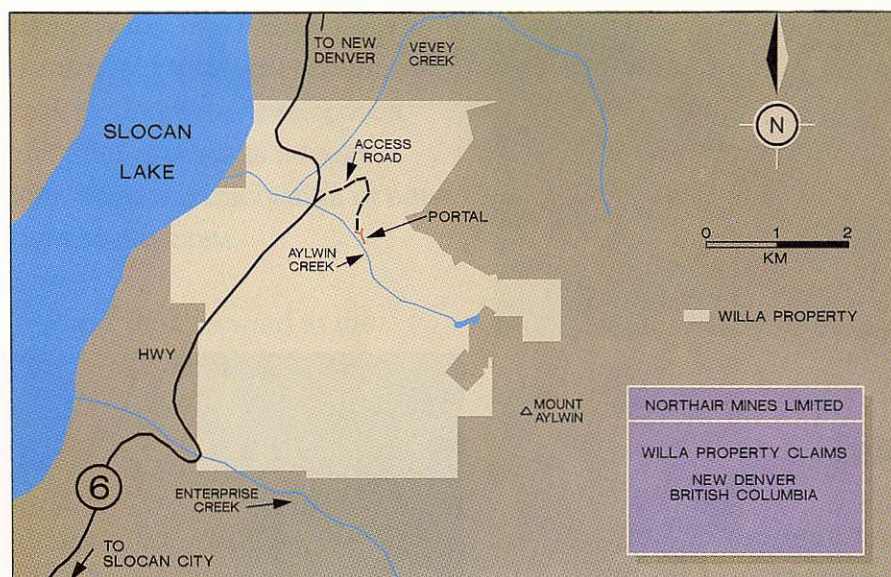
A total of 47,000 feet of surface drilling, 4,350 feet of underground workings and 38,250 feet of underground diamond drilling has been completed. All underground development has been conducted by Northair. In the year just ended, 1,250 feet of underground development and 15,000 feet of underground diamond drilling was completed.



Aerial view of Willa showing entrance to 2,900 foot adit at top of photo



Data from exploration at Willa was submitted to Dr. Paul Richardson, Ph.D., P.Eng., for review. In his summary report dated April 27, 1987, Dr. Richardson quoted ore reserves in the West Zone of 606,000 tons grading 0.22 oz gold/ton, 0.28 oz silver/ton and 1.04% copper. These reserves are immediately accessible from present underground workings and will be proven at the completion of the \$2.1 million exploration program presently underway.



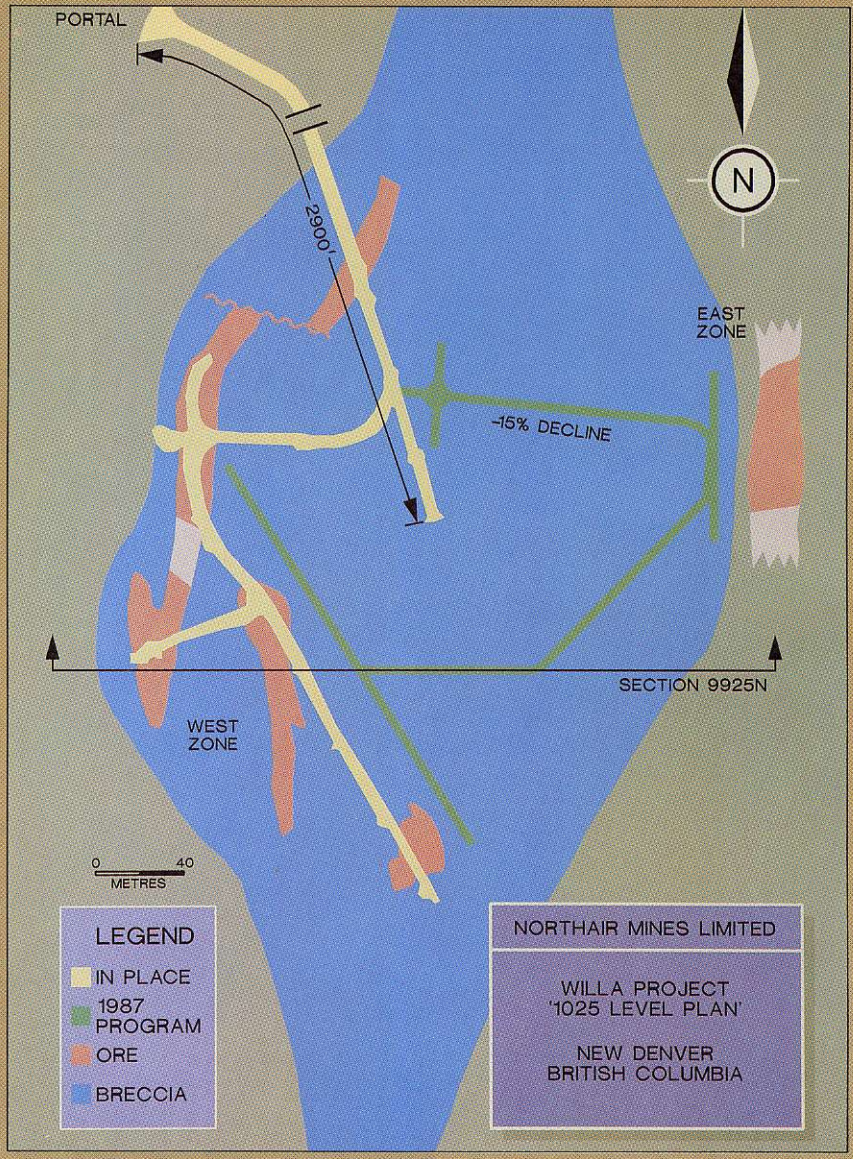
As well as the above mentioned tonnage, immediate potential exists in several areas within this massive geological environment. With the possibility of additional ore zones, it does not appear unreasonable to expect that in the order of 2,000,000 tons of similar grade will ultimately be delineated. Where reference is made to gold grades in the following summaries, associated economic grades in copper and silver also occur.

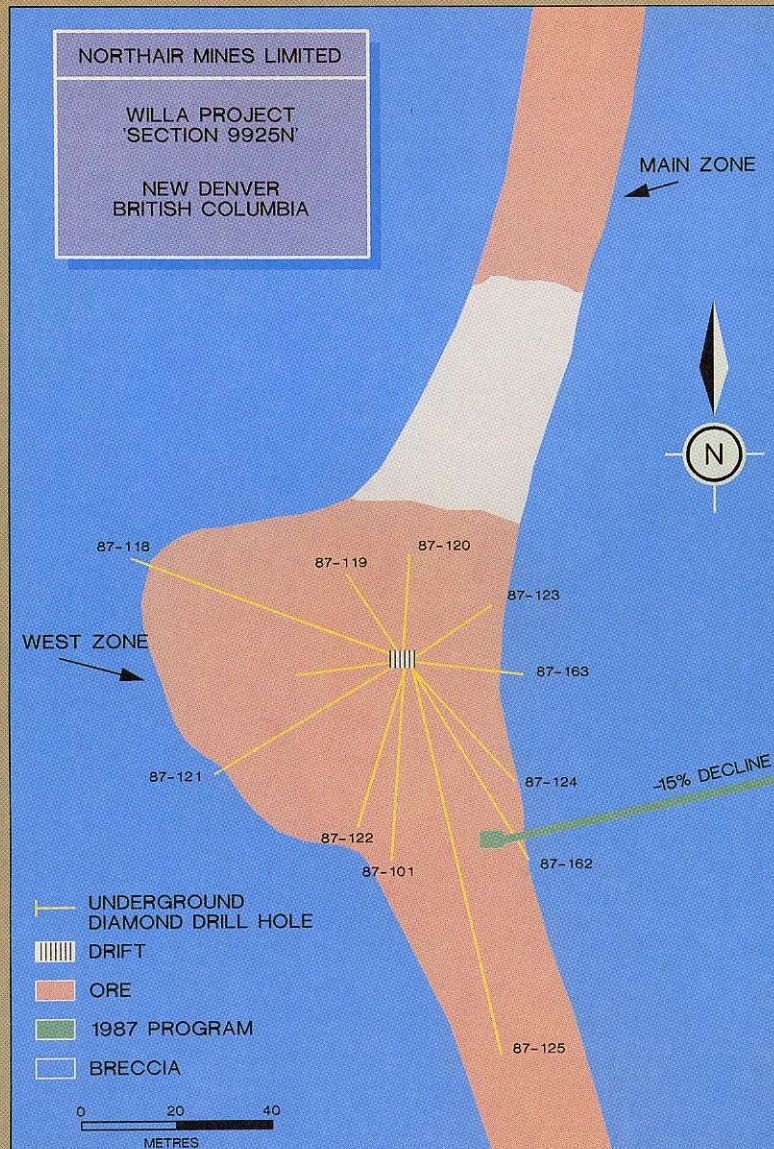
West Zone

Tonnage calculated by Dr. Richardson is comprised of one block approximately 500 feet long, 200 feet high and 75 feet wide. Excellent potential exists for additional tonnage associated with quartz porphyry bodies both up and down dip and along

Underground diamond drilling at Willa on the West Zone







strike. The West Zone is certainly associated with mineralization intersected in the main drift (150 feet north of the West Zone) which ran 0.20 oz gold/ton over 19.6 feet. Further exploration is warranted and it is reasonable to expect to develop additional reserves in this zone.

East Volcanic Zone

Drilling in 1986 to the east of the brecciated intrusive encountered excellent mineralization grading 0.37 oz gold/ton over 24.6 feet (including 0.74 oz gold/ton over 6.5 feet). This zone is 600 feet east of the West Zone. Follow up drilling in 1987 gave 0.25 oz gold/ton over 13.1 feet (including 0.52 oz gold/ton over 3.3 feet) and 0.178 oz gold/ton over 13.1 feet in separate drill holes. The present program is designed to advance the decline towards these intersections and provide drilling stations in the immediate area. The tonnage potential here is excellent as the area is virtually unexplored.

Main Zone

Initial exploration on the property in 1980 concentrated on surface drilling of the Main Zone. A large tonnage of lower grade gold-copper mineralization was encountered; however significant intersections of higher grade were also discovered (ie. 27 feet of 0.37 oz gold/

ton). An underground hole by Northair encountered 59 feet of 0.29 oz gold/ton (including 26.2 feet of 0.43 oz gold/ton) in the same area. Recent surface exploration has again confirmed these intersections (0.20 oz gold/ton over 46 feet including 0.33 oz gold/ton over 16.4 feet). Excellent potential exists for additional tonnage, and as this area is 300 feet in elevation and 250 feet north of the West Zone, obvious areas of future exploration exist. Very limited drilling has been done to date.

Other Zones

As well as the above mentioned zones, excellent exploration potential exists for the discovery of additional breccia (and therefore copper-gold bearing) bodies in the area of 10,450 N in the main drift (1,500 feet north of the West Zone at the same elevation), at the Little Daisy adit on surface (500 feet north of the Main Zone on surface) and in quartz porphyry bodies to the south and at depth.

1987 Program

In February of 1987, Rescan Environmental Services Ltd. was retained to prepare a Mine Development Prospectus. The Prospectus has been submitted to the Mine Development Steering Committee of the Provincial Government. Wright Engineers

Ltd. has completed an evaluation of Northair's 350 ton per day Brandywine mill, located 70 miles north of Vancouver, B.C. including the feasibility of dismantling, transporting, re-erecting and modifying the mill at Willa. The report shows that this may be achieved at a very reasonable cost.

With additional crushing and grinding capacity, the 350 ton per day capacity of the mill can be increased to at least 500 tons per day. Initial studies suggest that 500 tons per day is the most effective start-up rate for production and would give Willa a mine life of 3.5 years at current reserve figures.

Further metallurgical testing conducted by Lakefield Research Ltd. on the ore at Willa has shown that gold and copper recoveries in excess of 90% can be expected and confirmed that the ore is amenable to treatment by the Brandywine mill.

An exploration program in excess of \$2 million is now underway. This program consists of 5,000 feet of surface drilling, 8,000 feet of underground diamond drilling, 2,000 feet of drifting, decline, crosscutting and raising and a feasibility study. At the completion of this program, Northair's interest in Willa will increase to approximately 68%.

Long Lake

The Long Lake property, near Buchans, Newfoundland, is under exploration by BP Selco. Northair can earn a 35% interest in Long Lake by contributing \$1.4 million of exploration work by February 1990. This property was purchased by BP due to its extremely attractive unexplored potential for gold.

In late 1985, BP commenced initial exploration of the property and in late 1986 discovered a 4.3 mile x .75 mile gold geochemical soil anomaly.

No drilling has been conducted on the occurrence to date, but surface samples, hand cobbled to avoid visible gold, have returned values of up to 7 oz gold/ton. Numerous other showings occur on the ground and the potential exists for a large bulk tonnage deposit of better than average grade.


A major program is now underway including detailed sampling, trenching and surface diamond drilling.

Stewart Option

Northair can earn a 37.5% interest in the Stewart property located near Thunder Bay, Ontario by spending \$562,500 by February 28, 1989. The Stewart property is under exploration by joint venture partner Noranda Exploration Inc.

In 1986, a \$187,500 program established a north dipping zone in pyritized fragmental volcanics associated with a syenite plug. A 1986 drill hole intersected 62.3 feet of 0.10 oz gold/ton including 13.1 feet of 0.14 oz gold/ton and 13.1 feet of 0.13 oz gold/ton. Several previous surface grab samples ran as high as 0.72 oz gold/ton and a previous drill intersection of 13.1 feet assayed 0.43 oz gold/ton.

A \$187,500 exploration program is now underway including trenching and geochemical surveys to be followed by a surface diamond drilling program.



Fred G. Hewett, P.Eng.
Exploration Manager

AFFILIATED COMPANIES

Newhawk Gold Mines Ltd. (N.P.L.)

Northair ownership 159,900 shares

Newhawk Gold Mines Ltd. is currently conducting a two stage \$5 million exploration program on the Sulphurets joint venture, northwestern British Columbia. Drill indicated and inferred reserves in the Brucejack area at the end of the 1986 season are 1,584,145 tons of 0.336 oz gold/ton and 22.86 oz silver/ton.

Stage I of the 1987 program consists of drifting in ore, cross-cutting and 8,400 feet of underground diamond drilling on the West Zone in the Brucejack Area. Initial drilling results have been excellent. Stage II of the program will see major underground development and surface diamond drilling on the West Zone, a surface program on the Gossan Hill Zone and possible underground development on the Shore Zone. A feasibility study will be underway in Stage II and initial projections are for production to commence in late 1988.

Newhawk is well funded, with \$1.5 million in flow through funding committed for the 1987 program and an additional \$4 million private placement completed with Richardson Green-shields Canada (U.K.) Ltd. An application for listing on the Toronto Stock Exchange has been accepted by the Exchange pending the closure of the above noted financings.

Royal Scot Resources Ltd.

Northair ownership 675,722 shares

Royal Scot Resources Ltd. (formerly Scottie Gold Mines Ltd.) has weathered a difficult period since suspension of operations at the Summit Lake Mine. A financial restructuring plan has been accepted by all creditors and shareholders. Scottie issued a total of 12,496,114 shares in settlement of the greater portion of the Company's debt and subsequently received shareholder approval for a consolidation of the Company's capital on a 7 old for 1 new basis. The Vancouver Stock Exchange has approved this consolidation and on June 2, 1987, Royal Scot Resources Ltd. commenced trading on the Exchange.

Negotiations are underway to provide funding for the Company to allow for additional exploration of the Summit Lake property. Reserves as at February 1, 1985 in all categories (fully diluted) are 132,000 tons of 0.56 oz gold/ton.

Upon completion of financing, an exploration program would be undertaken to upgrade and increase reserves with the expectation that production might resume in the future.

Calnor Resources Ltd.

Northair ownership 525,959 shares

In early 1986, Calnor Resources Ltd. conducted a 22 hole surface diamond drilling program on the High Lake property, Ontario. Results of Calnor's program on High Lake, while initially encouraging, were inconsistent with earlier results. Negotiations are underway to extend the date of substantial property payments due to the vendors on June 30, 1987 and if the negotiations are successful, the company plans further exploration.

MFC Mining Finance Corporation has sold its share position in Calnor to Laramide Resources Ltd. of Vancouver and Mr. A. H. Reeve, President of Laramide has consented to join the Board of Directors of Calnor.

Calnor is now controlled by Northair Mines Ltd. and Laramide Resources Ltd. and it is the intention of both companies to pursue aggressively the acquisition of new precious metal mineral properties with the potential to develop ore reserves and to finance the company for the exploration and development of these acquisitions.

SMITH, FLYNN, STALEY

CHARTERED ACCOUNTANTS

225 - 4299 CANADA WAY,
BURNABY, B.C. V5G 1H3
TELEPHONE: 434-1384

R. C. SMITH C.A.
A. R. FLYNN C.A.
D. L. STALEY C.A.
A. C. KWONG C.A.
L. M. OKADA C.A.

AUDITORS' REPORT

To the Shareholders of Northair Mines Ltd.

We have examined the following consolidated financial statements of Northair Mines Ltd.:

- a) Balance sheets as at 28 February 1987 and 1986;
- b) Loss for the years ended 28 February 1987, 1986 and 1985;
- c) Deficit for the years ended 28 February 1987, 1986 and 1985;
- d) Changes in financial position for the years ended 28 February 1987, 1986 and 1985;

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 28 February 1987 and 1986 and the results of its operations and changes in its financial position for the years ended 28 February 1987, 1986 and 1985 in accordance with generally accepted accounting principles in Canada, which are different from those in the United States of America as explained in Note 10, applied on a consistent basis.

28 April 1987

(Signed)

Chartered Accountants

**NORTH AIR
MINES LTD.**

CONSOLIDATED BALANCE SHEET
Canadian Funds

	ASSETS	
	28 February	
CURRENT	1987	1986
Cash and short-term deposits	\$ 512,296	\$1,109,214
Accounts receivable — flow through exploration	427,805	—
— other	444,287	186,632
Concentrate inventories	457,462	409,800
	<u>1,841,850</u>	<u>1,705,646</u>
INVESTMENTS (Note 2)	<u>1,159,125</u>	<u>1,146,982</u>
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment, at cost	5,310,014	5,285,434
Less: Accumulated depreciation	<u>5,218,884</u>	<u>5,190,022</u>
	91,130	95,412
Resource property costs (Note 3)	<u>4,570,409</u>	<u>3,501,688</u>
	<u>4,661,539</u>	<u>3,597,100</u>
OTHER, at cost	<u>47,550</u>	<u>47,550</u>
	<u>\$7,710,064</u>	<u>\$6,497,278</u>
	LIABILITIES	
CURRENT		
Accounts payable	\$ 254,814	\$ 113,077
Deferred income taxes	<u>64,450</u>	<u>43,700</u>
	<u>319,264</u>	<u>156,777</u>
DEFERRED INCOME TAXES	<u>—</u>	<u>80,800</u>
	SHAREHOLDERS' EQUITY	
SHARE CAPITAL (Note 4)	9,688,292	7,614,586
CONTRIBUTED SURPLUS	116,448	116,448
DEFICIT	<u>(2,413,940)</u>	<u>(1,471,333)</u>
	<u>7,390,800</u>	<u>6,259,701</u>
ON BEHALF OF THE BOARD:	<u>\$7,710,064</u>	<u>\$6,497,278</u>

Director

D. A. McLeod

Director

J. B. Macaque

— See Accompanying Notes —

CONSOLIDATED STATEMENT OF LOSS
Canadian Funds

	Years Ended 28 February		
	1987	1986	1985
INCOME			
Equipment rentals (Note 7)	\$ 393,500	\$ 665,466	\$ —
Program management charges (Note 7)	120,876	255,141	—
Interest and sundry	79,220	105,897	185,577
Increase (decrease) in value of concentrate inventory	47,662	82,400	(107,794)
Gain (loss) on sale of securities	23,784	(644)	10,950
	<u>665,042</u>	<u>1,108,260</u>	<u>88,733</u>
EXPENSES			
Exploration, outside properties and properties abandoned	1,159,029	244,662	103,855
Administration, net of recoveries	446,408	424,552	91,202
Brandywine property expense	79,946	62,406	98,461
Depreciation	37,593	39,289	21,877
Loss (gain) on disposal of fixed assets	(55,391)	21,840	—
	<u>1,667,585</u>	<u>792,749</u>	<u>315,395</u>
INCOME (LOSS) FROM OPERATIONS, before income taxes	<u>(1,002,543)</u>	<u>315,511</u>	<u>(226,662)</u>
INCOME TAXES (RECOVERED)			
Current	—	52,125	(197,412)
Deferred	(60,050)	(1,289)	47,286
	<u>(60,050)</u>	<u>50,836</u>	<u>(150,126)</u>
INCOME (LOSS) FROM OPERATIONS	<u>(942,493)</u>	<u>264,675</u>	<u>(76,536)</u>
AFFILIATED COMPANIES			
Equity in losses — Net of related taxes	114	405,463	1,592,435
Loans written off — Net of related taxes	—	—	2,247,032
	<u>114</u>	<u>405,463</u>	<u>3,839,467</u>
LOSS FOR THE YEAR	<u>\$ 942,607</u>	<u>\$ 140,788</u>	<u>\$3,916,003</u>
BASIC LOSS PER SHARE	<u>\$ 0.129</u>	<u>\$ 0.022</u>	<u>\$ 0.675</u>

CONSOLIDATED STATEMENT OF DEFICIT
Canadian Funds

	Years Ended 28 February		
	1987	1986	1985
DEFICIT (RETAINED EARNINGS)			
— Beginning of year	\$1,471,333	\$1,330,545	\$(2,585,458)
Loss for the year	<u>942,607</u>	<u>140,788</u>	<u>3,916,003</u>
DEFICIT — End of year	<u>\$2,413,940</u>	<u>\$1,471,333</u>	<u>\$ 1,330,545</u>

— See Accompanying Notes —

**NORTH AIR
MINES LTD.**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Canadian Funds

	Years Ended 28 February		
	1987	1986	1985
WORKING CAPITAL PROVIDED BY (USED IN)			
Operating activities			
Loss for the year	\$ (942,607)	\$ (140,788)	\$(3,916,003)
Items not affecting working capital			
Equity in losses of affiliates	114	405,463	1,592,435
Loans written off	—	—	2,247,032
(Gain) loss on sale of securities	(23,784)	644	(10,950)
(Gain) loss on disposal of fixed assets	(55,391)	21,840	(800)
Depreciation	37,593	39,289	21,877
Non-current deferred income taxes	(80,800)	(489)	103,339
Exploration on outside properties and properties abandoned	1,159,029	244,662	103,855
	<u>94,154</u>	<u>570,621</u>	<u>140,785</u>
Financing activities			
Share capital	2,075,975	2,984,284	236,538
Items not affecting working capital			
Treasury shares acquired	(2,269)	—	—
Shares issued for resource properties	—	(1,216,434)	(146,538)
	<u>2,073,706</u>	<u>1,767,850</u>	<u>90,000</u>
Investing activities			
Investments	11,527	10,768	91,763
Plant and equipment	22,080	155,281	(11,847)
Resource property costs	(2,227,750)	(2,167,097)	(279,583)
Loans and agreements receivable	—	—	(823,656)
Other	—	(5,300)	(1,250)
	<u>(2,194,143)</u>	<u>(2,006,348)</u>	<u>(1,024,573)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(26,283)	332,123	(793,788)
Changes in non-cash working capital	<u>(570,635)</u>	<u>29,309</u>	<u>(101,623)</u>
NET INCREASE (DECREASE) IN CASH	(596,918)	361,432	(895,411)
Cash position — Beginning of year	<u>1,109,214</u>	<u>747,782</u>	<u>1,643,193</u>
CASH POSITION — End of year	\$ 512,296	\$1,109,214	\$ 747,782

— See Accompanying Notes —

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
28 FEBRUARY 1987**

1. SIGNIFICANT ACCOUNTING POLICIES

a) Concentrate Inventories

Concentrate inventories are recorded at estimated net realizable value which is based on the most current information available with regards to weight, assays, metal prices and foreign exchange.

b) Investments

The company accounts for its investment in Scottie Gold Mines Ltd. and Calnor Resources Ltd. by the equity method. Under this method the company takes into earnings and reflects in the investment account its share of the income or loss. Dividends received are credited to the investment account.

All other investments are carried at cost.

c) Resource Property Costs

The company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-product method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recovery of capitalized costs is dependent upon the future commercial success of the properties or proceeds from the disposition thereof.

d) Depreciation

The company provides for depreciation as follows:

Office equipment	— 20% reducing balance basis
Mobile and exploration equipment and computer hardware	— 30% reducing balance basis

e) Income Taxes

The company records income taxes on the tax allocation basis. Differences in amounts reported for tax purposes and accounting purposes result in deferred income taxes which are shown separately in the statement of income and balance sheet.

f) Consolidation

These financial statements include the accounts of the company and its wholly-owned subsidiary 639757 Ontario Inc.

g) Loss per Share

Basic loss per share computations are based on the weighted average number of shares outstanding during the year.

**NORTH AIR
MINES LTD.**

2. INVESTMENTS

a) Details are as follows:

	% Ownership	----- Values -----		
		Book 1987	Market 1987	Book 1986
Calnor Resources Ltd. 525,959 (512,460) shares	14.4	\$ 701,848	\$ 168,307	\$ 695,674
Scottie Gold Mines Ltd. 4,730,055 (923,970) shares	19.1	NIL	1,560,918	NIL
Vital Pacific Resources Ltd. 210,161 (220,161) shares	3.7	305,679	170,230	320,224
Other securities		151,598	525,931	131,084
		<u>\$1,159,125</u>	<u>\$2,425,386</u>	<u>\$1,146,982</u>

The quoted market values are not necessarily indicative of realizable values.

b) During the year the company accepted 3,846,585 Class "A" common shares of Scottie Gold Mines Ltd. (Scottie) in full settlement of certain secured and unsecured claims totalling \$2,686,419 which amount had been previously written off. Due to the financial position of Scottie, no recovery has been recorded in the accounts (see Note 2c below).

c) The company's proportionate share of assets, liabilities, revenues, expenses and losses of the investments carried on the equity basis as at their respective year-ends are as follows:

	Scottie Gold Mines Ltd. September 1986	Calnor Resources Ltd. December 1986
Assets	\$ 88,342	\$174,794
Liabilities	741,842	1,590
Revenue	—	—
Expenses	252,342	—
Extraordinary item		
Gain on settlement of debt	812,979	—
Income (loss) after extraordinary item	560,637	(114)

d) Certain of the investments were acquired pursuant to agreements whereby the company incurred exploration costs totalling \$394,280 in return for the shares. These costs have been claimed for the purpose of income and mining taxes with the result that their cost for tax purposes is less than book value by \$394,280.

**NORTHAIR
MINES LTD.**

3. RESOURCE PROPERTY COSTS

a) Details are as follows:

	1987	1986
Willa, British Columbia	\$4,095,933	\$3,045,701
Stewart, Ontario	233,796	—
Long Lake, Newfoundland	206,422	—
Platinor, Ontario	25,270	—
Sundry	8,988	8,988
Holly, British Columbia	—	329,191
Bully Hill, California	—	117,808
	<u>\$4,570,409</u>	<u>\$3,501,688</u>

b) During the year ended 28 February 1987 the company incurred exploration costs in the amount of \$2,069,055 pursuant to flow through share subscriptions. The tax advantages applicable to the \$2,069,055 are available to the subscribers of the shares.

4. SHARE CAPITAL

a) Details are as follows:

			1987	1986	
Authorized:					
15,000,000 shares without par value					
Issued and outstanding:					
For cash	6,521,734	(5,443,152)	shares	\$7,661,517	\$5,836,749
For rights	1,352,000	(1,352,000)	shares	701,378	701,378
For subsidiary	600,000	(600,000)	shares	1,076,459	1,076,459
	8,473,734	(7,395,152)	shares	9,439,354	7,614,586
Allotted but not issued:					
For cash	216,558	(—)	shares	251,207	—
	8,690,292	(7,395,152)		9,690,561	7,614,586
Less: Treasury shares, at cost	1,370	(—)	shares	2,269	—
	<u>8,688,922</u>	<u>(7,395,152)</u>		<u>\$9,688,292</u>	<u>\$7,614,586</u>

b) During the year the company issued the following shares from treasury:

	Shares	\$
I. Private placements (The proceeds from which were used for exploration as described in Note 3b above)	1,078,582	1,818,118
II. Exercise of director/employee options	7,000	6,650
	<u>1,085,582</u>	<u>1,824,768</u>

c) As at 28 February 1987, the company has allotted, but not issued 216,558 shares for cash, in the amount of \$251,207, pursuant to flow through share subscriptions for which exploration costs were incurred as noted in 3b above. The shares were issued on 20 March 1987.

4. SHARE CAPITAL — Continued

d) As at 28 February 1987, the company is committed to issue, under varying circumstances, the following shares:

		Shares
I. Options to directors and employees which are exercisable at varying dates and prices:		
Expiring on 23 April	1991 — \$1.60 per share	50,000
Expiring on 1 July	1991 — \$1.60 per share	25,000
Expiring on 1 September	1991 — \$0.95 per share	453,000
Expiring on 1 July	1993 — \$0.75 per share	50,000
		<u>578,000</u>
II. Option payments on properties		<u>62,000</u>
III. Flow-through share agreements. To be issued in exchange for exploration costs to be incurred on the company's resource properties at \$1.01 per share		<u>743,311</u>
Total share commitment		<u>1,383,311</u>

e) Subsequent to 28 February 1987 the company entered into an agreement for a private placement of 250,000 units at \$1.70 per unit. Each unit is to consist of one share of the company and one share purchase warrant. The share purchase warrants entitle the holder to purchase one share of the company, for each two warrants held at \$2.00 per share until 17 September 1987.

5. INCOME TAXES

The company has accumulated allowable capital losses of approximately \$300,000. These allowable capital losses can be applied against future taxable capital gains and do not have an expiry date. The potential tax savings arising out of the application of these losses has not been recognized in the accounts.

6. PROPERTY AGREEMENTS

a) Willa

Pursuant to an option agreement dated 2 April 1985, the company, B.P. Minerals Limited and Rio Algom Exploration Inc. formed a joint venture on 1 May 1986 to further explore and develop the property. Under the terms of the Joint Venture Agreement the company exchanged its earned interest in the property for a 50% interest in the joint venture. Subsequent to 1 May 1986 the company, by incurring exploration costs on the property without the participation of the other venturers, has increased its interest in the joint venture to approximately 56%.

b) Platinor

By letter of agreement dated 29 August 1986 the company acquired an option to acquire a 30% undivided interest in certain mineral claims in northwest Ontario. As at 28 February 1987 the company has not committed to any further expenditures.

6. PROPERTY AGREEMENTS — Continued

c) Stewart

By agreement dated 15 October 1986 the company acquired an option to earn a 37½% undivided interest in certain mineral claims in the Thunder Bay Mining division of Ontario. In order to earn the interest the company will spend, at its option, an aggregate of \$562,500 on exploration and development as follows:

Date	\$	
On or before 28 February 1987	187,500	(Completed)
On or before 28 February 1988	187,500	
On or before 28 February 1989	<u>187,500</u>	
	<u>562,500</u>	

Upon earning its 37½% interest the company and Noranda Inc. may elect to form a joint venture to further explore and develop the property.

The earned interest is subject to certain royalty agreements which provide for royalties, on varying individual properties, which range from 3% of net smelter returns to 8% of net profits and \$0.10 per ton of ore milled.

d) Long Lake

By agreement dated 24 November 1986 the company acquired an option to earn a 35% undivided interest in certain mineral claims in Newfoundland. In order to earn the interest the company will spend, as its option, an aggregate of \$1,400,000 on exploration and development as follows:

Date	\$	
On or before 28 February 1987	200,000	(Completed)
On or before 28 February 1988	300,000	
On or before 28 February 1989	400,000	
On or before 28 February 1990	<u>500,000</u>	
	<u>1,400,000</u>	

Upon earning its 35% interest the company and B.P. Resources Canada Limited may elect to form a joint venture to further explore and develop the property.

7. EQUIPMENT RENTALS AND PROGRAM MANAGEMENT CHARGES

Under the terms of a property agreement the company can charge for the use of its equipment and a portion of its administration for the calculation of costs incurred for the purpose of earning an interest in the property. These charges have been included in revenue and as a charge to deferred exploration and development.

8. COMMITMENTS

- a) By agreement dated 19 November 1986, the company secured the services of a key employee for the period from 1 January 1987 to 31 December 1991. The agreement provides for a minimum salary of \$100,000 per annum over the term of the agreement.
- b) Under the terms of an office rental lease the company will be responsible for the following future office lease payments:

Year Ended 28 February 1988	\$54,900
1989	\$54,900
1990	\$54,900
1991	\$ 4,750

9. COMPARATIVE FIGURES

Certain figures for 1986 and 1985 have been reclassified to conform with the 1987 financial statement presentation.

10. DIFFERENCE BETWEEN CANADIAN AND UNITED STATES OF AMERICA (AMERICAN) GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- a) Under Canadian accounting principles concentrate inventories may be reported at estimated net realizable value. Under American accounting principles inventories are reported at the lower of cost or market.
- b) Under Canadian accounting principles long-term investments may be reported at a cost that is in excess of market value where it is reasonable to assume that the decline in market value may be of a temporary nature. Under American accounting principles the investments would be written down to market value on an individual basis and charged to a contra equity account for unrealized losses on investments which account would be reported in the shareholders' equity section of the balance sheet.
- c) The effect of the difference in accounting principles on retained earnings is as follows:

	1987	Year Ended 1986	1985
Deficit as determined in accordance with Canadian accounting principles	\$2,413,940	\$1,471,333	\$1,330,545
a) Concentrate inventories valued at the lower of cost of market	159,698	112,036	29,636
Income taxes thereon	(64,438)	(43,694)	(15,412)
b) Write down of investments on an individual basis to lower of cost or market	695,436	281,352	681,864
Deficit determined in accordance with American accounting principles	<u>\$3,204,636</u>	<u>\$1,821,027</u>	<u>\$2,026,633</u>

Corporate Information

Directors and Officers

Donald A. McLeod, President & Chief Executive Officer

Albert H. Manifold, P.Eng., Director

James B. Magee, P.Eng., Director

Henry G. Ewanchuk, P.Eng., Director

Reginald J. Stanks, Director

Gail M. Sharp, Secretary

Executive and Head Office

Suite 860, 625 Howe Street
Vancouver, British Columbia
Canada V6C 2T6

Telephone (604) 687-7545

Telecopier (604) 689-5041

Registered Office

16th Floor, 1100 Melville Street
Vancouver, British Columbia

Auditors

Smith Flynn Staley
Chartered Accountants
Burnaby, British Columbia

General Counsel

Boughton & Company
Vancouver, British Columbia

Briant, Angus, McClellan & Rubenstein
Vancouver, British Columbia

Transfer Agent and Registrar

Canada Trust Company
4 Bentall Centre - Box 493
Vancouver, British Columbia

110 Yonge Street
Toronto, Ontario

Operations

Fred G. Hewett, P.Eng.
Exploration Manager

Edward G. Craft, P.Eng.
Manager, Mining

Consultants

Dr. Paul Richardson, Ph.D., P.Eng.
Geological Consultant

Rescan Environmental Services Ltd.
Environmental Consultants

Watts, Griffis, McQuat
Geological/Mining Consultants

Annual Meeting

The Annual Meeting of Shareholders will be held in
The Mandarin Room, The Mandarin Hotel, Vancouver,
British Columbia on Thursday, July 9, 1987
at 10:00 a.m. (Vancouver time)

Annual Report

Copies of the Annual Report of the Company are
available by writing to Investor Relations, Northair
Mines Ltd., Suite 860, 625 Howe Street,
Vancouver, British Columbia, Canada V6C 2T6

Trading

The Company's shares trade on the Toronto Stock
Exchange and Vancouver Stock Exchange under the
trading symbol NRM



NORTHAIR MINES LTD.

Northair Mines continues its reputation as "The Mine Makers" and plans production again in '88 at the new Willa property.

THE COMPANY

Northair Mines Ltd. brought the Brandywine Mine to commercial production in 1976, the first new gold mine in British Columbia in over 40 years. Today, Northair is poised to bring its second gold mine onstream - The Willa Mine, located in southeastern British Columbia.

THE WILLA PROPERTY

Northair has been exploring and developing the Willa property since April 1985 when Northair was invited to join with BP Selco (a division of British Petroleum) and Rio Algom Exploration to manage further exploration and development. Since Northair's involvement, over \$6 million has been spent on underground and surface diamond drilling and extensive underground workings. This expenditure has earned Northair a 68% interest in the property, which can increase through additional expenditures. Northair retains the right to purchase the joint venture partners' remaining interests.

Northair has completed over 4,950 feet of underground workings, 46,000 feet of underground diamond drilling and 6,000 feet of surface diamond drilling. This extensive work has outlined reserves of 606,000 tons grading 0.22 ounces of gold per ton, 0.27 ounces of silver per ton and 1.04% copper, suitable for underground mining. There is excellent potential for defining additional tonnage and geologists believe the mine may have an 8 to 10 year life.

Northair's 350 ton per day Brandywine mill has been relocated at Willa and will be re-erected and expanded to a 500 ton per day capacity. Total capital costs are estimated at \$10 million, including working capital.

Commencement of production is scheduled for August of 1988 at the rate of 500 tons per day. This rate is expected, at current metal prices to generate over \$22 million in annual revenues and over \$7 million in pre-tax earnings for Northair (should the present property interest not be increased) with payback of capital in less than one year.

Costs of mining and milling are estimated at about \$50 per ton, reflecting not only the property's excellent location and ready access, but also management's experience in achieving low operating costs. Translated to "costs-per-ounce", Willa should produce one ounce of gold for less than US \$200.

MANAGEMENT

Northair's management is a highly motivated team of professionals ex-



perienced in all aspects of the mining industry.

DONALD A. McLEOD, President, has over 42 years of experience in mine management and exploration. During his 20 year tenure with Northair, McLeod has earned the respect of professionals in the mining and financial industries alike. Under his guidance, Northair opened its first mine, the Bran-

Willa gold-copper mineralization

Cover:

Willa Property - Working on the upper adit, September 1987

dywine, in 1976, on time and on budget. During six years of operations, the mine generated over \$76 million in revenues.

FRED G. HEWETT, P.Eng., Vice President and Exploration Manager, joined Northair in 1981 after nearly 20 years of senior mining experience. He was senior explora-

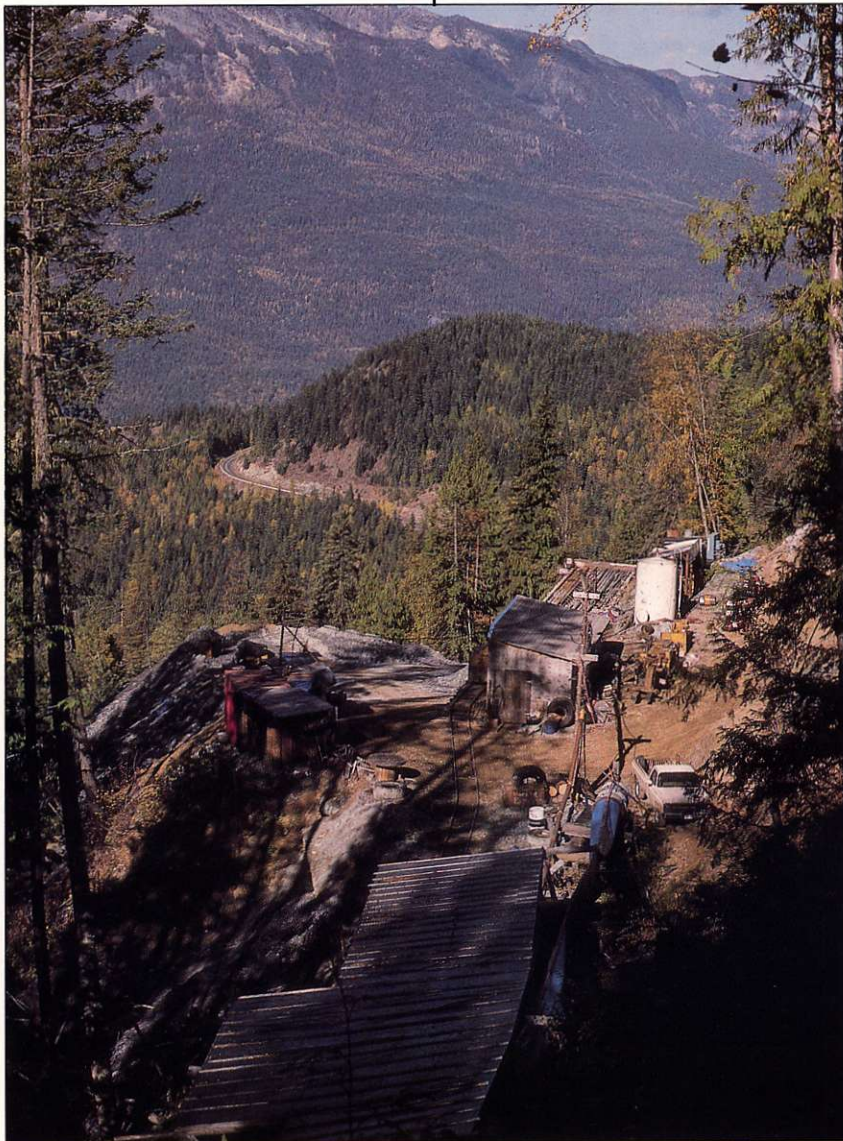
ger of Mining, is responsible for mining and development programs. Craft is the former manager of Taurus' gold mine near Cassiar, B.C. and former production superintendent of Cominco's Pine Point open pit mine.

FINANCES

Northair has maintained a strong balance sheet since the days of production at Brandywine. Mr. McLeod enjoys an enviable reputation in the Canadian financial community as well as in mining circles. Northair is regularly approached by investment bankers, facilitating necessary financings. Current working capital stands at \$1.4 million with all exploration funding being provided by flow-through private placements, leaving working capital intact.

THE FUTURE

In the near term, management is committed to bringing Willa to production in 1988 and to developing



View from above main adit with Highway 6 in view

tion geologist with Brinco Mining, chief engineer with Cassiar Asbestos and exploration geologist with Placer Development. Hewett is responsible for property acquisitions as well as all field programs underway on Northair's properties.

EDWARD W. CRAFT, P.Eng., Man-



Underground diamond drilling

the full potential of the property from future cash flow. It is not unreasonable to expect Willa to generate revenues of over \$120 million during its mine life.

Northair also has a commitment to future growth. The recent involvement with BP in the exploration of the Long Lake gold property in Newfoundland is a case in point.

This large, and very new discovery, has the potential to become a large low-grade open pit mine. Work commenced in the fall of 1986, and early indications are positive. Further work will be required to fully delineate this target.

Another major consideration for the management team, is the continuing search for attractive property acquisitions. There is an ongoing appraisal and acquisition program in place, and although stringent parameters are placed on all possible properties, Northair receives numerous proposals - from the prospector to the major mining company. It is from these sources that the next "Willa" could appear in the portfolio.

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Trading

The Company's shares trade on the Toronto Stock Exchange and the Vancouver Stock Exchange under the trading symbol NRM. The Company maintains filings with the U.S. Securities and Exchange Commission under an exemption for certain foreign securities under Regulation 240.12g3-2.

Shares Issued & Outstanding

9,514,718 common shares



*Upper adit,
September
1987*

NORTH AIR MINES LTD.

NORTHAIR MINES LTD.

March 21, 1988
News Release 88-4

TSE: NRM
VSE: NRM

WILLA PROPERTY
NORTHAIR 70%/BP, RIO ALGOM 30%

Extensive Underground Diamond Drilling Enhances West Zone, Two Additional Zones Emerging - 78.7 feet of 0.231 oz gold/ton from Main Zone

Northair Mines is conducting major ongoing exploration and development of the Willa Property, southeastern British Columbia in preparation for a production decision. The Stage I report for permitting will be submitted to the Provincial Government by the end of March. Wright Engineers, engaged by Northair to calculate mineable reserves and provide a preliminary mining plan, are expected to submit their report to the company within the next two weeks.

Underground diamond drilling in 1988 has totaled 16,320 feet in three zones: the West Zone, the Main Zone and the East Zone.

West Zone

Fourteen fans of holes were drilled in the West Zone to provide detail on the limits of mineralization so that mineable reserves can be calculated and mining methods can be designed. Drill indicated reserves in the West Zone currently stand at 606,000 tons grading 0.22 oz gold/ton, 0.27 oz silver/ton and 1.04% copper (no reserve calculations have been conducted as yet on any other zones at Willa). Several significant intersections were obtained in this last program on the West Zone including Hole 88-333, where 0.252 oz gold/ton and 0.91% copper over 46.0 feet was encountered. The pipe-like southern extension of the West Zone has been traced for a vertical extent of approximately 230 feet above the south end of the West Zone. Hole 88-361, drilled through the zone, averaged 0.260 oz gold/ton and 2.06 % copper over 39 feet in the vicinity of Hole 87-312 that intersected 91 feet of 0.336 oz gold/ton. Further work and interpretation is planned for this area.

Main Zone

The Main Zone was outlined by extensive surface diamond drilling conducted by BP & Rio Algom prior to Northair's involvement at Willa in 1985. The Main Zone was defined as a moderately large deposit of low grade gold, silver, copper mineralization. The surface drilling also indicated the possibility of a higher grade block within the zone and subsequent work had tended to confirm that theory.

In early 1987, initial underground testing of the Main Zone resulted in a 52.5 foot intersection grading 0.308 oz gold/ton and 0.70% copper. In this last program, 16 holes were drilled from the 1100 level to better define the zone. Results, which are not yet complete, show the zone to be plunging to the northeast and have dramatically demonstrated the potential for significantly increasing tonnage at Willa. To date, results from the 1988 drilling on the Main Zone are as follows:

Hole No.	Width (feet)	Gold (oz/ton)	Silver (oz/ton)	Copper (percent)
88-378	19.7	0.219	0.74	0.96
	13.1	0.130	0.38	0.54
88-381	13.1	0.155	0.30	0.56
88-384	13.1	0.248	0.41	0.97
88-385	13.1	0.146	0.06	0.46
	45.9	0.177	0.17	0.59
	6.6	0.162	0.21	0.30
88-387	6.6	0.240	0.43	0.55
	13.1	0.202	0.08	0.32
	78.7	0.231	0.33	0.71

continued overleaf

East Zone

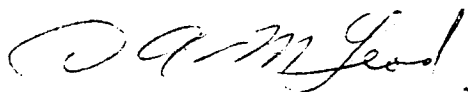
Further to the success of a 1986 underground hole in the East Zone that returned 24.6 feet of 0.374 oz gold/ton and 1.76% copper, five underground holes have recently been completed on this zone. A thorough geological review of all data from the East Zone is beginning to unravel the complexity of this zone. This latest drilling has shown that the East Zone consists of several separate bands of northerly dipping mineralization and further drilling will be conducted to define tonnage. 1988 drill results are as follows:

Hole No.	Width (feet)	Gold (oz/ton)	Copper (percent)
88-324	26.2	0.257	0.41
88-317	26.2	0.290	1.64
88-322	13.1	0.381	1.12

The company's consultants assisted by the resident engineering staff is presently developing recommendations and cost estimates for further exploration to delineate the Main, East and apparent upper extension of the West Zone.

NORTH AIR MINES LTD.

Per:



Donald A. McLeod,
President

The Vancouver Stock Exchange has neither approved nor disapproved the information contained herein.