CITY RESOURCES CANADA

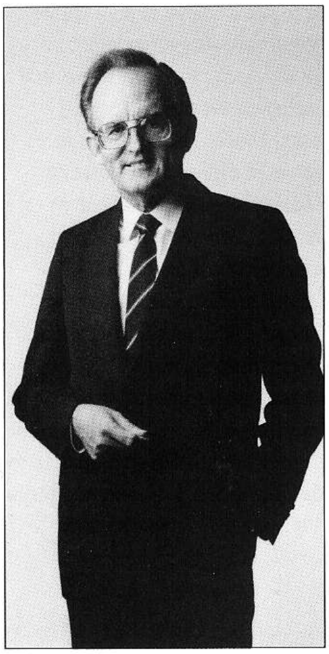
ANNUAL REPORT

1987

Graham Island

Gold production is expected to be 175,000 ounces in the first full calendar year of production, 192,000 ounces in the second year, and an average of 114,600 ounces per year over the remaining ten years of mine life.

PRESIDENT'S REVIEW TO THE SHAREHOLDERS



No report for the year 1987 could be complete without focussing on the events and consequences of the stock market crash of October.

The causes of the crash will no doubt be argued for years to come. The event can be expressed simply: share prices suffered the greatest one day fall in history. The consequences are now being felt by a nervous market seeking assurance of underlying fundamental values for their investments.

In your Company's case, the fundamentals remain unaltered:

☐ We hold title to a proven ore body in the Queen Charlotte Islands which has been extensively drilled to demonstrate the existence of over two million ounces of gold.

☐ Modern state-of-the-art recovery methods demonstrate that we can recover at least 1.5 million ounces of that gold.

☐ We hold title to a 50% interest in a group of exploration areas in Papua New Guinea, a country emerging as the site of some of the largest gold discoveries of this century.

☐ One of our areas in Papua New Guinea is already showing promise of rivalling, if not surpassing, the Graham Island deposit.

☐ We are in a sound cash position.

On the other hand, the crash has hurt us, particularly in the area of investment. Certain share investments were undertaken as an intended short-term use of funds. Initially these investments showed a handsome appreciation in value, but they too suffered a downturn. However, in their case also we are convinced as to the fundamentals and expect a re-rating will occur.

To revert to the very positive aspects, perhaps it is not fully appreciated just what the sheer size of the Graham Island deposit means, for example:

☐ It is one of the top twelve gold deposits in Canada.

☐ It will be the subject of major expenditure, up to $100 million, and much of this will be in British Columbia.

☐ It will provide approximately two hundred new jobs, together with training opportunities and a growth in infrastructure to the region.

☐ The economic activity in the region generated by the project will be a multiple many times greater than the money spent or income derived.

☐ All this can be achieved while observing the strictest standards of environmental safeguard.

Generally little is known of Papua New Guinea and our investment there. Papua New Guinea is an independent country which has emerged from Australian administration as a politically stable democracy. The country is rich in mineral resources and has a record of encouraging foreign participation. We are pleased to be one of those participants.

Our involvement is confined to the island province of New Britain which lies to the east of the mainland. Here, in a series of prospects, the existence of valuable ore deposits has been demonstrated and is now being proved.

We expect the New Britain properties will exceed Graham Island in total concentration of minerals, particularly gold.

So we approach 1988 and the future with a great deal of confidence. What we have in Graham Island is excellent, what we expect to have in Papua New Guinea looks even better, and we are examining a range of other possibilities in a confident ongoing manner.

We hope to share this with you.

On behalf of the Board of Directors,

John Bailey
President

April 15, 1988

PROJECT REVIEW

THE GRAHAM ISLAND PROJECT

The year has been spent in efforts directed to two primary goals:

☐ The first was to ensure the selection of a metallurgical process which will optimize the recovery of gold.

☐ The second was to ensure that the metallurgical process selected would be environmentally acceptable after applying the most stringent tests.

By the end of the year considerable success had been achieved in both aims. This success confirmed the economic viability of the proposed mine and its environmental safety. However, the degree of success has not been accepted by management as representing the optimum. Consequently, an intensive program has been undertaken to hone each aspect of the work completed to ensure the best possible project.

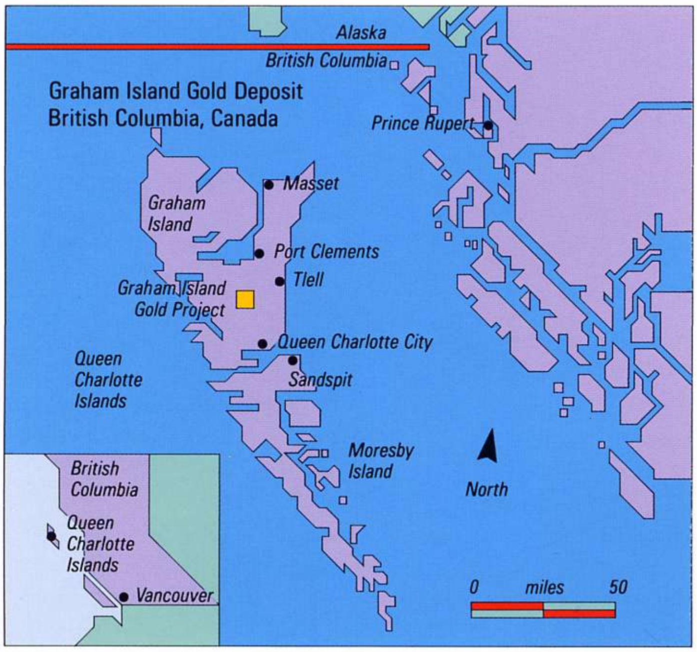
To do this, the approach has been to plan for closure. That is, plans are being made to close down the project some fourteen years from now. By allowing now for the inevitable fate of every mining operation, the Company is able to build in the full range of environmental safeguards for that time.

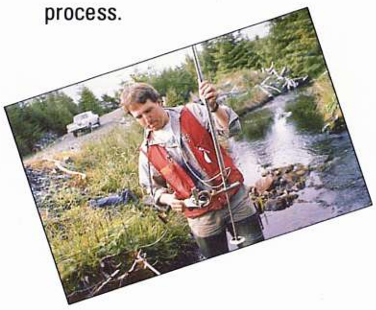
With this knowledge the Company and its consultants have been able to identify the possible, even improbable, areas of problem and adjust planning accordingly.

The metallurgical process selected is based upon pre-oxidation of sulphide minerals to enable extraction of gold by a conventional cyanide process. This process takes place amid very moderate conditions and without the emissions associated with a traditional roasting process.

In the first series of pilot plant tests, gold recoveries of up to 87% were achieved. The second series showed evidence of a considerable improvement in terms of capital and operating costs. A third series aimed at further improvements in both areas is under way.

Each of these series of tests has led to further improvement in environmental safeguards. The results will be incorporated in the permitting application expected to be lodged in the second quarter of 1988.





FEASIBILITY HIGHLIGHTS

Highlights of the study are:

- ☐ The mineable ore reserves are 27.3 million short tons of gold ore at an average gold grade of 0.062 oz/st using a 0.032 oz/st cutoff grade.

- ☐ At 90% recovery, total gold production will exceed 1.5 million ounces. These projections will place City (Canada) among North America's top producers.

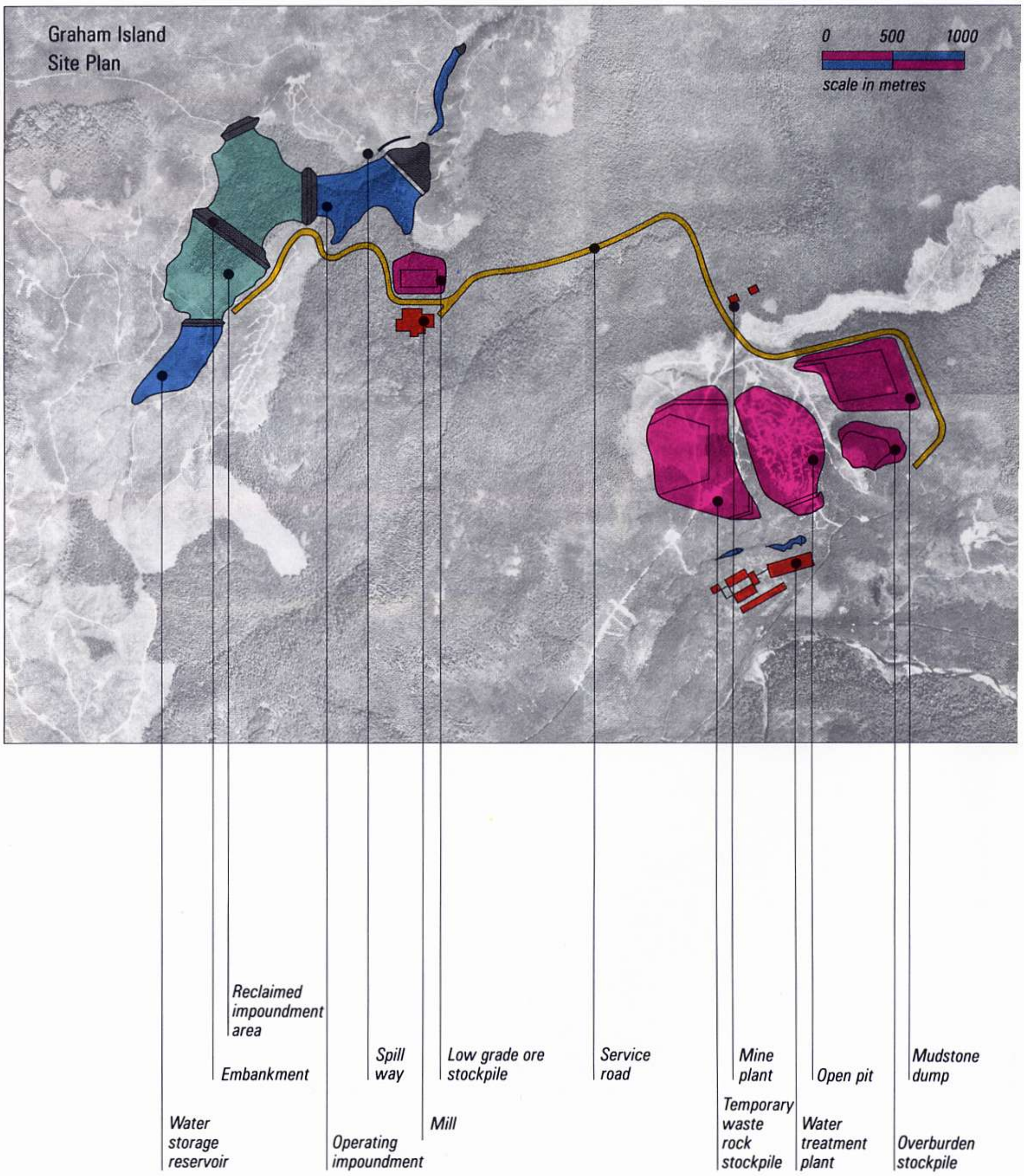
- ☐ Open pit mine. 6,600 short tons per day. Overall waste to ore stripping ratio of 2.08:1.

- ☐ Gold production is expected to be 175,000 ounces in the first full calendar year of production, 192,000 ounces in the second year, and an average of 114,600 ounces per year over the remaining ten years of mine life.

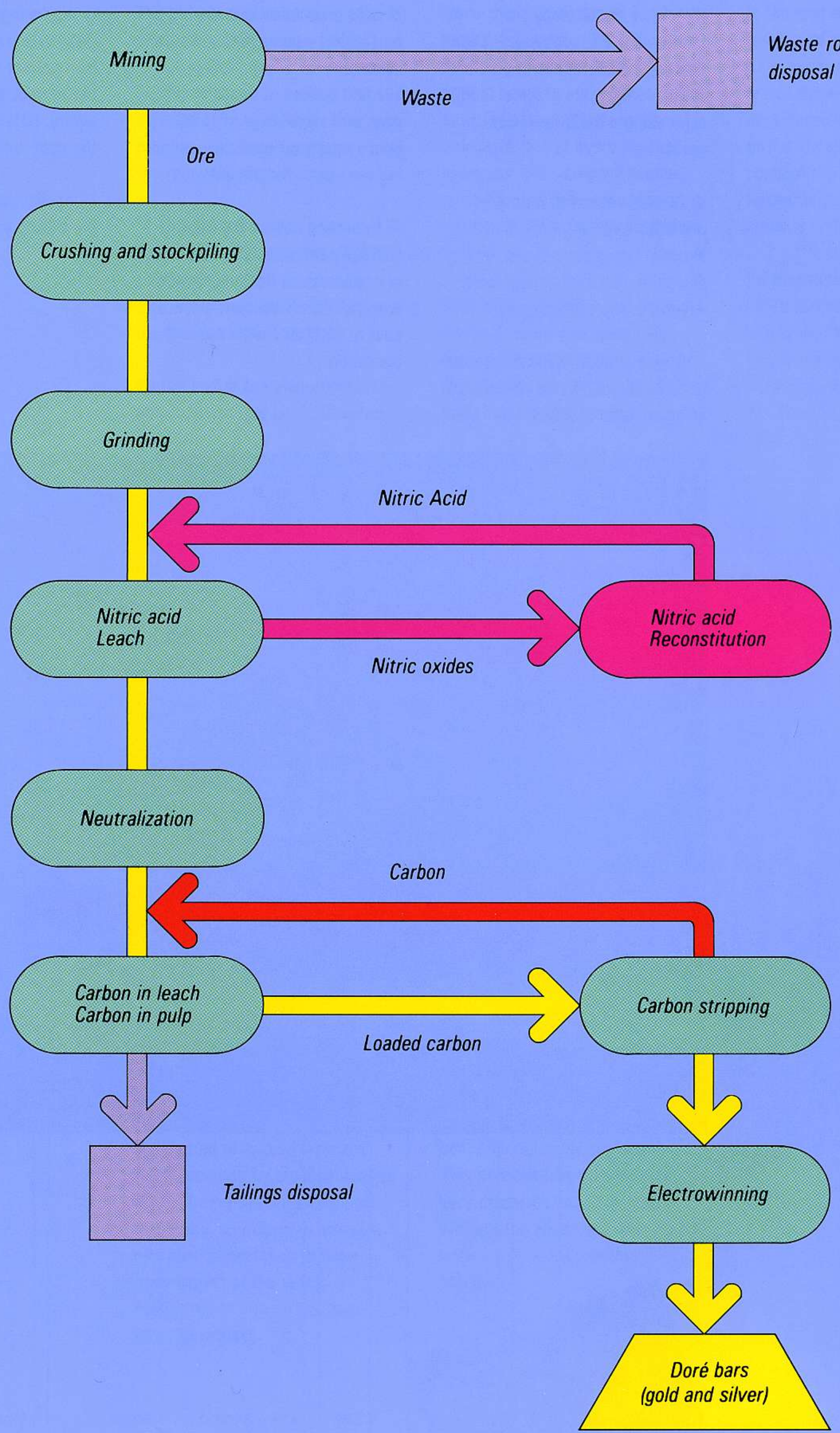
- ☐ Operating costs vary from US$207 per ounce for years 1-2 of production at design capacity with an overall estimated average cost of US$250 for the life of the operation.

- ☐ Assuming a gold price of US$450 per ounce and an exchange rate of C$1.00 = US$0.76, the project, financed on a 20% equity, 80% debt basis, can repay the debt within 2 years.

- ☐ Applications for government permitting are proceeding.



GRAHAM ISLAND
PROJECT
SIMPLIFIED FLOWSHEET



The first stage of milling is the reduction, or comminution, of the run-of-mine ore to a suitably sized fine sand. This is normally done in a series of three steps.

The first of these steps takes the run-of-mine ore and reduces it from the three foot size rocks to pieces that are less than a foot. This initial step will be done with a gyratory crusher. The broken rock is then temporarily stored on a stockpile, so as to eliminate surges and fed to the next stage.

The second step reduces the material to the size of fine gravel, which will be done in what is called an autogenous mill. This piece of equipment tumbles the rocks together, using the strength of the rocks themselves to break them down. An intermediate product called pebbles is taken off from this mill to be used in the last step.

The final comminution step is done in pebble mills. These mills use the intermediate product from the autogenous mill to continue to break down the gravel sized rock to a very fine sand. The pebbles themselves wear down, producing more of the fine sand, and so must continuously be replaced.

In the second stage of milling, the fine sand must be prepared for cyanidation, by oxidizing the majority of the metallic sulphide minerals in the ore as it is found that some of the gold is locked in a portion of these minerals.

The oxidation will be carried out using a combination of nitric acid and sulphuric acid. The nitric acid will be reclaimed as part of the process, so that after the initial charge it will not be a major item of supply. The sulphuric acid will be largely self-generated as part of the process and in addition plans are to utilize the acid that is contained within some of the waste rocks. The actual oxidation step, though carried out at a relatively high temperature of 75°C-85°C, will be done in stirred tanks at atmospheric pressure. The time to carry out the oxidation is quite short and from 1-2 hours is found to be sufficient to obtain excellent gold recoveries.

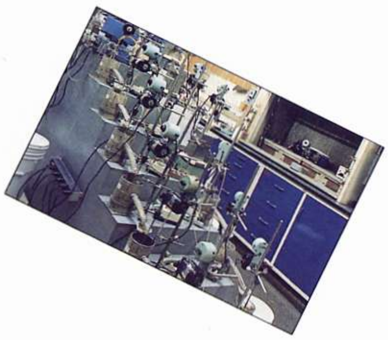
The third stage of the process is to neutralize the slurry. Limestone and slaked lime are used in the process and in this step the iron and the minor amounts of heavy metals, which were in solution, are co-precipitated in such a fashion that they are stable and insoluble.

The slurry is then ready for the fourth or cyanidation stage and it is planned to collect the gold using a combination of the conventional carbon-in-pulp, carbon-in-leach processes. There will be a more extensive carbon collection system than is usual in a gold mill, so that a large proportion of the mercury can be collected and removed from the slurry.

The carbon is screened off from the slurry, which then goes through cyanide destruction and a further heavy metals stabilization step preparatory to running it out to the impoundment area.

In the fifth and final stage the separated carbon has the gold stripped from it, which is subsequently collected in electro-winning cells on steel wool cathodes. The stripped carbon is returned to the leach circuit for re-use.

The cathodes are first retorted and the collected mercury is sold as a byproduct. The steel wool, after the retorting step, is then put into a furnace with fluxes and the gold and silver melted down. The molten metals are then poured and shipped to refiners as doré bars.



In Papua New Guinea a 50% interest is held in ten Prospecting Authorities located in the Provinces of East and West New Britain.

New Britain is a large island lying to the north east of mainland Papua New Guinea. It is generally mountainous and jungle covered. It has a minor history of mineral exploration and development, but from the late 1970s began to attract the attention of major international mining houses. Of these, the most active was the local subsidiary of the Exxon Corporation which secured the largest holding of prospective land. These holdings were first joint ventured, then in 1986, wholly obtained by the City Group. City Resources (Canada) became joint venturer with City Resources Limited of Australia in 1987.

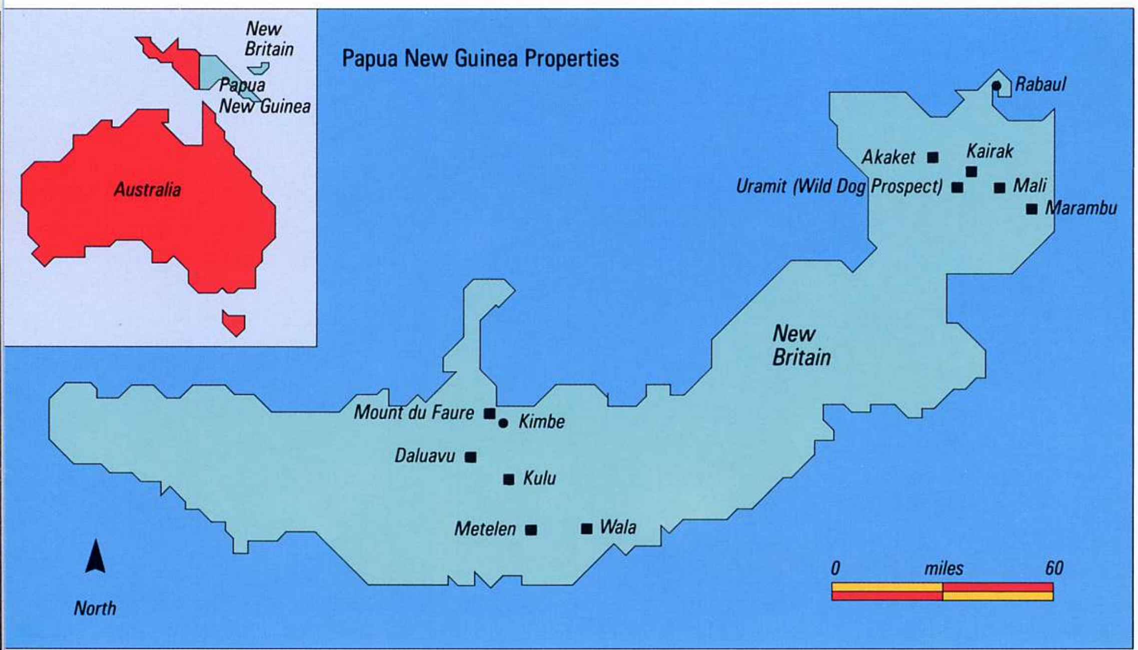
Of the Prospecting Authorities held, most effort has been concentrated on Uramit which is in East New Britain and, unusual for Papua New Guinea, is readily accessible, being connected to the provincial capital, Rabaul, by 43 miles of all weather road.

Within the Uramit Prospecting Authority, a series of gold bearing quartz reefs located over 10 miles have been identified.

Within that series of reefs, most attention has been given to the Wild Dog reef which has been the subject of extensive drilling.

Interpretation of these results has led to the conviction that two separate systems of gold occurrence have been located. One begins at surface and lends itself to inexpensive open cut mining. The other gives evidence of potential for an underground mine.

Present plans are for a relatively modest scale mining operation to be put in place quickly. Expansion will follow within two years and should pave the way for cash generation for the major exploration program expected to result in an ore body or bodies containing in excess of a million ounces of gold. The early stage production is expected to produce 25,000 ounces of gold with copper and silver credits from a 90,000 tons per year operation. In years 3 and 4 an expansion to 200,000-300,000 tons per annum is planned.



RECENT DRILL RESULTS

Hole No.	Interval (ft.)	Thickness (ft.)	Gold (oz/t)	Silver (oz/t)	Copper (%)
87WDD008	0.00-19.02	18.30	0.05		
	40.35-63.15	22.80	0.41		
	including	3.78	2.07		
87WDD065	365.32-400.75	35.43	0.08	0.10	0.10
	including	11.15	0.17	0.16	0.20
	457.84-493.27	35.52	0.09	0.18	0.25
	including	5.08	0.48	0.60	0.90
87WDD064	507.87-597.60	89.73	0.06		
	including	17.22	0.17		

UNITED PACIFIC GOLD LIMITED

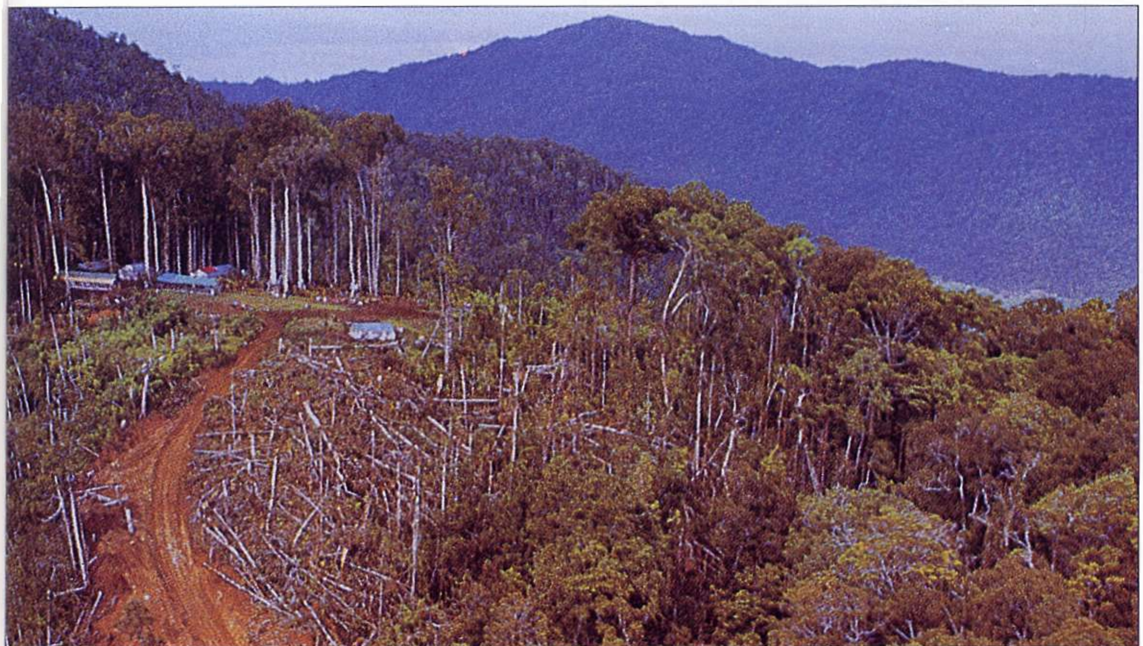
United Pacifc Gold Limited (UPG) was formed in June 1987 as an extension of the City Group's increasing exploration activities in North America. Initial funding was from City affiliate companies and from private individuals.

The initial thrust of UPG's activities was the desire to recreate the City success story in the Southwest Pacific by utilizing the MV United Venturer, an exploration vessel, to conduct an innovative exploration program targeting new gold-bearing areas in coastal British Columbia. This program was carried out during the summer months of 1987 and was extremely successful, leading to the identification of a new gold metallogenic province in coastal British Columbia. UPG, as a result, now controls several new claim groups which show the potential for becoming mines, and are far ahead of the competition in regional understanding, which should lead to further discoveries.

Since the United Venturer program, UPG has expanded its focus to include the acquisition of other attractive gold properties. As a result, UPG has signed an option/joint venture agreement with Golden Zone, Inc. to earn into 50% ownership of the Golden Zone property in south-central Alaska. The Golden Zone is a gold-bearing pipe-like deposit currently at pre-feasibility stage. This summer's field program is expected to result in proven reserves of at least 250,000 ounces of gold to be mined initially from an open pit and then underground. Grades are expected to be approximately 0.15 ounces of gold per ton in the pit and 0.18 ounces of gold per ton underground. The Golden Zone could be in production as early as late 1989.

UPG also has an option on the Max gold property in central British Columbia. Gold mineralization at the Max is associated with hydrothermally altered intrusives and work done to date is encouraging. This summer's field work is expected to better delineate the mineralization and define specific drill targets.

UPG expects to seek a listing on the Vancouver Stock Exchange during the summer of 1988. It will remain strongly affiliated with the City Group of Companies, particularly City (Canada), acting semi-independently as their exploration arm in North America.



In a series of prospects in Papua New Guinea, the existence of valuable ore deposits has been demonstrated and is now being proved.

In November 1986 City Resources (Asia) Limited purchased 2.5 million shares from the treasury of the Company for $7.55 million, making City Asia our second largest shareholder. Warrants were attached to this offering and City Asia exercised them at a cost of $8.2 million in August 1987.

In June the Company announced that an agreement had been reached with T.C. Coombs & Co. of London whereby T.C. Coombs would purchase for placement with institutional investors special warrants of the Company at a price of $10.00 each. Each special warrant entitled the holder, upon exercise, without further payment, to one common share of the Company and one warrant exercisable at $7.00 per share at any time until July 31, 1989. In August 1987 the financing was completed and approximately $20 million was raised through the private placement of the special warrants with institutional investors.

Last summer City Canada proposed a distribution of bonus warrants to shareholders of record on August 24, 1987. Shareholders received one bonus warrant for each common share held. The bonus warrants were also exercisable at $7.00 per share until July 31, 1989.

In March 1988, recognizing the impact of the October 1987 crash upon the market perception of all developing mining company investments, the Company decided to vary the terms of all warrants to an exercise price of $3 up to July 31, 1988, $4 from that date until January 31, 1989 and $5 to July 31, 1989.

The special and bonus warrants have been qualified through a prospectus in Canada and a registration statement in the U.S. The bonus warrants have been issued and are now tradeable on the Toronto and Vancouver Stock Exchanges and are quoted on NASDAQ in the U.S.

The exercise of warrants by City Asia and the private placement raised over $28 million during the year to provide working capital for the Graham Island project and to fund exploration, acquisitions and investments.

Stock Exchange Listing

The common shares of the Company began trading on The Toronto Stock Exchange on March 21, 1988 under the trading symbol CIZ.

The Company's warrants trade on The Toronto Stock Exchange and the Vancouver Stock Exchange (CIZ.WT) and in the U.S. through NASDAQ (CIZWF).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CITY RESOURCES (CANADA) LIMITED

We have examined the consolidated balance sheet of City Resources (Canada) Limited (a company in the development stage) as at December 31, 1987 and the consolidated statements of deficit accumulated during the development stage and changes in financial position for the year ended December 31, 1987 and from inception to December 31, 1987. Our examination was made in accordance with generally accepted auditing standards in Canada, 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 December 31, 1987 and the results of its operations and the changes in its financial position for the year ended December 31, 1987 and from inception to December 31, 1987 in accordance with generally accepted accounting principles applied on a consistent basis.

The financial statements for the preceding years were examined by other auditors.

Vancouver, Canada
March 11, 1988

THORNE ERNST & WHINNEY
Chartered Accountants

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties and contingencies such as those in the attached consolidated balance sheets and referred to in note 1 to the consolidated financial statements. The opinion in our report to shareholders dated March 11, 1988 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Vancouver, Canada
March 11, 1988

THORNE ERNST & WHINNEY
Chartered Accountants

CITY RESOURCES (CANADA) LIMITED
(a company in the development stage)

CONSOLIDATED BALANCE SHEETS
(expressed in Canadian dollars)

		December 31, 1987	1986
ASSETS	CASH AND SHORT-TERM DEPOSITS	**$15,262,702**	$ 6,165,510
	MARKETABLE SECURITIES, at market (note 3)	**3,555,818**	—
	ACCOUNTS AND ACCRUED INTEREST RECEIVABLE	**539,463**	90,915
	INVESTMENT IN ASSOCIATED COMPANIES (note 4)	**33,582,665**	—
	CINOLA PROJECT (note 5)	**15,887,029**	10,349,631
	FIXED ASSETS (note 6)	**639,723**	135,907
	DEFERRED FINANCING COSTS (note 9(d))	**181,700**	—
		$69,649,100	$16,741,963
LIABILITIES	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 1,816,064**	$ 616,087
	MORTGAGE PAYABLE (note 7)	**186,214**	—
	ADVANCES PAYABLE (note 8)	**—**	2,500,000
		2,002,278	3,116,087
SHAREHOLDERS' EQUITY	CAPITAL STOCK (note 9) Authorized 100,000,000 common shares without par value (1986: 50,000,000) Issued and outstanding December 31, 1987 — 17,054,161 common shares (1986: 9,027,561)	**58,520,950**	18,337,230
	SPECIAL WARRANTS (note 9(d))	**20,327,850**	—
		78,848,800	18,337,230
	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	**(11,201,978)**	(4,711,354)
		67,646,822	13,625,876
		$69,649,100	$16,741,963

Commitments (notes 11 and 12)

Approved by the Directors:

Director

Director

The accompanying notes are an integral part of these consolidated financial statements. Note 13 sets out the effects of material differences between accounting principles generally accepted in Canada and the United States on these financial statements. The primary difference relates to the valuation of the shares of an associated company, and would reduce investment in associated companies and capital stock by $23,147,782 each.

CITY RESOURCES (CANADA) LIMITED
(a company in the development stage)

CONSOLIDATED STATEMENT OF DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE
(expressed in Canadian dollars)

	Inception to December 31, 1987	**1987**	Year ended December 31, 1986	1985
BALANCE — BEGINNING OF PERIOD	$ NIL	**$ 4,711,354**	$ 3,980,318	$ 3,530,901
Write-off of mineral property interests:				
Cost of mineral claims	99,990	—	—	—
Deferred development costs	594,645	—	—	—
Fixed assets	116,830	—	—	—
Administrative costs — see Schedule	6,390,985	**2,861,624**	729,180	382,556
Write-down of:				
Marketable securities	2,838,000	**2,838,000**	—	—
Investments	282,714	—	1,856	98,033
Gain on disposal of investments	(13,759)	—	—	—
Write-off of amounts receivable	26,573	—	—	(31,172)
Compensation to former employee	50,000	—	—	—
Legal fees relating to debt settlement	25,000	—	—	—
Share of losses from associated companies	791,000	**791,000**	—	—
	11,201,978	**6,490,624**	731,036	449,417
BALANCE — END OF PERIOD	$11,201,978	**$11,201,978**	$ 4,711,354	$ 3,980,318
Basic loss per share (note 2(g))	$ 3.55	**$ 0.49**	$ 0.08	$ 0.07
Weighted average shares outstanding	3,157,000	**13,369,853**	8,836,738	6,155,076

The accompanying notes are an integral part of these consolidated financial statements.

CITY RESOURCES (CANADA) LIMITED
(a company in the development stage)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(expressed in Canadian dollars)

CASH PROVIDED FROM (USED FOR)		Inception to December 31, 1987	**1987**	Year ended December 31, 1986	1985
OPERATING ACTIVITIES	Administrative costs	$ (6,390,985)	**$ (2,861,624)**	$ (729,180)	$ (382,556)
	Deduct: Item not affecting cash — Depreciation	151,292	**74,920**	11,881	6,556
		(6,239,693)	**(2,786,704)**	(717,299)	(376,000)
	Net change in receivables and payables	1,200,029	**751,429**	418,736	(13,525)
		(5,039,664)	**(2,035,275)**	(298,563)	(389,525)
FINANCING ACTIVITIES	Issue of capital stock:				
	For cash	23,270,950	**10,183,720**	8,241,482	547,939
	On acquisition of associated company	30,000,000	**30,000,000**	—	—
	On acquisition of subsidiary	5,250,000	—	—	—
	Increase (decrease) in advances payable (restated note 8)	8,453,565	**(2,500,000)**	661,574	59,097
	Legal fees relating to debt settlement	(25,000)	—	—	—
	Issue of special warrants	20,327,850	**20,327,850**	—	—
	Mortgage payable	186,214	**186,214**	—	—
	Deferred financing costs	(181,700)	**(181,700)**	—	—
		87,281,879	**58,016,084**	8,903,056	607,036
INVESTING ACTIVITIES	Disposal of mineral properties	40,010	—	—	—
	Deferred interest and development costs (restated note 8)	(19,136,945)	**(5,527,398)**	(2,116,002)	(198,641)
	Consideration for amending agreement with ERM (note 5)	(400,000)	—	(200,000)	(200,000)
	Disposal of investments	252,956	—	—	48,136
	Fixed asset additions	(907,845)	**(578,736)**	(123,099)	—
	Mineral property acquisitions	(5,538,295)	**(10,000)**	—	—
	Purchase of investments	(521,911)	—	—	—
	Investment in associated companies:				
	For cash	(700,000)	**(700,000)**	—	—
	For shares	(30,000,000)	**(30,000,000)**	—	—
	Advances to associated companies	(3,673,665)	**(3,673,665)**	—	—
	Purchase of marketable securities	(6,393,818)	**(6,393,818)**	—	—
		(66,979,513)	**(46,883,617)**	(2,439,101)	(350,505)
	INCREASE (DECREASE) IN CASH	15,262,702	**9,097,192**	6,165,392	(132,994)
	CASH — BEGINNING OF PERIOD	—	**6,165,510**	118	133,112
	CASH — END OF PERIOD	$15,262,702	**$15,262,702**	$ 6,165,510	$ 118

(Cash includes cash and short-term deposits)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED SCHEDULE OF ADMINISTRATIVE COSTS
(expressed in Canadian dollars)

	Year ended December 31, 1987	1986	1985
Automobile	**$ 11,088**	$ 1,713	$ 3,561
Corporation capital tax	**35,714**	25,887	30,400
Depreciation	**125,464**	11,881	6,556
Directors fees	**47,924**	—	—
Donations, dues and subscriptions	**58,401**	7,853	5,486
Equipment rental	**88,125**	14,467	10,687
Filing fees	**57,131**	—	—
Financing costs	**87,802**	22,336	—
Interest on mortgage	**10,205**	—	—
Interest and bank service charges	**6,483**	18,301	—
Legal, accounting and audit	**502,885**	134,949	78,606
Management fees (note 12)	**51,314**	—	—
Office	**85,097**	52,218	16,580
Printing and stationery	**119,511**	37,158	22,954
Public and shareholder relations	**421,508**	—	—
Rent and taxes	**79,188**	49,375	42,497
Salaries and benefits	**1,250,242**	174,771	88,101
Telephone	**112,514**	43,542	17,028
Transfer agent fees	**46,100**	43,273	31,060
Travel and promotion	**540,781**	125,276	29,831
	3,737,477	763,000	383,347
Less: Interest on short-term deposits	**875,853**	33,820	791
	$ 2,861,624	$ 729,180	$ 382,556

CONSOLIDATED SCHEDULE OF DEVELOPMENT COSTS
(expressed in Canadian dollars)

	Year ended December 31, 1987	1986	1985
Assaying	**$ 193,706**	$ 99,144	$ 38,176
Camp catering	**103,930**	41,474	—
Camp maintenance	**—**	53,777	12,766
Camp services	**555,054**	202,343	—
Computing	**23,253**	—	—
Consulting fees	**810,605**	109,001	19,131
Design and feasibility	**357,844**	—	—
Drafting	**35,434**	6,666	—
Drilling	**719,340**	322,202	2,035
Equipment and parts	**10,165**	1,817	300
Environmental	**743,025**	—	—
Field equipment	**3,715**	42,828	1,823
Freight	**28,504**	—	—
Fuel	**80,396**	81,889	21,796
Geological	**266,921**	726	2,311
Metallurgical	**311,679**	29,045	38,350
Pilot plant	**1,022,955**	—	—
Roads and trenching	**52,013**	245,768	300
Salaries and benefits	**60,050**	119,726	25,728
Staking and recording costs	**20,275**	—	—
Storage	**10,850**	5,163	5,163
Surveys — geochemical	**11,612**	39,206	—
Surveys — topographical	**9,156**	24,546	—
Taxes	**—**	13,115	6,265
Transportation	**96,916**	15,992	—
	5,527,398	1,454,428	174,144
Less: Government grant	**—**	—	(34,600)
	5,527,398	1,454,428	139,544
Add: Deferred interest	**—**	661,574	59,097
	$ 5,527,398	$ 2,116,002	$ 198,641

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(expressed in Canadian dollars)
Year ended December 31, 1987

1. NATURE OF OPERATIONS

The Company was incorporated on February 7, 1962, and is developing its group of 52 contiguous claims and fractions on Graham Island, British Columbia (the "Cinola Project") (note 5). Management is of the opinion that this property contains economically recoverable ore reserves. The recoverability of the amounts shown for the Cinola Project is dependent upon the ability of the Company to obtain the necessary financing and governmental approvals and permits to complete the development and upon future profitable production.

The Company also owns a 50% interest in a company which holds 10 gold properties in Papua New Guinea (the "PNG Properties") (note 4). The recoverability of the Company's investment is dependent upon the existence of economically recoverable ore reserves, and the ability of the Company to obtain the necessary financing and governmental approvals and permits to complete development and upon future profitable production.

For United States accounting and reporting purposes, the Company is considered to be in the development stage and the accompanying financial statements are those of a development stage enterprise.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Generally accepted accounting principles

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Canada and, except as disclosed in note 13, are also in accordance in all material respects with those in the United States.

(b) Principles of consolidation

To December 31, 1986, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Misty Gold Inc. ("Misty Gold"), consolidated from November 21, 1984 when the Company acquired all of its issued and outstanding shares, after elimination of intercompany transactions. During 1987, Misty Gold was wound up into the Company pursuant to Section 282 of the Company Act (British Columbia).

(c) Investments

Investments capable of reasonably prompt liquidation are shown as marketable securities (note 3) and are carried at the lower of cost and quoted market value.

Investments in companies other than marketable securities where the Company does not exercise significant influence are carried at cost.

Investments in companies where the Company exercises significant influence which include United Pacific Gold Limited and New Britain Mining Investments Limited (note 4), are accounted for on the equity basis whereby the investment is initially recorded at cost and subsequently adjusted for the Company's share of the income or loss and dividends from the investee.

(d) Deferred costs

Each group of claims or licenses in a designated exploration or development area is accounted for as a separate area of interest. All exploration and development costs, including interest, relating directly to an area are deferred until it is determined if the area contains economically recoverable ore reserves. These deferred costs, together with property acquisition costs, will be amortized against related revenues by the unit-of-production method upon commencement of commercial production, or written-off when the property is abandoned.

All administrative costs are written-off in the year incurred.

(e) Fixed assets

Fixed assets are carried at cost less accumulated depreciation. Annual depreciation is provided using the following methods and annual rates:

Asset	Method	Rate
Automobile	Declining-balance	25%
Computer equipment	Declining-balance	30%
Generators	Declining-balance	20%
Office equipment and furniture	Declining-balance	20%
Telephone equipment	Declining-balance	30%
Trailers	Declining-balance	30%
Computer software	Straight-line	2 yrs

(f) Foreign currency transactions

The Company's assets and liabilities denominated in foreign currencies at period end are translated at the period end exchange rates with the resulting gains or losses on translation reflected in administrative costs. Exploration, development and administrative expenditures and advances to foreign operations during the period are translated at the rates of exchange prevailing at the time of the transaction.

(g) Loss per share

Fully diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive.

3. MARKETABLE SECURITIES

Marketable securities as at December 31, 1987 include the following investments:

Number of Shares	Name	Class of Shares	Cost	Market
18,000	City Resources (Asia) Limited	Common	$ 14,753	$ 4,374
347,100	City Resources Limited	Common	384,128	151,194
85,000	CSA Management Limited	Class A (non-voting)	998,750	680,000
1,007,500	Jascan Resources Inc.	Common	4,996,187	2,720,250
			$ 6,393,818	$ 3,555,818

4. INVESTMENT IN ASSOCIATED COMPANIES

	December 31, 1987
New Britain Mining Investments Limited	
Share, representing a 50% interest	$23,147,783
Advances	10,447,932
Share of losses	(697,800)
	32,897,915
United Pacific Gold Limited	
1,400,000 shares, representing a 20.1% interest	700,000
Advances	77,950
Share of losses	(93,200)
	684,750
	$33,582,665

The advances to associated companies are non-interest bearing with no specific terms of repayment.

On June 26, 1987, the Company acquired from New Britain Mining Pacific Limited ("New Britain Pacific") a 50% interest in New Britain Mining Investments Limited ("New Britain Investments"), which was an indirect wholly-owned subsidiary of City Resources Limited, a significant shareholder of the Company. A subsidiary of New Britain Investments, Galway Investments Pty. Limited ("Galway"), holds the PNG Properties. In consideration of acquiring this interest, the Company issued 5,000,000 common shares having a value of $6.00 per share (note 9(b)) and acquired 50% of the issued shares of New Britain Investments and one half of the total advances receivable from Galway in New Britain Pacific. This acquisition has been accounted for by the purchase method and the investment is carried on the equity basis.

The Company's share of the net assets acquired effective March 30, 1987 were as follows:

PNG Properties	$30,004,671
Debt assumed	(6,856,888)
Net assets of New Britain Investments acquired	23,147,783
Advances receivable from Galway	6,852,217
Fair value of net assets acquired and consideration given	$30,000,000

The Company and New Britain Pacific, the other 50% shareholder of New Britain Investments, have jointly agreed to develop the PNG Properties and to fund the project costs.

Pro-forma statements of operations for the years ended December 31, 1987 and 1986 have been prepared to reflect the results of operations as if the acquisition of a 50% interest in New Britain Investments had occurred effective January 1, 1986. There are no adjustments to the combined historical operations of the Company and New Britain Investments which are required to be reflected in the pro-forma consolidated statement of operations. These pro-forma consolidated statements of operations do not include any material non-recurring charges directly attributable to the acquisition transaction.

Statement of Operations Year ended December 31, 1986	City Resources (Canada) Limited	New Britain Investments	Adjustments	Pro-forma
Administrative costs	$ 729,180	$ 1,000	$ (1,000)	$ 729,180
Write-down of investments	1,856	—	—	1,856
Share of loss from associated company	—	—	500	500
Loss from continuing operations	$ 731,036	$ 1,000	$ (500)	$ 731,536
Pro-forma loss per share				$ 0.05
Weighted average shares outstanding				13,836,738

Year ended December 31, 1987	City Resources (Canada) Limited	New Britain Investments	Adjustments	Pro-forma
Write-off of property interests	$ —	$ 400,000	$ (400,000)	$ —
Administrative costs	2,861,624	297,800	(297,800)	2,861,624
Write-down of marketable securities	2,838,000	—	—	2,838,000
Share of losses from associated companies	791,000	—	—	791,000
Loss from continuing operations	$ 6,490,624	$ 697,800	$ (697,800)	$ 6,490,624
Pro-forma loss per share				$ 0.42
Weighted average shares outstanding				15,453,186

The pro-forma loss per share has been calculated after giving effect to the 5,000,000 common shares issued on the acquisition, as if these shares had been issued on January 1, 1986. Options and warrants to acquire shares of the Company have not been included in this calculation as they would be anti-dilutive.

Condensed financial information for associated companies accounted for by the equity method is as follows:

Working capital	$ 1,119,106
Mineral properties and deferred development costs	21,046,328
	22,165,434
Less: Due to related parties	(20,251,591)
Shareholders equity	$ 1,913,843
Loss for the period	$ 1,567,619
City Resources (Canada) Limited's share of loss	$ 791,000

5. CINOLA PROJECT

	1987	1986	1985
Mineral property acquisition costs	**$ 3,152,415**	$ 3,142,415	$ 3,142,415
Consideration for amending terms of ERM agreement	**400,000**	400,000	200,000
Deferred development costs	**13,938,526**	8,411,128	6,956,701
Deferred interest charges (restated note 8)	**4,603,773**	4,603,773	3,942,199
	22,094,714	16,557,316	14,241,315
Add: Excess acquisition cost of Misty Gold	**2,245,880**	2,245,880	2,245,880
Less: Intercompany debt eliminated on consolidation (restated note 8)	—	(8,453,565)	(7,791,991)
Less: Gain on settlement of intercompany debt	**(8,453,565)**	—	—
	$15,887,029	$10,349,631	$ 8,695,204

The Company is of the opinion that the Cinola Project contains economically recoverable ore reserves. The Company's initial interest in the Cinola Project was acquired for $450,000 cash and 300,000 shares of the Company.

Under an agreement dated November 21, 1979, as amended, Energy Reserves Canada, Ltd. ("ERC") acquired from the Company an undivided 50% interest in the Cinola Project and the Company and ERC entered into a joint venture to explore, develop, mine, process and sell gold and other minerals from the Cinola Project. ERC subsequently assigned its interests in the Cinola Project to Energy Reserves Canada (Metals) Ltd. ("ERM").

Under an agreement dated for reference August 2, 1984 between Misty Gold, ERC and ERM, Misty Gold agreed to acquire the interests of ERM and ERC in the Cinola Project for cash consideration of $2,500,000 of which $1,250,000 was paid on August 8, 1984 and the balance was originally payable on or before April 6, 1985. The date of final payment was subsequently extended to January 2, 1987 by the Company paying ERM and ERC a total of $400,000. Under the agreement, the Company is also required to pay ERC and ERM a royalty ranging from 0.5% to 5% of net smelter returns when production and sales commence.

On January 2, 1987, Misty Gold made its final payment of $1,250,000 for the interest in the Cinola Project and $1,250,000 for the claim against the Company for a total of $2,500,000 (plus out-of-pocket expenses and an amount representing foregone interest from December 31, 1986) to ERC and ERM.

Under an agreement dated August 8, 1984, Misty Gold and the Company entered into a joint venture to own, explore and develop the Cinola Project. On November 21, 1984, the Company acquired 100% of the shares of Misty Gold in consideration for the issuance to each shareholder of Misty Gold of one common share of the Company for each share of Misty Gold. The transaction has been accounted for by the purchase method. Details of net assets and liabilities of Misty Gold acquired by the transaction are as follows:

Purchase price of 50% interest in the Cinola Project	$ 2,500,000
Intercompany debt, at cost (note 8)	2,500,000
Advances to the Company	534,120
Liability assumed	(2,500,000)
	3,034,120
Consideration	
— 1,500,000 shares at an attributed value of $3.50	5,250,000
— legal fees	30,000
	5,280,000
Excess of cost over net book value attributed to mineral property	$ 2,245,880

In addition to the net assets and liabilities acquired, Misty Gold had $2.5 million of development expenditures available to reduce taxable income of future years.

During the year ended December 31, 1987, the Company expended $5,527,398 (1986: $1,454,428) on development of the Cinola Project.

6. FIXED ASSETS

As at December 31, 1987 and 1986.

	1987 Cost	1987 Accumulated depreciation	1987 Net	1986 Net
Automobile	**$ 16,848**	**$ 14,255**	**$ 2,593**	$ 3,458
Computer equipment	**93,441**	**17,555**	**75,886**	18,173
Computer software	**61,291**	**7,716**	**53,575**	—
Generators	**15,084**	**3,419**	**11,665**	14,581
Office equipment and furniture	**217,473**	**56,656**	**160,817**	15,385
Telephone equipment	**16,927**	**6,146**	**10,781**	4,992
Trailers	**83,493**	**27,970**	**55,523**	79,318
Residential apartment	**268,883**	**—**	**268,883**	—
	$ 773,440	**$ 133,717**	**$ 639,723**	$ 135,907

7. MORTGAGE PAYABLE

The mortgage payable of $186,214 bears interest at 9.5% per annum, is repayable with installments of blended principal and interest of $1,613 per month, is secured by the Company's residential apartment and matures on May 1, 1989.

8. ADVANCES PAYABLE

	1987	1986
Advances Payable to ERC and ERM		
On acquisition of claim against the Company	**$ —**	$ 1,250,000
On acquisition of interest in joint venture	**—**	1,250,000
	$ —	$ 2,500,000

ERC and ERM had commenced an action against the Company with respect to funds expended on the Cinola Project on the Company's behalf. Under an agreement dated for reference August 2, 1984, Misty Gold agreed to purchase the claim against the Company from ERC and ERM for consideration of $2,500,000, of which $1,250,000 was paid on or before August 8, 1984 and the balance of $1,250,000, initially due on April 6, 1985, was paid on January 2, 1987 in accordance with the extension agreements (see note 5).

Effective November 21, 1984, when the Company acquired 100% of the shares of Misty Gold, the Company ceased accruing interest on the advances payable as the Company then effectively owed the advances to itself. On further review of the August 2, 1984 agreement between Misty Gold and ERC and ERM to purchase the claim against the Company, the Company concluded that Misty Gold had only earned the right to purchase the claim, and had not actually completed the purchase until the final payment had been made. The Company has therefore restated its accounts by accruing interest on the advances from November 21, 1984, the date of acquisition of Misty Gold, to January 2, 1987, the date the final payment was made. This interest adjustment has increased exploration and development expenditures available for income tax purposes (note 10).

The effect of the above adjustment results in no changes to the net balances previously reported. The increase in accrued interest is offset by the increase in the credit arising from the elimination of intercompany debt on consolidation which has been deducted from the deferred development costs of the joint venture (note 5). This credit has been determined as follows:

	1987	1986	1985
Contribution to joint venture by ERC and ERM on behalf of the Company	**$ 6,349,792**	$ 6,349,792	$ 6,349,792
Accrued interest as previously reported	**3,883,102**	3,883,102	3,883,102
Increase in accrued interest	**720,671**	720,671	59,097
Accrued interest as restated	**4,603,773**	4,603,773	3,942,199
ERC and ERM's claim against the Company	**10,953,565**	10,953,565	10,291,991
Cost of acquisition of above claim by Misty Gold	**(2,500,000)**	(2,500,000)	(2,500,000)
Elimination of intercompany debt on consolidation (note 5)	**$ 8,453,565**	$ 8,453,565	$ 7,791,991

9. CAPITAL STOCK

(a) Authorized

The authorized share capital of the Company is 100,000,000 common shares without par value (1986: 50,000,000).

(b) Issued and outstanding

Capital stock issued since incorporation of the Company on February 7, 1962 to December 31, 1987 is summarized as follows:

Fiscal Period	Consideration	Number	Amount
1962	Cash	16,852	$ 13,882
1962	Mineral properties	50,000	50,000
1963	Cash	8,500	8,500
1964	Cash	7,500	7,500
1965	Cash	22,500	12,500
		105,352	92,382
	Split of stock on a 13 for 1 basis	1,264,224	—
		1,369,576	92,382
1965	Cash	326,109	100,449
1965	Mineral properties	25,000	100,000
1966	Cash	373,891	200,276
1966	Mineral properties	45,000	9,000
1967	Cash	50,000	10,000
1968	Cash	400,000	120,000
1968	Cancellation of shares re: mineral properties	(19,125)	(3,825)
1970	Cash	200,000	35,000
		2,770,451	663,282
	Consolidation of shares on a 2 for 1 basis	(1,385,225)	—
		1,385,226	663,282
1974	Cash	249,999	62,500
1977	Cash	700,000	159,664
1977	Mineral properties	150,000	48,750
1978	Cash	300,001	195,000
1978	Mineral properties	75,000	37,500
1979	Cash	700,000	1,151,419
1979	Mineral properties	115,000	77,500
1980	Cash	196,200	873,030
1981	Cash	501,700	574,480
1982	Cash	50,300	142,852
1983	Cash	66,800	189,712
1984	Cash	43,000	122,120
1984	On acquisition of Misty Gold	1,500,000	5,250,000
Balance, December 31, 1984		6,033,226	9,547,809
Issued during the year:			
	For cash at $2.20 per share on exercise of share purchase options	112,600	247,720
	For cash at $2.29 per share by way of a private placement	131,100	300,219
Balance, December 31, 1985 (carried forward)		6,276,926	10,095,748

	Number	Amount
Balance, December 31, 1985 (carried forward)	6,276,926	10,095,748
Issued during the year:		
For cash at $2.20 per share on exercise of share purchase options	91,700	201,740
For cash at $3.02 per share by way of a private placement	2,500,000	7,550,000
For cash at $3.15 per share on exercise of share purchase options	144,000	453,600
In consideration for short term loan	14,935	36,142
Balance, December 31, 1986	9,027,561	18,337,230
Issued during the year:		
For cash at $2.20 per share on exercise of share purchase options	128,600	282,920
For cash at $2.50 per share on exercise of share purchase options	50,000	125,000
For cash at $3.27 per share on exercise of share purchase warrants	2,500,000	8,175,000
For cash at $4.60 per share on exercise of share purchase options	348,000	1,600,800
On acquisition of associated company (note 4)	5,000,000	30,000,000
Balance, December 31, 1987	17,054,161	$58,520,950

Capital stock issued for mineral properties have been recorded at the estimated fair value of the net assets acquired.

(c) *Share purchase options*

At December 31, 1986 options were outstanding to directors and employees to purchase 730,600 common shares at prices between $2.20 per share and $4.60 per share that expire between January 25, 1987, and November 28, 1988.

During 1987, the Company granted share purchase options to employees to acquire 215,000 common shares at prices between $3.95 per share and $8.125 per share that expire between March 25 and December 10, 1990. The Company also granted share purchase options to directors to acquire 525,000 common shares at $7.375 per share prior to September 5, 1990. The directors' options are subject to shareholder approval.

At December 31, 1987, director options to purchase 525,000 shares at $7.375 per share prior to September 4, 1990 and employee options to purchase 419,000 shares at prices ranging from $3.95 to $8.125 per share that expire between November 28, 1988 and December 10, 1990 were outstanding.

Subsequent to December 31, 1987, the Company granted share purchase options to an employee to acquire 12,500 common shares at $3.00 per share that expire January 22, 1991, and cancelled 24,000 employee options that expire November 28, 1988.

(d) *Special warrants and bonus warrants*

On August 21, 1987, the Company entered into a trust indenture providing for the issuance of special warrants at $10.00 per special warrant. Each special warrant entitles the holder, upon exercise and without further payment, to acquire one common share and one $7.00 share purchase warrant of the Company. Each $7.00 share purchase warrant entitles the holder to purchase one common share of the Company at $7.00 per share until July 31, 1989. The Company issued 2,165,500 special warrants offered by way of private placement for total cash consideration of $21,655,000. Financing costs relating to the common share portion of the special warrants have been offset to the issue price. Financing costs relating to the $7.00 share purchase warrant portion of the special warrants have been deferred until such time as the $7.00 share purchase warrants have been exercised or expire, at which time the costs will be charged to shareholders' equity.

Each holder of common shares and the holders of special warrants of record on August 24, 1987 will receive one bonus warrant for each common share or special warrant held. Each bonus warrant entitles the holder to purchase one common share of the Company at $7.00 per share until July 31, 1989.

In February, 1988, the Company filed a prospectus with the Canadian and United States regulatory authorities to qualify for distribution the common shares and $7.00 share purchase warrants and the bonus warrants referred to above.

During February and March 1988, the Company issued the 2,165,500 common shares and 2,165,500 $7.00 share purchase warrants and the 19,219,661 $7.00 bonus warrants referred to above.

On March 2, 1988 the Company announced that it is proposing to modify the exercise price of the $7.00 share purchase warrants to $3.00 if exercised on or before July 31, 1988, $4.00 if exercised thereafter and on or before January 31, 1989, and $5.00 if exercised thereafter and on or before July 31, 1989. The proposed modification is subject to regulatory approvals and the issue of an advance tax ruling by Revenue Canada Taxation.

10. INCOME TAXES

There are no income taxes payable. At December 31, 1987, the Company had approximately $24.8 million of exploration and development expenditures which are available to reduce taxable income in future years. No future tax benefit has been recognized in the accounts.

11. COMMITMENTS

At December 31, 1987 the Company has two-year employment contracts with the officers and one former director of the Company that commenced in November 1986. The annual salaries under these contracts total $135,000 for 1987. The total salaries paid under employment contracts during 1986 were $180,000.

The Company leases office premises under a long-term operating lease that expires in February 1997. Minimum annual rental payments due during the next five fiscal periods are as follows:

1988	$180,000
1989	270,000
1990	360,000
1991	360,000
1992	360,000

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 1987, the Company paid $51,314 in management fees pursuant to an agreement for services between City Resources Limited and the Company whereby City Resources Limited or its subsidiaries provide management, technical and administrative services to the Company. The annual fee for these services is $50,000 Australian.

At December 31, 1987, accounts payable and accrued liabilities included $48,751 of amounts payable to related companies for reimbursement of expenses incurred on behalf of the Company. These amounts are non-interest bearing with no specific terms of repayment.

13. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As disclosed in note 2(a), these financial statements have been prepared in accordance with Canadian generally accepted accounting principles which conform in all material respects with those of the United States, except for the valuation of the shares of New Britain Investments acquired during 1987 (note 4), the treatment of unrealized losses on marketable securities where an unclassified balance sheet is prepared, and the presentation of deferred financing costs relating to the special warrants (note 9(d)).

Under generally accepted accounting principles in the United States, the value to be assigned to the capital stock issued in settlement of the acquisition of a business from an affiliate is required to be the book value of the net assets acquired; unrealized losses on marketable securities in an unclassified balance sheet are required to be presented in a separately disclosed valuation allowance account in shareholders' equity; financing costs relating to the special warrants are required to be offset to the issue price. The effect of these differences on capital stock, investment in associated companies and the special warrants represents the excess of the assigned purchase price over the net book value of the assets acquired and the financing costs relating to the special warrants, and at December 31, 1987 is as follows:

Capital stock	
Per financial statements	$58,520,950
Reduction in assigned value of shares issued on acquisition of associated company	(23,147,782)
Per United States accounting principles	$35,373,168
Investment in associated companies	
Per financial statements	$33,582,665
Reduction in assigned value of shares acquired	(23,147,782)
Per United States accounting principles	$10,434,883
Special warrants	
Per financial statements	$20,327,850
Reduction in value of special warrants for financing costs	(181,700)
Per United States accounting principles	$20,146,500

The method of accounting for the valuation allowance under United States accounting principles would reduce the loss for the year ended December 31, 1987 and the deficit accumulated during the development stage at December 31, 1987 by $2,838,000. Basic loss per share from inception to December 31, 1987 and for the year ended December 31, 1987 would be reduced by $0.90 to $2.65 per share and $0.22 to $0.27 per share respectively. This difference would have no effect on net shareholders' equity.

In the pro-forma statements of operations disclosed in note 4, the pro-forma loss for the year ended December 31, 1987 would be reduced by $2,838,000 and pro-forma loss per share would be reduced by $0.18 to $0.24 per share if they had been prepared in accordance with generally accepted accounting principles in the United States.

14. COMPARATIVE FIGURES

Certain of the prior years' comparative figures have been reclassified to conform with the presentation adopted for the current year.

SELECTED FINANCIAL DATA

The following tables set forth certain selected financial information with respect to the Company for the periods indicated and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and Notes thereto which appear elsewhere in this report. The following table is derived from, and is qualified by, the Company's Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles as applied in Canada ("Canadian GAAP"). The application of these principles, in the case of the Company, conforms in all material respects, for the periods presented, with generally accepted accounting principles as applied in the United States ("U.S. GAAP") except that U.S. GAAP require that the value assigned to capital stock issued in settlement of the acquisition of a business from an affiliate be the net book value of the assets acquired, that unrealized losses on marketable securities in an unclassified balance sheet are required to be presented in a separate component of shareholders' equity and not be charged to operations, and that financing costs relating to the Special Warrants be offset to the issue price. Accordingly, under U.S. GAAP, (i) the Common Shares issued by the Company in June 1987 in connection with its acquisition from a subsidiary of City Resources Limited of a 50% interest in a company which indirectly holds the PNG Properties, would be valued at $6,852,218 instead of the assigned purchase price of $30,000,000, (ii) the $2,838,000 write-down of marketable securities charged to operations would be recorded in a separately disclosed valuation allowance account in shareholders' equity, and (iii) the value of the Special Warrants would be reduced by $181,700. If the operations and balance sheet data presented below were prepared in accordance with U.S. GAAP, net loss from inception to December 31, 1987 and for the year ended December 31, 1987 would each be reduced by $2,838,000, basic loss per share from inception to December 31, 1987 would be reduced by $0.90 to $2.65 per share and for the year ended December 31, 1987 would be reduced by $0.22 to $0.27 per share, and total assets and shareholders' equity at December 31, 1987 would each be reduced by $22,966,082. See Note 13 of the Notes to the Company's Consolidated Financial Statements.

	Inception to December 31, 1987	Year ended December 31,				
		1987	1986	1985	1984	1983
		(In thousands, except per share data)				
Operations Data						
Administrative costs	$ 6,391	$2,862	$ 729	$ 383	$ 365	$ 342
Development costs (1)	19,137	5,527	2,116	199	1,530	1,005
Net loss	11,202	6,491	731	449	442	388
Basic loss per share	3.55	0.49	0.08	0.07	0.07	0.09

	December 31,				
	1987	1986	1985	1984	1983
	(In thousands)				
Balance Sheet Data					
Cash and short-term deposits	$15,263	$ 6,166	$ —	$ 133	$ 234
Total assets	69,649	16,742	8,734	8,651	10,256
Total liabilities	2,002	3,116	2,619	2,634	9,169
Shareholders' equity	67,647	13,626	6,115	6,017	1,087
Deficit	(11,202)	(4,711)	(3,980)	(3,531)	(3,089)

(1) Development costs are deferred and are not included in the Company's consolidated statement of deficit accumulated during the development stage. See note 2(d) of the Notes to the Company's Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operations

The Company is in the development stage and does not have any revenues from operations. The Company has earned some investment income incidental to its development activities, but does not generate sufficient internal cash flow to sustain continued operations or to fund further exploration or development work on its properties. To date, the Company has financed its activities primarily through sales of equity securities.

During the year ended December 31, 1985, the Company did not have sufficient capital resources to engage in major exploration or development of its properties. It reacquired the 50% interest of a former joint venture partner in the Cinola Project during 1984 and concentrated its efforts on arranging adequate financing to pay obligations incurred in connection with such reacquisition. The Company also continued assessment work on its properties by incurring development costs of $174,000 and administrative costs of approximately $375,000. From January 1986 through October 1986, this trend of minimum assessment work and ongoing administrative costs continued.

In November 1986, the Company received $7,550,000 from the sale of securities to City Asia and, as a result, made a determination to begin a work program to lead to the preparation of a feasibility study on the Cinola Project. During the remainder of 1986 and 1987, the Company expended approximately $6,800,000 in development costs on the work program and the preparation of the feasibility study. Development costs for the year ended December 31, 1987 were $5,527,398 as compared to $1,454,428 for 1986. Included in the costs for the year ended December 31, 1987 were approximately $2,200,000 of consulting fees, $1,400,000 of metallurgical and pilot plant testwork, $700,000 of drilling costs, and $550,000 for camp operations, all of which related primarily to obtaining information for the preparation of the feasibility study. The Company believes that the level of development costs in respect of the Cinola Project will decrease after metallurgical optimization testwork and environmental studies currently being undertaken are completed. Development costs incurred by the Company have been deferred and are not reflected in the Company's statement of deficit. See Note 2(d) of the Notes to the Company's Consolidated Financial Statements.

In addition, the Company acquired an indirect 50% interest in the PNG Properties through the issue of Common Shares. Since April 1, 1987, the Company has advanced $3,595,715 as its share of exploration and development expenditures on the PNG Properties. The advances to New Britain Investments, which indirectly holds the PNG Properties, for exploration and development expenditures on the PNG Properties are included in investments and are not reflected in the Company's consolidated statement of deficit. See Note 2(c) of the Notes to the Company's Consolidated Financial Statements.

Administrative costs for the year ended December 31, 1987 were $2,861,624 as compared to $729,180 for 1986, reflecting increased levels of activity. In addition, as a result of the decline in world public equity markets during the fourth quarter of 1987, the Company wrote down the overall value of its marketable securities by $2,838,000 to reflect the overall market value at December 31, 1987. Basic loss per share increased, from $0.08 per share in the year ended December 31, 1986 to $0.49 in 1987, reflecting the increase in administrative costs and the write-down. The increase in administrative costs is primarily due to salary costs of $1,250,242 for the year ended December 31, 1987 as compared to $174,771 for 1986, travel and promotional costs of $540,781 as compared to $125,276 for 1986, legal, audit and accounting costs of $502,885 for 1987 as compared to $134,949 for 1986 and public and shareholder relations costs of $421,508 for 1987. Salary costs have increased as a result of increased staff levels to 24 employees at December 31, 1987 and increased levels of compensation. Public relations, travel and promotion have increased primarily due to promotional costs associated with the change of the Company's name as part of The City Resources Group association and increased travel costs associated with greater numbers of staff travelling to and from the Cinola Project site on the Queen Charlotte Islands. Legal, audit and accounting costs have increased primarily as a result of the prospectus and registration statement relating to the special warrants and bonus warrants. The Company expects to continue to incur substantial public relations, travel and promotional costs in future periods.

Liquidity and Capital Resources

Prior to November 1986, the Company suffered from periodic working capital deficiencies which were alleviated from time to time by sales of Common Shares to investors and to directors and employees pursuant to the exercise of stock options and by loans made by directors and others. During 1986, the Company received $655,000 from the exercise of stock options and $440,000 from loans and, in November 1986, $7,550,000 from the sale of Common Shares and share purchase warrants to City Asia. At December 31, 1986, the Company had repaid the loans and had $6,166,000 in cash and short-term deposits and $3,116,000 in payables.

During the year ended December 31, 1987, the Company received $2,009,000 from the exercise of director and employee stock options, $8,175,000 from the exercise in full of the share purchase warrants issued to City Asia in connection with its November 1986 investment in the Company and net proceeds of $20,146,150 from the sale of Special Warrants.

At December 31, 1987, the Company had $15,263,000 in cash and short-term deposits and $2,002,000 in payables. Currently, the Company has no material commitments to make minimum annual capital expenditures on the Cinola Project or other properties on the Queen Charlotte Islands to maintain the properties in good standing. However, the Company may make such commitments in connection with future acquisitions. The Company plans to expend approximately $1,900,000 during 1988 on exploration and development of its properties on the Queen Charlotte Islands (including approximately $1,500,000 on the Cinola Project). The Company estimates that its 50% share of the expenditures on the PNG Properties will be approximately $4,200,000 during 1988, of which $1,650,000 represents the Company's share of the estimated minimum annual expenditure commitments made as a condition to obtaining the prospecting authorities for the properties. The Company intends to fund these amounts and administrative and other expenses from existing funds.

Based upon the feasibility study for the Cinola Project, the Company estimates that, during 1988 and 1989, approximately $110,000,000 in capital expenditures will be necessary to place the Cinola Project into commercial production. Based on preliminary discussions with several major financial institutions, the Company believes that it will be able to finance most of these expenditures from the proceeds of a gold bullion credit facility from one or more financial institutions. However, the Company currently has no commitment for financing and funding under any commitment would be subject to obtaining necessary governmental approvals and permits and other conditions. To the extent that a gold bullion credit facility would not fund all of the capital expenditures necessary to place the Cinola Project into production, the Company intends to fund the shortfall with sales of gold-linked or equity securities or debt. There can be no assurance that such types of financing or any alternative source of financing will be available or available on terms acceptable to the Company.

At December 31, 1987, the Company had approximately $24,800,000 of exploration and development expenditures available to reduce future income, if any, subject to income tax in Canada.

Effects of Inflation and Fluctuation of Foreign Currency Exchange Rates

The Company does not believe that inflation has had a material effect on its activities during recent years.

The Company conducts the majority of its business in Canadian dollars. Since the Company's revenue from the sale of gold would likely be received in U.S. dollars, a significant increase in the value of the Canadian dollar relative to the U.S. dollar could have an adverse effect on the Company's results. New Britain Mining Investments Limited, the company which indirectly holds the PNG Properties, and its subsidiaries conduct their business principally in Kina, the currency of Papua New Guinea. In recent periods the Kina has exhibited relative stability against the United States dollar. Fluctuations in the exchange rate of the Canadian dollar for the Kina could affect the amount in Canadian dollars of contributions required from the Company with respect to its 50% share of expenditures on the PNG Properties.

The Company does not believe there will be any material effects on its financial statements which will occur on the adoption of accounting standards which have been issued by the Financial Accounting Standards Board in the United States but are not yet effective.

MARKET PRICES OF COMMON SHARES AND OF GOLD

The outstanding Common Shares have traded in Canada on The Toronto Stock Exchange since March 21, 1988 and are traded on the Vancouver Stock Exchange under the symbol CIZ and in the United States on the over-the-counter market and prices are quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ") under the symbol CIZCF (formerly CCIMF). As the Company's revenues are expected to be derived primarily from the mining and sale of gold, the market price of the Common Shares may be strongly influenced by prevailing gold bullion prices. The following table sets forth, for the periods indicated, (i) the high and low sale prices and the trading volume of the Common Shares as reported by the Vancouver Stock Exchange, (ii) the high and low closing bid prices and the trading volume of the Common Shares (prior to September 15, 1987) as reported by NASDAQ and the high and low sale prices and the trading volume of the Common Shares (after September 30, 1987) as reported by the NASDAQ National Market System, and (iii) the high and low morning and afternoon fixing prices per ounce of gold on the London Bullion Market. Following the table, the high and low sale prices, and the trading volume of the Common Shares as reported by The Toronto Stock Exchange for the periods indicated are provided. The high and low bid prices represent quotations between dealers without adjustment for retail markups, markdowns or commissions, and do not necessarily represent actual transactions.

	Vancouver Stock Exchange			NASDAQ			Gold Prices London Bullion Market	
	High	Low	Volume	High	Low	Volume	High	Low
	(Cdn $)			(U.S. $)			(U.S. $)	
1986								
1st Quarter	3.15	1.65	395,200	2.188	1.188	570,896	363.00	326.00
2nd Quarter	2.75	2.00	296,800	1.875	1.750	346,708	348.35	333.10
3rd Quarter	4.20	2.20	590,800	2.875	1.500	616,842	442.75	342.30
4th Quarter	5.75	3.60	652,200	3.938	2.500	779,143	442.00	380.40
1987								
1st Quarter	7.375	4.40	467,800	5.375	3.375	511,112	424.00	390.00
2nd Quarter	9.375	6.75	744,700	6.875	4.750	910,926	479.95	418.50
3rd Quarter	9.625	6.625	437,900	7.125	5.250	440,672	476.00	442.15
4th Quarter	8.50	3.30	433,199	6.438	2.563	337,154	502.75	454.10
1988								
1st Quarter	3.60	2.00	754,200	2.813	1.500	361,695	483.90	426.15

On The Toronto Stock Exchange, during the period March 21, 1988 to March 31, 1988 the high sale price was $2.75 per share and the low sale price was $2.55 per share on a total trading volume of 14,800 Common Shares.

Concurrent with the effectiveness of the registration statement in the United States, the Warrants were called for trading on the Vancouver Stock Exchange and prices for the Warrants were quoted on NASDAQ. In addition, the Company's listing application for the Warrants was accepted by The Toronto Stock Exchange. In connection with the Company's proposal to modify the exercise price of the Warrants, on March 2, 1988 the Company requested that trading in the Warrants on the Vancouver Stock Exchange and quotation of prices for the Warrants on NASDAQ be temporarily halted and that the Warrants not begin trading on The Toronto Stock Exchange pending final implementation of the exercise price modification. On April 21, 1988 the Warrants began trading on The Toronto Stock Exchange and the Vancouver Stock Exchange and quotation of prices for the Warrants began on NASDAQ. As a result of these events at April 21, 1988 no established public trading market for the Warrants had developed.

As of March 31, 1988, there were 19,219,661 Common Shares outstanding held of record by approximately 3,200 holders of whom approximately 2,700 are estimated to be United States residents.

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Shares and Warrants Listed

Toronto Stock Exchange
(CIZ) (CIZ.WT)

Vancouver Stock Exchange
(CIZ) (CIZ.WT)

NASDAQ (CIZCF) (CIZWF)

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