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GEDDES RESOURCES LIMITED

ANNUAL REPORT 1988

CORPORATE PROFILE

Incorporated in Ontario in 1981, Geddes Resources Limited is a Canadian-controlled mining exploration and development company whose principal focus is currently the development of its Windy Craggy property in northwestern British Columbia. Underground exploration now in progress has outlined a large massive sulphide copper deposit which also contains gold, silver and cobalt. In addition, a smaller, discrete, gold zone has been identified.

The company's other interests include tungsten and potash properties in Newfoundland.

The shares of Geddes Resources Limited are listed on the Toronto Stock Exchange. The company has offices in Toronto and Vancouver as well as facilities at the Windy Craggy site.

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HIGHLIGHTS OF 1988

EXPLORATION OF WINDY CRAGGY PROPERTY

- \$10.9 million spent on exploration of the property
- Main adit completed to 6,076 feet in May and north and south drill drifts driven an aggregate of 2,024 feet by September
- A 1,014-foot crosscut from the south drift completed in October
- Underground diamond drilling totalling 59,445 feet in 55 holes carried out between March and December
- Existence of a major massive sulphide copper deposit confirmed and a separate gold zone indicated
- Preliminary estimate of geological reserves in portion of main deposit drilled to date indicates 77 million tons averaging 2.4% copper, 0.007 ounces of gold per ton, 0.082 ounces of silver per ton and 0.08% cobalt, with doubling of tonnage anticipated as full strike length of deposit is explored

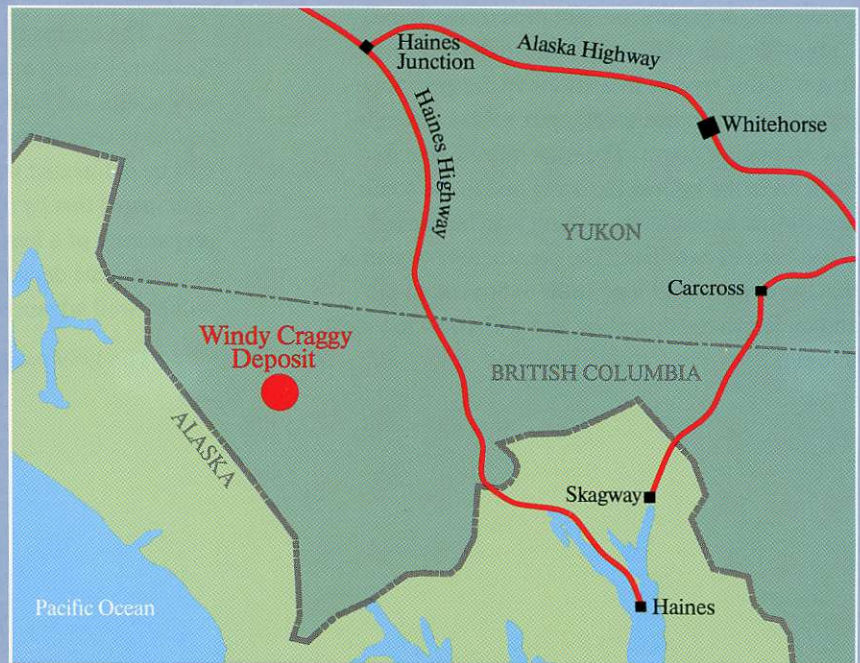
FINANCIAL

- \$15.6 million of new equity capital raised through:

Private placement of 1,032,258 flow-through common shares and 1,666,667 ordinary common shares to Northgate Exploration Limited, with aggregate net proceeds to Geddes of \$6,338,000, giving Northgate a 22% interest in Geddes Resources Limited at December 31, 1988. The subsequent issue of an additional 1,000,000 flow-through common shares to Northgate in February 1989 raised the latter's interest in the company to 27%

Private placement of 2,881,884 flow-through common shares to other investors, with aggregate net proceeds to Geddes of \$9,000,000

COVER: Majestic scenery abounds in the vicinity of the Windy Craggy massive sulphide deposit being explored by Geddes Resources Limited. Current access to the deposit, which lies behind the photographer, is by road over the Tats glacier, in the foreground, from the camp and airstrip on the flats in the middle distance.



To the Shareholders:

I am pleased to present the 1988 Annual Report to Shareholders and to provide a summary of the very important progress which has been made by the company in the past year. The year was one of significant advancement toward our primary goal, that of establishing the economic feasibility of the Windy Craggy property as an operating mine. In terms of both total assets and shareholders' equity, the company more than doubled in size in 1988

Exploration program

The exploration program at Windy Craggy was carried out continuously throughout 1988 with very encouraging results. The main adit was finished in May at 6,076 feet and by the end of the year, 3,038 feet of drifting and cross-cutting had been completed. The underground diamond drilling program commenced in March and by year-end 28 drill stations had been established along 2,000 feet of the known 5,000-foot strike length of the mineralized zone. A total of 59,445 feet of diamond drilling was completed from which a clearer picture of the ore reserves is beginning to emerge. Up to March 15, 1989, an additional 923 feet of drifting and 6,597 feet of diamond drilling had been completed.

In overall configuration, the portion of the deposit currently under investigation consists of a north copper zone, a south copper zone and a gold zone. A graphic presentation of the Windy Craggy deposit will be found on pages six and seven of this report. In addition to the gold zone per se, gold also occurs at lower values throughout the copper zones. The mineralized area is open on strike both to the north and to the south and further exploratory drilling is to be carried out at both extremities. The present assessment is that the deposit will lend itself to both open pit and underground operation and will allow low-cost mining.

Reserves

Recently calculated drill indicated and possible reserves are estimated at 77 million tons of 2.4% copper, 0.007 ounces of gold and 0.082 ounces of silver per ton and 0.08% cobalt. The ultimate reserve potential of the deposit is projected to be at least double this tonnage.

Financial

Thanks in large measure to the healthy state of the market for flow-through share financing, the company spent almost \$11 million on its 1988 exploration program. Another important source of funds was the private placement of common shares, with net proceeds of \$4.7 million, to Northgate Exploration Limited. The company's working capital was increased by over \$5.5 million during 1988. A planned major public offering of common shares was abandoned in mid-1988 due to adverse market conditions which, unfortunately, are persisting. For the current year we are hopeful that our immediate financing requirements may be met, to a large degree, by the issue of flow-through shares under the provisions of the federal government CEIP program, albeit at less attractive premiums than those available in the past. By the end of the year we expect to have a feasibility study in progress which will support the next major stage in the financing of the company's activities.

Outlook

The company entered 1989 on an excellent financial footing and, given access to the necessary additional financial resources, the year will be one in which the ore reserves of Windy Craggy will be delineated with greater precision. It is anticipated that by the latter part of the year the preparation of a feasibility study which will lead to a corporate decision to proceed to production will be well advanced.

The 1989 program calls for the expenditure

of approximately \$11 million on underground drilling and tunnelling, as well as on studies and preliminary work in the areas of mining methods, mineralogical and metallurgical characteristics, plant site locations, access routes, environmental implications, economic assessments and continuing updating of the estimated mineral reserves.

A recent report of the federal Department of Energy, Mines and Resources predicts the commencement of a progressive decline in annual output of copper in Canada after 1993 unless substantial new discoveries can be brought into production. Currently, copper supply shortages have raised prices to the region of \$1.50 U.S. per pound from a level of \$0.65 U.S. per pound two years ago. As a result of these supply and demand factors, there is reason for confidence that the likely timing of production at Windy Craggy will be very opportune.

Corporate

In 1988 Northgate Exploration Limited became a major investor in Geddes Resources Limited and currently holds 27% of the equity of the company. Almost all of this position was achieved through the infusion of new capital which has been a very significant factor in the maintenance of a strong financial position. The participation of Northgate is an important development in the company's affairs and one which will enhance Geddes Resources Limited's ability to develop its major mineral deposit at Windy Craggy.

In February 1989 Dr. Gerald Harper, Northgate's vice-president, development, who joined the Geddes Resources board of directors in April 1988, was appointed executive vice-president of the company and John F. Kearney, president and chief executive officer of Northgate, was appointed to the board of directors. J. Douglas Little intends to retire as president and chief executive officer at the time of the annual and

special general meeting of shareholders in May although he will stand for re-election to the board of directors. It is planned that Dr. Harper will be appointed president and chief executive officer of the company on an interim basis to replace Mr. Little and that a permanent appointment to the office of president and chief executive officer will be made later in the year. Messrs. W. J. Barbour and W. M. Gilchrist will not be standing for re-election to the board and we want particularly to recognize and thank them for their contributions to the company's achievements during its important formative stages.

In 1988 the board of directors adopted a change in accounting policy, more fully described in the financial statements, which results in the presentation of a statement of operations for the year. This change is in keeping with current trends in accounting practice.

We want to express to our patient shareholders, the board of directors and our small but dedicated team of management and employees, our appreciation for their excellent support during a year of great accomplishment.



J. Douglas Little
President and Chief
Executive Officer

Toronto, Ontario
March 15, 1989

REVIEW OF OPERATIONS

For Geddes Resources, 1988 was the year in which the ambitious underground exploration program, started in 1987, on the company's Windy Craggy property in northwestern British Columbia began to produce tangible results.

The ongoing underground work has confirmed the existence of a major massive sulphide copper deposit, also containing gold, silver, cobalt and occasionally zinc. In addition, it has indicated the presence of a separate, higher grade, gold zone adjacent to the main copper deposit.

The massive sulphide body, which is folded in parallel bands along its length, strikes N40°W and is arched in the middle along an east-west axis. The crest of the arch conforms to the Windy Craggy Mountain peak and splits the sulphides into north and south copper zones. On surface the sulphides have been traced over a strike length of 5,000 feet. Drilling has indicated widths of up to 600 feet and a vertical extent of over 1,600 feet in some areas. The deposit is open along strike to the north and south and at depth, indicating quite extraordinary tonnage potential.

Location

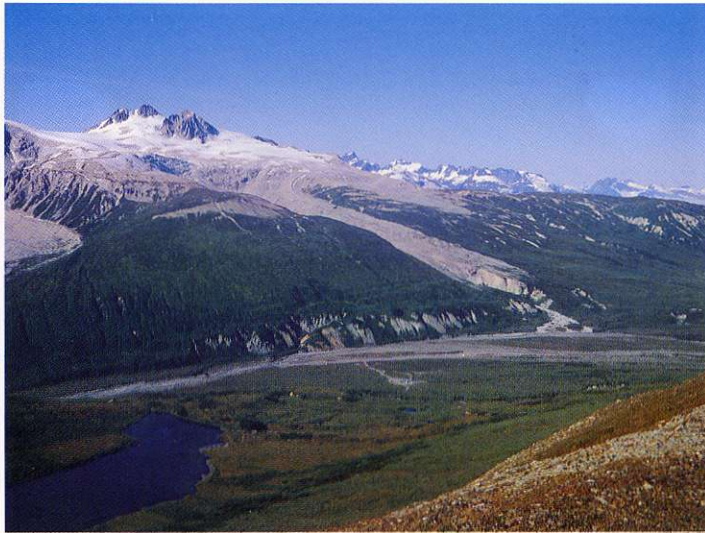
Situated near the Yukon-Alaska border at the southern end of the St. Elias Mountains, at latitude 59°44'N and longitude 137°44'W, the Windy Craggy property is 120 miles southwest of Whitehorse and 40 miles west of the Haines Highway, which links Haines in the Alaska panhandle to Haines Junction in the Yukon.

Geddes holds contiguous mineral claims covering approximately 17,930 hectares in this area. They consist of the Windy Craggy and the Tats groups, covering 5,380 and 2,950 hectares respectively, which are wholly-owned, subject to a 22.5% net proceeds royalty; the Corridor claims, covering 9,600 hectares and staked by Geddes to protect potential road access routes; and the three Alsek claims, which cover 1,200 hectares, are held under option and are surrounded by the Tats property. The latter contains a showing of massive sulphides, located five and a half miles south of Windy Craggy. The sulphides are primarily chalcopyrite and pyrrhotite and occur in sections six feet to 20 feet wide over a 1,300-foot strike length in basic volcanics.



Entrance to the underground workings. (Top)

Permanent camp-site accommodates up to 48 people.



Regular flights link the camp and Whitehorse. (Top)

Camp and 3,500-foot gravel airstrip are near Tats Lake

Early exploration

The Windy Craggy deposit was discovered in 1958. Prospectors working for the Falconbridge organization found several copper-mineralized boulders and traced them back to their source on the 6,500-foot high Windy Craggy Mountain. Subsequent exploration was sporadic, however, hampered by the rugged topography, a location considered remote and the fact that copper was plentiful elsewhere. The property ranges in elevation from about 2,000 feet to 6,500 feet and has an alpine climate, with short summers and quite heavy snowfall. To the north lies the Frobisher glacier, while south of Windy Craggy is the Tats glacier, both slow-moving ice flows occupying valley floors.

Geddes optioned the property from Falconbridge in 1981. Between 1981 and 1983, the company conducted airborne aeromagnetic and magnetic surveys and completed 26,400 feet of surface diamond drilling in 22 holes from the few suitable drilling sites on the mountainous slopes. Copper mineralization persisted in the 2-3% range while drill hole No. 83-14 contained a 201-foot section averaging 0.3 ounces of gold per ton and 1.2% copper.

The company acquired the Windy Craggy and Tats claims outright in 1983, subject to a 22.5% net proceeds royalty.

Encouraged by the results of the earlier program, Geddes decided that the challenges of rugged terrain and short drilling season would best be met by underground exploration.

In 1985 and 1986 a 3,500-foot gravel airstrip was constructed to provide ready access. Whitehorse is now an hour's flight away by charter aircraft, usually a DC-3. In 1987 the project's camp near Tats Lake was placed on a permanent basis and enlarged to accommodate 48 people. Repair and maintenance shops were built as well as a warehouse, a core storage building and an assay laboratory. Satellite telephone communication was established. Isolation became a thing of the past.

Development begins

Work on a 9 × 11-foot adit located on the southwest ridge of Windy Craggy began in May 1987.

Its objective was to allow access to the central part of the deposit where the high gold values had been obtained and permit drill stations to be established at regular intervals from drifts driven parallel to the main zone. The adit portal, at an elevation of 4,600 feet, is connected to the camp by a seven-mile road partly constructed over the Tats glacier and suitable for all-terrain vehicles.

Also in 1987, about 2,000 feet of surface drilling was carried out from one site on the north face of Windy Craggy, where massive sulphides outcrop.

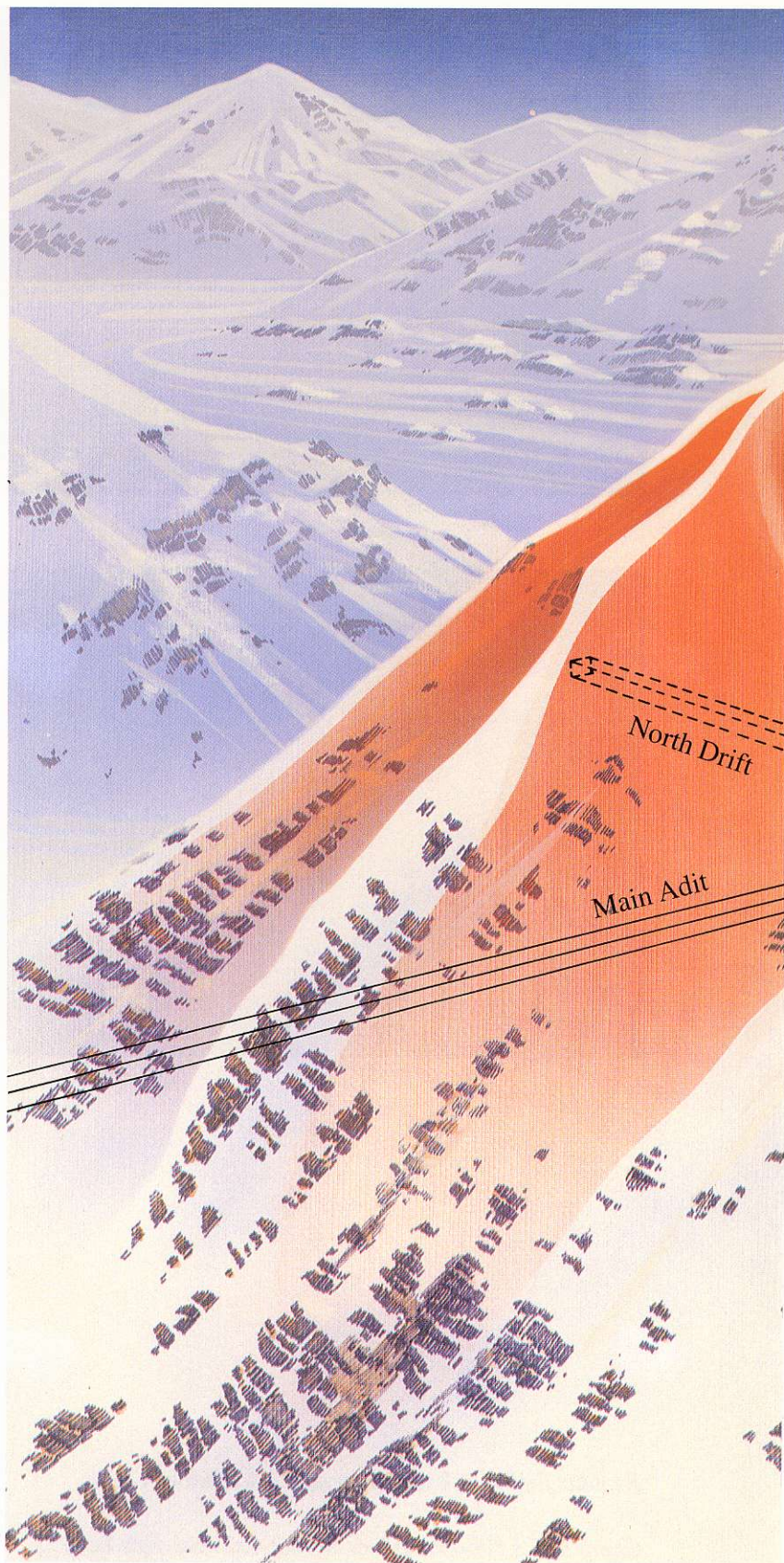
By the end of 1987, the adit had been driven a distance of 4,279 feet from the portal with track haulage established.

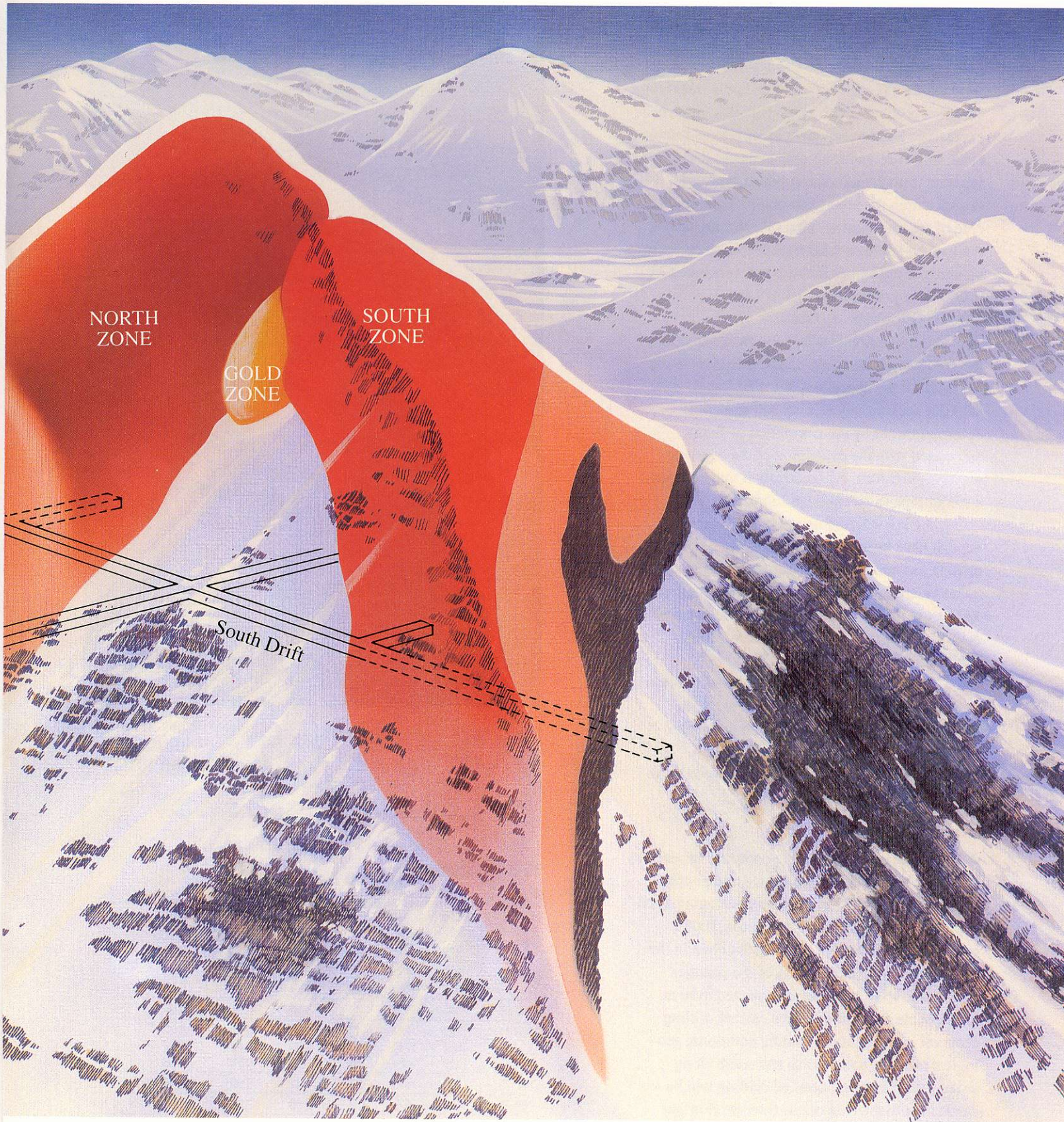
In 1988 the main adit was extended to 6,076 feet, and drifts were taken north and south from the 5,080-foot point on the adit for distances of 904 feet and 1,120 feet respectively. A 1,014-foot crosscut was also driven from the south drift 610 feet south of the main adit, through the south copper zone, to provide a bulk sample for metallurgical testing and stations for drilling the gold zone. In total, twenty-eight underground drilling stations were established, generally at intervals of 100-200 feet.

Channel samples taken at 6.5-foot intervals along the crosscut averaged 2.3% copper, 0.003 ounces of gold per ton, 0.073 ounces of silver per ton and 0.076% cobalt across 420 feet.

Underground drilling started in March 1988, with a machine capable of drilling holes 1,500 feet long. Later a second drill was added. The 55 holes, totalling 59,445 feet, completed in 1988 consisted primarily of upward fans, concentrated in nine sections.

Artist's three-dimensional impression of the Windy Craggy deposit, looking north, shows the two copper zones and gold zone identified by underground exploration and includes a cut-away section in the south zone. The deposit's full extent, along strike and at depth, has not yet been delimited.





NORTH
ZONE

SOUTH
ZONE

GOLD
ZONE

South Drift

Gold zone investigated

The first holes drilled in 1988 were aimed at the gold zone discovered in 1983, but initial results were disappointing. Deviation and hole flattening, common problems with long drillholes, proved excessive. Three subsequent holes intersected the zone, however, and it became apparent that it is separate from the massive sulphide body and occurs within the intensely contorted and sheared core of the east-west striking fold that arches the main north-south striking massive sulphide body upwards. Gold values in these holes included 0.13 ounces per ton over 13.1 feet and 0.34 ounces per ton over 18.0 feet.

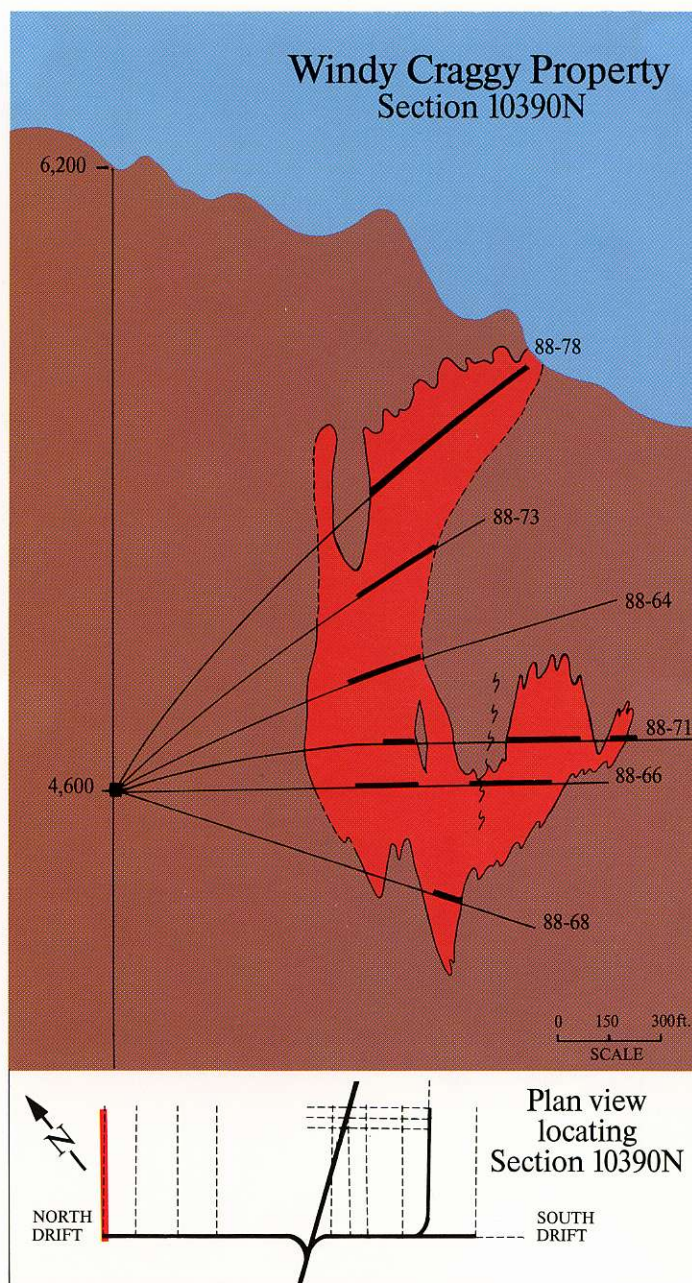
Interpretation is still in the early stages but the gold zone is currently considered most likely the result of the upgrading of a cherty-carbonate-sulphide rock unit by folding and structural deformation, or by the circulation of fluids associated with the deposition of the adjacent massive sulphides. Alternatively it may represent a feeder pipe to the massive sulphides.

The known dimensions of the copper deposit have been growing rapidly as the ongoing drilling has confirmed its continuity and extended its boundaries. The two accompanying sections, 10390N in the north zone and 9910N in the south zone illustrate the typical information being derived from the drilling.

To date the underground exploration program has investigated only about 2,000 feet of the known 5,000-foot strike length, in the central portion of the deposit. By the end of 1988, however, sufficient information was available to start calculating reserves.

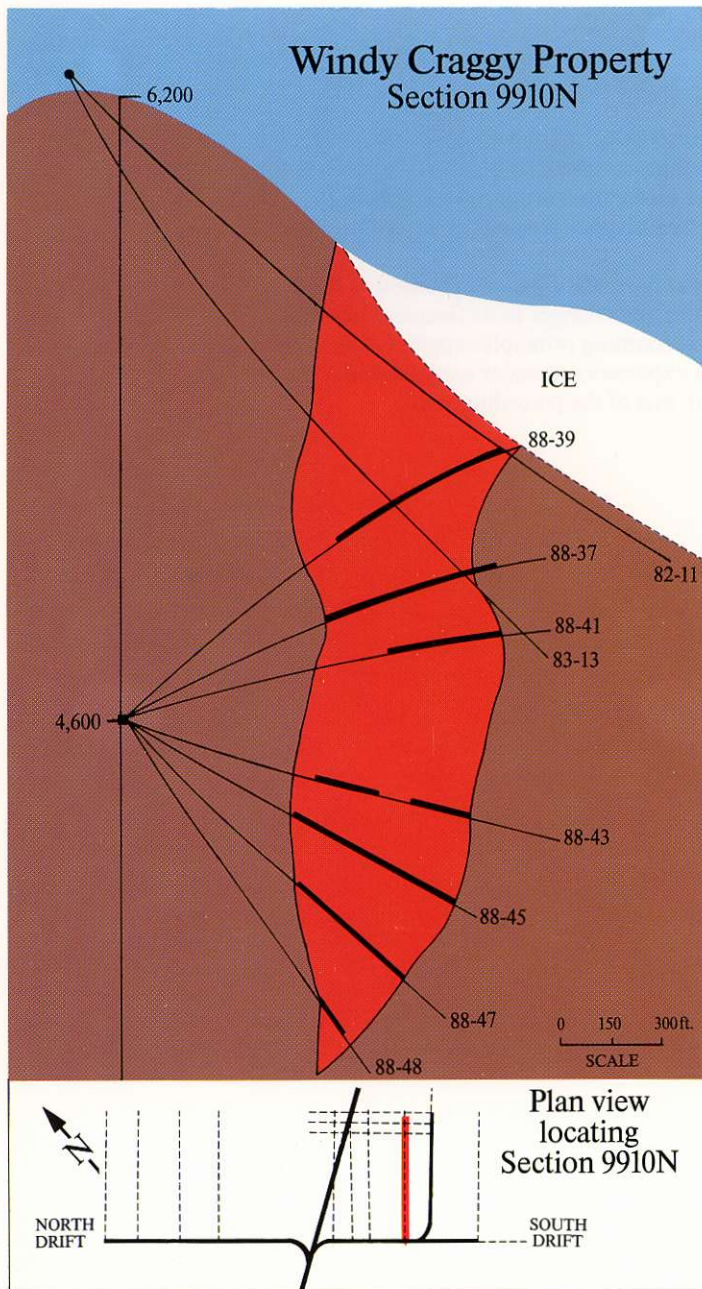
Reserves calculated

A preliminary estimate by the company of reserves in the geological or drill-indicated and possible category points to 77 million tons averaging 2.4% copper, 0.007 ounces of gold per ton, 0.082 ounces of silver per ton and 0.08% cobalt in the systematically drilled portion of the deposit. Ultimate reserve potential is projected to be at least double this tonnage. The current drilling program is aimed at confirming additional geological reserves to the north and south along strike, and then more detailed drilling will be carried out to prove up these reserves. Further



■ Sulphides Drill Table for Section 10390N

Hole	From (ft)	To (ft)	Width (ft)	Copper %	Gold (oz/ton)	Silver (oz/ton)	Cobalt %
88-64	676	— 873	197	2.23	0.001	0.04	0.115
88-66	676	— 768	92	2.14	0.002	0.08	0.106
	925	— 1135	210	2.14	0.007	0.13	0.085
88-68	873	— 951	78	2.68	0.001	0.04	0.119
88-71	709	— 781	72	2.76	0.004	0.01	0.121
	1050	— 1240	190	2.13	0.004	0.16	0.106
	1319	— 1385	66	2.22	0.011	0.20	0.071
88-73	820	— 1043	223	2.42	0.003	0.06	0.109
88-78	1043	— 1572	529	2.08	0.004	0.11	0.101



■ Sulphides

Drill Table for Section 9910N

Hole	From (ft)	To (ft)	Width (ft)	Copper %	Gold (oz/ton)	Silver (oz/ton)	Cobalt %
88-37	584	1037	435	2.39	0.003	<0.001	0.080
88-39	722	1227	505	2.18	0.005	0.03	0.059
88-41	715	997	282	2.45	0.003	0.04	0.099
88-43	518	689	171	2.37	0.004	0.13	0.092
	781	945	164	2.48	0.005	0.17	0.073
88-45	512	997	485	2.00	0.003	<0.001	0.106
88-47	630	997	367	2.01	0.006	0.08	0.103
88-48	1011	1030	19	2.25	0.003	0.01	0.105

drilling is also required before an adequate reserve estimate can be made for the gold zone.

The massive sulphide mineralization consists of pyrrhotite, pyrite and chalcopyrite. Cobalt values correlate with the pyrrhotite. The host rocks consist of Mesozoic volcanic flows and argillite sediments.

Expenditures on the underground program in 1988 totalled \$10.4 million. Since Geddes began working on the property in 1981, it has spent a total of \$21.9 million.

Future plans

After the 1988 Christmas break, drilling resumed promptly. Plans for the first half of the year call for a further 30,000 feet of drilling plus extension of the north and south drifts by approximately 600 feet each to provide more drill stations.

Second half plans include 50,000 feet of drilling, driving the north drift to daylight for ventilation purposes, extending the south drift by 600 feet and a 1,200-foot crosscut into the north zone to provide another bulk sample for metallurgical testing. Estimated cost of the 1989 exploration program is \$10.8 million.

While work continues on metallurgy and reserve estimates, other studies have been initiated, to review mining options, plant sites, access routes, capital and operating costs and environmental matters, based on a potential minimum 16,500 tons per day operation. Under consideration is open pit mining of the upper portion of the deposit followed by large scale bulk, therefore low cost, underground mining of the lower levels. The gold zone may be mineable as a separate operation on a smaller scale.

Working in this region is a challenging task but imaginative solutions can and will be brought into play, for example the transportation of mine ore through tunnels to a distant plant site. It is the company's hope that sufficient work will be done in the year ahead to allow a feasibility study to proceed that will demonstrate an attractive return to shareholders.

January 26, 1989

To the Shareholders of
Geddes Resources Limited:

We have examined the consolidated balance sheet of Geddes Resources Limited as at December 31, 1988 and the consolidated statements of operations, deficit, changes in financial position and deferred exploration costs for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1988 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for exploration costs as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Pricewaterhouse

Chartered Accountants

North York, Ontario

CONSOLIDATED BALANCE SHEET

	December 31	
	1988	1987
Assets		
Current assets:		
Cash and short-term investments	\$ 6,798,686	\$ 1,473,933
Note receivable (Note 7)	20,000	20,000
Other assets	52,019	40,834
	6,870,705	1,534,767
Note receivable (Note 7)	60,000	80,000
Marketable securities, at cost (market value \$435,915; 1987 — \$1,022,325)	556,530	504,030
Deferred exploration costs (Notes 2 and 3)	23,520,331	12,587,789
Fixed assets (Note 4)	281,001	341,999
	\$31,288,567	\$15,048,585
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 784,084	\$ 948,607
Refundable government grant	—	75,000
	784,084	1,023,607
Shareholders' Equity		
Capital stock (Note 5)	33,234,474	16,116,680
Deficit	(2,729,991)	(2,091,702)
	30,504,483	14,024,978
	\$31,288,567	\$15,048,585

(See accompanying notes)

Approved by the board:


Director


Director

GEDDES RESOURCES LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended December 31	
	1988	1987
Income:		
Interest income	\$ 403,371	\$ 160,810
Gain on sale of investments	—	49,637
Other	2,490	14,771
	405,861	225,218
Administrative expenses:		
Salaries and benefits	498,512	316,319
Professional and consulting fees	491,216	113,939
Occupancy costs	116,543	85,398
Office operations	68,150	48,167
Depreciation and amortization	46,444	57,622
Communications	41,973	24,955
Travel	80,068	62,192
Corporate development	43,281	41,163
Insurance	61,753	32,092
Directors' fees and expenses	41,499	41,754
Shareholder expense	38,652	55,335
Other	49,733	5,149
	1,577,824	884,085
Less: Exploration overhead costs deferred	533,674	115,820
Net administrative expenses	1,044,150	768,265
Net loss for the year	\$ 638,289	\$ 543,047
Net loss per share	\$0.06	\$0.09

CONSOLIDATED STATEMENT OF DEFICIT

	Year ended December 31	
	1988	1987
Balance at beginning of year:		
As previously reported	\$ 485,594	\$ 485,594
Adjustment to reflect change in accounting policy (Note 2)	1,606,108	1,063,061
As restated	2,091,702	1,548,655
Net loss for the year	638,289	543,047
Balance at end of year	\$2,729,991	\$2,091,702

GEDDES RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1988	1987
Cash provided by (used for) operating activities:		
Net loss for the year	\$ (638,289)	\$ (543,047)
Add items not involving cash:		
Depreciation and amortization	46,444	57,622
Net change in non-cash working capital items	(230,708)	706,439
	(822,553)	221,014
Cash provided by financing activities:		
Proceeds of issue of capital stock, net of expenses of issue of \$262,206 (1987 — \$417,751)	15,617,794	10,134,253
Subscription for capital stock	1,500,000	—
	17,117,794	10,134,253
Cash provided by (used for) investment activities:		
Disposal (purchase) of fixed assets	14,554	(284,122)
Deferred exploration costs	(10,932,542)	(9,137,249)
(Increase) decrease in investments	(52,500)	25,970
	(10,970,488)	(9,395,401)
Net increase in cash during the year	5,324,753	959,866
Cash and short-term investments at beginning of year	1,473,933	514,067
Cash and short-term investments at end of year	\$ 6,798,686	\$ 1,473,933

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION COSTS

	Year ended December 31	
	1988	1987
Deferred exploration costs at beginning of year	\$12,587,789	\$ 3,450,540
Field exploration and drilling costs:		
Windy Craggy property	10,428,966	8,665,978
Tats property	6,669	346,436
Other	23,233	9,015
Exploration overhead costs	533,674	115,820
Government grant	(60,000)	—
	10,932,542	9,137,249
Deferred exploration costs at end of year	\$23,520,331	\$12,587,789
Year-end balances attributable to:		
Windy Craggy property	\$21,946,095	\$11,517,129
Tats property	438,199	431,530
Other	258,980	235,747
Exploration overhead costs, net of government grants	877,057	403,383
	\$23,520,331	\$12,587,789

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1988

1. Significant accounting policies:

(a) Basis of consolidation

The consolidated financial statements include the accounts of Geddes Resources Limited and its wholly-owned subsidiary companies which were inactive in 1988 and 1987.

(b) Deferred exploration costs

The company's activities involve the exploration for minerals to determine their existence, location, extent and quality and are carried out through the ownership of interests in mineral properties and participation in various property working interest arrangements. The expenditures related to these activities have been deferred and the ultimate recovery of the company's investment is dependent upon the discovery of commercially exploitable or saleable mineral deposits.

When it is determined that work on a particular property or working interest will be discontinued, the related exploration costs are written off.

As and when commercial production from a particular property or working interest begins, the related exploration costs and a pro rata share of deferred overhead costs will be depleted.

(c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciation on exploration equipment and on office furniture and equipment is recorded at the rate of 20% per annum on the declining balance basis. Amortization of leasehold improvements is recorded on the straight line basis over the life of the lease.

(d) Income taxes

Costs of determining the existence, location, extent and quality of mineral resources in Canada, which are incurred on behalf of or are renounced to some of the company's shareholders, will not be deductible by the company for income tax purposes to the extent that such costs are deductible in arriving at taxable income by those shareholders. As a consequence, the amount of income taxes otherwise payable by the company in the future may be significantly greater than the amount payable if these costs were deductible from the company's future taxable income (see Note 6(a)).

2. Change in accounting policy:

In 1988 the company adopted a retroactive change in accounting policy. Prior to this change the company treated administrative expenses, net of investment and other income, as deferred exploration costs which were accounted for as outlined in Note 1(b). Under the new policy, net administrative expenses, other than overhead costs directly related to exploration activities, are written off as period costs.

The change resulted in an increase in the net loss in 1988 of \$503,468 and the recording of a net loss in 1987 of \$543,047, whereas no net income or loss had previously been reported and the reduction of deferred exploration costs as at December 31, 1988 and December 31, 1987 by \$2,109,576 and \$1,606,108, respectively.

3. Exploration agreements:

(a) Windy Craggy

The company has a 100% interest in a block of mineral claims in northwestern British Columbia collectively known as the "Windy Craggy" property. The company's interest in this property is subject to a 22½% interest in the net proceeds of production held by a subsidiary of Falconbridge Limited.

(b) Grey River

The company has been granted an option to acquire a group of crown leases in Newfoundland collectively known as the "Grey River" tungsten property for \$50,000 in cash, paid in 1986, and an undertaking to spend \$500,000 on exploration on the property by February 28, 1989. If the company spends less than the \$500,000 it will be entitled to a leasehold interest and net proceeds participation in the property up to a maximum of 33% (Note 9(b)).

(c) Alsek

The company is committed to make payments of \$20,000 by February 1, 1989, \$25,000 by February 1, 1990 and \$32,000 by February 1, 1991 in order to earn an option to acquire a 100% interest in a group of mineral claims collectively known as the "Alsek" property in northwestern British Columbia.

4. Fixed assets:

Fixed assets at December 31 consist of:

	1988	1987
Exploration equipment	\$323,569	\$373,959
Office furniture and equipment	105,658	69,822
Leasehold improvements	14,134	14,134
	<hr/>	<hr/>
	443,361	457,915
Less: Accumulated depreciation and amortization		
	<hr/>	<hr/>
	162,360	115,916
	<hr/>	<hr/>
	\$281,001	\$341,999

5. Capital stock:

(a) Authorized and issued

During the year, by Articles of Amendment the authorized share capital of the company was changed from 10,000,000 shares to an unlimited number of common shares without par value.

Changes in issued capital stock during the year ended December 31, 1988 were as follows:

	Number of Shares	Amount
Balance at December 31, 1987	8,121,088	\$16,116,680
Issued during the year for cash:		
Upon exercise of warrants	90,000	270,000
Upon exercise of options	10,000	10,000
Private placement of shares	1,666,667	5,000,000
Private placement of flow-through shares	3,914,142	10,600,000
Expenses of share issues		(262,206)
	5,680,809	15,617,794
Subscribed for during the year for cash (Note 5(c))	1,000,000	1,500,000
Balance at December 31, 1988	14,801,897	\$33,234,474

Included as administrative expenses in the consolidated statement of operations is an aggregate amount of \$134,821 relating to other financing activities during the year.

(b) Stock options

During 1988 options were granted to directors of the company to acquire 35,000 shares at \$1.19 per share. During the year options on 10,000 shares were exercised. At December 31, 1988 options to acquire 445,000 shares at prices from \$1.00 to \$3.10, exercisable up to July 27, 1993 were outstanding and, accordingly, 445,000 shares of capital stock were reserved for issue upon exercise of options (Note 9(a)).

(c) Subscription

On December 30, 1988 the company entered into a subscription agreement with Northgate Exploration Limited ("Northgate") pursuant to which 1,000,000 flow-through common shares are to be issued to Northgate at a price of \$1.50 per share. Under the terms of the agreement the company has undertaken to expend the amount of the funds subscribed on Canadian exploration expenses as that term is defined by the Income Tax Act, by March 1, 1989 and to renounce such expenditures to Northgate by March 31, 1989.

Northgate has been granted the right, on a non-cumulative basis, to subscribe for future share issues to the extent that Northgate will maintain a 20% interest in each issue. The shares will be purchased under the same terms and conditions offered to other prospective purchasers and the right will expire on April 22, 1990.

6. Income taxes:

(a) Deductibility of costs

To December 31, 1988, \$22,710,679 of the exploration costs of the company have been incurred on behalf of, or have been renounced to some of its shareholders. This amount will not, therefore, be deductible by the company for income tax purposes.

(b) Timing differences

There are timing differences between accounting and taxable income which include the excess of cumulative Canadian exploration expenses over deferred exploration costs of approximately \$2,400,000 which can be carried forward indefinitely. Future tax benefits of timing differences have not been reflected in these financial statements.

7. Related party transaction:

The company has loaned \$80,000 to the Chairman of the Board by way of a non-interest bearing demand note, secured by shares of the company, which is being retired in four annual payments of \$20,000.

8. Commitments:

(a) The company leases two office premises at aggregate annual rents of approximately \$89,000 with one lease terminating in 1989 and the other lease terminating in 1990.

(b) See Notes 3 and 9(b) for exploration commitments.

9. Subsequent events:

(a) On January 24, 1989 outstanding options to acquire 395,000 common shares, exercisable at prices ranging from \$2.80 to \$3.10 per share up to December 17, 1992 were cancelled and options to acquire 395,000 common shares, exercisable at \$1.18 per share exercisable up to January 24, 1994 were granted, subject to regulatory approval, to the same optionees who are directors, officers and employees of the company.

(b) On January 26, 1989 the company agreed, subject to regulatory approval, to issue 60,000 common shares as consideration for the acquisition of the crown leases known as the "Grey River" tungsten property (Note 3(b)) and to pay a 4% royalty on the net proceeds realized from operations carried out on the property.

CORPORATE INFORMATION

DIRECTORS

Wilson J. Barbour* Michael F.K. Carter
J. Peter Foster* William M. Gilchrist*
Gerald Harper John F. Kearney
J. Douglas Little Alan C. Savage

Geddes M. Webster

* Members of the Audit Committee

OFFICERS

Geddes M. Webster
Chairman of the Board

J. Douglas Little
President and Chief Executive Officer

Gerald Harper
Executive Vice-President

G. Samuel Carpenter
Secretary-Treasurer

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TRANSFER AGENT AND REGISTRAR

Central Guaranty Trust Company —
Toronto, Calgary and Vancouver

SHARE LISTING

The Toronto Stock Exchange — Symbol GDD

AUDITORS

Price Waterhouse

SOLICITORS

Lang Michener Lash Johnston — Toronto

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Wednesday, May 3, 1989, 4:00 P.M.
The Auditorium, The Toronto Stock Exchange
2 First Canadian Place
Toronto, Ontario

