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FAIRFIELD MINERALS LTD.

Annual Report 1986



■ **Fairfield Minerals Ltd.**

is a Vancouver-based mineral exploration company specializing in the discovery, exploration and development of precious and base metal prospects in British Columbia and the Yukon. A subsidiary of Regional Resources Ltd., Fairfield was listed for trading on the Vancouver Stock Exchange under symbol FFD on July 18, 1986.



REPORT TO SHAREHOLDERS



The first year of activity for your Company has been very successful with the acquisition of two new gold prospects, Oka and Elk, in southern British Columbia, and the Goz Creek zinc deposit in central Yukon.

As well, exceptional results were achieved from diamond drilling on the Logan zinc-silver property in southern Yukon.

The Oka and Elk claims were staked during 1986 in the Okanagan region of British Columbia and both have yielded samples containing high-grade gold. Mineralization at Oka occurs within a similar geological setting to that at the Hedley-Mascot gold mine located 30 miles to the south. The Oka property holds promise for discovery of a large-tonnage, moderate-grade gold deposit. Preliminary exploration of the Elk property revealed two new gold-silver discoveries which indicate potential for widespread stockwork mineralization. Extensive backhoe trenching and sampling programs are planned for both properties in 1987.

In southern Yukon, results of the 1986 diamond drilling program at the Logan property exceeded all expectations. Ten holes tested the Main Zone over a 2,000 ft. length to a depth of 400 ft. Preliminary estimates indicate a large, near-surface reserve of moderate-grade, zinc-silver mineralization. This mineralized structure is untested at depth and along strike and holds promise for greatly increased reserves. A major drill program will be undertaken in 1987.

The Meister property in southern Yukon was subject to 7,900 ft. of diamond drilling which encountered several oxide intercepts. The Logan and Meister properties were explored under option by Getty Resources Limited during 1986.

The Ram property near the Ketzka gold deposit in southern Yukon was not explored in 1986. The claims cover several polymetallic mineral showings that will be the subject of extensive work in 1987.

Fairfield will continue its aggressive exploration during 1987 with programs directed largely toward the discovery of precious metals. As shown by the year-end statements, your Company is in a strong financial position to pursue its exploration objectives.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read 'J. Stollery'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John W. Stollery
President
April 14, 1987

FAIRFIELD MINERALS LTD.

1980 - 1055 West Hastings Street, Vancouver, B.C. V6E 2E9
Telephone: (604) 669-3398

December 7, 1987

REPORT TO SHAREHOLDERS - (3rd Quarter 1987)

1987 continues as a very active year for your Company. All major property assets have received substantial exploration efforts with expenditures of \$3.0 million expected by fiscal year end. The results are highly encouraging.

OKA GOLD PROPERTY - Peachland, British Columbia

Trenching exposed gold bearing skarns and veins in several areas with samples returning gold assays up to 1.12 oz/ton across 5 ft, 0.16 oz/ton across 10.5 ft and 0.24 oz/ton across 6.5 ft in a geological setting similar to that of the Mascot mine to the south. An extensive drill program is recommended for 1988.

ELK GOLD-SILVER PROPERTY - Peachland, British Columbia

Trenching within a soil geochemical anomaly exposed gold-silver mineralization in quartz veins and clay altered pyritic granite. Sampling returned values up to 0.19 oz/ton gold over 10.8 ft and 0.65 oz/ton gold and 4.72 oz/ton silver over 3.3 ft. Three additional areas of strongly anomalous gold geochemistry remain to be tested. Both trenching and drilling will be required to evaluate this property.

RAM PRECIOUS-BASE METALS PROPERTY - Ross River, Yukon

Three significant exploration targets were identified by the recently completed program on this 60 square mile property. 1) Massive sulphide float samples returned 0.36 oz/ton gold and 0.51 oz/ton silver, and 12.65 oz/ton silver. 2) A 20.3 ft continuous chip sample of massive sulphides assayed 0.18 oz/ton gold, 15.24 oz/ton silver and 21.8% lead. 3) An extensive skarn-massive sulphide zone was discovered. All three of these targets require drilling to test their potential. This property is under option to Equity Silver Mines Limited.

LOGAN ZINC-SILVER PROPERTY - Watson Lake, Yukon

The 1987 drill program produced further excellent results. Drilling to date has investigated only one third of the favourable structure but has resulted in the definition of a mineral deposit containing a geological inventory as follows:

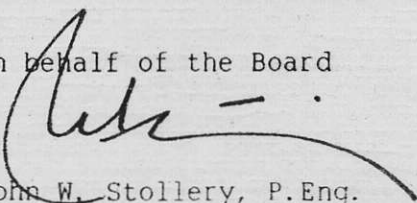
	<u>Tons</u>	<u>% Zinc</u>	<u>oz/ton Silver</u>
	<u>15.4 million</u>	<u>5.13</u>	<u>0.59</u>
includes	<u>7.5 million</u>	<u>7.24</u>	<u>0.75</u>
includes	<u>3.5 million</u>	<u>10.33</u>	<u>1.02</u>
includes	<u>1.5 million</u>	<u>14.36</u>	<u>1.40</u>

Subject to an economic evaluation a significant portion of this deposit may be amenable to low cost open-pit mining. Further drilling is recommended. This property is under option to Getty Resources Limited.

FINANCIAL - (statements attached)

With over \$1.65 million cash your Company is well positioned to continue an aggressive approach to mineral exploration.

On behalf of the Board


John W. Stollery, P.Eng.
President

FAIRFIELD MINERALS LTD.

1980-1055 W. Hastings St., Vancouver, B.C. V6E 2E9

INTERIM FINANCIAL STATEMENTS (Unaudited)

(For nine months ended October 31, 1987)

DEFERRED EXPLORATION, DEVELOPMENT & ADMINISTRATION EXPENDITURES

	<u>Oct. 31, 1987</u>	<u>Oct. 31, 1986</u>
EXPLORATION & DEVELOPMENT	\$ 801,417	\$ 428,722
ADMINISTRATION		
Consulting & office services	90,507	79,662
Legal & accounting	18,000	12,322
Shareholder information & listing, filing & transfer fees	23,937	6,474
Insurance	1,696	1,133
Travel	899	-
	<u>135,039</u>	<u>99,591</u>
TOTAL EXPENDITURES	<u>936,456</u>	<u>528,313</u>
DEDUCT		
Interest income	<u>90,795</u>	<u>35,874</u>
NET EXPENDITURES	845,661	492,439
Balance at beginning of period	<u>349,126</u>	<u>-</u>
BALANCE AT END OF PERIOD	<u>\$1,194,787</u>	<u>\$ 492,439</u>

CHANGES IN FINANCIAL POSITION

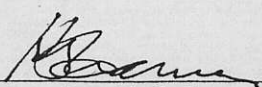
	<u>Oct. 31, 1987</u>	<u>Oct. 31, 1986</u>
Cash provided by (used for)		
FINANCING ACTIVITIES		
Issue of common shares	\$1,110,399	\$1,514,474
Flow-through common shares to be issued	94,403	252,206
Receivable for flow-through common shares	(94,403)	-
Financing costs	(58,582)	(134,670)
Receipt of option payments on resource properties	-	200,000
	<u>1,051,817</u>	<u>1,832,010</u>
INVESTMENT ACTIVITIES		
Interest income	90,795	35,874
Acquisition of resource properties	(303)	(58,523)
Deferred exploration, development & administration	<u>(936,456)</u>	<u>(528,313)</u>
	<u>(845,964)</u>	<u>(550,962)</u>
Changes in non-cash components of working capital	<u>35,189</u>	<u>3,723</u>
	<u>(810,775)</u>	<u>(547,239)</u>
INCREASE IN CASH & TERM DEPOSITS	241,042	1,284,771
Cash & term deposits at beginning of period	<u>1,443,944</u>	<u>1</u>
CASH & TERM DEPOSITS AT END OF PERIOD	<u>\$1,684,986</u>	<u>\$1,284,772</u>

On behalf of the Board

Director:


John W. Stollery

Director:


Kenneth G. Hanna

CORPORATE INFORMATION ON REVERSE

CORPORATE INFORMATION

OFFICERS: John W. Stollery, President
Kenneth G. Hanna, Secretary

DIRECTORS: Michael F. Dubensky
Graham Farquharson
Owen S. Hairsine
Kenneth G. Hanna
Albert F. Reeve
John W. Stollery

REGISTRAR & TRANSFER AGENT: Canada Trust Company
Vancouver and Toronto

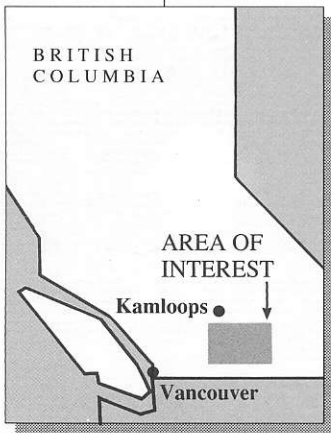
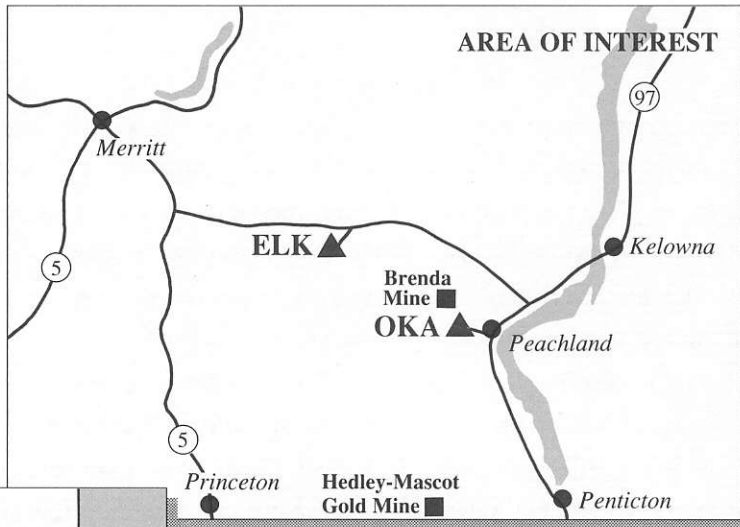
GEOLOGICAL CONSULTANTS: Cordilleran Engineering Ltd.

LEGAL COUNSEL: Hanna, Forth & Scott

SHARES LISTED (FFD): Vancouver Stock Exchange

CAPITALIZATION: Issued: 4,805,847 common shares
Allotted: 43,788 common shares

EXPLORATION REVIEW - *Southern Properties*



■ Oka (Gold)
185 B.C. Claim Units

The Oka property is located eight road-miles from Peachland in southern British Columbia directly south of the Brenda copper-molybdenum mine.

The Oka area has been explored intermittently since the 1890's for copper, zinc, molybdenum and silver, but the gold potential has been largely overlooked. The geological setting is very similar to that which hosts the Hedley-Mascot gold deposits, located 30 miles to the south and scheduled to begin open pit production in 1987.

Granodiorite bodies have intruded a volcanic-sedimentary assemblage on the Oka property causing extensive development of marble and garnet-rich skarn. Gold mineralization has been located in three widely separated areas within massive pyrite-pyrrhotite skarn bodies, sulphide-poor garnet skarn and quartz-sulphide veins.

Several sulphide skarns have been discovered within an area measuring 1,500x1,000 ft. Channel samples from these have yielded a number of significant gold values including 5 ft. grading 0.457 oz/ton and 10 ft. grading 0.178 oz/ton. Visible gold has been located in marble with minor associated arsenopyrite.

■ Prospecting

All of the mineral prospects outlined in the following review have evolved from prospecting programs conducted over the years by Cordilleran Engineering Ltd., your Company's mineral exploration consultant.

The 1987 prospecting program, estimated to cost \$250,000, will be conducted primarily in southern British Columbia.

An extensive soil geochemical survey conducted in 1986 revealed a linear belt of gold anomalies extending 2.5 miles between two of the gold showing areas.

The potential at Oka for the discovery of a large-tonnage, open-pittable gold deposit will be pursued by a major program of trenching and sampling in several target areas during 1987, at an estimated cost of \$350,000.

■ **Elk (Gold, Silver)
160 B.C. Claim Units**

The Elk property covers two new gold-silver discoveries located halfway between Merritt and Peachland in southern British Columbia. A highway, currently under construction, passes by the north end of the claims and will provide excellent access.

The two discoveries consist of quartz vein and stockwork zones cutting fractured altered granite near the contact with a volcanic-sedimentary unit.

Quartz vein material has returned assays of up to 1.89 oz/ton gold and 11.0 oz/ton silver and continuous chip samples across quartz stockwork and altered host rock have ranged from 0.14 oz/ton gold to 1.06 oz/ton gold over 3 ft. widths.

Wide-spaced soil sampling conducted in the area of the showings revealed several gold geochemical targets with a very significant anomaly measuring 2,000x1,300 ft. near one of the stockwork exposures.

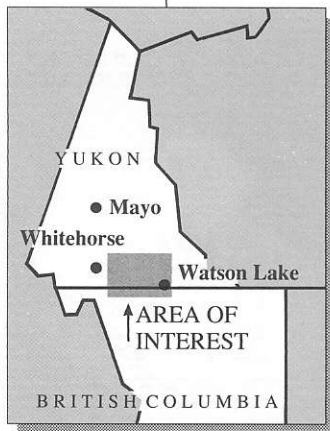
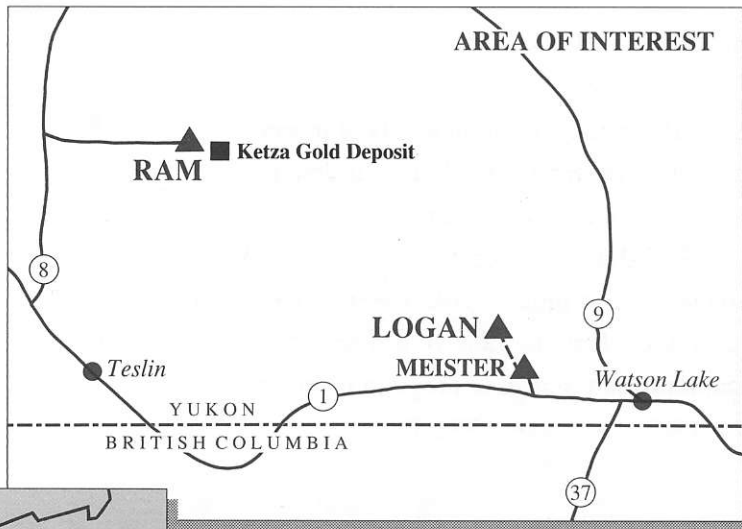
Historically, small amounts of placer gold have been recovered in areas downstream from the Elk property.

Potential exists for discovery of a large-tonnage, open-pittable gold-silver deposit with possible high-grade vein zones. A major sampling and trenching program is proposed for 1987 at a cost of \$300,000.



Looking east, the Oka gold property near Peachland, B.C. has shown potential to host a large-tonnage, open-pittable gold deposit.

EXPLORATION REVIEW - Northern Properties



■ Logan (Zinc, Silver) 168 Yukon Claims

This claim group is located 25 miles north of the Alaska Highway and 65 miles northwest of Watson Lake, Yukon. A 15-hole, 6,200 ft. diamond drill program conducted in 1986 outlined a significant new zinc-silver deposit.

Earlier work including mapping, prospecting, soil geochemistry and geophysical surveys has outlined the Main, East and West zones. These three zones are located within a 14,000 ft. long fault-related structure. The Main Zone, as presently defined by diamond drilling, is a 2,300 ft. long, 200 ft. wide steeply dipping, tabular-mineralized body, open on strike and down-dip, containing appreciable reserves of zinc and silver.

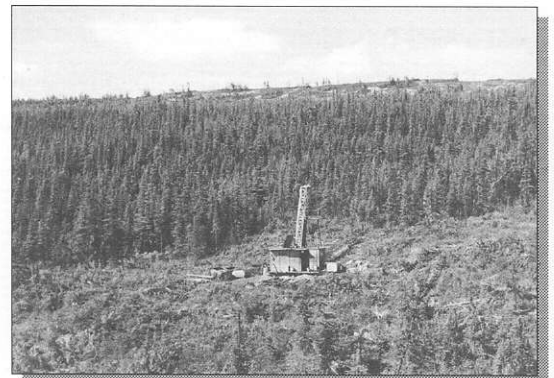
Sphalerite with lesser pyrite, pyrrhotite, arsenopyrite, chalcopyrite and tetrahedrite occur within stockworks, quartz veins, breccia bodies and silicified zones in highly altered granodiorite and felsite dike rocks.

Centrally located within the Main Zone, a well-mineralized core area is estimated to contain 2.7 million tons of material grading 10% zinc and 1.0 oz/ton silver. In one diamond drill hole, a 220 ft. intercept averaged 7.2% zinc and 0.9 oz/ton silver; within this interval, a 64 ft. section assayed 14.2% zinc and 1.4 oz/ton silver.

Two drill holes located 6,500 ft. to the northeast intersected a similar weakly mineralized structure in the East Zone. The West Zone has yet to be explored by diamond drilling.

An exploration program of diamond drilling will be undertaken in 1987 to further define the mineralization in the Main Zone and to test other geophysical and geochemical targets along strike.

The potential for delineating a large zinc-silver mineral deposit on the Logan property is considered excellent. Reflecting this potential is the enthusiastic participation of our optionee, Getty Resources Limited. To date, Getty has expended \$700,000 on exploration of the Logan property and proposes to spend an additional \$1.2 million during 1987.



■ **Ram (Gold, Silver, Lead, Zinc)**
758 Yukon Claims

This large property located in south-central Yukon is accessible via 20 miles of summer road. It is six miles from the Ketzka gold deposit which is scheduled for production in 1988.

The main mineral zone consists of carbonate-hosted massive sulphides from which continuous chip samples across 20 ft. averaged 0.176 oz/ton gold, 15.2 oz/ton silver, 21.8% lead and 1.7% zinc. Diamond drilling conducted by others in 1969 confirmed extension to depth with several mineral intercepts returning gold values of up to 0.28 oz/ton over 7.6 ft. and values in silver, lead and zinc.

Elsewhere on the property, 18 other mineral showings have been identified and soil geochemical surveys have outlined many areas with base and precious metal potential.

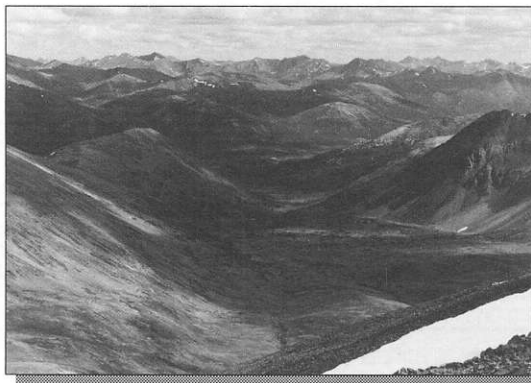
The Ram property holds considerable promise for discovery of a polymetallic deposit and continuing exploration, at a minimum cost of \$300,000, is planned for 1987.

■ **Meister (Zinc, Silver, Lead)**
410 Yukon Claims

Located seven miles from the Alaska Highway and 50 miles west of Watson Lake, Yukon, this property hosts significant silver-bearing zinc and lead mineralization. A 20-mile road provides summer access to the claims.

A 7,900 ft. diamond drilling program comprising eight holes in the West Zone

and 14 holes in the South Zone was completed in 1986. Encouraging results were returned from drilling in the 3,300 ft. long West Zone, including a 95 ft. oxide intercept averaging 3.8% zinc, 1.2 oz/ton silver and 0.6% lead. Although Getty has terminated its option, it is Fairfield's opinion that additional diamond drilling is required to explore for sulphide mineralization at depth within this favourable structure.



■ **Goz Creek (Zinc)**
14 Yukon Claims

At Goz Creek, 110 miles east of Mayo, Yukon, 20,500 ft. of diamond drilling has identified a reserve of 2.75 million tons averaging 11% zinc, mineable by open pit. The property is being held as a future zinc reserve and no work is immediately planned.

Left, the Logan property near Watson Lake, Yukon where 1986 drilling outlined a significant new zinc-silver deposit; above, the 758-claim Ram property, a polymetallic prospect located six miles from the Ketzka gold deposit which is scheduled for production in 1988.

BALANCE SHEET

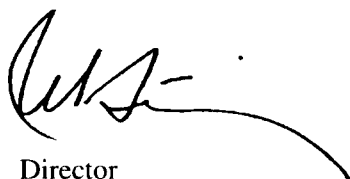
	January 31	
	1987	1986
Assets		
CURRENT ASSETS		
Cash and term deposits	\$ 1,443,944	\$ 1
Accounts receivable	27,991	—
Prepaid expenses	1,283	—
	1,473,218	1
RESOURCE PROPERTIES (note 1)	2,235,725	2,300,000
	\$ 3,708,943	\$ 2,300,001


Liabilities and Shareholders' Equity

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,013	—
SHAREHOLDERS' EQUITY		
Capital stock (note 2)	4,086,512	\$ 2,300,001
Deficit	(379,582)	—
	3,706,930	2,300,001
	\$ 3,708,943	\$ 2,300,001

SUBSEQUENT EVENT (note 3)

APPROVED BY THE BOARD:


Director


Director

**STATEMENT OF DEFERRED EXPLORATION,
DEVELOPMENT AND ADMINISTRATION EXPENDITURES**

	Year Ended January 31, 1987
Exploration and development expenditures	\$ 493,403
Administration expenditures	
Office rent and services	51,300
Consulting fees	35,500
Printing, stationery and office expenses	11,135
Legal	8,372
Telephone and postage	5,833
Stock exchange fees	4,797
Transfer fees	3,576
Audit and accounting	3,250
Insurance	1,886
Other	1,363
	127,012
	620,415
Interest income	(61,707)
Value attributed to income tax benefits flowed through to subscribers	(30,000)
	(91,707)
	528,708
Write-off of	
General exploration and related administration expenditures	(160,169)
Deferred exploration, development and administration expenditures of resource properties abandoned	(19,413)
	(179,582)
DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENDITURES AT END OF YEAR	\$ 349,126

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1987	October 23, 1984 to January 31, 1986
Cash provided by (used for):		
FINANCING ACTIVITIES		
Issue of common shares	\$ 1,816,511	\$ 2,300,001
Receipt of option payments on resource properties	300,000	—
	<u>2,116,511</u>	<u>2,300,001</u>
INVESTMENT ACTIVITIES		
Interest income	61,707	—
Acquisition of resource properties	(86,599)	(2,300,000)
Deferred exploration, development and administration expenditures	(620,415)	—
	<u>(645,307)</u>	<u>(2,300,000)</u>
Changes in non-cash components of working capital		
Accounts receivable	(27,991)	—
Prepaid expenses	(1,283)	—
Accounts payable and accrued liabilities	2,013	—
	<u>(672,568)</u>	<u>(2,300,000)</u>
INCREASE IN CASH AND TERM DEPOSITS	1,443,943	1
Cash and term deposits at beginning of period	1	—
CASH AND TERM DEPOSITS AT END OF PERIOD	<u>\$ 1,443,944</u>	<u>\$ 1</u>

STATEMENT OF INCOME AND DEFICIT

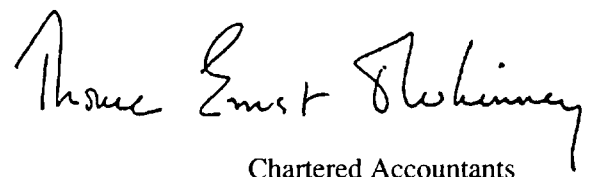
	Year Ended January 31, 1987
Write-off of resource properties abandoned	
Acquisition costs	\$ 200,000
Deferred exploration, development and administration expenditures	19,413
	219,413
Write-off of general exploration and related administration expenditures	160,169
LOSS FOR THE YEAR, BEING DEFICIT AT END OF YEAR	\$ 379,582

AUDITORS' REPORT

■ To the Shareholders of Fairfield Minerals Ltd.

We have examined the balance sheet of Fairfield Minerals Ltd. as at January 31, 1987 and the statements of deferred exploration, development and administration expenditures, income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at January 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.


Chartered Accountants

Vancouver, Canada
March 6, 1987

NOTES TO FINANCIAL STATEMENTS

Year Ended January 31, 1987

■ General

The Company was incorporated under the Company Act of British Columbia on October 23, 1984. Its principal business activities include the exploration and development of mining properties.

■ Summary of significant accounting policies

RESOURCES PROPERTIES

The Company is in the development stage. All acquisition, exploration, development and administration expenditures less interest income and recoveries relating to resource properties are deferred until such time as the properties are put into commercial production, sold or abandoned. Acquisition costs and deferred exploration, development and administration expenditures on resource properties abandoned are written off. Exploration expenditures which do not relate to specific resource properties (general exploration) and related administration expenditures are written off in the year incurred.

The costs deferred at any time do not necessarily reflect present or future values. The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

FLOW-THROUGH COMMON SHARES

Proceeds received on the issue of flow-through common shares are allocated as follows:

- (a) the market value of the shares on the date of the agreement, together with interest earned on unexpended subscriptions, is credited to capital stock; and
- (b) the excess of the proceeds over the amount credited to capital stock, which is attributed to the value of the tax benefits flowed through to subscribers, is applied against mineral exploration expenditures.

EARNINGS PER SHARE

Earnings per share information has not been presented as this information is not considered meaningful at this stage of the Company's operations.

■ 1. Resource properties

Resource properties are comprised of:

	1987	1986
Acquisition costs, less recoveries	\$ 1,886,599	\$ 2,300,000
Deferred exploration, development and administration expenditures	349,126	—
	<u>\$ 2,235,725</u>	<u>\$ 2,300,000</u>

The resource properties are all located in the Province of British Columbia and the Yukon Territory.

Getty Resources Limited ("Getty") has an option to earn a 50% interest and a second option to earn a further 10% interest in the Logan property. Under the terms of the agreement, Getty may earn the 50% interest in the property by making an option payment to the Company of \$100,000 on or before February 1, 1988 and by incurring total expenditures of \$4,500,000 by December 31, 1988. During the year, Getty has paid \$100,000 in option payments for each of the Meister and Logan properties, has paid \$100,000 in option payments for the Logan property due on or before February 1, 1987 and has forfeited all interest in the Meister property. At January 31, 1987, Getty has expended approximately \$2,091,000 in exploration. Getty may earn the further 10% interest in the Logan property by paying the Company an additional \$200,000 and funding 100% of exploration expenditures until a production decision is made. Once a production decision is made, the Company may elect to either pay its proportionate share of costs or convert its property interest into a 15% net profit interest.

The Eagle and PL properties were abandoned during the year.

■ 2. Capital stock

The Company is authorized to issue 10,000,000 common shares, without par value.

(a) Issued

	Number of Shares	Capital Stock
Balance as at February 1, 1986	2,300,001	\$ 2,300,001
Issued for cash		
Public issue	1,500,000	1,389,305
Flow-through common shares	200,000	239,706
Exercise of warrants	150,000	187,500
	1,850,000	1,816,511
Less assigned value of tax benefits flowed through to subscribers	—	30,000
	1,850,000	1,786,511
Balance as at January 31, 1987	4,150,001	\$ 4,086,512

NOTES TO FINANCIAL STATEMENTS *Continued*

(b) Stock options

At January 31, 1987, stock options granted to directors for 380,000 common shares exercisable until December 31, 1990 at \$1.10 per share are outstanding.

(c) Warrants

In connection with the public issue, warrants were issued for 200,000 common shares at \$1.25 per share. During the year, warrants for 150,000 common shares were exercised and the remaining warrants expired on December 31, 1986.

■ **3. Subsequent event**

Subsequent to January 31, 1987, the Company has agreed to issue up to 300,000 flow-through common shares for \$540,000 for Canadian mineral exploration programs by February 29, 1988.

■ **4. Income taxes**

As a result of acquiring certain properties pursuant to section 85(1) of the Income Tax Act and the financing of exploration and development expenditures in exchange for the issuance of flow-through common shares, the Company has the following amounts available to reduce future years' income for income tax purposes:

Canadian exploration expenditures	\$ 242,000
Earned depletion	112,000
	\$ 354,000

■ **5. Related party transactions**

Two directors were partners in an engineering firm retained by the Company for exploration and development during the year. This firm received \$87,600 for management fees, \$81,500 for consulting fees and \$51,300 for office space and services.



CORPORATE INFORMATION

■ Officers

John W. Stollery

President

Kenneth G. Hanna

Secretary

■ Directors

Michael F. Dubensky

Graham Farquharson

Owen S. Hairsine

Kenneth G. Hanna

Albert F. Reeve

John W. Stollery

■ Registrar and Transfer Agent

The Canada Trust Company

Vancouver and Toronto

■ Geological Consultants

Cordilleran Engineering Ltd.

■ Legal Counsel

Hanna, Forth & Scott

■ Auditors

Thorne, Ernst & Whinney

■ Shares Listed (FFD)

Vancouver Stock Exchange

■ Capitalization

Authorized: 10,000,000 common shares

Issued: 4,150,001 common shares

■ **Fairfield Minerals Ltd.**

1980 - 1055 West Hastings Street

Vancouver, B.C.

V6E 2E9

(604) 669-3398