EUREKA RESOURCES INC.

ANNUAL REPORT 1986

EUREKA RESOURCES INC.

HEAD OFFICE:	837 East Cordova Street Vancouver, B.C. V6A 3R2 Telephone: (604) 253-0222
REGISTERED OFFICE:	4729 East Hastings Street Burnaby, B.C. V5C 2K8
LEGAL COUNSEL:	Harris Campbell Threlfall O'Neill 4729 East Hastings Street Burnaby, B.C. V5C 2K8
AUDITORS:	Thorne Ernst & Whinney 3300 Park Place 666 Burrard Street Vancouver, B.C. V6C 3A1
TRANSFER AGENT & REGISTRAR:	National Trust Company Park Place Tower Suite 900 - 666 Burrard Street Vancouver, B.C. V6C 2Z9
STOCK EXCHANGE:	Vancouver Stock Exchange Trading Symbol - EUK
DIRECTORS AND OFFICERS:	John J. O'Neill, Director and President John R. Kerr, Director and Vice-President John R. Green, Director and Secretary Robert F. O'Neill, Director

REPORT TO SHAREHOLDERS

Dear Shareholder:

Despite uncertainties in the mining industry, Eureka experienced an eventful year with continued development on the Frasergold project and acquisitions of two additional British Columbia prospects.

At Frasergold, a $300,000 drill program completed with larger diameter drill equipment than previously utilized has indicated an appreciable upgrading of gold content by two to two-and-one-half times the original results.

Drilling on the "Jay" Zone suggests the presence of high grade underground reserves as well as large open-pit reserves.

Should the upgrading factor evident in the recent program remain constant, our reserve expectations, to a depth of 150 metres, are in the range of 2.0 to 4.0 million tons, grading 0.2 to 0.30 ounces gold per ton over a three-to-four metre width in an underground operation, or in the range of 15.0 to 20.0 million tons of 0.07 to 0.08 ounces gold per ton, over 25-30 metres in an open pit project.

Additional exploration drilling testing the gold bearing horizon 2 km to the northwest, detected by geochemical methods through 20 to 100 ft. of overburden, indicated the presence of gold bearing structures. Visible gold was observed in four of the five holes drilled in this area. An additional seven to eight kilometres of strike length along this zone remains untested.

Depending upon the final report and recommendations of our consultants, Eureka is in the preliminary planning stages of an aggressive underground test adit for pilot bulk sampling during 1987. A small preliminary bulk test project involving four bulk samples, undertaken in 1986, was highly successful. More than 90 percent of gold content was recovered, in less than 24 hours, utilizing a conventional cyanide leach process.

Other work during the year included acquisition, by option agreement, to purchase the Miller claim near Vernon, B.C., located in the same geological environment and along the projected strike of the newly discovered Huntington gold deposit. The company also acquired the rights to the Noel claims, in the historical Bridge River valley, for completing assessment work requirements during 1986.

Assessment work was completed on the Ahbau Lake property near Quesnel, B.C. Reconnaissance geochemistry in the northern portion of the claims, yielded significant anomalous values in an analogous geological environment to our own Frasergold deposit. The Dor claims remained idle during the year. Interest in other claims in the Cariboo was terminated in April, 1986.

In addition to these projects, the company has actively been seeking new opportunities in northern Ontario and Nevada as well as other areas of British Columbia. Several opportunities for joint participation are currently being pursued.

The operations review and our financial statements should assure all concerned that our presence will be strong next year and in years to come. Your support is appreciated.

On behalf of the Board,

J.J. O'Neill
President

OPERATIONS REVIEW

Frasergold Property, British Columbia

The company has completed a major development and exploration drill program on the Frasergold Property, located 100 kilometres east of Williams Lake in central British Columbia. Project costs exceeded $300,000, the majority coming from a private placement of $225,000. In addition, the Provincial Government granted a $35,000 Mineral Exploration Grant specifically to be spent on the Frasergold Project. The balance of the funds came from the company's uncommitted treasury.

The 1986 programme commenced on break-up in early June. This work consisted of:

1) Resampling and re-evaluating surface showings.

2) Bulk sampling (150-500 kg) surface outcrops, to complete some preliminary metallurgical tests and to determine the actual content of gold in a bulk of rock.

3) Limited reverse circulation rock-chip drilling (4½ inch diameter sample) to compare gold content with NQ core drilling (1⅞ inch diameter) to the larger diameter chip sample.

Results of the initial phase concluded:

1) High grade vein or veins are found on surface that indicate continuity along strike length of 15-25 metres. This is in contrast to very lenticular, poddy nature of veins in the area of the 1985 bulk sample.

2) Visible particulate gold was located in quartz veins in surface exposures. In addition, very spectacular smearing of gold on cleavage faces of phyllite associated with quartz veins was discovered in float.

3) Three larger diameter drill cutting samples provided assays indicating grades two to two-and-one-half times the reported assays of the NQ drill core.

4) All bulk samples have been sampled under laboratory conditions, and have provided assay results at a statistically high confidence level. Three bulk samples were milled, indicating total calculated gold content, to approximate the sample assays. It is concluded that our assay procedures of Frasergold ore are extremely good.

5) Two bulk samples collected from the high grade hanging-wall of the Jay Zone indicate gold content of 0.4-0.5 ounces per ton. This content of gold had not previously been reported in earlier drilling.

6) Preliminary metallurgical testing of the three samples indicates a very high cyanide leach recovery of the gold (greater than 90 percent), in less than 24 hours of leach time. The company's metallurgist is suggesting optimum recovery would be by a combined gravity/flotation preconcentration.

Two portions of the drill tested area (1983/84), were selected for detailed drilling; and commenced September 1, 1986. The drilling was completed with HQ equipment, providing core samples 2½ inch diameter, or approximately 50 percent by volume, larger than the NQ core samples.

1) **Jay Zone:**

Surface sampling and reverse circulation drilling indicated high-grade underground potential of 0.4 - 1.0 ounces per ton over 1.5 to 3 metres; narrow width bulk tonnage reserves grading 0.13 - 0.18 ounces per ton over 9 to 11 metres, and large width bulk tonnage reserves 0.05 - 0.06 ounces per ton over 30 to 40 metres.

2) **Grouse Zone:**

Surface sampling indicated high-grade reserve potential of 0.25 ounces per ton over 2 to 3 metres, and low grade bulk tonnage potential over 20 metres, grading 0.03 - 0.05 ounces per ton. Some spectacular visible gold was found as smears in the schistosity planes of phyllite associated with quartz.

Eleven holes were drilled into the Jay Zone at 25 - 50 metre drill hole spacing. Although preliminary assays indicate erratic results, varying immensely from hole to hole, most holes intersected the high-grade hanging-wall zone, and indicated the width of low grade reserves. Hole number 86-18 was the best drilled into the zone, the raw assay data indicating 1.31 ounces per ton gold over 1.5 metres; 0.107 ounces gold per ton over 24 metres; and 0.072 ounces per ton gold over 39 metres. These are considered true widths.

Visible gold was noted in eight of the eleven holes drilled into the Jay Zone. The size of the particles measured up to 2 mm × 3 mm × 5 mm, however, the best assay of a 1.5 metre length of core with visible gold at these dimensions is 0.100 ounces per ton gold. Assays of drill core with visible gold particles ranged as low as 0.005 ounces gold per ton. It is felt these assays badly misrepresent the gold content in core, and are caused by a combination of the two following factors:

1) The particle of gold does not get included into the normal assay procedures.

2) Cutting the particle with the drill bits or diamond saw has destroyed the particle for assay purposes.

Samples including some of the coarse particles are being reassayed by special assay methods. On evaluation of these results, it may be necessary to reassay further samples. On return of all assays, a final evaluation of indicated reserves will be derived and released in report form by the company's consultants.

Two holes were drilled into the Grouse Zone. Visible gold was intersected in one hole, however, not to the significance as located on surface. General assays were low and of no economic significance.

Five exploration holes were drilled into the northwest extension of the main gold-bearing horizon. Four holes intersected visible gold, the best intersection of the raw assay data being as follows:

– Hole number 30:	28 metres @ 0.021 ounces gold per ton
(inc.)	6 metres @ 0.057 ounces gold per ton
and	3 metres @ 0.065 ounces gold per ton
– Hole number 32:	25 metres @ 0.027 ounces gold per ton
(inc.)	7.5 metres @ 0.054 ounces gold per ton
and	7.5 metres @ 0.062 ounces gold per ton
(inc.)	1.5 metres @ 0.223 ounces gold per ton

Further assay testing of all gold intersections is being contemplated prior to final evaluation.

By the Annual General Meeting it is hoped to have reserve estimates and projections completed.

Based on a preliminary review of data by the company's consultants, their comments have focused upon a major underground bulk sampling and pilot mill testing program slated for 1987. This will test the actual recoverable gold content in rock, and is the generally accepted recommendation for coarse gold deposits. Specific recommendations will be with their final report on completion of total evaluation of results.

Dor Claims, British Columbia

The Doreen Lake Property is located 25 km east of Horsefly and consists of 3 claims (48 units).

One claim was located in 1986 covering the western projection of the geochemical anomaly. Sufficient assessment work was completed on this new claim and was the only work completed during 1986.

In summary only a small portion (200 metres) of a large geochemical anomonoly has been explored (1500 m). Assay values reported to date:

Drill core	– 0.026 ounces gold per ton (2.1 metres)
Surface showings	– 0.15 ounces gold per ton (2.0 metres)
Float	– 2.0 ounces gold per ton

Trenching of the entire anomaly is planned for 1987.

Quesnel Project, British Columbia

Interest in four of the five properties in this area was terminated in April, 1986. The Ahbau Lake property, 4 claims (80 units) is located 25 km north of Quesnel, B.C., and was the only property retained under option agreement.

Work during 1986 included detailed soil sampling in areas of anomalous values during the 1985 program, and continued reconnaissance sampling in the northern portion of the property. Of interest are some indicated anomalous values ranging to 2650 ppb Au associated with quartz veins in a similar geological environment to the Frasergold Project. Also indicated in this area is a small but geologically significant ultrabasic stock. Further detailed soil sampling is recommended for 1987.

Miller Claim, British Columbia

The Miller Claim was optioned during 1986 and is located 25 km west of Vernon, B.C.

The claim is located in a similar geological environment and along strike of the "RW" vein gold deposit of Huntington Resources, located 4 km to the northwest. Reconnaissance soil and panned concentrate sampling revealed anomalous values in the eastern portion of the claim. Detailed follow-up work is anticipated in 1987.

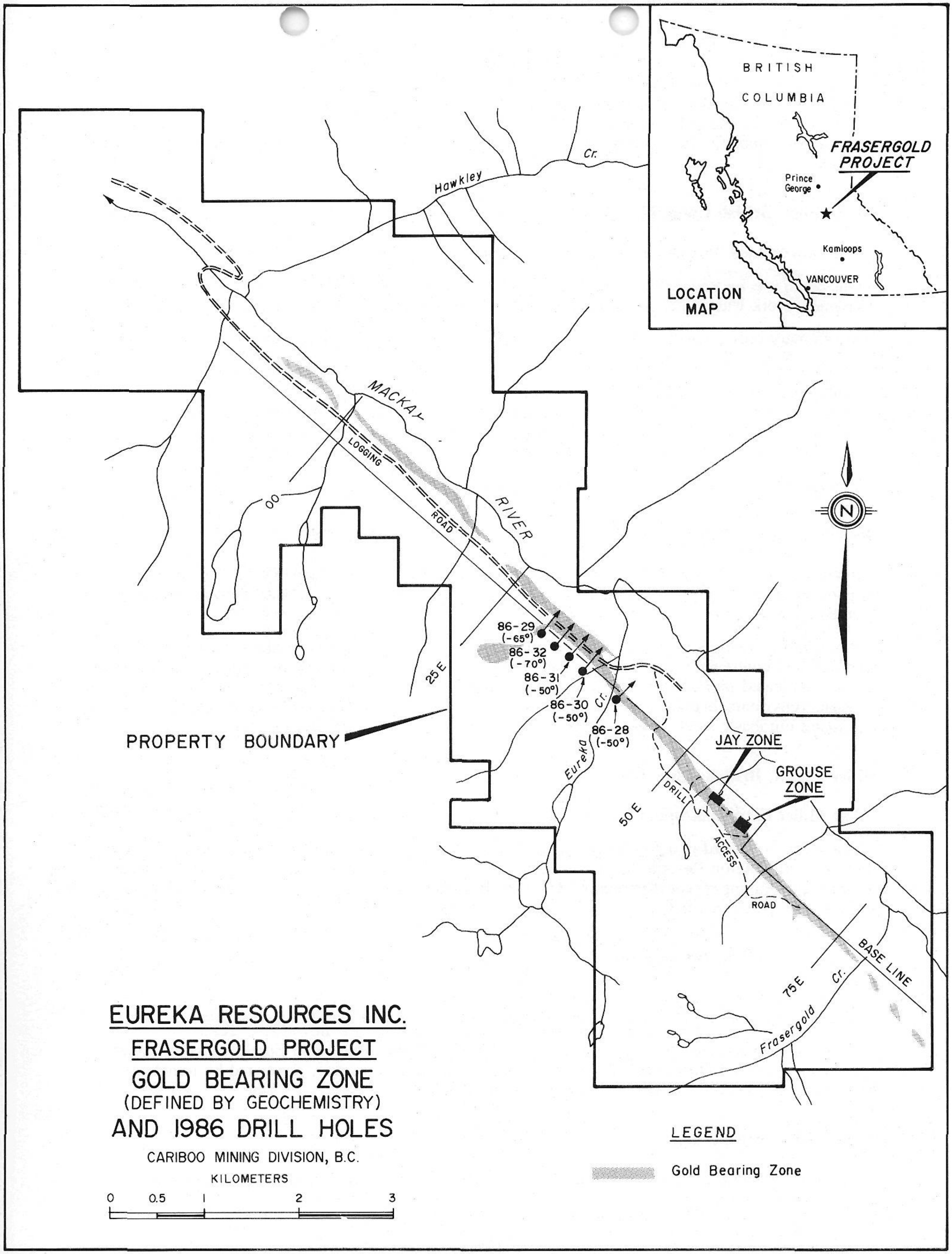
Noel Property, British Columbia

By completing assessment work requirements on the precious metal Noel claims located 12 km southwest of Goldbridge, B.C., the company has the right to earn a 100 percent interest in these claims.

Further reconnaissance geochemistry completed by the claim owners and Eureka have indicated positive anomalous values associated with the known showing, however, not tested by trenching or drilling. Further detailed sampling is suggested during 1987.

Crystal Hill Project, Arizona

All interest in this project was terminated during 1986, due to subeconomic values revealed from an extensive trenching program.

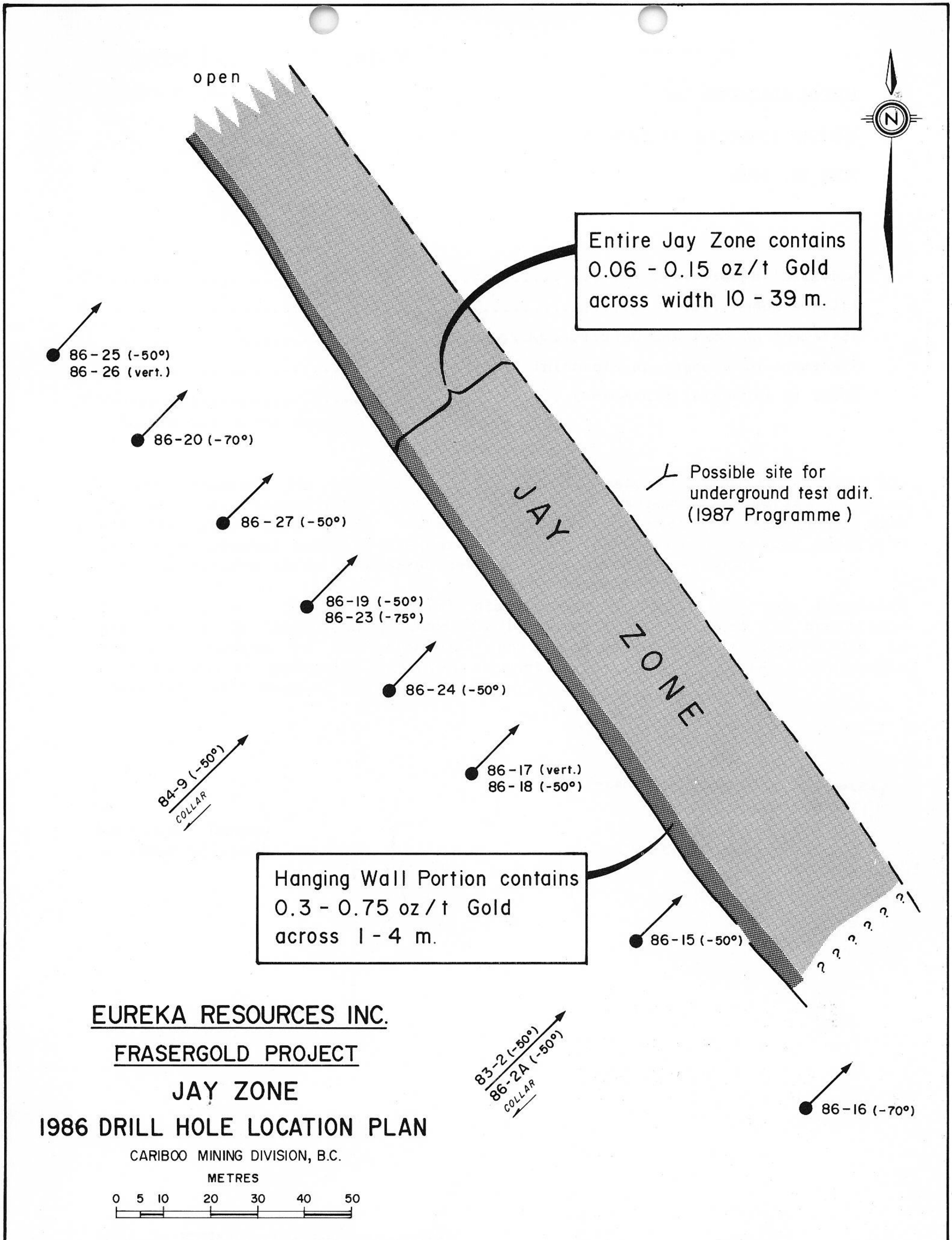


EUREKA RESOURCES INC.

FRASERGOLD PROJECT

GOLD BEARING ZONE
(DEFINED BY GEOCHEMISTRY)
AND 1986 DRILL HOLES

CARIBOO MINING DIVISION, B.C.



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FRASERGOLD PROJECT

JAY ZONE

1986 DRILL HOLE LOCATION PLAN

CARIBOO MINING DIVISION, B.C.

EUREKA RESOURCES INC.

AUDITED FINANCIAL STATEMENTS

JUNE 30, 1986

Thorne Ernst & Whinney

Chartered Accountants

Predecessor firms:
Thorne Riddell
Ernst & Whinney

AUDITORS' REPORT

To the Shareholders of
Eureka Resources Inc.

We have examined the balance sheet of Eureka Resources Inc. as at June 30, 1986 and the statements of loss 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 June 30, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Vancouver, Canada
November 10, 1986

Chartered Accountants

EUREKA RESOURCES INC.

BALANCE SHEET

	June 30 1986	1985
ASSETS		
CURRENT ASSETS		
Cash and term deposits	$1,124,603	$1,354,252
Accounts receivable	13,797	7,432
Advances to related parties	3,500	3,500
	1,141,900	1,365,184
MARKETABLE SECURITIES, at cost (note 2) (market value $50,400)	56,000	-
INVESTMENT IN MINERAL PROPERTIES (note 3)	327,517	173,602
	$1,525,417	$1,538,786
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 16,992	$ 21,037
SHAREHOLDERS' EQUITY		
Capital stock (note 4)		
Authorized		
10,000,000 common shares, without par value		
Issued		
3,687,001 shares (1985, 3,584,501 shares)	1,673,290	1,661,040
Deficit	164,865	143,291
	1,508,425	1,517,749
COMMITMENTS (note 5)		
	$1,525,417	$1,538,786

APPROVED BY THE DIRECTORS:

_______________ Director

_______________ Director

EUREKA RESOURCES INC.

STATEMENT OF LOSS AND DEFICIT

	Year Ended June 30 1986	1985
Interest income	$109,133	$142,689
Expenses		
Abandonment of mineral properties	41,714	90,255
Administration	4,539	15,836
Advertising and promotion	1,163	1,939
Bank charges	322	525
Capital tax	1,427	6,623
Office	19,891	2,586
Printing	5,960	4,887
Professional fees	9,909	11,521
Property examination	7,402	32,015
Salaries	28,490	15,550
Trust services	9,890	20,260
	130,707	201,997
LOSS FOR THE YEAR	21,574	59,308
Deficit at beginning of year	143,291	83,983
DEFICIT AT END OF YEAR	$164,865	$143,291

EUREKA RESOURCES INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended June 30 1986	1985
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Loss for the year	$ (21,574)	$ (59,308)
Items not affecting cash		
Abandonment of mineral properties	41,714	90,255
Additions to investment in mineral properties	(195,629)	(86,815)
Less share capital issued in consideration	12,250	3,630
	(163,239)	(52,238)
Changes in non-cash components of working capital		
Accounts receivable	(6,365)	(3,700)
Due from related party	-	1,500
Accounts payable	(4,045)	10,382
Due to related party	-	(6,012)
	(173,649)	(50,068)
FINANCING ACTIVITIES		
Proceeds from optionees	-	70,000
Increase in share capital	-	4,200
	-	74,200
INVESTMENT ACTIVITIES		
Marketable securities	(56,000)	-
INCREASE (DECREASE) IN CASH POSITION	(229,649)	24,132
Cash position at beginning of year	1,354,252	1,330,120
CASH POSITION AT END OF YEAR	$1,124,603	$1,354,252

(Cash position is represented by cash and term deposits)

EUREKA RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1985

GENERAL

The Company was incorporated on June 16, 1981 under the Company Act of British Columbia.

SIGNIFICANT ACCOUNTING POLICY

Mineral Properties

The cost of acquiring and exploring mineral properties is capitalized. When a property is determined to be uneconomic, the capitalized cost of the property is charged to expense.

1. CASH AND TERM DEPOSITS

Included in the amount is a $5,000 term deposit pledged as security to the Chief Inspector of Mines of the Province of British Columbia pursuant to the Mining Regulations Act (B.C.).

2. MARKETABLE SECURITIES

In January 1986, the Company participated in a private placement issue of shares in Hawthorne Gold Corporation whereby 186,669 shares in Hawthorne Gold Corporation were acquired for a cash payment of $56,000 (30¢ per share); market value $50,400 (27¢ per share). Under the terms of the issue, the Company has a further option to acquire 100,000 shares at 50¢ per share on December 31, 1986.

3. INVESTMENT IN MINERAL PROPERTIES

The Company's investment in mineral properties consists of the following:

a) Frasergold Option Agreement (see note 5)	
Acquisition of interest by issuance of 500,000 shares	$ 55,000
Payment for exploration work by issuance of 350,000 shares	105,000
Issuance of 199,000 shares under option agreement	21,890
Payment per option agreement	52,000
Exploration and development costs	142,450
Received from optionee	(141,500)
Carried Forward	234,840

EUREKA RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENT IN MINERAL PROPERTIES (Continued)

Brought Forward	$234,840
b) Dor Claims	
Acquisition of claims by issuance of 250,000 shares	20,000
Exploration and development costs	49,589
Received from optionee	(10,000)
	59,589
c) Ahbau Lake (Quesnel) Project (see note 5)	
Payment per option agreement costs	5,000
Issuance of 2,500 shares under option agreement	1,250
Exploration and development	25,490
	31,740
d) Miller Claims (Vernon Mining Division) (see note 5)	
Payment per option agreement	1,000
Exploration and development costs	348
	1,348
TOTAL INVESTMENT IN MINERAL PROPERTIES	$327,517

In October 1985 the Company abandoned the Goldbottom Creek project which had been determined to be uneconomic and in July 1986 the Company abandoned the Crystal Hill project which had been determined to be uneconomic.

4. CAPITAL STOCK

During the year, the Company issued 100,000 shares as required under the Frasergold Option Agreement (see note 5). The Company also issued 2,500 shares at $.50 each pursuant to the Ahbau Lake option agreement (see note 5).

EUREKA RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. COMMITMENTS

(a) Under the Frasergold Option Agreement, the Company can maintain their option by allotting shares at $0.11 each and making payments in cash on or before December 31 of each year as follows:

	Payments	Shares
1986	$25,000	100,000
1987	75,000	100,000

Shares will be issued only if a feasibility study recommends production.

The Company has agreed to issue an additional 210,000 shares to related parties as further consideration for exploration work. These shares will be at a deemed price of $0.30 each and will be issued as follows:

Upon receipt of feasibility study recommending production	70,000
Upon commencement of production	70,000
Upon repayment of pre-production capital costs	70,000

b) Under the Ahbau Lake (Quesnel) Option Agreement entered into on August 23, 1985 the Company was granted an option to acquire a 100% interest in a group of five mining claims located in British Columbia by making cash payments and share releases. On April 1, 1986 the Company converted this option to an option to acquire a 100% interest in one of the five claims (Ahbau Lake) by making cash payments and share releases as follows:

	Payments	Shares
April 1, 1986	$ 5,000	2,500
February 1, 1987	7,500	5,000
February 1, 1988	12,500	10,000
February 1, 1989	12,500	15,000
February 1, 1990	35,000	27,500

On completion of the option period, the optionor would be granted a 10% net production interest. The Company has an option to purchase the 10% net production interest for $500,000 or a release of 100,000 shares.

5. COMMITMENTS (Continued)

c) Under the Miller Claim option agreement entered into on June 13, 1986 the Company can maintain an option to purchase a 100% interest in the claim in the Vernon district of British Columbia by making cash payments and committing to expenditures or development as follows:

On or before October 1,	Payments	Work Commitment
1986	$ 1,000	$ 2,000
1987	2,000	5,000
1988	5,000	20,000
1989	10,000	50,000
1990	25,000	100,000

On completion of these commitments the optionor will have a 10% net profits interest. The Company has an option to purchase the 10% net profits interest for $250,000 cash and 100,000 shares in the Company in the event that commercial production is achieved.

6. RELATED PARTY TRANSACTIONS

The Company has paid rent to a related party totalling $3,600 during the year. The Company has acquired shares of Hawthorne Gold Corporation, a company in which the directors of Eureka Resources Inc. have significant shareholdings (see note 2).

7. LOSS PER SHARE

The loss per share for the year ended June 30, 1986 is approximately $0.01 (1985, loss per share $0.01).

8. SUBSEQUENT EVENT

By an agreement entered into on July 25, 1986, the Company undertook a private placement of 424,528 shares at 53¢ per share. Under the agreement, the purchaser, who is a director of the Company, has an option to purchase up to 424,528 additional shares at 63¢ per share on or prior to July 24, 1987. The proceeds of the share issue will be used to fund the development program on the Frasergold property. The agreement allows the purchaser to deduct the amounts paid under the initial issue and the option as Canadian exploration expenses and an equivalent amount will therefore not be available as a deduction for tax purposes to the Company.