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MOSQUITO CONSOLIDATED GOLD MINES LIMITED

1987 Annual Report

Annual Meeting

The Annual Meeting of the Shareholders will be held on Friday, June 17, 1988 at 10:00 a.m. (Vancouver time) in the Boardroom, 17th floor, 1075 West Georgia Street, Vancouver, British Columbia. Shareholders are encouraged to attend, if unable, they are kindly requested to sign and return the proxy to the Company.

MOSQUITO CONSOLIDATED GOLD MINES LIMITED

LETTER TO SHAREHOLDERS

In order to give the shareholders an up-to-date view of our activities this letter and the following summary of operations are current to May 1, 1988, although the financial statements are to our year-end of December 31, 1987.

In our letter to shareholders last year we declared that "all the ingredients are finally together: a remarkable land holding on a proven productive trend, excellent gold grade, a tested, competent technical staff utilizing innovative geological and geophysical techniques, an almost ideal location with infrastructure (including an operating mill) in place." We should have said that nearly all the ingredients were there — what we lacked were ore reserves and the money to explore for and replenish them. This year, I am delighted to report, we finally have the money and at this time next year, I look forward to reporting to you on the final ingredient — new ore reserves.

We have arranged two "flow-through" financings totalling $1,487,000 and have entered into an agreement with Lyon Lake Mines Ltd. whereby Lyon Lake can earn up to 50% working interest in the mining operation and mineral claims by the expenditure of $6,000,000 on an exploration program on the property. Lyon Lake have completed a financing for this purpose and have committed the $6,000,000 required to earn the 50% interest in the "Mosquito" property comprising the Mosquito Creek and Island Mountain claim groups. We have therefore $7,487,000 available for the exploration program described in this report.

The year 1988, therefore, is likely to be the most exciting and most significant year in the history of the company.

Submitted on behalf of the Board,

C.J. McFeely, P.Eng.,
President

MOSQUITO CONSOLIDATED
GOLD MINES LIMITED

OPERATIONS

Mosquito - Island Mountain Claim Group

The exploration adit ('Jukes' adit) shown on the centre fold of this report was collared in October, 1987. Later in 1987 two 'flow-through' financings were arranged with Westax Precious Metals Ltd. and NIM Management Ltd. for a total of $1,487,000. Utilizing a portion of these funds, the portal area was redesigned and enlarged to facilitate rapid waste handling and also to permit triple shifting. By mid-April three shifts per day were employed in driving the adit.

An agreement has been entered into with Lyon Lake Mines Ltd. whereby Lyon Lake has committed $6,000,000 to an exploration program on these claim groups. Upon completion of the program Lyon Lake will be a 50% joint venture partner with Mosquito as operator.

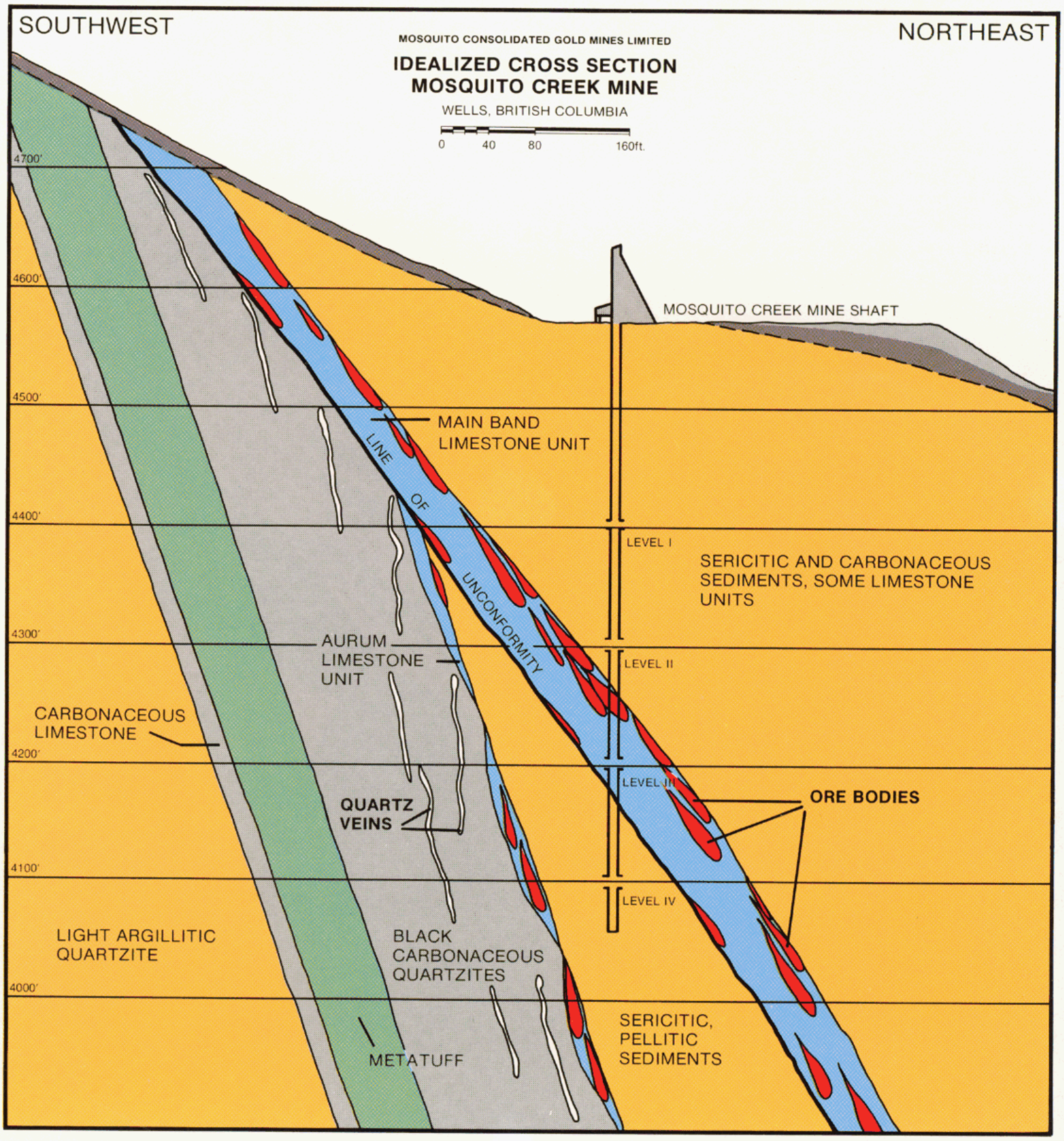
A management committee composed of Mosquito and Lyon Lake personnel met April 13th, at Wells, B.C., and approved a program involving a second entry near the Island Mountain main haulage adit. The new exploration adit would drive along the "Main Band" host limestone — which is projected to outcrop at the 4000′ level near the old Island Mountain portal.

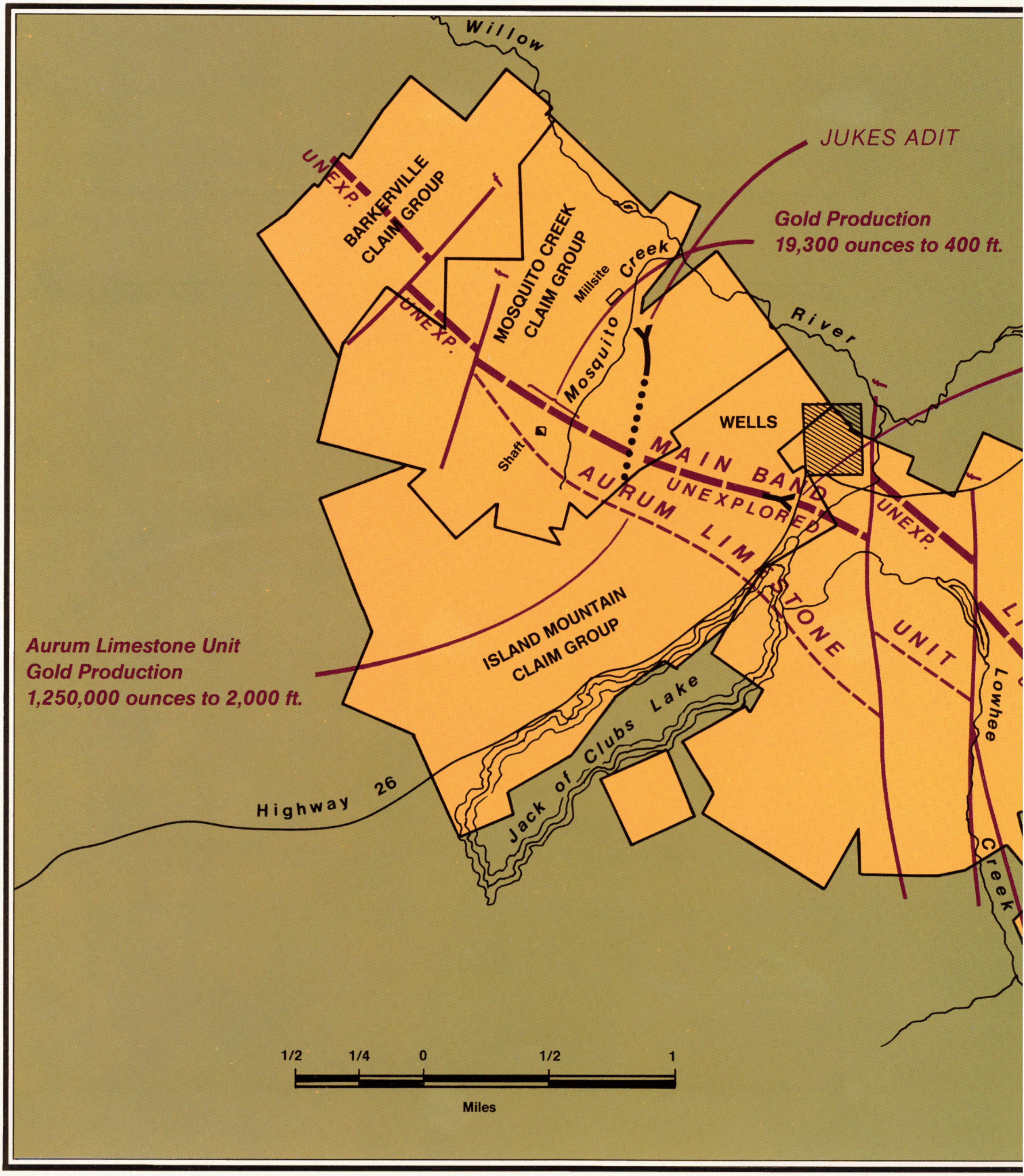
This second adit will be of particular interest because, unlike the Jukes adit, it will start in the "Main Band" host rock and thus we will be exposed to the likelihood of encountering ore bodies from day one of this drive. The Jukes adit is not expected to intersect the "Main Band" host until sometime in July, and therefore exploration for ore by drifting along this member cannot be expected until then.

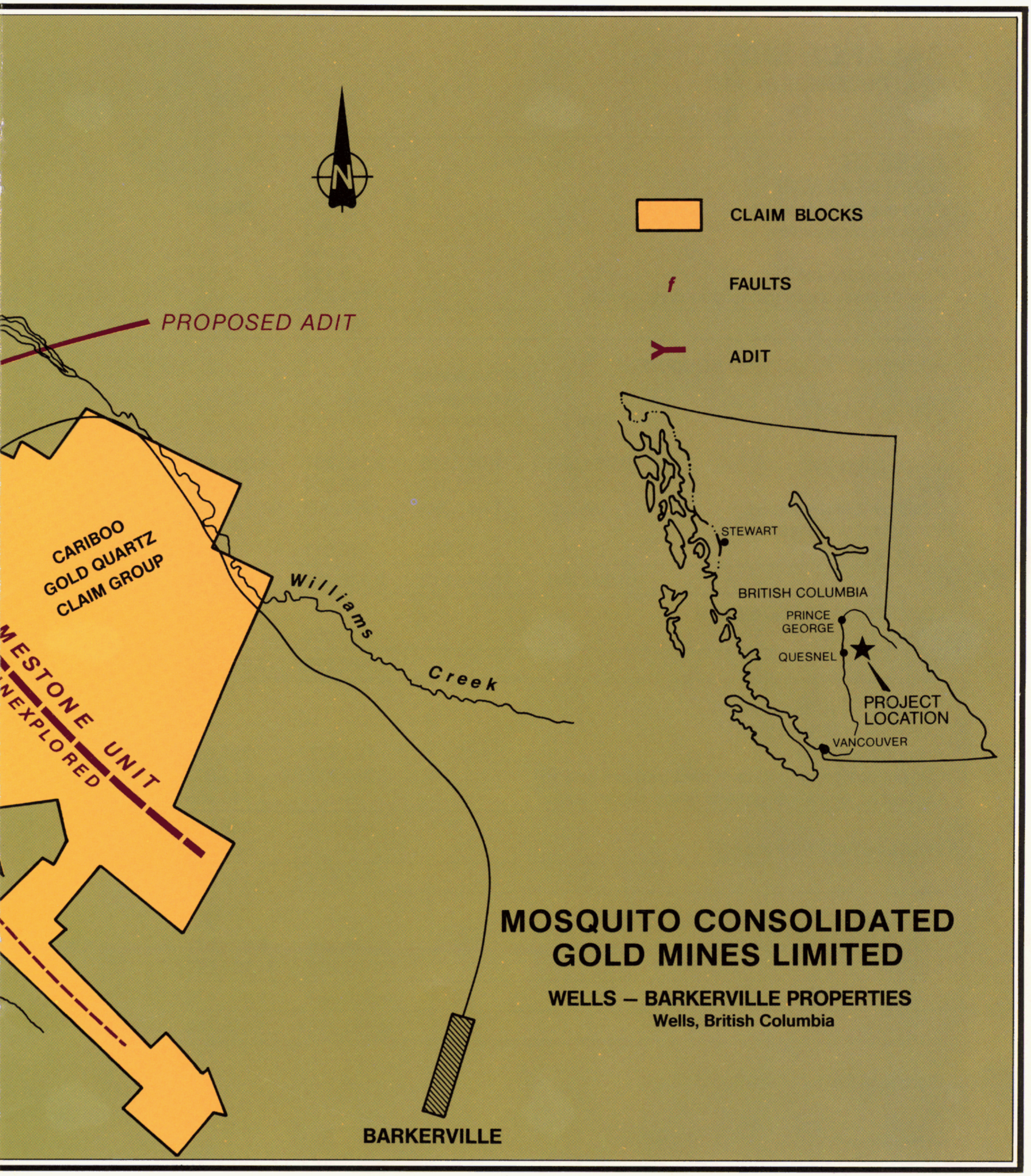
These two adits together with the related diamond and percussion drilling, drifting and cross-cutting, geological and geophysical surveys comprise a program involving a total expenditure by February 28, 1989 of approximately $7,400,000. Implementation of the program is the responsibility of our new general manager Mr. Michael P. Gross, formerly Manager of Metal Mining - Hecla Mining Company.

Cariboo Gold Quartz Claim Group

We are currently negotiating an agreement with respect to exploration on this acreage. The negotiations are concerned only with the possibility of developing a large bulk tonnage operation. If this does not prove to be feasible then no interest will be earned in the acreage. Initial work on this project is expected to begin this summer.


SOUTHWEST
NORTHEAST
MOSQUITO CONSOLIDATED GOLD MINES LIMITED
IDEALIZED CROSS SECTION
MOSQUITO CREEK MINE
WELLS, BRITISH COLUMBIA
0 40 80 160ft.
4700'
4600'
4500'
4400'
4300'
4200'
4100'
4000'
MOSQUITO CREEK MINE SHAFT
MAIN BAND
LIMESTONE UNIT
LINE OF UNCONFORMITY
LEVEL I
LEVEL II
LEVEL III
LEVEL IV
SERICITIC AND CARBONACEOUS
SEDIMENTS, SOME LIMESTONE
UNITS
AURUM
LIMESTONE
UNIT
CARBONACEOUS
LIMESTONE
QUARTZ
VEINS
ORE BODIES
LIGHT ARGILLITIC
QUARTZITE
BLACK
CARBONACEOUS
QUARTZITES
SERICITIC,
PELLITIC
SEDIMENTS
METATUFF


Willow
River
JUKES ADIT
Gold Production
19,300 ounces to 400 ft.
BARKERVILLE CLAIM GROUP
MOSQUITO CREEK CLAIM GROUP
UNEXP.
UNEXP.
UNEXP.
Millsite
Mosquito Creek
Shaft
WELLS
MAIN BAND
UNEXPLORED
AURUM LIMESTONE UNIT
ISLAND MOUNTAIN CLAIM GROUP
Aurum Limestone Unit
Gold Production
1,250,000 ounces to 2,000 ft.
Jack of Clubs Lake
Highway 26
Lowhee Creek
1/2
1/4
0
1/2
1
Miles


N
CLAIM BLOCKS
f
FAULTS
ADIT
PROPOSED ADIT
STEWART
BRITISH COLUMBIA
PRINCE GEORGE
QUESNEL
PROJECT LOCATION
VANCOUVER
CARIBOO GOLD QUARTZ CLAIM GROUP
Williams Creek
MESTONE UNIT
NEXPLORED
BARKERVILLE
MOSQUITO CONSOLIDATED
GOLD MINES LIMITED
WELLS – BARKERVILLE PROPERTIES
Wells, British Columbia

MOSQUITO CONSOLIDATED
GOLD MINES LIMITED

BALANCE SHEET
AS AT DECEMBER 31, 1987

	Cost $	Accumulated depreciation and depletion $	1987 $	1986 $
ASSETS				
CURRENT ASSETS				
Cash and term deposits			135,785	398,836
Accounts receivable			169,630	—
Inventory			25,056	21,978
Prepaid expenses			8,160	8,677
Flow-through share subscriptions receivable			145,273	—
			483,904	429,491
PROPERTY, PLANT AND EQUIPMENT				
Mining properties	9,554,552	7,041,315	2,513,237	2,308,427
Mill	1,609,078	1,503,214	105,864	105,864
Equipment and vehicles	1,702,295	1,481,993	220,302	176,268
Equipment under capital lease	—	—	—	30,770
Office furniture	29,061	18,990	10,071	4,449
	12,894,986	10,045,512	2,849,474	2,625,778
LONG-TERM INVESTMENTS (note 7)			150,000	—
			3,483,378	3,055,269
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable			193,677	234,681
Current portion of long-term debt (notes 4 and 13)			250,837	213,397
Current portion of obligations under capital lease			—	18,455
			444,514	466,533
LONG-TERM DEBT (note 4)			—	652,258
			444,514	1,118,791
SHAREHOLDERS' EQUITY				
CAPITAL STOCK (note 6)			8,148,126	6,873,077
DEFICIT			(5,109,262)	(4,936,599)
			3,038,864	1,936,478
			3,483,378	3,055,269

Signed on Behalf of the Board

Director Director

MOSQUITO CONSOLIDATED GOLD MINES LIMITED

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1987

	1987 $	1986 $
INCOME		
Mine production	192,704	504,753
EXPENSES		
Mine production	136,157	312,003
Depreciation	2,518	89,842
Interest — long-term debt	63,933	111,881
General and administrative	189,006	152,812
	391,614	666,538
LOSS FROM OPERATIONS	198,910	161,785
OTHER INCOME		
Rental income (note 5)	14,764	138,201
Interest income	11,483	9,316
	26,247	147,517
LOSS FOR THE YEAR	172,663	14,268
DEFICIT — BEGINNING OF YEAR	4,936,599	4,922,331
DEFICIT — END OF YEAR	5,109,262	4,936,599
LOSS PER SHARE (note 8)	.05	.00

MOSQUITO CONSOLIDATED
GOLD MINES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1987

	1987 $	1986 $
OPERATING ACTIVITIES		
Cash provided from (used in) operations —		
Loss for the year	(172,663)	(14,268)
Items not affecting cash flow —		
Depreciation	2,518	89,842
Accrued interest on long-term debt	63,395	54,304
	(106,750)	129,878
Net change in non-cash working capital balances related to operations*	(213,195)	315,184
Cash provided from (used in) operating activities	(319,945)	445,062
FINANCING ACTIVITIES		
Decrease in long-term debt	(41,770)	(76,856)
Decrease in obligations under capital lease	(18,455)	(67,910)
Issuance of capital stock for cash	493,333	—
Issuance of capital stock on conversion of debentures payable	636,443	—
Decrease in debentures payable	(636,443)	—
Increase in capital stock — flow-through shares	145,273	—
Flow-through share subscriptions receivable	(145,273)	—
Cash provided from (used in) financing activities	433,108	(144,766)
INVESTING ACTIVITIES		
Increase in long-term investments	(150,000)	—
Additions to property, plant and equipment	(226,214)	(8,949)
Cash used in investing activities	(376,214)	(8,949)
INCREASE (DECREASE) IN CASH FOR THE YEAR	(263,051)	291,347
CASH AND TERM DEPOSITS — BEGINNING OF YEAR	398,836	107,489
CASH AND TERM DEPOSITS — END OF YEAR	135,785	398,836

*Consisting of changes in accounts receivable, inventory, prepaid expenses, and accounts payable.

MOSQUITO CONSOLIDATED GOLD MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1987

1. NAME CHANGE

During the year, the company changed its name from The Mosquito Creek Gold Mining Company Limited to Mosquito Consolidated Gold Mines Limited.

2. BASIS OF PRESENTATION

The recoverability of the amounts shown for mining properties and related costs and the continued operation of the company as a going concern is dependent upon the ability of the company to continue to obtain necessary financing to continue the development of its mining properties and upon future profitable production.

3. ACCOUNTING POLICIES

Mining properties

The company capitalizes its costs relating to the acquisition, development and exploration of mining properties. Proceeds from the disposal of working interests in mining properties and proceeds from government grants have been credited to the carrying value of the asset.

Capitalized exploration and development costs and the mill, which are recorded at cost, are depleted on the unit-of-production method based on estimated recoverable reserves; however, the company's mining operations from 1985 to date have been conducted for the purpose of determining the feasibility of finding ore reserves using different techniques. The amount of recoverable reserves has not yet been determined and accordingly, no depletion of the mining properties and mill has been charged since January 1, 1985.

Equipment and office furniture are recorded at cost and depreciated on the declining balance method at the rates of 30% and 20% respectively until salvage value is reached. Equipment has been depreciated to its salvage value and accordingly, no further depreciation has been charged on equipment in 1987.

Inventory

Inventory represents mine supplies and unsold gold which are valued at the lower of net realizable value and cost.

Joint ventures

The company's mining activity is conducted jointly with others under a joint venture agreement and the accounts reflect only the company's proportionate interest in such activity.

4. LONG-TERM DEBT

	1987 $	1986 $
Convertible debenture (1986 — two debentures) dated December 6, 1982 of $150,000 plus interest payable on demand, bearing interest at bank prime rate plus 1½%	250,837	492,258
Convertible debenture payable to a related party, Peregrine Petroleum Ltd.	—	373,397
	250,837	865,655
Less: Current portion	250,837	213,397
	—	652,258

A first floating charge on the assets of the company is provided as security for the debenture. The debenture is subject to call on demand (note 13).

5. MINING OPERATIONS

Effective May 1, 1985, the company entered into a joint venture agreement with the company's president, Cormorant Resources Ltd., a company owned 100% by the company's president and two other unrelated parties, whereby venturers agreed to expend $500,000 on the Mosquito Creek gold property at Wells, British Columbia. After expending $500,000 on the property, the venturers would earn an undivided 10% working interest in the Mosquito Creek gold property and an undivided 10% working interest in the adjoining Island Mountain and Cariboo Gold properties (the Property). $500,000 was expended by October 1, 1985, thereby reducing the company's interest in the Property to 90%. The participants are entitled to receive 80% of the net profits generated by the Property until they have recovered $500,000 and subsequently, they are entitled to receive 50% of the net profits generated by the Property until they recover an additional $250,000. When the participants have recovered $750,000 cumulatively, they will participate in the Property to the extent of their 10% working interest.

During the year, the joint venture incurred a loss of $98,575, of which $19,715 was allocated to the company.

The joint venture has cumulative earnings of $139,578 to date of which $111,662 has been allocated to joint venture participants, leaving $388,338 of the original $500,000 contribution to be recovered by the participants.

As part of the joint venture agreements referred to above, the payments required under certain lease contracts on mining equipment were made from joint venture funds. During the year, payments in the amounts of $14,764 (1986 — $138,201) were made on the company's behalf and have been accounted for as rental income.

6. CAPITAL STOCK

(a) Authorized —
25,000,000 common shares without par value

On December 4, 1987, pursuant to a special resolution of shareholders, the company consolidated its outstanding shares on a five to one basis, changed the name of the company from The Mosquito Creek Gold Mining Company Limited to Mosquito Consolidated Gold Mines Limited and the authorized number of common shares was increased from 25,000,000 shares to 25,000,000 shares without par value, on a post-consolidation basis.

(b) Issued and issuable —

	# of Shares	$
Balance — December 31, 1986	15,642,600	6,873,076
Issued by way of private placement	2,000,000	300,000
Issued on conversion of debenture payable to the company's president	957,873	239,468
Issued on conversion of debenture payable to a related party	1,587,903	396,976
Correction of previous understatement of shares issued	50,000	—
	20,238,376	7,809,520
Consolidation of shares at 5 to 1	4,047,676	7,809,520
Issued on conversion of warrants	193,333	193,333
Earned but not issued in connection with flow-through share agreement	76,864	145,273
Balance — December 31, 1987	4,317,873	8,148,126

— On January 30, 1987, by way of private placement, the company issued 2,000,000 shares and 2,000,000 share purchase warrants for cash consideration of $300,000 of which 1,800,000 shares were issued to directors and other related parties. For each two warrants held, the holder was entitled to purchase one further share of the company at a price of $0.20 per share. The warrants expired December 15, 1987;

— On July 31, 1987, 957,873 shares were issued to the company's president on conversion of $239,468 of debenture payable to him into shares;

— On July 31, 1987, 1,587,903 shares were issued to Peregrine Petroleum Ltd. (Peregrine), a related party, on conversion of $396,975 of debenture payable to Peregrine into shares; and

— On December 11, 1987, the company issued 193,333 shares (post-consolidation) for cash consideration of $193,333 on conversion of certain share purchase warrants referred to above.

(c) Flow-through shares

On November 17, 1987, the company entered into an agreement with NIM Management Ltd. to issue up to 549,795 flow-through shares (post-consolidation).

Under the terms of the agreement, up to $1,087,000 is to be spent on behalf of the subscriber between January 1, 1988 and December 31, 1988 in exploring the company's mining properties. Shares will be earned as the monies are spent on qualifying expenditures at a rate of one share for every $2.0712 of expenditure made before July 1, 1988 and one share for every $1.9771 of expenditure made after June 30, 1988.

On December 1, 1987, the company entered into an agreement with Westax Precious Metals Ltd. to issue up to 211,640 flow-through shares (post-consolidation).

Under the terms of the agreement, up to $400,000 shall be spent on behalf of the subscriber by February 29, 1988 in exploring the company's mining properties. Shares will be earned as the monies are spent on qualifying expenditures at a rate of one share for every $1.89 of expenditure made. At December 31, 1987, $145,273, representing 76,864 shares, had been spent on Westax's behalf.

All income tax deductions available as a result of these expenditures are for the account of the subscriber while the company retains title to the mining properties and the related reserves.

(d) Stock options and conversion rights

Subsequent to the year-end, the company, subject to regulatory approval, replaced all previously issued stock options (options to purchase 12,000 shares and 100,000 shares by employees and directors respectively, at a price of $2.25 per share) with options to purchase 130,000 and 145,000 shares held by employees and directors respectively. The options will be exercisable up to May 4, 1993 at a price of $0.92 per share.

The convertible debenture referred to in note 4 is convertible into common shares (post-consolidation) of the company up to the following dates at rates as follows:

— one share for each $1.50 of any principal and interest outstanding to July 31, 1988;
— one share for each $1.75 of any principal and interest outstanding to July 31, 1989;
— one share for each $2.00 of any principal and interest outstanding to July 31, 1990;
— one share for each $2.25 of any principal and interest outstanding to July 31, 1991;

7. LONG-TERM INVESTMENTS — at cost

During the year, the company acquired 375,000 shares of Klondike Gold Mining Corporation, a company without quoted market value, for cash consideration of $150,000.

8. LOSS PER SHARE

The loss per share has been calculated using the weighted average number of shares outstanding during the year after share consolidation. Exercise of the share options and conversion of the convertible debentures have an anti-dilutive effect on the loss per share.

9. RELATED PARTY TRANSACTIONS

(a) The company's president is the major shareholder and president of Peregrine Petroleum Ltd. (Peregrine), a publicly traded company which owns 35% of the company's shares.

(b) During the year, the company paid $12,000 (1986 — $25,750) to Peregrine as compensation for management services.

10. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company to the directors and officers of the company amounted to nil (1986 — nil).

11. FUTURE INCOME TAXES

The company has accumulated losses for tax purposes of $1,171,000 which may be carried forward and used to reduce taxable income in future years and for which no future tax benefit has been recognized in the accounts. These losses may be claimed no later than:

		$
Year ending December 31,	1990	541,000
	1991	139,000
	1992	316,000
	1994	175,000
		1,171,000

At December 31, 1987, exploration and development expenses totalling approximately $1,897,000 (1986 — $1,838,000) and undepreciated capital cost of $1,957,000 (1986 — $1,936,000) were carried forward for use in computing taxable income in future years. These amounts totalling $3,854,000 are in excess of the net book value of the related assets of $2,704,201. No future tax benefit relating to the excess of $1,149,799 has been recognized in the accounts.

12. SEGMENTED INFORMATION

The company's dominant industry segment is the operation and development of gold mining properties near Wells, in east-central British Columbia.

13. SUBSEQUENT EVENT

On March 28, 1988, the company finalized an agreement with Lyon Lake Mines Ltd. (N.P.L.) (Lyon) effective March 4, 1988 whereby the company agreed to grant Lyon the right to earn an undivided interest in up to 50% of the company's Mosquito Creek, Island Mountain and Barkerville mining properties by incurring up to $6,000,000 of exploration expenditures on the properties prior to February 28, 1989. Lyon will earn a 20% working interest in the properties for the first $2,400,000 of expenditures made, and an additional 10% for each $1,200,000 of expenditures made thereafter. The company will carry on as an independent contractor on behalf of Lyon throughout the expenditure period, earning a management fee equal to 12% of direct charges and recovering all overhead and supervision costs related to exploration work.

As part of the agreement referred to above, joint venture participants referred to in note 5, have converted their joint venture interests into net profit royalty interests.

The company has also agreed that the debenture holder referred to in note 4 is entitled to call up to 50% of the management fees and overhead recoveries received from Lyon during the expenditure period in complete or partial settlement of the debenture obligation. Accordingly, the entire debenture obligation has been classified as current.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Mosquito Consolidated Gold Mines Limited as at December 31, 1987 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 December 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 year.

Coopers & Lybrand

Chartered Accountants

March 18, 1988
Calgary, Alberta

MOSQUITO CONSOLIDATED
GOLD MINES LIMITED

CORPORATE INFORMATION

Executive Office

550, 225 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6

Mine Office

P.O. Box 160
Wells, British Columbia
V0K 2R0

Registered Office

17th Floor,
MacMillan Bloedel Building
1075 West Georgia Street
Vancouver, British Columbia
V6E 3G2

Board of Directors

Cameron J. McFeely,
Petroleum and Mining Executive

Kenneth B. Blakey,
Retired

Rodger A. Tourigny,
Petroleum Consultant

Officers

Cameron J. McFeely,
President

Susan M. Ruf,
Secretary

Legal Counsel

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Atkinson McMahon
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2400 Bow Valley Square III
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Calgary, Alberta
T2P 3G6

Transfer Agent and Registrar

Canada Trust
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V7X 1B1

Share Listing

Vancouver Stock Exchange
Symbol — MQO