ANNUAL REPORT 1986

THE MOSQUITO CREEK GOLD MINING COMPANY 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, 1987, although the financial statements are to our year-end of December 31, 1986.

On February 28, 1986 we entered into an agreement with Hecla Mining Company of Canada whereby Hecla could earn the option of putting the mine at Wells into production. After spending approximately $825,000 Hecla surrendered their option.

Subsequent to Hecla's departure, the mine has been operating on an experimental basis to provide criteria with respect to ore grade and mining methods. Batch milling of ore from this operation is providing funds to maintain the facilities at the mine and to keep essential personnel. In order to provide interim funds, a $300,000 private placement was arranged in January, 1987. By virtue of these arrangements the company is able to meet its commitments until a proposed financing is consummated.

It is no longer necessary for the company to seek out joint venture partners in order to have access to technical expertise. We have now within our own organization key personnel capable of achieving from the Mosquito and Island Mountain claim blocks the current objective of continuous production at the rate of 150 t/d with a minimum recovery grade of 0.5 oz/ton gold.

In our opinion, the Cariboo claim block has the potential to support a gold mining operation similar in size but separate from the Mosquito-Island Mountain operation; we are currently examining ways and means to finance and initiate a program based upon this objective. At this point we believe the best route to follow will be to incorporate a new company, majority owned by Mosquito Creek, which will be able to use flow-through funds not available to our mining operation. The new company will operate independently, but will be guided by expertise developed by the management of the parent. By this method of financing we will be able to explore the Cariboo claim block years before we could afford to do so from earnings, and at less dilution to the present shareholders. Therefore we hope shareholders will support the resolution.

The realities of the market place make necessary the reorganization of the capital structure of the Company. In order to market an offering of shares to net the Treasury at least $2,500,000, (to finance stage one of the exploration and development program) we are proposing a consolidation of one share per five shares presently held. Details are contained in the documents calling the Annual General Meeting of Shareholders. The action will also entail changing the name of the Company, in which however the name "Mosquito" will be retained.

The motions to be placed before the meeting on June 26, 1987 are designed to enable Mosquito Creek to develop into the profitable venture which is its potential. It is essential that this mining operation be broken out of the survival format forced on the Company by inadequate working capital. For the mine to have survived in face of the adversities of the last seven years has been an achievement in itself; however, the time has arrived for a turn around. All the ingredients are finally together: a remarkable land holding on a proven productive trend, excellent gold grades, a tested, competent technical staff utilizing innovative geological and geophysical techniques, and an almost ideal location with infrastructure (including an operating mill) in place. Best of all we have, finally, a good gold price and an ebullient gold market.

As President of this Company, I am determined that this will be the last Annual Report for me to sign on behalf of the Board in which we cannot report an outstanding year of performance and profitability. We ask for the support of our loyal shareholders for the proposals that we have concluded are necessary for the success of the Company. The time is now.

Submitted on behalf of the Board

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

O P E R A T I O N S

Land Holdings

The Mosquito Creek Gold Mining Company Limited was formed in 1971 to explore and develop 29 Crown-granted mineral claims and fractions totalling 998 acres which were acquired from Cariboo Gold Quartz Mining Company (now called Wharf Resources Ltd.) and Barkerville Mining Company Limited (npl). The claim block included two placer mining leases.

In 1983 the Company entered into two lease agreements. The first was executed with Wharf Resources Ltd. with respect to 17 Crown-granted mineral claims, and has since been replaced with a purchase agreement. The second agreement was with the Barkerville Mining Company Limited (npl), whereby 14 Crown-granted mineral claims and fractions approximating 430 acres adjoining the Company's ground to the North-West were leased. The lease provides for a royalty and annual rental, and may be extended by mutual consent beyond the initial expiry date of December, 1990.

By agreement dated July 12, 1985, "Mosquito" purchased from Wharf Resources Ltd. its entire land holdings on Island Mountain and Cow Mountain for 2,000,000 shares of the Company at a deemed value of $750,000. The purchase included the area covered by the previous lease arrangement, and consisted in total of 99 Crown-granted mineral claims and fractions containing 3,398 acres. The newly acquired ground adjoins the Company's orginal holding to the South-east and extends in that direction almost to the historic town of Barkerville. These claims contain the former producing mines of Island Mountain (or Aurum Mine) adjacent to the present mine, and, south of the Jack of Clubs Lake, the Cariboo No. 1 mine. These two mines produced about 1,250,000 ozs. of gold between 1933 and 1967.

Thus, as a result of the last four years activities, your management has managed to assemble under the Company's control an impressive land holding of 142 Crown-granted mineral claims comprising 4,826 acres containing three producing, or former producing, hard rock underground gold mines and numerous former prolific placer gold creeks. The holding is regarded as the most important in the historic Cariboo gold area and has the potential of many years of productive gold mining.

Geology

Mr. Don Sutherland, the Company's geological consultant, has been associated with developments at the Mosquito Creek mine since the summer of 1984. During this difficult period of poor gold markets, we survived by arranging three joint ventures (which are now terminated). From these operations we derived much new information concerning the geology of the property and about effective underground geological and geophysical techniques for locating ore bodies. As a result we can plan more efficient ore location and delineation, with a significant reduction in development costs.

Re-interpretation of the Mosquito Creek Mine geology shows that the ore is stratigraphically controlled and occurs in association with two limestone units. These are the Aurum Limestone Unit and Main Band Limestone Unit. The Aurum Limestone Unit was extensively developed in the former Island Mountain and Cariboo No. 1 mines, from which 1,250,000 ounces of gold were produced from three million tons of ore (both mines are now included within the Mosquito Creek land holdings). The Main Band Limestone Unit is wider and more persistent than that of the Aurum Limestone Unit. Where the Unit has been developed, it has yielded more gold per foot of development than the Aurum Limestone Unit, i.e. seven ounces of gold per foot of Main Band development compared with 2.9 ounces for the Aurum.

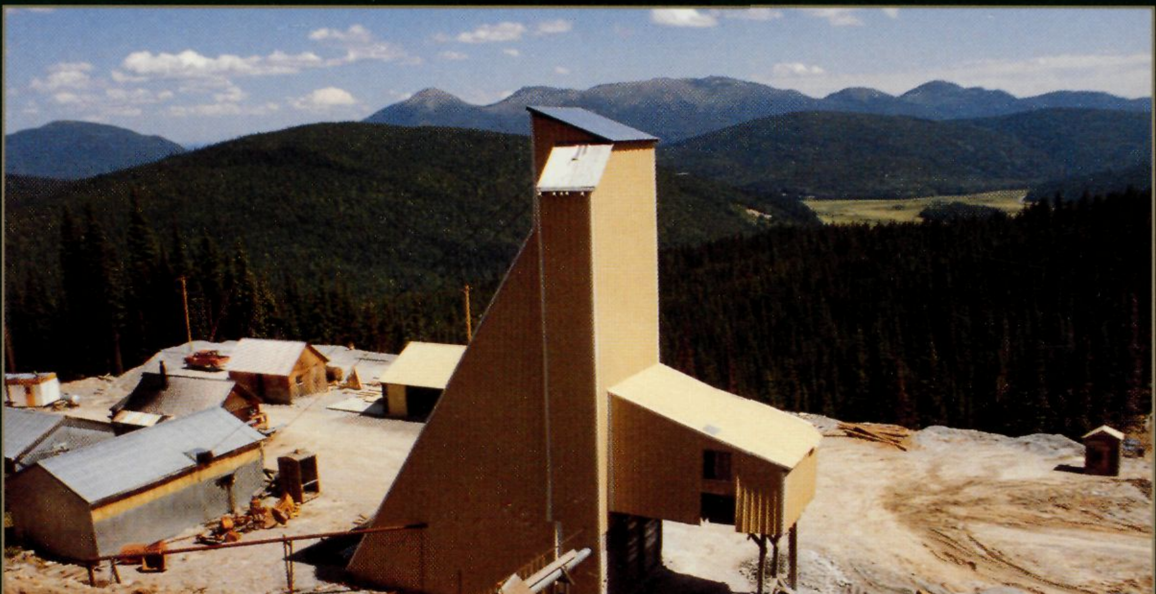
The projection of the Main Band Limestone Unit extends through the former Island Mountain (Aurum) Mine and into the Cariboo No. 1 mine, located on Cow Mountain to the South-East. There are over four miles of prospective strike length of unexplored Main Band Limestone within the present consolidated land holdings owned by Mosquito Creek. Potential of this unit is demonstrated by the fact that at the Mosquito Creek mine, where it has been developed in only the upper three levels along a stike length of just 1,200 feet, it has yielded 19,300 oz. of gold from 46,700 tons mined. This prospective gold producing zone is in addition to our original project objective of developing the potential ore remaining in the unexplored sections and partly mined areas of the Aurum Limestone Unit.

ACTIVITIES DURING THE PAST YEAR

Under the terms of the agreement made with Hecla Mining Company of Canada, mining operations ceased at the end of February, 1986 at which time Hecla initiated an exploration and development program. The objective of their program required the development of ten tons of ore (grading 0.5 oz/ton) per lineal foot of development. While this objective was reached and in fact exceeded where the development was in Main Band Limestone, elsewhere, where development was in neither the Main Band or Aurum Limestone, the results were unsatisfactory.

Following Hecla's departure in September, 1986, we conducted an experimental mining operation on the second level utilizing a total complement of six men. In approximately two months 1,500 tons of ore were mined yielding 1,240 ounces of gold for a recovery grade of 0.83 oz/ton. This bullion was sold for approximately Cdn $700,000.

Subsequent operations have continued on a limited scale. Location of the proposed adit entrance has been prepared and the experimental mining operation continued, yielding a stockpile of approximately 2,000 tons of ore which is currently being milled.



PROPOSED DEVELOPMENT PROGRAM

Since production commenced in 1980, the Mosquito Creek mine has been undercapitalized. Management has been aware of specific and obvious mine problems resulting in high operating costs, yet neither input of capital nor revenue from the gold mine has been enough to effect remedies to the problems. Money has simply not been available to develop ore reserves sufficient to ensure constant mill feed without dilution of grade. This situation resulted in a marginal operation; however, survival of the mine has been the priority and in this we have succeeded. Now, with improved gold markets, and as a result of the extensive work on mine geology, geophysical techniques and ore handling methods, we are of the opinion that the potential profitability is such that adequate funding will be available to solve these problems. The land consolidation has been part of this long range planning, as have been the pilot operations conducted by the Company.

It is proposed to drive a 3,000-foot adit from the prepared location at the 4,000 foot level near the mill, to intersect the highly prospective Main Band Limestone (and possibly other zones indicated by surface exposures in Mosquito Creek itself) and connect to the main 4,000 foot level of the Island Mountain Mine. This adit will provide a fifth level in the present mine and serve as the main haulage level.

The adit is expected to effect substantial economies in mining costs. Ore from the upper levels will be gravity fed to this new fifth level. The upper levels of the Island Mountain Mine will be immediately available for exploration. Eventually, when the Island Mountain internal shaft is dewatered, some ten miles of underground workings will be available for pursuing the down-dip extension of the Main Band Limestone.

The required capital injection of approximately Cdn $6,000,000 over an 18-month period is calculated to produce a pre-tax cash flow of Cdn $6,000,000 per year, based on recovery grade of 0.5 ounces of gold per ton at a gold price of US $375 (approx. Cdn $517). At US $450 gold price per ounce pre-tax cash flow is calculated to be approximately Cdn $8,000,000. Management has carefully planned a development program calculated to transform the mining operations into the profitable venture that we have been working toward since 1983.

The development program is to be conducted in two stages. The first stage, at a cost of Cdn $2,500,000, will include the driving of the adit, lateral drifting along the Main Band Limestone, and concurrent ore development in the present Mosquito Creek mine. The second stage will involve an overall upgrading and expansion of the present mining facilities, tailings pond and mill. Mill capacity will be increased to 150 tons per day.

Revamping of the mine by the proposed development plan will reduce costs of ore development, mining and ore handling. Total production costs at the projected rate of 45,000 tons (22,500 oz.) per year are estimated to be Cdn $250 per oz. Estimates of costs are based on actual costs experienced in earlier and current operations. Forecasted changes in profitability are of course contingent upon obtaining funding for the program.

FUTURE FUNDING

Mosquito — Island Mountain Claim Blocks

Management has been seeking the required funding for over six months. As a result of negotiations it has become evident that certain corporate changes are necessary which are more fully outlined in the Notice of the Annual General Meeting of Shareholders and Information Circular. Primarily the Company will have to consolidate its capital stock on a one share for each five previously issued shares. The relatively small convertible debentures may need to be converted into shares to provide a debt free capital structure.

Management has reviewed various proposals for joint venture operations. However it is deemed more in the interests of the present shareholders to seek equity funding so that future profitability will accrue to the patient shareholders who have shown confidence in the potential of this project. Gold mines within the production trend now controlled by "Mosquito", i.e. the Cariboo No. 1 and Island Mountain have proven to be mines of long life (30-35 years), despite the fact proven reserves at either mine at any particular time during its life rarely exceeded 18-24 months full production. This phenomenon of relatively short-term reserves in the context of a long mine life has been the norm rather than the exception for Canadian gold mines. In most Canadian gold mining operations the proving of reserves beyond, say, 18 months requirement simply is not cost effective.

At 150 tons per day, our mill will require approximately 45,000 tons of ore per year. The objective of the proposed two-phased program is to develop 70,000 tons of ore to be mined from about nine mining faces. Management is confident that ultimate reserves will be found to be in the same order of magnitude as the tonnage produced from the neighbouring mines.

A public financing or private placement of shares to fund the first stage development is intended after the proposed corporate changes are completed. This program is expected to develop proven reserves to the point that additional funding alternatives, including gold-backed loans, will be available to the Company.

Cariboo Claim Block

Quite apart from the funding proposed above for the Mosquito - Island Mountain operation, but as part of the over-all strategy to develop the new consolidated land holdings, it is proposed to vend the Cariboo claim block containing the Cariboo No. 1 mine on Cow Mountain into a new company that will be majority owned by Mosquito Creek. The new company would qualify for a 'flow-through' financing to re-open the extensive underground workings to explore and develop the sulphide mineralized zones believed to exist in both the Aurum and projected Main Band Limestone Units within the former Cariboo Gold Quartz property.

By developing the Cariboo claims through a new company capable of being separately financed, concurrent work is possible on both projects, without the delay involved in waiting for funds to be made available through earnings from the Mosquito Creek — Island Mountain operations.

N A M E   C H A N G E

The Board of Directors is of the opinion that, despite the requirement for the corporate changes intended, part of the present name should be retained in the new name to retain corporate identity. The preferred new name is Mosquito Consolidated Gold Mines Limited, to reflect the enlarged Company and its basic location in the historic Wells-Barkerville Cariboo gold rush district. Mosquito Creek itself was the most prolific producer of placer gold per foot of its length during the Cariboo gold rush. It is deemed for this fact to be a good omen for future mining operations.

Willow
River
Williams Creek
UNEXP.
BARKERVILLE CLAIM GROUP
MOSQUITO CREEK CLAIM GROUP
Millsite
Mosquito Creek
PROPOSED ADIT
Shaft
WELLS
MAIN BAND
UNEXPLORED
AURUM LIMESTONE UNIT
UNEXP.
CARIBOO GOLD QUARTZ CLAIM GROUP
LIMESTONE UNIT
UNEXPLORED
Lowhee Creek
ISLAND MOUNTAIN CLAIM GROUP
Jack of Clubs Lake
Highway 26
Gold Production
19,300 ounces to 400 ft.
Aurum Limestone Unit
Gold Production
1,250,000 ounces to 2,000 ft.
N
CLAIM BLOCKS
f FAULTS
STEWART
BRITISH COLUMBIA
PRINCE GEORGE
QUESNEL
PROJECT LOCATION
VANCOUVER
1/2 1/4 0 1/2 1
Miles
BARKERVILLE
THE MOSQUITO CREEK GOLD MINING COMPANY LIMITED
WELLS – BARKERVILLE PROPERTIES
Wells, British Columbia

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS			1986	1985
CURRENT ASSETS				
Cash and term deposits			$ 398,836	$ 107,489
Accounts receivable				103,017
Inventory			21,978	175,799
Prepaid expenses			8,677	16,546
			429,491	402,851
PROPERTY, PLANT AND EQUIPMENT				
	Cost	Accumulated depreciation and depletion		
Mining properties	$ 9,349,742	$ 7,041,315	2,308,427	2,308,427
Mill	1,609,078	1,503,214	105,864	105,864
Equipment and vehicles	1,332,038	1,155,770	176,268	242,862
Equipment under capital lease	356,993	326,223	30,770	43,957
Office furniture	20,921	16,472	4,449	5,561
	$12,668,772	$10,042,994	2,625,778	2,706,671
			$3,055,269	$3,109,522

SIGNED ON BEHALF OF THE BOARD

Director

Director

BALANCE SHEET AS AT DECEMBER 31, 1986

LIABILITIES	1986	1985
CURRENT LIABILITIES		
Accounts payable	$ 234,681	$ 184,204
Current portion of obligations under capital lease (note 4)	18,455	67,910
Current portion of long-term debt	213,397	200,253
	466,533	452,367
LONG-TERM DEBT (note 3)	652,258	687,954
OBLIGATIONS UNDER CAPITAL LEASE		18,455
	1,118,791	1,158,776
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized - 25,000,000 common shares without par value		
Issued and fully paid - 15,642,600 shares	6,873,077	6,873,077
DEFICIT	(4,936,599)	(4,922,331)
	1,936,478	1,950,746
	$3,055,269	$3,109,522

STATEMENT OF LOSS AND DEFICIT

For the year ended December 31, 1986	1986	1985
INCOME		
Mine production	$ 504,753	$ 382,753
EXPENSES		
Mine production	312,003	425,653
Depreciation	89,842	124,312
Interest – long-term debt	111,881	128,617
General and administrative	152,812	237,205
	666,538	915,787
LOSS FROM OPERATIONS	161,785	533,034
OTHER INCOME		
Rental income (note 4)	138,201	79,000
Interest income	9,316	15,442
	147,517	94,442
LOSS FOR THE YEAR	14,268	438,592
DEFICIT - BEGINNING OF YEAR	4,922,331	4,483,739
DEFICIT - END OF YEAR	$4,936,599	$4,922,331
LOSS PER SHARE (note 8)	.00	.03

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1986	1986	1985
OPERATING ACTIVITIES		
Cash provided from operations -		
Loss for the year	$ (14,268)	$ (438,592)
Items not affecting cash flow -		
Depreciation	89,842	124,312
Accrued interest on long-term debt	54,304	86,026
Decrease in deferred revenue		(50,000)
	129,878	(278,254)
Net change in non-cash working capital balances related to operations *	315,184	(115,809)
Cash provided from (used in) operating activities	445,062	(394,063)
FINANCING ACTIVITIES		
Increase (decrease) in long-term debt	(76,856)	4,214
Decrease in obligations under capital lease	(67,910)	(44,297)
Issuance of capital stock for cash		250,000
Issuance of capital stock		1,050,000
Less: Mining properties acquired		(1,050,000)
Cash provided from (used in) financing activities	(144,766)	209,917
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(8,949)	(34,818)
INCREASE (DECREASE) IN CASH FOR THE YEAR	291,347	(218,964)
CASH AND TERM DEPOSITS - BEGINNING OF YEAR	107,489	326,453
CASH AND TERM DEPOSITS - END OF YEAR	$ 398,836	$ 107,489

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1986

1. 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.

2. 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 is recorded at cost, are depleted on the unit-of-production method based on estimated recoverable reserves; however, the company's mining operations during 1985 and 1986 are being 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 for 1985 and 1986.

Equipment and office furniture are recorded at cost and depreciated on the declining balance method at the rates of 30% and 20% respectively.

Inventory

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

Capital leases

Where the company acquires an asset through a lease under which substantially all the benefits and risks of ownership of the asset pass to the company, the company accounts for such a lease as a capital lease. The asset is recorded on the balance sheet at the lower of its fair market value and the present value of the future lease payments and a corresponding liability is set up as an obligation under a capital lease.

Leased equipment is depreciated on the declining balance method at the rate of 30%.

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.

3. LONG-TERM DEBT

	1986	1985
Two convertible debentures dated December 6, 1982 of $150,000 each, plus interest, payable on demand, bearing interest at bank prime rate plus 1½%	$492,258	$437,954
Finance contract bearing interest at bank prime rate plus 2½%		64,991
Convertible debenture payable to a related party, Peregrine Petroleum Ltd.	373,397	385,262
	865,655	888,207
Less: current portion	213,397	200,253
	$652,258	$687,954

A first floating charge on the assets of the company is provided as security for the debentures, dated December 6, 1982.

Although the debentures totalling $492, 258 are subject to call on demand, the holders of the debentures have agreed not to demand payments in the year in excess of $90,000. Accordingly, the remainder of the debentures has been classified as long-term.

The balance of the debenture payable of $373,397 which includes accrued interest, dated February 28, 1983, bears interest at 1½% over the bank's prime rate and although it is payable on demand, the company does not anticipate payments in the year to exceed $123,397.

The aggregate amount of payments required in each of the next two years to meet retirement provisions is as follows:

Year ending December 31, 1987	$213,397
1988	438,861
	$652,258

4. OBLIGATIONS UNDER CAPITAL LEASE

The future minimum lease payments under the capital leases, together with the balance of the obligations under capital lease are as follows:

Total minimum lease payments for the year ending December 31, 1987	$18,850
Less: Amount representing interest at prime plus 3%	395
Balance of obligation	18,455
Less: Current portion	18,455
	–

As part of the joint venture agreements referred to in note 5, the payments required under certain finance (note 3) and lease contracts on mining equipment were made from joint venture funds. During the year, payments in the amount of $138,201 (1985 - $79,000) were made on the company's behalf and have been accounted for as rental income.

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.

As at December 31, 1985, the joint venture had incurred a loss of $67,878. Since a net profits position had not been reached, 90% of the loss was allocated to the company. This loss is recoverable by the company in the same ratio until recovered in full. Thereafter, the above noted sharing of net profits applies.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1986

5. MINING OPERATIONS (continued)

Effective February 1, 1986, the company and the joint venture participants referred to above entered into an agreement with Hecla Mining Company of Canada Ltd. (Hecla) with respect to the Mosquito Creek gold property. The agreement anticipated that Hecla would expend up to $1,000,000 on underground exploration and development. Hecla would have the right to put the property into production at a rate considered optimum to Hecla and at Hecla's sole expense. After Hecla would recover defined expenditures, the company and the joint venture participants were to receive 50% of the net profits from operations. However, on September 20, 1986 after expending approximately $825,000 on the property, Hecla exercised its right to terminate its participation in the agreement.

The company and the joint venture participants recommenced mining operations effective September 21, 1986.

During the year, the joint venture earned a net profit of $434,285, of which $144,139 was allocated to the company.

The joint venture has cumulative earnings of $366,407 to date of which $293,139 has been allocated to joint venture participants, leaving $206,861 of the original $500,000 contribution to be recovered by the participants.

6. CAPITAL STOCK

Stock options and conversion rights

The company has adopted a stock option plan to provide options to purchase shares of the company to its employees and directors. As at December 31, 1986 options to purchase 60,000 shares and 500,000 shares by employees and directors respectively, exercisable up to July 29, 1989 at a price of $0.45 per share, were outstanding.

The balance of the demand debenture payable to Peregrine Petroleum Ltd. at December 31, 1986 of $373,397 and the other convertible debentures referred to in note 3 are convertible into common shares of the company up to the following dates at rates as follows:

- one share for each $.25 of any principal and interest outstanding to July 31, 1987;
- one share for each $.30 of any principal and interest outstanding to July 31, 1988;
- one share for each $.35 of any principal and interest outstanding to July 31, 1989;
- one share for each $.40 of any principal and interest outstanding to July 31, 1990;
- one share for each $.45 of any principal and interest outstanding to July 31, 1991.

FOR THE YEAR ENDED DECEMBER 31, 1986

7. 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 38.6% of the company's shares.

(b) During the year, the company paid $25,750 (1985 - $50,250) to Peregrine as compensation for management services.

(c) The holders of the two debentures referred to in note 3 are two significant shareholders, one of whom is the president of the company.

8. LOSS PER SHARE

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

9. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company to the directors and officers of the company amounted to nil (1985 - nil).

10. FUTURE INCOME TAXES

The company has accumulated losses for tax purposes of $1,429,000 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, 1987	$ 433,000
1990	541,000
1991	139,000
1992	316,000
	$1,429,000

10. FUTURE INCOME TAXES (continued)

Under the provisions of the Income Tax Act, the company may deduct its exploration and development expenses and may provide for capital cost allowances at rates which vary from the corresponding write-offs, depletion and depreciation recorded in the company's accounts. Any excess of such costs not used in one year may be carried forward to apply against future income. At December 31, 1986, exploration and development expenses totalling approximately $1,838,000 (1985 - $1,838,000) were carried forward for use in computing taxable income in future years. There remained at the same date approximately $1,936,000 (1985 - $1,928,000) of assets in respect of which capital cost allowances may be claimed.

Under the provisions of the Income Tax Act, one-third of certain expenditures made since November 7, 1969, may be carried forward in calculating depletion which is to be applied in determining future taxable income. The accumulated amount of these expenditures at December 31, 1986, which may be deducted as depletion in the calculation of taxable income, was approximately $695,000 (1985 - $695,000).

11. SEGMENTED INFORMATION

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

12. SUBSEQUENT EVENT

Subsequent to year end, by way of a 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 is entitled to purchase one further common share of the company at a price of $.20 per share. The warrants expire December 15, 1987.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Mosquito Creek Gold Mining Company Limited as at December 31, 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 December 31, 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.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Calgary, Alberta
May 8, 1987

CORPORATE INFORMATION

Executive Office

550, 255 - 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

Kingsford D. Healey,
Financial Economist

Dale Scholz,
Mining Executive

Rodger A. Tourigny,
Petroleum Consultant

Officers

Cameron J. McFeely,
President

Rodger A. Tourigny,
Vice-President

Legal Counsel

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

Atkinson McMahon
1900 First Canadian Centre
350 - 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Auditors

Coopers & Lybrand
2400 Bow Valley Square III
255 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6

Transfer Agent and Registrar

Canada Trust
Four Bentall Building
1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1B1

Share Listing

Vancouver Stock Exchange
Symbol — MQO