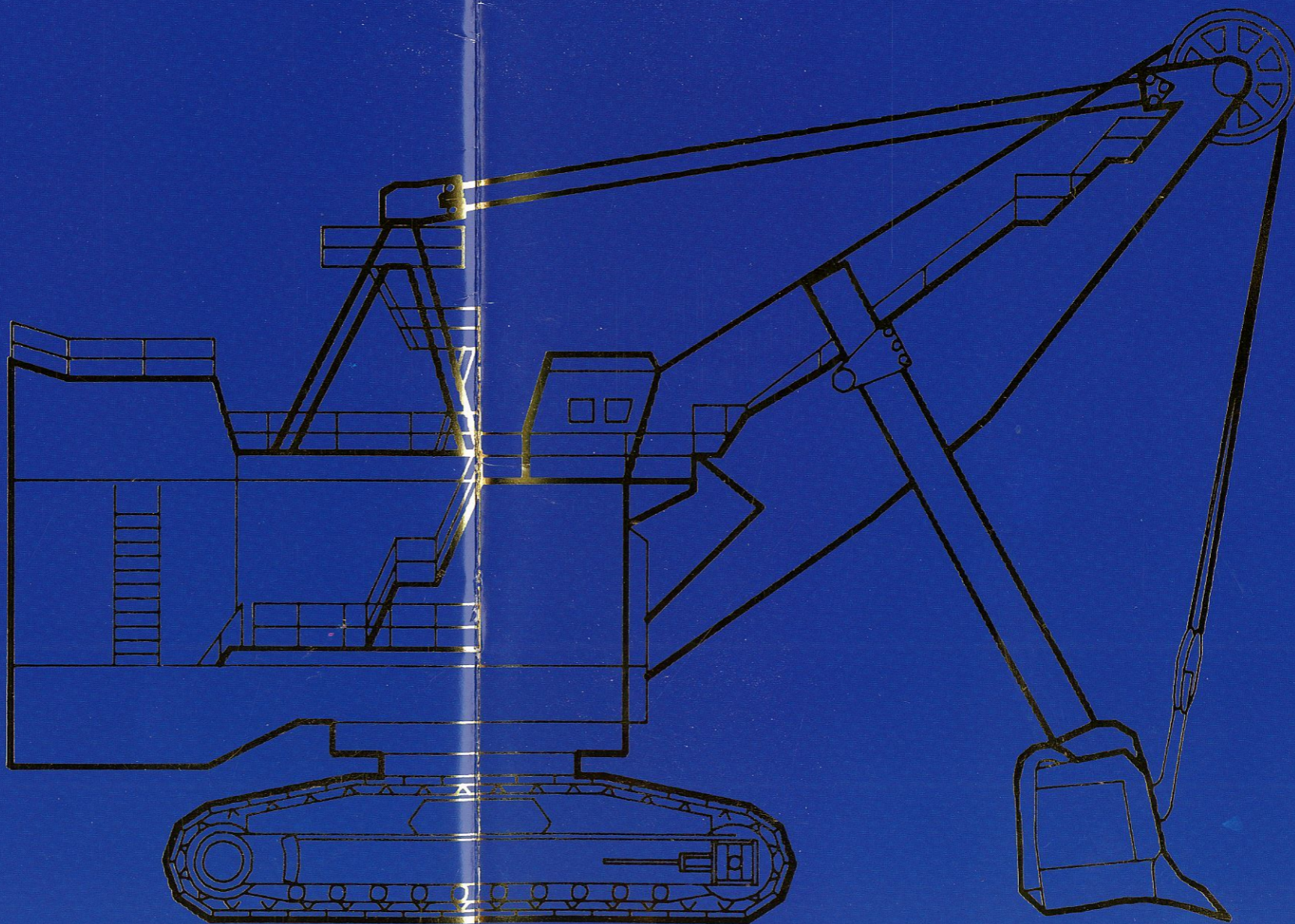


mt. milligan
885736
93N194

**CONTINENTAL
GOLD CORP.**

**1989
ANNUAL
REPORT**

**\$5 BILLION GOLD AND
COPPER DISCOVERY FORMS
CORNERSTONE FOR
UNPRECEDENTED GROWTH.**



CONTINENTAL GOLD CORP.
1020-800 West Pender St.
Vancouver, B.C. Canada
V6C 2V6

CORPORATE PROFILE

Continental Gold Corp. is a Canadian public company with the objective to rapidly grow through discovery and development of large scale mining projects.

The discovery of gold and copper by Continental Gold Corp. (69.84%) and joint venture partner BP Resources Canada Limited (30.16%) at Mt. Milligan, British Columbia is a world class find. With current drill indicated reserves of 440 million tons containing 6.35 million ounces of gold and 1.8 billion pounds of copper the Mt. Milligan Project is one of the world's largest gold-copper resources. Continental Gold is rapidly transforming this discovery into Canada's second largest metal mine with projected annual production of 400,000 ounces of gold and 83,000,000 pounds of copper.

Measured by any standard - gold reserves per share; forecast production per share; or unit growth per share - Continental Gold Corp. is North America's most highly leveraged gold company.

At March 15, 1990 the Company has 8,466,185 shares, fully diluted, outstanding, and 2,700 registered shareholders in Canada, United States and Europe.

Common shares of Continental Gold Corp. trade on the Vancouver Stock Exchange (CNT:V) and on the NASDAQ system (CNTVF).

CORPORATE INFORMATION

OFFICERS

Robert G. Hunter, Chairman
Robert A. Dickinson, President
Douglas B. Forster, Vice President,
Secretary

DIRECTORS

Ray W. Ballmer
David J. Copeland
Robert A. Dickinson
Douglas B. Forster
Harold H. Forzley
Jeffrey P. Franzen
Robert G. Hunter
Barry D. McKnight
Ronald W. Thiessen

CORPORATE ADDRESS

1020-800 West Pender Street
Vancouver, B.C.
V6C 2V6
Telephone (604) 684-6365
Fax (604) 684-8092

SOLICITORS

Sobolewski, Anfield
1600-609 Granville Street
Vancouver, B.C.
V7Y 1C3
Farris, Vaughan Wills & Murphy
26th Floor, 700 West Georgia Street
Vancouver, B.C.
V7Y 1B3

AUDITORS

Coopers & Lybrand
1111 West Hastings Street
Vancouver, B.C.
V6E 3R2

TRANSFER AGENT

Montreal Trust Company
2nd Floor, 510 Burrard Street
Vancouver, B.C.
V6C 3B9
or
66 Temperance Street
Toronto, Ontario
M5H 1Y7

BANK

Canadian Imperial Bank of Commerce
400 Burrard Street
Vancouver, B.C.
V6C 3A6

TRADES

Vancouver Stock Exchange (CNT:V)
NASDAQ (CNTVF)

CAPITALIZATION - as at March 15, 1990

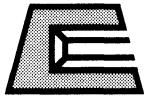
Common authorized
100,000,000
Issued 8,152,799
Fully diluted 8,466,185

ANNUAL MEETING

The Annual General Meeting of the Shareholders of Continental Gold Corp. will be held in the Connaught Room, Delta Place Hotel, Vancouver, B.C. at 2:00 pm on Tuesday, May 1, 1990.

FOR FURTHER INFORMATION CONTACT:

Robert A. Dickinson, President
1020-800 West Pender Street
Vancouver, B.C.
V6C 2V6
(604) 684-6365



CONTINENTAL
GOLD
CORP.

Suite 1020
800 West Pender St.
Vancouver B.C.
Canada V6C 2V6

Tel. 604/684.6365
Fax. 604/684.8092

APRIL 6, 1990

DEAR INVESTOR:

Re: Continental Gold Corp.

Continental Gold Corp. (69.84%) and BP Resources Canada Limited (30.16%) have discovered one of the world's largest gold-copper deposits at Mt. Milligan, British Columbia, Canada. Successful development of the project will vault Continental Gold Corp. into the position of a top North American gold producer. Forecast annual project production is 400,000 ounces of gold and 83,000,000 pounds of copper.

Enclosed is a concise package of information on Continental Gold Corp. and the Mt. Milligan Project.

Please be aware that the project is advancing rapidly. Rio Algom Limited has announced the purchase of about 9% and Hemlo Gold Mines Inc. about 4% of Continental Gold Corp.'s 8,153,000 issued shares. Continental Gold Corp. may be the focus of one of the most spectacular takeover battles in Canadian mining history.

Yours truly,

CONTINENTAL GOLD CORP.

Robert A. Dickinson
President

Encl.

LOG NO: APR 23 1990 VAN /
ACTION:
FILE NO: Mt Milligan 250

APR 23 1990



ACHIEVEMENTS 1989

CORPORATE

- Streamlined corporate structure.
- Raised \$4.62 million in new financing.
- Focused on Mt. Milligan project.
- Ventured out other properties.

MT. MILLIGAN PROJECT

- Completed \$10.15 million joint venture program.
- Completed 300,000 feet of drilling.
- Confirmed one of the world's largest gold-copper deposits.
- Initiated extensive studies for large scale production.

OBJECTIVES 1990

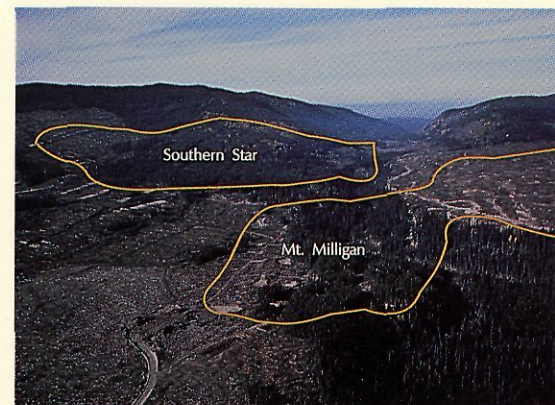
CORPORATE

- Complete Toronto Stock Exchange listing.
- Continue to minimize dilution of shareholder's equity.
- Negotiate Mt. Milligan project capital financing.

MT. MILLIGAN PROJECT

- Complete \$7.1 million feasibility program.
- Further expand reserves by drilling.
- Obtain government production approval.
- Finalize production plans.

THE MT. MILLIGAN PROJECT RANKS WITH THE WORLD'S LARGEST GOLD-COPPER RESOURCES. SO FAR, TWO MAJOR BULK TONNAGE GOLD-COPPER DEPOSITS AND NUMEROUS PERIPHERAL GOLD VEINS HAVE BEEN DISCOVERED.



REPORT TO SHAREHOLDERS

GENERAL

During 1989, Continental Gold Corp. created tremendous wealth by confirming the discovery of one of the world's largest gold-copper deposits at Mt. Milligan, British Columbia, Canada. The Project is a Continental Gold Corp. 69.84% - BP Resources Canada Limited 30.16% joint venture. Continental Gold is Project Operator.

To year end, Mt. Milligan Project joint venture expenditures totalled \$11.6 million. A continuous, multi-rig drilling program during the year confirmed two major bulk tonnage gold-copper deposits and numerous peripheral gold veins. Current drill indicated reserves, of 440 million tons, contain 6,350,000 ounces of gold and 1.8 billion pounds of copper. The Mt. Milligan deposits contain 17% of Canada's undeveloped gold reserves and 20% of its undeveloped copper reserves.

Established infrastructure, excellent deposit geometry, metallurgy and topography combine at Mt. Milligan and are well suited for high volume, low cost open pit mining. Extensive technical studies have been initiated for timely development of the Project. During 1990, the Company will focus on the engineering and permitting of the Mt. Milligan project for large scale production of gold and copper. Currently, a \$7.1million feasibility engineering program is in progress. In

addition, on-going drilling is expected to further expand reserves. To enable a project production decision by year end, a bankable feasibility study will be completed and government production approvals will be applied for.

At this stage, preliminary projections indicate conventional milling at 60,000 tons per day will yield low cost production of up to 400,000 ounces of gold and 83 million pounds of copper annually. Current reserves will provide for an open pit mine life in excess of 15 years. Production at this scale will vault Continental Gold Corp. into the ranks of North America's leading gold producers and at the same time, diversified, dual metal production of gold and copper will protect mine revenues from metal price swings.

The Company owns five other mineral projects within Canada. With corporate resources focused on Mt. Milligan many of these projects have been joint ventured to other companies. Continental Gold retains a significant

interest in each of these properties.

One of these projects is the Company's 74 square mile Trophy property. This project is the largest mineral holding in the exciting Galore Creek - Eskay Creek gold camp, northwest British Columbia. Positive exploration results are expected this year from the Trophy Project.

FINANCIAL

On March 15, 1989 Continental Gold Corp. by amalgamation and plan of arrangement joined with its subsidiary United Lincoln Resources Inc. to form the present Company. This amalgamation simplified corporate structure and substantially reduced repetitive overhead costs.

During the year, \$4.62 million in new financing was completed. Private placement funding totalled \$3.95 million and exercise of stock options provided \$670,000. At year end working capital was \$805,000 and

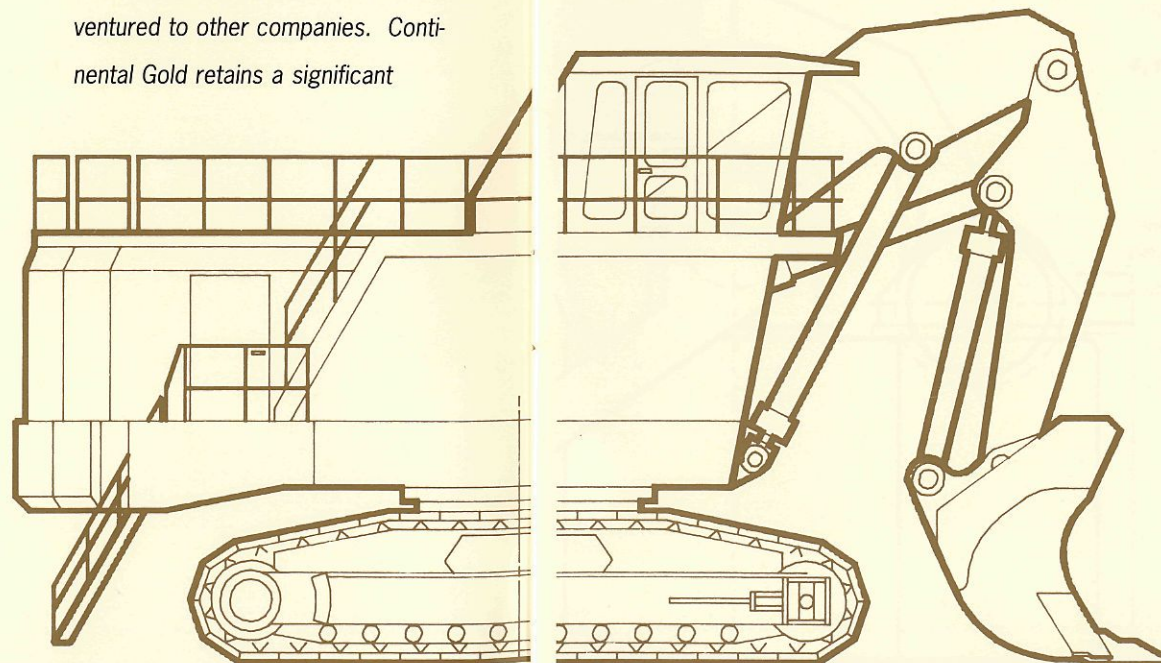
\$1.71 million in additional funding was arranged. The recognized value of the Mt. Milligan Project will enable additional development financing to be raised with comparative ease.

Future funding will be completed with the goal of minimum dilution of shareholder equity. A Toronto Stock Exchange listing application is planned for early 1990 to facilitate any required equity financings. The Mt. Milligan Project's capital cost cannot be accurately determined prior to completion of feasibility engineering work. However, preliminary estimates for Continental's 69.84% share of capital financing are in the \$200 million range. The Company has received strong expressions of interest in production financing from leading bank, engineering and smelter groups.

Confirmation of the immense Mt. Milligan deposit has made Continental Gold Corp. North America's leading development-stage gold company. By any relative measure - such as gold reserves per share or projected production per share - Continental Gold Corp. is North America's most highly leveraged gold company.

During the year Rio Algom Limited, a participant in Canada's largest open pit, base metal mine, announced acquisition of 8.6% of the Company's issued shares and Mr. Ray W. Ballmer, Vice Chairman of Rio Algom

OPEN-PIT MINE DEVELOPMENT IS IN THE ENGINEERING STAGE, WITH CONSTRUCTION EXPECTED IN 1991. PRODUCTION IS SCHEDULED FOR EARLY 1993.



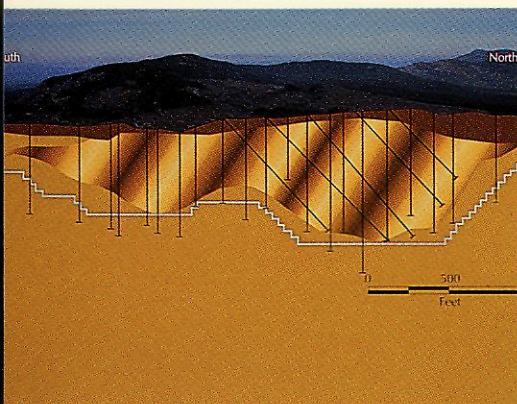
LOCATED 100 MILES NORTH OF PRINCE GEORGE, BRITISH COLUMBIA, THE MT. MILLIGAN DEPOSIT IS IN GENTLY ROLLING COUNTRYSIDE AT AN ELEVATION OF 3,300 FEET. THE CLIMATE IS MODERATE.



REPORT TO SHAREHOLDERS

Continued

THE IMMENSE MT. MILLIGAN GOLD-COPPER DEPOSIT HAS IDEAL GEOMETRY FOR LOW-COST OPEN-PIT MINING.



was subsequently appointed to the Board of Continental Gold Corp. In addition, a number of other senior mining companies are closely following progress at Mt. Milligan. As a result, Richardson Greenshields of Canada Limited and Goepel Shields and Partners Inc. have been appointed to advise the Company on any proposals that might be forthcoming.

Only one disappointment was experienced during the year. On October 11, 1989 BP Resources Canada Limited, owner of a 30.16% interest in the Mt. Milligan Project filed a writ in the Supreme Court of British Columbia which alleged that BP's right of first refusal to buy the joint venture claims was breached by a step in the March 15, 1989 amalgamation of Continental Gold Corp. and its subsidiary United Lincoln Resources Inc. The Company has received legal advice that the amalgamation and plan of arrangement did not give rise to a right of first refusal and is vigorously defending BP's law suit. In addition, Continental Gold Corp. has counter claimed for damages arising out of the prosecution of the BP suit. A trial date has been set for November 5th, 1990.

ACKNOWLEDGEMENTS

The Company's success in 1989 was the result of a dedicated and cooperative team effort by all employees. Outstanding ability was

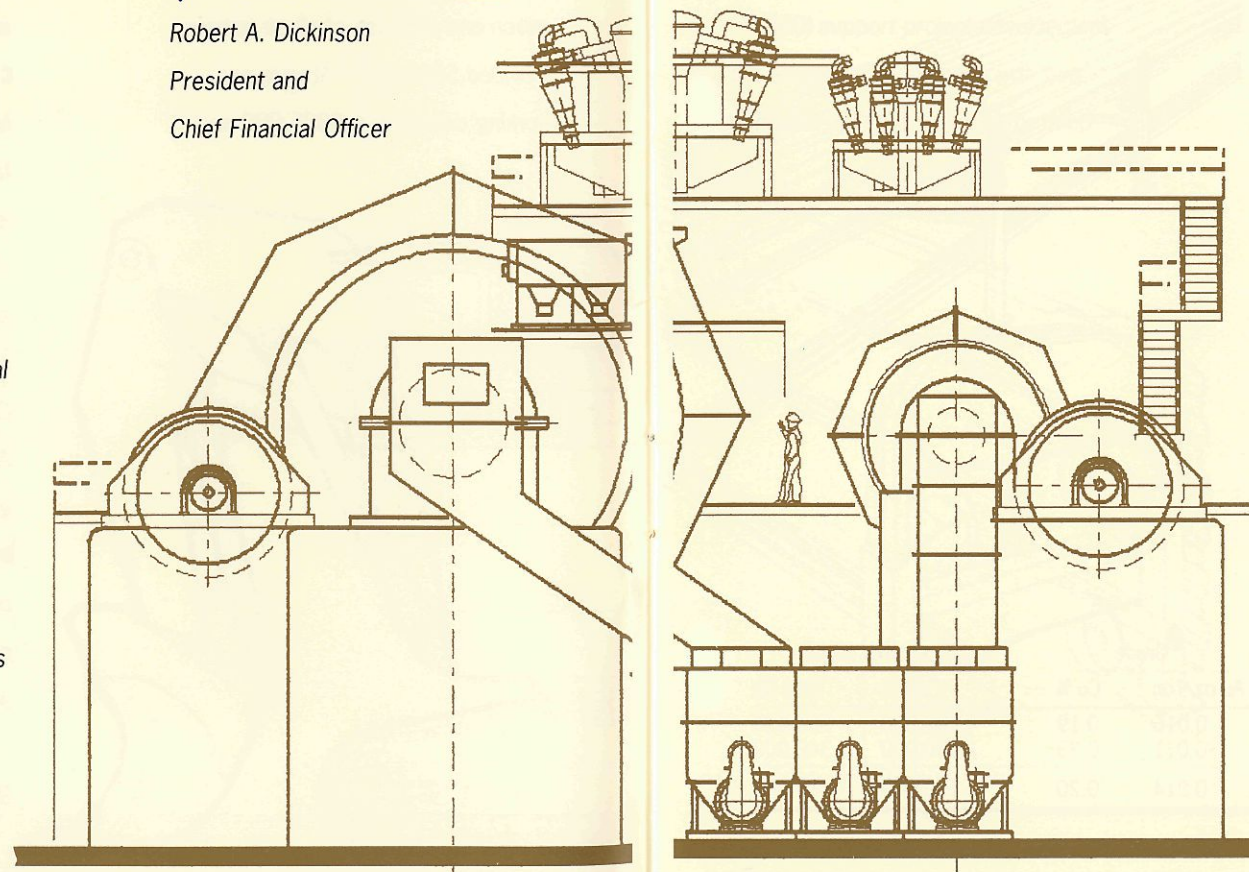
shown in bringing the Mt. Milligan Project to its current status in record time. This spirit combined with substantial cash flows from commercial production at Mt. Milligan will allow Continental Gold Corp. to experience unprecedented growth.

Our sincere gratitude is extended to our loyal shareholders. Without your support these initial goals would not have been achieved. We look forward to all shareholders participating in the rewards created from very substantial wealth in gold and copper.

On Behalf of the Board

Robert G. Hunter
Chairman and Chief Executive Officer

Robert A. Dickinson
President and
Chief Financial Officer



OPERATIONS

MT. MILLIGAN

GOLD-COPPER JOINT VENTURE

Continental Gold Corp. (69.84%), and BP Resources Canada Limited (30.16%) have discovered North America's largest undeveloped gold-copper deposit at Mt. Milligan, British Columbia. Current drill indicated reserves of 440 million tons contain 6.35 million ounces of gold and 1.8 billion pounds of copper. The Project is a world class scale, open pit mine development in the engineering stage. Milling at a rate of 60,000 tons per day would produce annual low cost production of 400,000 ounces gold and 83,000,000 pounds of copper. Continental Gold Corp. is project operator.

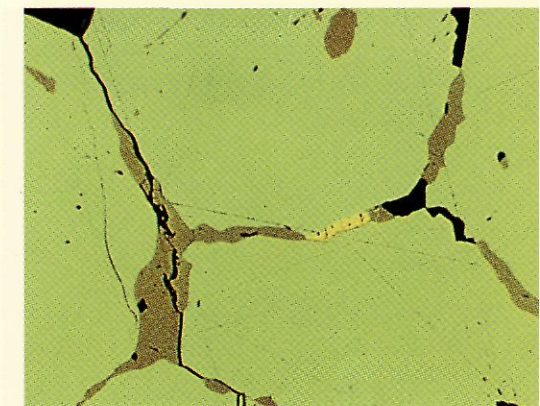
LOCATION

The Mt. Milligan deposit is located 100 miles north of Prince George, at an elevation of 3,300 feet in a logged area of gently rolling country. Climate is moderate. The resource region hosts large pulp mills, sawmills and open pit mines such as Bell (copper), Endako (molybdenum) and Equity Silver (copper-silver-gold).

HISTORY, GEOLOGY AND EXPLORATION

In 1984, BP Resources Canada Limited acquired the property. After completing surface surveys BP optioned the property in 1986 to United Lincoln Resources Inc. which by amalgamation and plan of arrangement merged with its parent, Continental Gold Corp. in early 1989

MILLING AT A RATE OF 60,000 TONS PER DAY WOULD PRODUCE ANNUAL LOW COST PRODUCTION OF 400,000 OUNCES GOLD AND 83,000,000 POUNDS OF COPPER.



to form the present Company.

An immense, 6 square mile, gold-copper rich sulphide system exists around alkalic monzonite stocks which intrude volcanic strata. Drilling of 315,000 feet in 406 holes within the eastern portion of this system has confirmed two major bulk tonnage gold-copper deposits and numerous high grade gold veins. The balance of the sulphide system and other targets on the 21 square mile joint venture property remain to be drill tested.

The Mt. Milligan gold-copper deposit measures 4,000 feet by 2,600 feet and is up to 1,300 feet deep. The Southern Star deposit is 4,300 feet by 1,000 feet, extends to 1,000 feet deep and remains open. Deposits are capped by overburden which averages 75 feet thick. Mineralization is stockworks and disseminated grains of chalcopyrite, pyrite and minor bornite. Native gold occurs as fine free grains and with sulphides.

RESERVES AND MINING

The Mt. Milligan deposits rank with the world's largest gold-copper deposits. Further drilling presently underway is expected to further increase reserves. Current drill indicated reserves, calculated by third parties are:

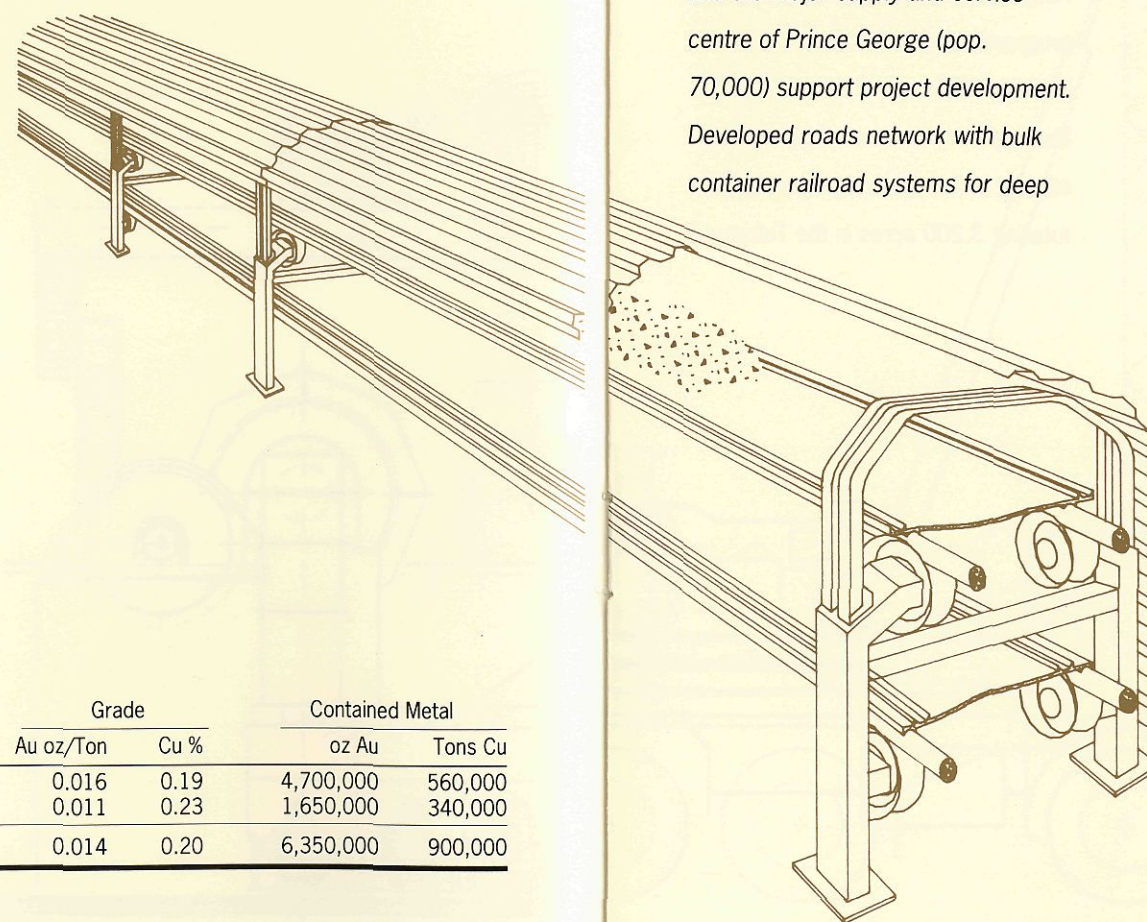
Deposit	Tons	Grade		Contained Metal	
		Au oz/Ton	Cu %	oz Au	Tons Cu
Mt. Milligan	290,000,000	0.016	0.19	4,700,000	560,000
Southern Star	150,000,000	0.011	0.23	1,650,000	340,000
Combined	440,000,000	0.014	0.20	6,350,000	900,000

Engineering of mineable reserves is in progress.

The massive size, blanket-shaped configuration and uniform distribution of gold and copper make the deposits ideally suited for high volume, low cost, open pit mine development. Stripping ratios are in the 1.2:1 range. Mining is being planned to commence with a relatively higher grade starter pit.

METALLURGY AND MILLING

Extensive metallurgical programs have been successfully completed. Coarse grinding of the low work index ore and standard flotation extraction processes recover 80% of the gold and 88% of the copper. A premium copper concentrate



containing 1.5 to 5.5 ounces gold/ton is produced. Modest improvements to recoveries can be expected with optimization work. A 200 ton bulk sample is being prepared for final pilot plant testing. At a milling rate of 60,000 tons per day current reserves provide for a mine life in excess of 15 years.

INFRASTRUCTURE

Mt. Milligan is centered in British Columbia's mining country. Large scale open pit mines are the norm. After decades of production some mines are nearing exhaustion, freeing skilled personnel and equipment for Mt. Milligan's development. Nearby communities of Mackenzie (pop. 5,600), Fort St. James (pop. 2,500) and the major supply and service centre of Prince George (pop. 70,000) support project development. Developed roads network with bulk container railroad systems for deep

sea port shipping of concentrate to smelters. Electric power and water resources are accessible nearby.

ENVIRONMENT

Environmental surveys for the project are well advanced and government permitting programs are in progress. Uses for the provincially owned land are forestry and wildlife habitat with lesser capability for trapping, hunting and recreation. Most of the Mt. Milligan site has recently been clear-cut logged. Salmon do not occur in the regions' watersheds and there are no recorded heritage sites. Waste dump and tailings impoundments will be acid consuming and reagents used to recover metals will be conventional.

PRODUCTION SCHEDULE

Exploration expenditures to 1989 totalled \$11.6 million. An accelerated, \$7.1 million feasibility, engineering and permitting program is underway for a proposed construction start-up in 1991 of the preliminarily estimated C\$325 million project. Employing some 350 people, large scale production of gold and copper would follow in 1993.

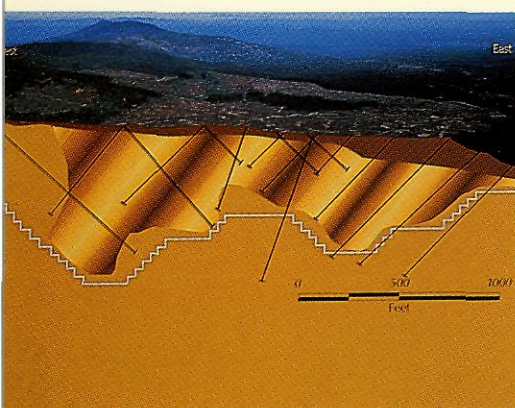


A CONTINUOUS MULTI-RIG DRILLING PROGRAM HAS INDICATED RESERVES OF 440 MILLIONS TONS CONTAINING 17% OF CANADA'S UNDEVELOPED GOLD RESERVES AND 20% OF ITS UNDEVELOPED COPPER RESERVES. ONGOING DRILLING IS EXPECTED TO ADD FURTHER TO RESERVES.

OPERATIONS

Continued

AT A MILLING RATE OF 60,000 TONS PER DAY, THE CURRENT RESERVES PROVIDE FOR A MINE LIFE EXCEEDING 15 YEARS.



OPERATIONS

Continued

PROJECT ENVIRONMENTAL SURVEYS ARE WELL ADVANCED AND GOVERNMENT APPROVALS ARE BEING APPLIED FOR.



OTHER PROJECTS

TROPHY

Continental Gold Corp. has a 100% interest in the 74 square mile Trophy property located southwest of Dease Lake, British Columbia in the highly active Galore-Eskay Creek gold camp. Geological mapping has identified three major gold-bearing structures having an overall length of 20 miles. These structures range from 75 to 300 feet wide. Detailed surface channel sampling has returned values of 0.15 ounces gold equivalent over a width of 183 feet and a drill hole has intersected 36 feet grading 0.16 ounces gold/ton. Numerous assays of greater than 1 ounce gold/ton have been obtained on the property. Gigi Resources Ltd. optioned the property and is required to spend \$5.5 million on exploration to earn a 55% interest. To year end Gigi had spent approximately \$250,000 with accelerated plans for 1990. Positive results are expected from Gigi's work.

NATION RIVER

The Company has a 100% interest in 17,200 acres located adjacent to the Mt. Milligan Project. During 1989, a 447 line-mile geophysical survey was

completed over these claims and indicated the presence of several important anomalies. During 1990, a surface exploration program will be conducted and based on positive results, drilling will commence. The target is a bulk tonnage gold-copper deposit.

ADAMS LAKE

The Twin Claims consist of 2,496 acres located approximately 2 miles southeast of Minova's newly producing Samatosum silver-zinc-lead mine near Kamloops, B.C. The Company has a 52.2% interest. Homestake Mining Company has acquired an option to the property and can earn an 80% interest by making property expenditures of \$1,500,000. Homestake is planning exploration programs for these claims.

TELEGRAPH CREEK

The Company holds a 100% working interest in five mineral properties totalling 3,200 acres in the Telegraph

Creek area in northwestern British Columbia. Three of these projects have been optioned out. A total of \$56,387 was spent by others on these claims during 1989 and further surface surveys are being planned for 1990.

These properties have high potential for locating structurally-controlled precious and base metal mineralization and cover areas that were identified by the B.C. Ministry of Energy, Mines and Petroleum Resources as having extremely high stream sediment anomalies in gold and silver.

SOUTHERN INDIAN LAKE

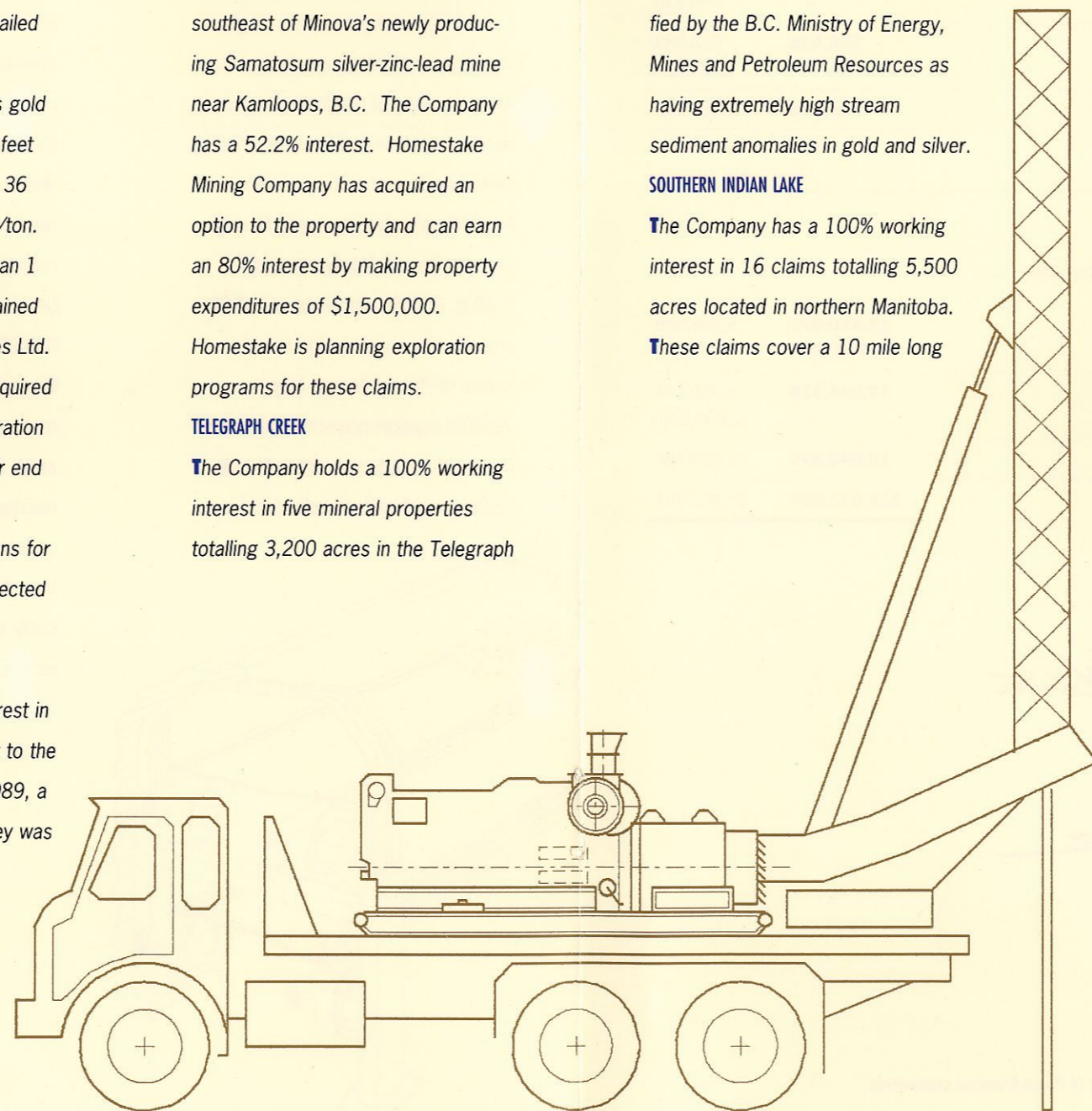
The Company has a 100% working interest in 16 claims totalling 5,500 acres located in northern Manitoba. These claims cover a 10 mile long

iron formation horizon. Limited diamond drilling conducted by previous owners, returned an intersection assaying 0.10 oz gold/ton over 15 feet. The Company is seeking a joint venture for this project.

SEAL RIVER

The Company owns a 75% working interest in 54 mineral claims totalling 29,000 acres near Churchill, Manitoba. North American Metals Corp. has earned a 25% working interest in the project by funding exploration on the claims totalling \$678,053.

The Seal River claims encompass a portion of a 74 square mile lake sediment geochemical anomaly and two strong, 12 mile-long geophysical anomalies which coincide with newly discovered gold mineralization. A previous drill hole intersected a 400 foot wide section of iron formation with strongly anomalous gold values in three separate horizons. A small exploration program is being planned for the Seal River claims during 1990.



AMONG THE COMPANY'S CANADIAN MINERAL PROJECTS IS THE 74 SQUARE MILE TROPHY PROPERTY IN THE EXCITING GALORE-ESKAY CREEK GOLD CAMP IN NORTHWEST BRITISH COLUMBIA. POSITIVE EXPLORATION RESULTS ARE EXPECTED IN 1990.



CONTINENTAL GOLD CORP.
A development stage company

BALANCE SHEET

As at December 31, 1989
Expressed in Canadian dollars

ASSETS	1989	1988
CURRENT ASSETS		
Cash and term deposits	\$ 1,305,348	\$3,759,454
Marketable securities, at cost, which approximates market value	51,500	-
Accounts receivable	34,854	175,752
	1,391,702	3,935,206
FIXED ASSETS (note 4)	111,999	95,699
MINERAL PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS (note 5)	17,129,293	4,451,849
	\$18,632,994	\$8,482,754
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	586,618	244,693
Advance from joint venture	-	273,890
	586,618	518,583
MINORITY INTEREST	-	1,395,027
	586,618	1,913,610
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)		
Authorized -		
100,000,000 common shares without par value		
Issued -		
7,875,899 common shares	19,810,071	8,789,959
DEFICIT	(1,763,695)	(420,815)
	18,046,376	8,369,144
SHARES HELD BY SUBSIDIARY	-	(1,800,000)
APPROVED BY THE DIRECTORS	18,046,376	6,569,144
	\$18,632,994	\$8,482,754

Director 

Director 

The accompanying notes are an integral part of these financial statements.

CONTINENTAL GOLD CORP.
A development stage company

STATEMENT OF LOSS AND DEFICIT

Expressed in Canadian dollars

	Year ended December 31			From inception to December 31
	1989	1988	1987	1989
Grassroots Exploration Expenses	\$ 84,256	\$ -	\$ -	\$ 84,256
Write-off of Deferred Costs	-	24,720	7,028	121,354
Administrative Costs	1,310,964	520,945	-	1,831,909
Loss on Sale of Mineral Claims	249,628	-	-	249,628
Less: Interest and Other Income	(253,558)	(187,610)	-	(441,168)
Loss before the Following:	1,391,290	358,055	7,028	1,845,979
Minority Share of Subsidiary Losses	(48,410)	(33,877)	-	(82,284)
Loss for the Period	1,342,880	324,178	7,028	1,763,695
Deficit - Beginning of Period	420,815	96,637	89,609	-
Deficit - End of Period	\$1,763,695	\$ 420,815	\$ 96,637	\$1,763,695
Loss per Share	\$ 0.19	\$ 0.10	\$ 0.01	
Weighted Average Number of Shares outstanding during the Period	7,008,099	3,212,521	1,551,648	

The accompanying notes are an integral part of these financial statements.

**AUDITORS' REPORT
TO THE SHAREHOLDERS**

We have examined the balance sheet of Continental Gold Corp. as at December 31, 1989 and the statements of loss and deficit and cash flow for the year then ended. Our examination was made in accordance with Canadian 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, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

The financial statements as at December 31, 1988 and for each of the years in the two-year period then ended were examined by other auditors who expressed an opinion without reservation on those statements in their reports dated January 16, 1989 and May 20, 1988.

Coopers & Lybrand
Vancouver, B.C., January 26, 1990

**COMMENTS BY AUDITORS
FOR U.S. READERS ON CANADA-U.S.
REPORTING CONFLICT**

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties and contingencies such as those referred to in note 1 to these financial statements. The above opinion in our report to the shareholders dated January 26, 1990 for the year ended December 31, 1989 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Coopers & Lybrand
Vancouver, B.C., January 26, 1990

CONTINENTAL GOLD CORP.
A development stage company

STATEMENT OF CASH FLOW

Expressed in Canadian dollars

	Year ended December 31			From inception to December 31
	1989	1988	1987	1989
CASH PROVIDED FROM (USED FOR)				
OPERATING ACTIVITIES				
Loss for the period after adjusting for non-cash items	\$ (1,404,246)	\$ (317,035)	\$ (7,028)	\$ (1,817,918)
Net change in non-cash working capital items	157,433	76,894	(88,066)	243,637
	<u>(1,246,813)</u>	<u>(240,141)</u>	<u>(95,094)</u>	<u>(1,574,281)</u>
INVESTING ACTIVITIES				
Purchase of shares of subsidiary (note 5)	(8,204,279)	(1,738,817)	-	(9,943,096)
Purchase of fixed assets	(52,619)	(124,643)	-	(177,262)
Investment in mineral properties and related deferred costs	(6,026,907)	(2,720,812)	(67,730)	(8,841,764)
Other	-	27,892	(23,535)	(24,720)
	<u>(14,283,805)</u>	<u>(4,556,380)</u>	<u>(91,265)</u>	<u>(18,986,842)</u>
FINANCING ACTIVITIES				
Issue of shares of subsidiary to minority shareholders	256,400	-	-	256,400
Issue of shares for cash	4,615,833	5,587,840	23,000	10,470,792
Issue of shares in exchange for subsidiary shares (note 5)	8,204,279	1,800,000	-	10,004,279
Issue of share capital for mineral properties	-	1,000,000	-	1,000,000
Losses of share capital - other	-	135,000	-	135,000
	<u>13,076,512</u>	<u>8,522,840</u>	<u>23,000</u>	<u>21,866,471</u>
(DECREASE) INCREASE IN CASH AND				
TERM DEPOSITS DURING THE PERIOD	(2,454,106)	3,726,319	(163,359)	1,305,348
CASH AND TERM DEPOSITS - BEGINNING OF PERIOD	3,759,454	33,135	196,494	-
CASH AND TERM DEPOSITS - END OF PERIOD	<u>\$ 1,305,348</u>	<u>\$ 3,759,454</u>	<u>\$ 33,135</u>	<u>\$ 1,305,348</u>
NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS				
Accounts receivable	\$ 140,898	\$ (91,200)	\$ (72,199)	
Marketable securities	(51,500)	-	-	
Accounts payable	341,925	150,831	(15,867)	
Advances from joint venture	(273,890)	17,263	-	
	<u>\$ 157,433</u>	<u>\$ 76,894</u>	<u>\$ (88,066)</u>	

The accompanying notes are an integral part of these financial statements.

CONTINENTAL GOLD CORP.
A development stage company

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1989
Expressed in Canadian dollars

1. OPERATIONS

The company is in the development stage. The underlying value of the mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development, and upon future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) FINANCIAL STATEMENT PRESENTATION

The financial statements are presented in accordance with generally accepted accounting principles applicable in Canada and also conform, in all material respects, with generally accepted accounting principles in the United States.

(B) MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost and market value.

(C) FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. Field equipment and office furniture and equipment are depreciated on the declining balance basis at rates of 30% and 20%, respectively. Leasehold improvements are amortized on a straight-line basis over the terms of the leases.

(D) MINERAL PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS

The company records its interest in mineral properties at cost. Exploration and development costs relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized against production from that property, or until the properties are sold, allowed to lapse or abandoned, at which time the deferred costs are written off.

The company, directly and through joint ventures, is in the process of exploring its interest in mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The amounts shown for mineral properties and development represent costs incurred to date and are not intended to reflect present or future values.

3. BUSINESS ACQUISITION

During the period, Continental Gold Corp. (Continental) amalgamated with its 64%-owned subsidiary, United Lincoln Resources Inc. (United Lincoln). This transaction was accounted for under the purchase method of accounting. The consideration of \$8,204,279 was settled by the issuance of 2,378,052 shares of Continental to the shareholders of United Lincoln on a one-for-one basis at a deemed price of \$3.45 per share, being the market value of Continental shares at the date of acquisition. Continental had previously acquired 4,773,000 shares of United Lincoln. The purchase price exceeded the underlying historical book value of United Lincoln by \$6,743,493, which has been allocated to mineral properties.

4. FIXED ASSETS

	1989			1988
	Cost	Accumulated depreciation	Net book value	Net book value
Field equipment	\$ 80,467	\$ 32,991	\$ 47,476	\$ 29,503
Office furniture and equipment	93,512	31,377	62,135	63,370
Leasehold improvements	3,283	895	2,388	2,826
	\$177,262	\$ 65,263	\$111,999	\$ 95,699

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS

	Balance at Dec. 31, 1988	Current year's expenditures and adjustments	Written off or recovered during the year	Balance at Dec. 31, 1989
MINERAL PROPERTIES				
MT. MILLIGAN				
Acquisition	\$ 239,471	\$ 28,475	\$ -	\$ 267,946
Exploration	1,400,176	12,668,721	-	14,068,897
TROPHY				
Acquisition	1,223,344	(1,193)	(20,000)	1,202,151
Exploration	1,315,675	80,411	-	1,396,086
SOUTHERN INDIAN LAKE				
Acquisition	4,052	-	-	4,052
Exploration	95,218	274	-	95,492
ADAMS LAKE				
Acquisition	15,664	-	(13,050)	2,614
Exploration	18,101	64,961	-	83,062
SEAL RIVER				
Acquisition	250	-	-	250
Exploration	-	8,743	-	8,743
TELEGRAPH				
Acquisition	1,920	1,390	(3,310)	-
Exploration	-	2,383	(2,383)	-
SHEBANDOWAN				
Acquisition	10,632	-	(10,632)	-
Exploration	127,346	209,215	(336,561)	-
TOTAL	\$4,451,849	\$13,063,380	\$ (385,936)	\$17,129,293

NOTES

Continued

(A) MT. MILLIGAN

A former subsidiary, United Lincoln, now amalgamated to form the company, entered into a joint venture agreement with BP Resources Canada Limited. By the agreement, the company has earned the right to maintain a 69.84% interest in certain mineral claims in the Mt. Milligan area, British Columbia. To maintain the option to December 31, 1994, the joint venture must make payments with an underlying vendor of \$640,000 in stages by December 31, 1993. A number of the claims are also subject to a 2% overriding net smelter returns royalty, commencing in the third year of production. The company is the operator of the joint venture.

The company owns a 100% interest in 15 mineral claims adjacent to the above claims.

(B) TROPHY

The company owns a 100% interest in 71 square miles of mineral claims in the Liard Mining Division, British Columbia.

The company has granted an option to Gigi Resources Ltd. (Gigi) to acquire a 55% interest in the property in consideration for incurring \$5,500,000 in expenditures on the claims and the issuance of 200,000 shares of Gigi by January 26, 1994. In 1989, Gigi incurred \$500,000 of the required expenditures and issued 50,000 shares of Gigi to the company.

(C) SOUTHERN INDIAN LAKE

The company owns a 100% interest in 16 mineral claims located near The Pas, Manitoba.

(D) ADAMS LAKE

The company owns a 52.2% interest in certain mineral claims located near Adams Lake, British Columbia. The company and its 47.8% joint venture partner have granted to Esso Minerals Canada Inc., which has assigned its interest to Homestake Mining (Canada) Limited, an option to acquire an 80% interest in these mineral claims on or before March 31, 1991 in consideration for incurring expenditures on the claims totalling \$1,500,000 and a cash payment of \$10,000.

(E) SEAL RIVER

The company owns a 75% interest in 44 mineral claims near Churchill, Manitoba. North American Metals Corp. earned a 25% interest in the property by incurring \$585,000 in exploration and development expenditures.

(F) TELEGRAPH CREEK

The company owns a 100% interest in 28 mineral claims in the Telegraph Creek region of the Liard Mining Division, British Columbia.

The company has granted Candela Resources Ltd. options to acquire a 100% interest in eight mineral claims by April 1, 1991 in consideration for incurring expenditures on the claims totalling \$500,000, making payments of \$10,000, and the issuance of 200,000 shares of Candela Resources Ltd. The company will retain a 2-1/2% net smelter returns royalty.

The company has granted Pacific Rim Mining Corp. an option to acquire a 100% interest in six mineral claims by March 15, 1993 in consideration for incurring expenditures on the claims totalling \$400,000, making payments of \$10,000, and the issuance of 200,000 shares of Pacific Rim Mining Corp. The company will retain a 2-1/2% net smelter returns royalty.

(G) SHEBANDOWAN

The company sold its 70% interest in certain mineral claims in Ontario to North Coast Industries, which has two directors in common with the company. In consideration for this interest, North Coast Industries made payments to the company totalling \$30,000 and issued 25,000 of its shares.

6. SHARE CAPITAL

Authorized - 100,000,000 common shares without par value

During the period from the date of incorporation (March 19, 1986) to December 31, 1989, the company issued shares as follows:

	Number of shares	Average price per share	Share capital
FROM INCEPTION TO DECEMBER 31, 1986	1,696,476	\$ 0.14	\$ 244,119
FOR THE YEAR ENDED DECEMBER 31, 1987:			
Shares issued - For cash	92,000	\$ 0.25	23,000
BALANCE AT DECEMBER 31, 1987	1,788,476		267,119
FOR THE YEAR ENDED DECEMBER 31, 1988:			
Shares issued -			
For cash	2,044,400	\$ 2.04	4,173,840
As commission on private placement	56,250	\$ 2.40	135,000
Property acquisition	400,000	\$ 2.50	1,000,000
For shares of United Lincoln Resources Inc.	500,000	\$ 3.60	1,800,000
As a result of expenditure of funds from a flow-through share issue	342,800	\$ 4.12	1,414,000
BALANCE AT DECEMBER 31, 1988	5,131,926		8,789,959
FOR THE YEAR ENDED DECEMBER 31, 1989:			
Shares issued -			
For cash	619,195	\$ 3.93	2,434,836
As a result of expenditure of funds from flow-through share issues	246,726	\$ 8.84	2,180,997
Share exchange with United Lincoln Resources Inc. on amalgamation	2,378,052	\$ 3.45	8,204,279
Shares cancelled on amalgamation	(500,000)	\$ 3.60	(1,800,000)
BALANCE AT DECEMBER 31, 1989	7,875,899		\$19,810,071

(a) As at December 31, 1989, 750,000 shares are held in escrow.

(b) Share purchase options to certain directors and employees outstanding at December 31, 1989 are as follows:

Number of shares	Price per share	Expiry date
74,400	\$ 1.10	18/01/90
173,550	\$ 2.00	18/11/90
85,000	\$ 3.00	25/05/90
54,000	\$ 3.85	14/06/90
32,500	\$ 4.00	17/03/90
419,450		

Directors and employees exercised options to purchase common shares during the period from January 1, 1989 to December 31, 1989 as follows:

	Number of shares	Average price per share	Amount
Directors	190,300	\$ 1.74	\$330,500
Employees	111,500	\$ 3.04	\$339,500

NOTES

Continued

(c) During the year the company entered into flow-through share agreements whereby the company has agreed to issue a total of 630,526 common shares and renounce to the investors the tax benefits of the expenditures financed by these issues. As at December 31, 1989, the company had issued shares for these agreements as follows:

Number of shares	Average price per share	Amount
120,000	\$ 2.75	\$ 330,000
210,526	\$ 9.50	\$2,000,000
100,000	\$10.00	\$1,000,000

The company also issued 36,200 shares at a price of \$5 per share in respect of flow-through share agreements entered into in 1988.

As at December 31, 1989, 200,000 shares at \$10 per share were unissued.

(d) During the year, two directors of the company exercised warrants for the issue of 120,000 common flow-through shares at \$2.75 per share, as noted in note 6(c).

7. LEASE COMMITMENT

The company is committed to payments aggregating \$78,800 per year for leased premises until July 31, 1991.

8. LITIGATION

By writ filed in the Supreme Court of British Columbia on October 11, 1989, BP Resources Canada Limited, the owner of a 30.16% interest in the Mt. Milligan claims, alleged that its right of first refusal to buy the claims was breached by virtue of the amalgamation of United Lincoln with Continental. Management has received legal advice that the amalgamation of the companies did not result in a transfer or disposition of the property giving rise to a right of first refusal, and is vigorously defending the action. In addition, the company has counterclaimed for damages arising out of the prosecution of this lawsuit.

9. RELATED PARTY TRANSACTIONS

During the period, the company paid \$12,641 for exploration wages to a company related by virtue of common directors.

A director of the company and a private company wholly owned by the director was paid an aggregate of \$79,631 for expense reimbursements and exploration services.

Other related party transactions are disclosed elsewhere in these financial statements.

10. SUBSEQUENT EVENTS

Rio Algom has agreed to purchase an additional 24,997 common shares at a price of \$10.00 per share pursuant to its preemptive right to maintain its percentage participation in the company.

The company and BP Resources Canada Limited have commenced a \$7.1 million feasibility and government permitting program for the Mt. Milligan mineral claims.

11. TAX LOSS CARRYFORWARDS

The company has tax loss carryforwards of approximately \$1,467,000, which may be used to reduce taxable income in future years. There has been no recognition of the possible future benefits in the accounts.