

**CONSOLIDATED STATEMENT
OF INCOME**

Porcher Is.
886407

	Three Months Ended March 31,	
	1989	1988
REVENUES		
Gold sales revenue	\$ 256,096	\$ 491,442
Gain on gold futures contracts	—	21,026
	<u>256,096</u>	<u>512,468</u>
EXPENSES		
Operating costs	163,679	230,341
Production royalty	4,786	9,190
Depletion and depreciation	37,243	62,227
	<u>205,708</u>	<u>301,758</u>
OPERATING INCOME	<u>50,388</u>	<u>210,710</u>
Other Expenses (Income)		
General and administration expenses	147,331	144,766
Interest income	(4,539)	(28,978)
Foreign exchange and other expenses	1,037	27,651
	<u>143,829</u>	<u>143,439</u>
(Loss) Income Before Income Taxes	(93,441)	67,271
(Recovery of) Income Taxes	(13,000)	20,300
NET (LOSS) INCOME	<u>\$ (80,441)</u>	<u>\$ 46,971</u>
(Loss) Earnings Per Common Share	\$ (0.01)	\$ 0.01

(Unaudited – Prepared by Management)

Cathedral
GOLD CORPORATION

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1st Quarter Report
March 31, 1989

TO OUR SHAREHOLDERS

STERLING MINE

During the first quarter, 1,080 ounces of gold were recovered at the Company's 52% owned Sterling Mine. Ore production was 1,056 tons grading 0.39 opt from underground and 5,684 tons grading 0.32 opt from the Burro Pit. Unusually high winds and freezing temperatures during the months of January and February allowed only intermittent sprinkling of the heaps resulting in low gold recoveries. Cathedral's share of production was 562 ounces all of which was sold at an average price of US\$382.

The second decline into the mine's underground workings was completed and equipped in February. Ore access drifts were then commenced on two levels. When completed, the mine's underground ore production capacity will be increased to 200 tons per day yielding an estimated 10,000 ounces of gold per year.

PORCHER ISLAND

Comprehensive metallurgical tests conducted by Coastech Research Inc. of Vancouver on drill core composite samples from the Company's 100% owned Porcher Island property were completed during the quarter. The results of this test work have shown that gold recoveries of over 95% within a bulk pyrite concentrate can be achieved using a relatively coarse grind of 40-50% minus 200 mesh. Concentrate grade produced from flotation locked cycle testing was 7.87 opt gold. No smelter penalty elements were present in the concentrate. Tailings from the flotation process did not generate acid and a biological toxicity test showed that the decant solution used in the lock cycle test was not harmful to fish. These factors will contribute to environmentally positive mining conditions at Porcher Island.

FINANCIAL

Operating income during the first quarter was \$50,000 on revenues of \$256,000 compared to operating income of \$211,000 on revenues of \$512,000 in the comparable 1988 quarter. Net loss was \$80,000 or 1¢ per share compared to a net income of \$47,000 or 1¢ per share in the first three months of 1988. Lower gold recoveries during the quarter owing to inclement weather raised the cash cost of production to US\$244 per ounce as compared to US\$205 per ounce in the first quarter of 1988.



Hugh C. Morris
CHAIRMAN
May 29, 1989



Pierre B. Lebel
PRESIDENT

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended March 31	
	1989	1988
OPERATING ACTIVITIES		
Operations		
Net (loss) income	\$ (80,527)	\$ 46,971
Items not affecting cash flows		
Depletion and depreciation	37,243	62,227
Deferred income taxes	(13,000)	13,000
	(56,284)	122,198
Net change in non-cash operating working capital balances	129,075	(497,151)
Cash provided by (used in) operating activities	72,791	(374,953)
FINANCING ACTIVITIES		
Issue of share capital for cash	1,312,135	585,000
Premium from flow-through financings	236,782	292,500
Net change in non-cash financing working capital balances	(1,548,917)	
Cash provided by financing activities	—	877,500
CASH PROVIDED BY OPERATING AND FINANCING ACTIVITIES	72,791	502,547
INVESTMENT ACTIVITIES		
Additions to producing mining property, plant and equipment	108,826	8,282
Mineral exploration expenditures	358,958	643,916
Cash used in investment activities	467,784	652,198
(DECREASE) IN CASH	(394,993)	(149,651)
CASH, BEGINNING OF PERIOD	567,829	1,811,245
CASH, END OF PERIOD	\$ 172,836	\$ 1,661,594

(Unaudited — Prepared by Management)