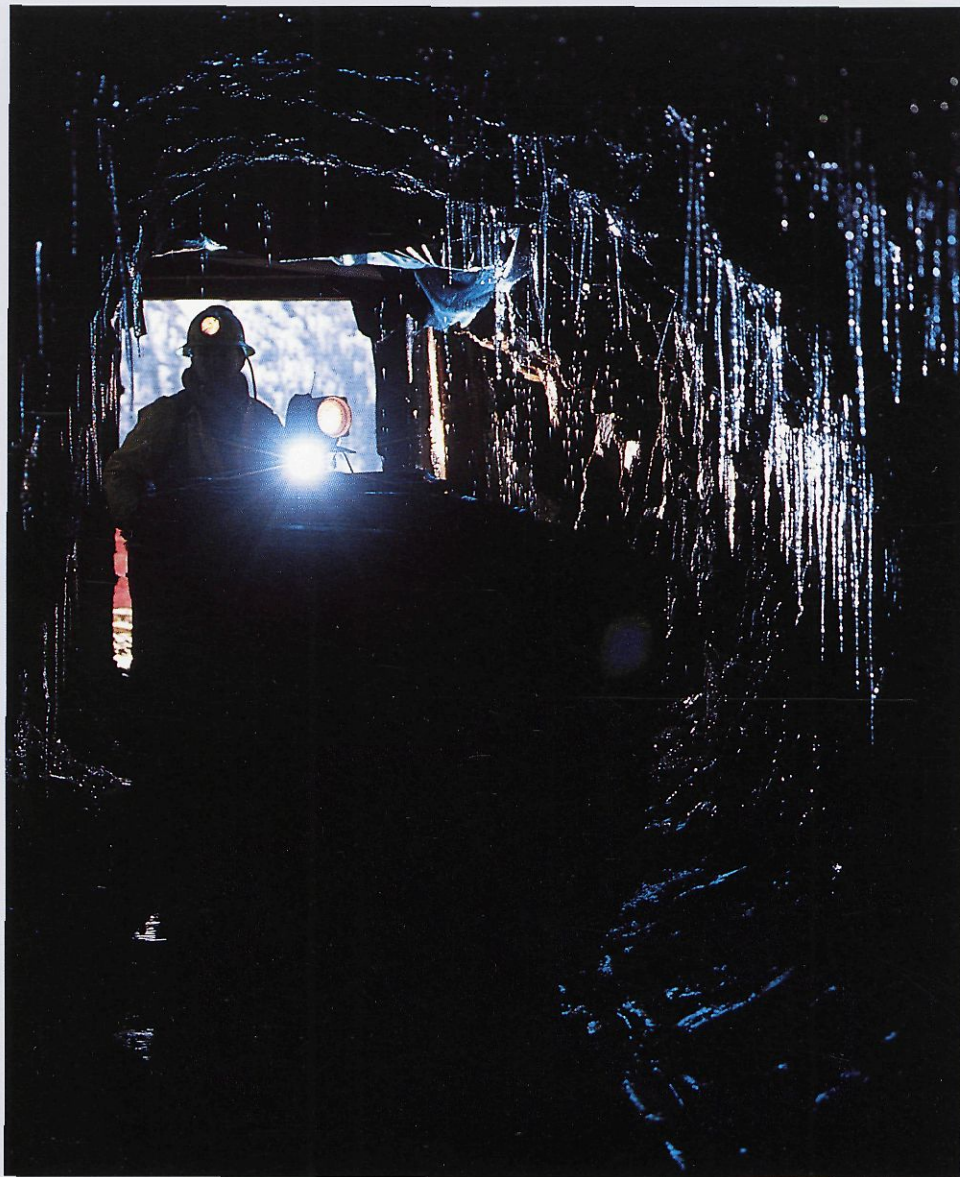


GUNSTEEL RESOURCES  
INCORPORATED

Sheep Creek  
887459



ANNUAL

REPORT

1987

# GUNSTEEL RESOURCES

## Table of Contents

Corporate Profile .....	1
President's Report to Shareholders .....	2
Report on Properties	
<i>The Nugget Mines Property</i> .....	3
<i>The Jero Property</i> .....	5
<i>The Allco Silver Property</i> .....	5
<i>The Gonzo Property</i> .....	7
<i>The Chilko Property</i> .....	7
<i>The Omineca Properties</i> .....	7
Financial Statements .....	8-11
Notes to Financial Statements .....	12-16
Corporate Directory .....	IBC

*Front Cover:*

The center of most of Gunsteel's activities during the year, the Nugget Mine near Salmo, British Columbia, shows excellent potential to once again become a significant gold producer.



## Corporate Profile

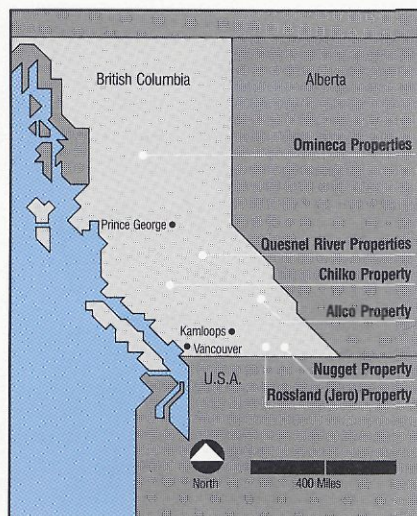
Gunsteel Resources is a Vancouver based Canadian company engaged in precious and base metal exploration and development in some of British Columbia's most promising mining areas and gold camps.

Gunsteel's properties comprise 700 claims and claim units encompassing about 35,000 acres in the Sheep Creek (Salmo), Rossland, Revelstoke, Omineca, Quesnel River, and Chilko Lake areas of British Columbia. The old Rossland and Sheep Creek Gold Camps were two of the prime gold producing camps in the province, with recorded gold production of 2,700,000 and 736,000 ounces respectively. Gunsteel's properties are well located within the most favorable parts of these camps and the exploration opportunities for finding substantial new reserves are excellent.

The most successful of Gunsteel's projects to date is the Nugget property in the old Sheep Creek camp, where the latest reserve figures stand at 223,000 tons grading 0.33 ounces of gold per ton and containing 74,000 ounces of gold. Past production from this property was 430,000 tons of ore grading 0.54 ounces of gold per ton, containing 230,000 ounces of gold.

The Company is nearing its objective of finding sufficient ore to warrant production on the Nugget property and preliminary steps are underway for a production feasibility study. Exploration activity is continuing on the other properties and several new and exciting projects are being evaluated, in keeping with the objective of becoming a successful producer of gold and other metals.

The Company's common shares trade on the Vancouver Stock Exchange (VSE-GUN).



◀ Gunsteel's Mineral Properties

## President's Report to Shareholders

It is a pleasure to present the 1987 Annual Report to Shareholders and review the year's activities. It was a year of continuous growth and success with our exploration program on the Nugget property in the old Sheep Creek gold mining camp near Salmo, B.C.

Financing totalling \$1,275,180 was obtained during 1987. This included \$205,450 from warrants and employee stock options, and \$1,069,730 from flow through fundings. In addition a further funding of \$492,000 is in place towards the 1988 program.

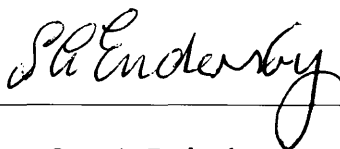
These financings enabled the Company to pursue a successful underground program on the Nugget property totalling \$1,220,000 for the year. The program increased our reserves to 223,000 tons grading 0.33 ounces of gold per ton and containing 74,000 ounces of gold. In addition, several other important targets have been determined by diamond drilling. One of these new targets is the Fawn vein, where drilling showed ore grade mineralization to extend at least 360 feet below the lowest Fawn workings. The present underground program is advancing an exploration tunnel from the adjacent workings of the old Nugget Mine to intersect the down dip projection of the ore zone about 550 feet below the lowest Fawn level.

The results to date on the Nugget property show that it has excellent potential to again become a significant gold producer and rival its past performance. The Reno, Nugget, and Motherlode veins, which are three of over twenty known vein structures on the property warranting detailed exploration, produced a total of 430,000 tons of ore grading 0.54 ounces of gold per ton. With the large number of exploration targets and excellent grades encountered when ore is found, the success of the ongoing exploration program seems assured.

Work was also done on the Allco property near Revelstoke and the Jero property at Rosland, but at a reduced level because of priorities placed on the Nugget project. A \$45,000 program on the Allco property delineated further areas high in silver and showed the mineralized zones to extend under overburden at least another one half mile to the southeast. Several drill targets are indicated for the 1988 program as funds are available. Assessment work totalling \$12,000 was done on the Rosland property to further define several of the anomalous gold areas and this property is a prime exploration target for 1988.

The Company is looking forward to the 1988 program with a great deal of optimism. A production feasibility study is planned on the Nugget property, and the ongoing exploration program is also expected to add further to the present reserves.

I would like to take this opportunity to thank our shareholders for their interest and support in helping to further the success of our Company.



Stan A. Endersby  
*President*

May 1988  
Vancouver, British Columbia



## Nugget Mines Property

The Nugget property is situated in the southeastern part of British Columbia in the Sheep Creek gold mining camp, just 24 miles south of Nelson, 28 miles east of Trail, and 7 miles southeast of the historic mining town of Salmo. The Sheep Creek gold camp ranks sixth in the province in terms of gross gold production — 736,000 ounces of gold from 1,720,000 tons of ore during the period from the early 1900s to 1951. (*\*Assuming a gold price of \$450 US per ounce, today's value for the total production of the Sheep Creek camp would be \$331,200,000 US (\$408,900,000 Cdn.) Past production from the Nugget Mines property itself would be worth \$103,800,000 US (\$128,100,000 Cdn) while the gross value of its present reserves would be \$33,300,000 US (\$41,100,000 Cdn).\**)

The Sheep Creek camp is underlain by late Proterozoic to Cambrian argillite, quartzite, and limestone that have folded into two northerly trending anticlines with an intervening syncline. Numerous gold quartz veins occur in northeasterly trending faults where they intersect certain stratigraphic units of these anticlines.

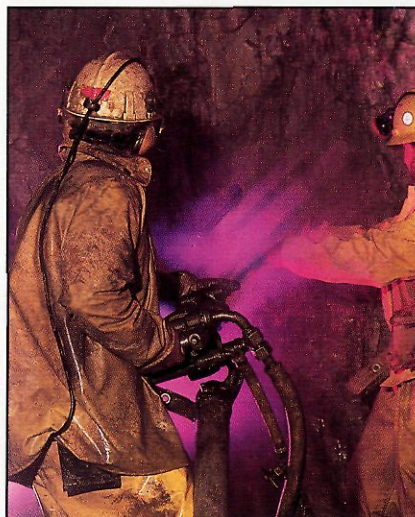
The Nugget property comprises 123 claims and claim units encompassing about 5,000 acres of the most favorable ground in the camp. At least 23 veins on the property warrant exploration, and extensive geologically favorable areas are covered with overburden and likely to contain other veins. Past production from the Nugget property prior to 1950 was 427,000 tons of ore containing 230,580 ounces of gold, averaging 0.54 ounces of gold per ton. This production came mainly from the Reno, Nugget, and Motherlode veins and accounted for 32% of the recorded gold production from the Sheep Creek camp.

Gunsteel Resources has an agreement with Nugget Mines Ltd. whereby Gunsteel can earn a 50% interest in the property by expending \$2,000,000 on the property by 1990. When this amount has been expended, the two companies will participate in a joint venture program to bring the property to production.

In 1986 Gunsteel started an extensive program of underground exploration, sampling, diamond drilling, and surface exploration to outline further ore reserves. Exploration expenditures on the property up to the end of 1987 total \$1,485,000 with very satisfactory results.

The drifting, drilling and sampling program in the Nugget Mine has increased geological reserves on the Nugget and Calhoun veins. Underground diamond drilling on the Fawn veins discovered additional reserves below the access level, and a long crosscut from the 1650 level of the Motherlode Mine is advancing northward to cut the downward projection of the ore on the Fawn veins at depth. The drilling program also indicated a downward extension of the ore zone on the Golden Belle vein.

The 1987 goal of a minimum of 100,000 tons has been surpassed and reserves now stand at 223,000 tons with an average grade of 0.33 ounces of gold per ton, for a total gold content of 74,000 ounces. Extensive sections of the vein systems remain untested and new veins are likely to be discovered. The goal of the 1988 exploration and development program is to substantiate and upgrade the reserve categories and explore various target areas to add further to the reserve figures. Once production begins, an exploration program will be continued to maintain and augment reserve figures as existing reserves are mined.



◀ Extensive underground activities show great promise for the properties currently under development by Gunsteel.





▲ The pride and commitment of our employees have allowed Gunsteel to develop its existing properties and drive towards greater success.

► Sheep Creek Gold Camp Claims

- 1 Lake vein
- 2 Donnybrook vein
- 3 Middle vein
- 4 Reno vein



- 5 Fawn veins
- 6 O'Donnell vein
- 7 Calhoun vein
- 8 Nugget vein
- 9 North Motherlode vein
- 10 Motherlode vein
- 11 Golden Belle vein
- 12 Clyde vein
- 13 1500 zone vein
- 14 Bonanza veins



The Jero Property

Gunsteel's 100% owned Jero claims lie to the south of the Rossland gold camp in southeastern British Columbia. This camp produced more than 2.7 million ounces of gold, 3.3 million ounces of silver, and 100,000 tons of copper. It is the second largest gold producing district in British Columbia.

Over the past several years the Jero claims have been explored using the latest exploration technology. Emphasis has been placed on following airborne electromagnetic anomalies which were associated with old workings which were mined in the early 1900s. Gunsteel is tracing these anomalies on the ground with ground geophysics and geochemical soil sampling. Results to date indicate high values of lead, zinc, silver, and gold over a widespread area.

The 121 claim units comprising the Jero Group cover favorable geological formations which typically host stratabound deposits of lead, zinc, silver and gold as well as gold-quartz veins.

The 1988 program will include further ground geophysics and soil sampling. Any anomalous zones will be trenched and, if warranted, diamond drilled to outline potential ore deposits.

The Allco Silver Property

Gunsteel Resources holds an option to acquire a 100% interest in the Allco Silver property situated 18 miles northeast of Revelstoke, British Columbia. The 96 claim units comprising the Allco Group are located at the head of Woolsey Creek.

Most of the previous work on the Allco was conducted between 1931 and 1936. The work comprised stripping, trenching, and almost 500 feet of underground development in five adits and a shaft. In the mid-1930s, 213 tons of high grade ore containing more than 11,000 ounces of silver and more than 173,000 pounds of lead was shipped.

Today, as a result of extensive geochemical soil sampling and geophysical surveying, a widespread zone of potential mineralization has been identified. Numerous showings containing lead, zinc, and silver have been uncovered over an area of approximately 10,000 feet along strike and 1,500 feet in width, and open at both ends. Several samples from the zone assayed greater than 100 ounces of silver per ton with significant values of lead and zinc (up to 27% lead and 14% zinc). Four distinct modes of mineralization have been established — stratiform, replacement, stockwork and quartz veins.

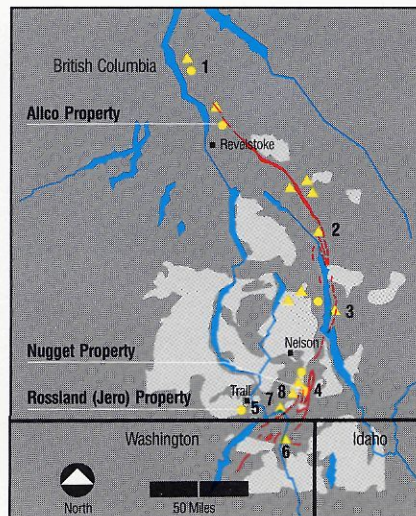
During 1988 Gunsteel plans to further delineate the known mineralized areas and define geochemical and geophysical anomalies for trenching and possible diamond drilling.

► Geology & Mineral Deposits of the Kootenay Arc

Legend

- Granitic rocks
- Gold
- ▲ Lead zinc
- ▬ Badshot Reeves limestone

1. Goldstream Reserves: 3.5 million tons
2. Duncan Reserves: 10 million tons
3. Bluebell: 7 million tons mined



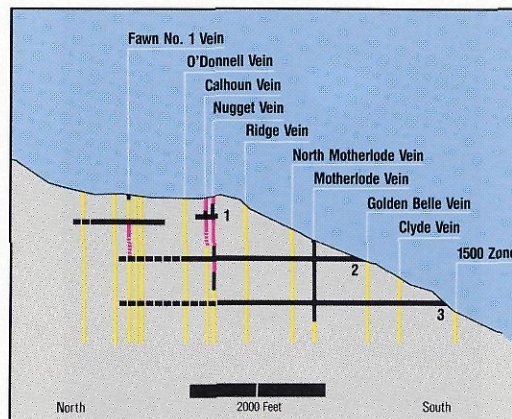
4. Sheep Creek Camp: 1.7 million tons mined, 0.73 million oz. gold
5. Rossland Camp: 5.9 million tons mined, 2.7 million oz. gold
6. Grandview: 10 million tons mined
7. Remac: 7 million tons mined
8. Jersey & H.B.: 10 million tons mined each





► Vertical Section across Veins in Fawn, Nugget, Motherlode Area.

- Legend
- Existing workings
  - - - Proposed workings
  - Ore reserves
  - ⋯ Drill indicated ore reserves
  - Unexplored



▲ A long crosscut on the 1650 level of the Nugget Mine will provide access to the downward projection of the Fawn ore zone.



---

### The Gonzo Property

**T**he Gonzo claim comprises 20 claim units and is owned by Gunsteel Resources. It lies 34 miles southeast of Quesnel, British Columbia, and is strategically located along the Quesnel Basin Fault, 2 miles north of the QR and QR West gold deposits. Preliminary fieldwork has uncovered a structural lineament common to the other known deposits in the area. Further fieldwork will be undertaken to outline the potential of the property.

---

### The Chilko Property

**G**unsteel owns a 100% interest on the Chilko properties which consist of 135 claim units located 150 miles north of Vancouver and 94 miles northwest of Lillooet. The claims were staked to cover anomalous values of gold, silver, and mercury. These values are believed to be associated with intensely altered geological formations. The geology strongly suggests structures similar to the Fish Lake deposit and to the Charlie and Lord River Gold Mine prospects. Work in 1988 will outline potential zones by mapping, geochemical sampling, and geophysical surveying.

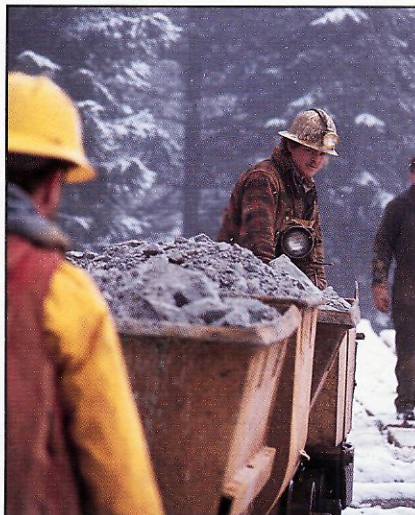
---

### The Omineca Properties

**T**he Omineca claims were staked to cover areas where reconnaissance stream sediment sampling yielded anomalous gold values.

The properties lie about 120 miles northeast of Smithers, British Columbia, on strike with the Toodoggone gold camp. Potential exists for the discovery of gold paleoplacers and also for epithermal gold deposits.

Limited geochemical soil sampling and geophysical surveying with geological mapping are planned for the coming field season.



◀ Gunsteel has increased its geological reserves through its drifting, drilling and sampling program on the Nugget Mines Property.

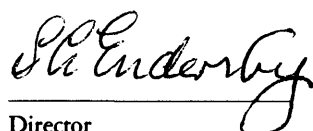


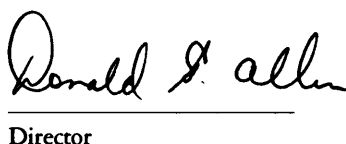
G U N S T E E L R E S O U R C E S

Balance Sheet

December 31, 1987	1987	1986
<b>ASSETS</b>		
<b>Current Assets</b>		
Bank and cash .....	\$ 11,345	\$ 98,052
Term deposit .....	8,000	50,000
Accounts receivable .....	119,403	11,920
Prepaid expenses .....	8,265	—
In trust .....	2,394	8,500
	<u>149,407</u>	<u>168,472</u>
Mineral Properties, including deferred costs (Notes 2 & 4) .....	1,967,737	708,080
Fixed Assets, net (Note 3) .....	19,319	19,108
Incorporation Costs .....	1,786	1,786
	<u>\$2,138,249</u>	<u>\$ 897,446</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable .....	\$ 423,871	\$ 97,211
Management fees payable .....	—	6,000
	<u>423,871</u>	<u>103,211</u>
Share Capital Subscriptions (Note 6) .....	412,645	115,753
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 5) .....	1,822,342	905,729
Deficit .....	(520,609)	(227,247)
	<u>\$2,138,249</u>	<u>\$ 897,446</u>

Approved on Behalf of the Board

  
Director

  
Director

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



G U N S T E E L R E S O U R C E S

Statement of Administration Costs and Deficit

For the year ended December 31, 1987	1987	1986
<b>Administration costs</b>		
Bad debts .....	\$ 403	\$ —
Bank charges and interest .....	244	108
Consulting .....	3,935	—
Depreciation .....	2,165	431
Finders fee .....	11,933	—
Insurance .....	8,566	—
Management fees .....	24,000	10,581
Miscellaneous .....	3,139	6,487
Office and printing .....	32,672	19,329
Professional fees .....	35,202	43,699
Promotion .....	91,836	36,192
Rent .....	15,458	7,299
Stock exchange fees .....	9,805	4,665
Transfer agent .....	6,253	5,093
Travel .....	16,085	10,616
Wages and benefits .....	42,109	6,068
	303,805	150,568
Interest income .....	(9,599)	(8,431)
Cost recovery .....	(12,134)	—
	282,072	142,137
<b>Other items</b>		
Gain on debt written-off .....	(4,000)	—
Loss on abandonment of mineral claims .....	2,290	1,196
Settlement of contingent liability .....	13,000	—
	11,290	1,196
Increase in Deficit .....	293,362	143,333
Deficit at beginning of year .....	227,247	83,914
Deficit at end of year .....	\$ 520,609	\$ 227,247

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



G U N S T E E L R E S O U R C E S

Statement of Operating, Financing and Investing Activities

For the year ended December 31, 1987	1987	1986
<b>Operating activities</b>		
Decrease (Increase) in deficit, net of depreciation .....	\$ (291,197)	\$ (142,902)
Increase in share capital subscriptions .....	296,892	115,753
Loss on disposal of mineral property and associated costs .....	2,290	1,196
Decrease (Increase) in prepaid expenses .....	(8,265)	2,400
Decrease (Increase) in accounts receivable .....	(107,483)	(11,920)
Increase (Decrease) in management fees payable .....	(6,000)	2,000
Increase in accounts payable .....	326,660	78,298
	<u>212,897</u>	<u>44,825</u>
<b>Financing activities</b>		
Issue of share capital for:		
Cash .....	196,950	207,703
Fixed assets .....	—	14,940
Mineral properties .....	9,563	17,500
Flow-through share subscriptions .....	710,100	418,247
Shareholders' loans .....	—	(17,355)
	<u>916,613</u>	<u>641,035</u>
<b>Investing activities</b>		
Acquisition of mineral properties .....	49,563	71,050
Deferred exploration and development costs — net of depreciation .....	1,207,815	436,254
Acquisition of fixed assets .....	6,945	22,226
	<u>1,264,323</u>	<u>529,530</u>
Increase (decrease) in cash .....	(134,813)	156,330
Cash at beginning of year .....	156,552	222
Cash at end of year .....	<u>\$ 21,739</u>	<u>\$ 156,552</u>
<b>Cash Consists of:</b>		
Bank and cash .....	\$ 11,345	\$ 98,052
Term deposit .....	8,000	50,000
In trust .....	2,394	8,500
	<u>\$ 21,739</u>	<u>\$ 156,552</u>

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



G U N S T E E L R E S O U R C E S

Statement of Deferred Exploration and Development Costs

For the year ended December 31, 1987	1987	1986
Accommodation and meals .....	\$ 7,201	\$ 11,066
Assays .....	27,476	22,311
Contract labour .....	210,496	24,520
Depreciation .....	4,569	2,687
Drilling .....	143,317	15,668
Equipment rental and operating expenses .....	179,936	78,572
Engineer .....	59,207	6,256
Licences and recording fees .....	9,817	5,764
Mapping .....	853	1,251
Miscellaneous .....	78,100	43,330
Supplies .....	141,833	50,291
Transportation and travel .....	17,321	22,052
Wages and benefits .....	436,228	155,173
	1,316,354	438,941
Cost recoveries .....	(33,970)	—
Government grants .....	(70,000)	—
Total deferred costs incurred in current year .....	1,212,384	438,941
Allocation to deficit .....	(610)	(119)
Balance of deferred costs at beginning of year .....	576,843	138,021
Balance of deferred costs at end of year .....	\$ 1,788,617	\$ 576,843

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

-----  
Auditor's Report

To the Shareholders of Gunsteel Resources Incorporated

I have examined the balance sheet of Gunsteel Resources Incorporated as at December 31, 1987, the statement of administration costs and deficit, the statement of operating, financing and investing activities, and the schedule of deferred exploration and development costs for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and 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.

Vancouver, British Columbia  
April 28, 1988

BRUCE F. JAMIESON & CO.  
*Certified General Accountant*

G U N S T E E L R E S O U R C E S

Notes to the Financial Statements

NOTE 1. NATURE OF OPERATIONS

The company is in the process of exploring its mineral properties. The continued operations of the company and the recoverability of the amount shown for mineral properties 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Deferred Costs*

The company is in the exploration stage with respect to its investment in natural resource properties and accordingly follows the practice of capitalizing all costs related to the exploration project, until such time as the project is put into commercial production, sold or abandoned. If commercial production commences, these capitalized costs will be amortized on a unit-of-production basis.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized, however, the company has no right to these expenses nor the depletion allowance for tax purposes. (refer to Note 5)

b. *Administration Costs*

The company has adopted the accounting policy of allocating administration costs to deficit in the year incurred.

c. *Values*

The amounts shown for the mineral properties, and deferred exploration and development costs, represent costs to date and are not intended to reflect present or future values.

d. *Option Agreement Payments*

Option Agreement payments for the acquisition of resource properties, are made at the discretion of the company and accordingly, are accounted for on a cash basis.

e. *Comparative Figures*

The comparative figures presented have been restated due to a change in accounting policy to have deferred exploration and development costs remain capitalized after being renounced to flow-through share subscribers under the Income Tax Act of Canada. The effect of this restatement is to increase share capital by \$418,247 and increase deferred exploration and development costs by the same amount.

NOTE 3. FIXED ASSETS

The company is depreciating its fixed assets using the following rates applied to the declining balance.

	Rate	Cost	Accumulated depreciation	Net book value
Equipment — office . . . . .	20 %	\$11,254	\$2,596	\$ 8,658
— mining . . . . .	30 %	17,917	7,256	10,661
		<u>\$29,171</u>	<u>\$9,852</u>	<u>\$19,319</u>

NOTE 4. MINERAL PROPERTIES

Capitalized  
costs

a. *Omineca Mining Division, British Columbia*

i. *Omineca Properties*

The company owns a 50% interest in the NIV #5-8 and Comb #1 and 2 mineral claims located in the Omineca Mining Division of British Columbia.

— Deferred exploration and development costs . . . . . \$ 125,342

ii. *Niven River Property*

The company maintains a 5% interest in the SUS#1-4 mineral claims located in the Omineca Mining Division of British Columbia.

—Deferred exploration and development costs . . . . . 2,616



*b. Revelstoke Mining Division, British Columbia*

*i. Allco Silver Property*

By an Option Agreement dated July 11, 1983 (amended March 14, 1986), the company has the right to purchase 100% interest in the Limestone Dike #19, Limestone Fr., and Limestone Dike #1-8 mineral properties located in the Revelstoke Mining Division of British Columbia. The terms of the Option Agreement are:

— Cash, paid .....	55,000
— 25,000 shares of the company's share capital (issued at a deemed value of \$.35 per share) .....	8,750
— subsequent cash payments totaling \$1,145,000 by August 31, 1993 (\$25,000 on or before August 31, 1988) and the completion of exploration work commitments of \$23,614 on or before December 31, 1988 and \$574,000 in stated segments on or before August 31, 1993 (\$94,000 on or before August 31, 1988)	
— the issue of a further 175,000 shares of the company's capital stock in a minimum of three (3) blocks, subject to the approval of engineering reports, recommending additional work on the claims, by regulatory authorities.	
— a further 50,000 shares (not more than 25,000 shares on or before August 31, 1992) is to be issued upon commencement of commercial production and receipt of the approval of regulatory authorities, or alternatively, a cash equivalent based on the closing bid for the shares on the Vancouver Stock Exchange at August 31, 1993 or independent share evaluation, payable in individual installments limited to 5% of the subject company's interest in the smelter return at that time.	

In addition, the properties are subject to a 5% net smelter returns royalty until the option price is fully paid, thereafter reduced to 1%.

63,750

*ii. Midas #1-7 Properties*

The company has staked additional mineral claims in Revelstoke Mining Division of British Columbia, described as the Midas #1-7, which are located within five (5) kilometres of the Allco Silver Property, described above, and accordingly, are subject to the July 11, 1983, Option Agreement.

— Capitalized staking costs .....	1,032
Total deferred exploration and development costs incurred to date on the Allco Silver and Midas #1-7 properties .....	<u>106,386</u>
	<u>171,168</u>

*c. Cariboo Mining Division, British Columbia*

*Gonzo Property*

The company acquired 100% interest in the Gonzo mineral claim located in the Cariboo Mining Division of British Columbia for consideration of

— Cash .....	2,500
— Deferred exploration and development costs .....	<u>5,119</u>
	<u>7,619</u>

*d. Trail Creek Mining Division, British Columbia*

*Rosland Property (Jero Claims)*

The company owns 100% interest in the Jero #2-8 and the Jero #10-11, mineral claims located in the Trail Creek Mining Division of British Columbia.

— Acquisition costs .....	36,225
— Deferred exploration and development costs .....	<u>49,403</u>
	<u>85,628</u>

e. *Clinton Mining Division, British Columbia*

i. *Chilko Mineral Claims*

The company purchased 100% interest in the Chilko #1-10 mineral claims located in the Clinton Mining Division of British Columbia for \$3,550 and a commitment to issue 11,250 shares of its capital stock.

— Capitalized acquisition costs . . . . .	3,550
— 11,250 shares (issued at a deemed price of \$.85 per share) . . . . .	9,563

ii. *Dor Mineral Claims*

The company staked the Dor #1-4 mineral claims located in the Clinton Mining Division of British Columbia. Total deferred exploration and development costs

incurred to date on the Chilko #1-10 and the Dor #1-4 mineral claims . . . . .	14,434
--	--------

27,547

f. *Nelson Mining Division, British Columbia*

*Nugget Agreement (Nugget Joint Venture)*

The company has entered into an Option Agreement with Nugget Mines Ltd. of White Rock, B.C., dated August 30, 1985, (amended March 15, 1986), whereby it may earn a 50% interest in eleven (11) crown grants, forty (40) reverted crown grants, and fifteen (15) mineral claims located in the Sheep Creek Area, Nelson Mining Division, British Columbia.

The terms of the Option Agreement are:

i. A total exploration and development expenditure of \$2,000,000 in segments of:

- \$312,000 on or before December 31, 1986 (completed);
- \$350,000 on or before December 31, 1987 (completed);
- \$350,000 on or before December 31, 1988 (completed);
- \$450,000 on or before December 31, 1989 (completed); and
- \$538,000 on or before December 31, 1990 (\$127,287 completed).

ii. The issue of 25,000 shares of its capital stock at a deemed value of \$.70 per share . . . .	17,500
--	--------

iii. The issue of 175,000 shares of the company's capital stock in a minimum of three (3) blocks, subject to the approval of engineering reports recommending additional work on the claims, by regulatory authorities

iv. Total cash payments of \$135,000 with initial payments of:

\$10,000 on or before the earlier of fifteen (15) days following the listing of the company on the Vancouver Stock Exchange or June 30, 1986 (paid); . . . . .	10,000
\$15,000 on or before December 31, 1986 (paid); . . . . .	15,000
\$20,000 on or before December 31, 1987 (paid); . . . . .	20,000
\$25,000 on or before December 31, 1988;	
\$30,000 on or before December 31, 1989; and	
\$35,000 on or before December 31, 1990.	

Subsequently, after completion of the Option Agreement, the subject company and the original vendor will form a Joint Venture for the purpose of carrying out further exploration and development work on the properties. In addition, the company is committed to issue a further 70,000 shares of its capital stock on or after December 31, 1990, dependent upon commencement of commercial production and receipt of regulatory approval, or alternatively, a cash equivalent based on the closing bid for the shares on the Vancouver Stock Exchange at that date or independent share evaluation, payable in individual installments limited to 2% of the subject company's interest in the smelter return at that time.

— Deferred exploration and development costs . . . . .	1,485,317
--	-----------

1,547,817

\$1,967,737



**NOTE 5. SHARE CAPITAL**

The authorized share capital of the company is 10,000,000 shares without par value. The company has issued shares of its capital stock as follows:

	1987		1986	
	Number of Shares	Amount	Number of Shares	Amount
For cash . . . . .	1,842,673	\$ 538,584	1,603,673	\$ 341,634
For cash (flow-through) . . . . .	1,222,139	1,128,347	—	418,247
For fixed assets . . . . .	18,000	14,940	18,000	14,940
For debts . . . . .	491,275	104,658	491,275	104,658
For mineral properties . . . . .	61,250	35,813	50,000	26,250
	<u>3,635,337</u>	<u>\$1,822,342</u>	<u>2,162,948</u>	<u>\$ 905,729</u>

*Transactions For the Issue of Share Capital During the Current Year:*

- i. A total of 177,000 Series "A" warrants were exercised at a price of \$.85 per share for the issue of 177,000 shares.
- ii. The company issued 11,250 shares at a deemed price of \$.85 per share pursuant to the mineral property acquisition described in Note 4(e)(i) above.
- iii. The company issued 62,000 shares for the exercise of employee stock options at a price of \$.75 per share.
- iv. The company completed the qualifying exploration expenditures as described in its Primary Prospectus and has issued 624,000 shares at a price of \$.75 per share.
- v. The company completed the qualifying exploration expenditures as described in the Private Placement Agreement dated December 30, 1986 and has issued 66,000 shares at a price of \$1 per share.
- vi. By an Agreement dated June 11, 1987 with NIM Resource 1987 and Company, Limited Partnership ("NIM"), the company has agreed to incur costs totaling \$475,000 which qualify under S.66 of the Income Tax Act of Canada as Canadian Exploration Expenses. NIM will be issued flow-through shares of the company on a basis of one common share for every \$1.30 of cost incurred. A total of 364,068 shares have been issued.
- vii. By an Agreement dated July 30, 1987 with Vanguard Mining Exploration Limited Partnership ("Vanguard"), the company incurred costs totaling \$119,330 which qualify under S.66 of the Income Tax Act of Canada as Canadian Exploration Expenses. Vanguard was issued flow-through shares of the company on a basis of one common share for every \$.71 of cost incurred. A total of 168,071 shares have been issued.

*Stock Options*

- i. The company has stock options outstanding to its Directors and employees totaling 346,000; 237,000 shares exercisable at a price of \$.54 per share on or before December 8, 1989, and 109,000 shares exercisable at a price \$.75 per share on or before August 8, 1988.
- ii. The company has granted 168,071 share purchase warrants pursuant to the Agreement described in Note 5, Item vii above, exercisable at a price of \$.81 per share on or before December 16, 1988.

**NOTE 6. SHARE CAPITAL SUBSCRIPTIONS**

- i. The company has received share subscriptions totaling 324,000 shares by the exercise of the Series "B" warrants described in its Primary Prospectus. The subject company has agreed to incur expenses on behalf of the subscribers which qualify as Canadian Exploration Expenses as described in S.66 of the Canadian Income Tax Act.
- ii. The company has received share subscriptions totaling 130,715 shares at a price of \$1.05 per share pursuant to a Private Placement Agreement dated August 21, 1987. In addition, the subscribers have been granted Series "D" warrants for 130,715 shares, exercisable at a price of \$1.50 per share on or before January 28, 1989.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

A management fee of \$2,000 per month has been paid to the President of the subject company for services rendered in that capacity for the current year.

No other direct remuneration was paid or is payable to the Directors or Senior Officers of the subject company during the current year.

NOTE 8. RELATED TRANSACTIONS

- a. The subject company has incurred during the current year a total of \$52,986 in exploration and administration costs with a corporation controlled by a member of its Board of Directors.
- b. The company incurred during the year a total of \$1,239,485 in exploration and administration costs with a corporation in which the President of the subject company owns a 30% equity interest.
- c. The President of the subject company owns a 20% equity interest in the corporation from which the mineral properties described in Note 4(b)i above are being optioned.
- d. A wage of \$17,063 was paid during the year to a relative of the President of the company, for secretarial services.

NOTE 9. SUBSEQUENT EVENTS

- a. The company issued the 454,715 shares as described in Note 6i and ii above.
- b. Five two-post mineral claims were acquired by staking and are subject to the Agreement described in Note 4(f) above.
- c. By an Agreement dated December 12, 1987 with NIM and Company, Limited Partnership — 1987, the company has incurred costs totaling \$150,000 for 1987 which qualify under S.66 of the Income Tax Act of Canada. A total of \$150,000 has been received and 187,500 shares have been issued at a price of \$.80 per share.
- d. By an Agreement dated June 17, 1987 with NIM and Company, Limited Partnership — 1988, the company has agreed to incur costs totaling \$492,000 for 1988 which qualify under S.66 of the Income Tax Act of Canada. A total of \$208,368 has been received and 327,160 shares have been issued at a price of \$.6369 per share.
- e. By an Agreement with Chapleau Resources Ltd. of Vancouver, B.C. ("Chapleau"), the company may earn up to a maximum of 50% interest in approximately 25,000 acres of mineral claims located in the Fort Steele Mining Division of British Columbia. To earn its interest, the subject company must complete exploration expenditures of \$50,000 on or before June 30, 1988 and \$250,000 on or before December 31, 1988 to earn a 30% interest, and a further \$300,000 on or before December 31, 1989 to earn a further 20% interest. Chapleau must expend \$50,000 on or before June 30, 1988 and \$100,000 on or before December 31, 1989.



G U N S T E E L R E S O U R C E S

Corporate Directory

HEAD OFFICE

Gunsteel Resources Incorporated  
501-850 West Hastings Street  
Vancouver, B.C.  
Canada V6C 1E1  
(604) 681-0194

MINE OFFICE

Gunsteel Resources Incorporated  
c/o Nugget Mines Limited  
P.O. Box 308  
Salmo, B.C.  
Canada V0G 1Z0  
(604) 357-9343

OFFICERS

Stan A. Endersby, P.Eng.  
*President*  
Don G. Allen, P.Eng.  
*Vice President*  
Michael Raftery  
*Secretary-Treasurer*

DIRECTORS

Stan A. Endersby, P.Eng.  
*President*  
Don G. Allen, P.Eng.  
*Vice President*  
Gary Allen, P.Eng.  
*Director*  
R.A. Wattie  
*Director*  
Norman McLaren  
*Director*  
Michael Raftery  
*Secretary-Treasurer*

MINE MANAGEMENT

E.A. Lawrence, P.Eng.  
*Manager, Nugget Mine Property*  
P. Thomas, P.Eng.

CONSULTANTS

A&M Exploration  
704-850 West Hastings Street  
Vancouver, B.C. V6C 1E1

LISTED

Vancouver Stock Exchange GUN  
SEC Exemption NO. 82-1507

CAPITALIZATION

As at December 31, 1987:  
Authorized: 10,000,000 shares  
Issued/Outstanding 3,635,337  
Escrowed 375,000 shares

BANKERS

Toronto Dominion Bank  
499 Granville Street  
Vancouver, B.C. V6C 1V3

SOLICITORS

L. van der Horst & Associates  
601-850 West Hastings Street  
Vancouver, B.C. V6C 1E1

AUDITORS

Bruce F. Jamieson & Company  
407-325 Howe Street  
Vancouver, B.C. V6C 1Z7

TRANSFER AGENT

Yorkshire Trust  
300-1100 Melville Street  
Vancouver, B.C. V6E 4B6



Gunsteel Resources Incorporated  
501-850 West Hastings Street  
Vancouver, B.C., Canada V6C 1E1  
(604) 681-0194