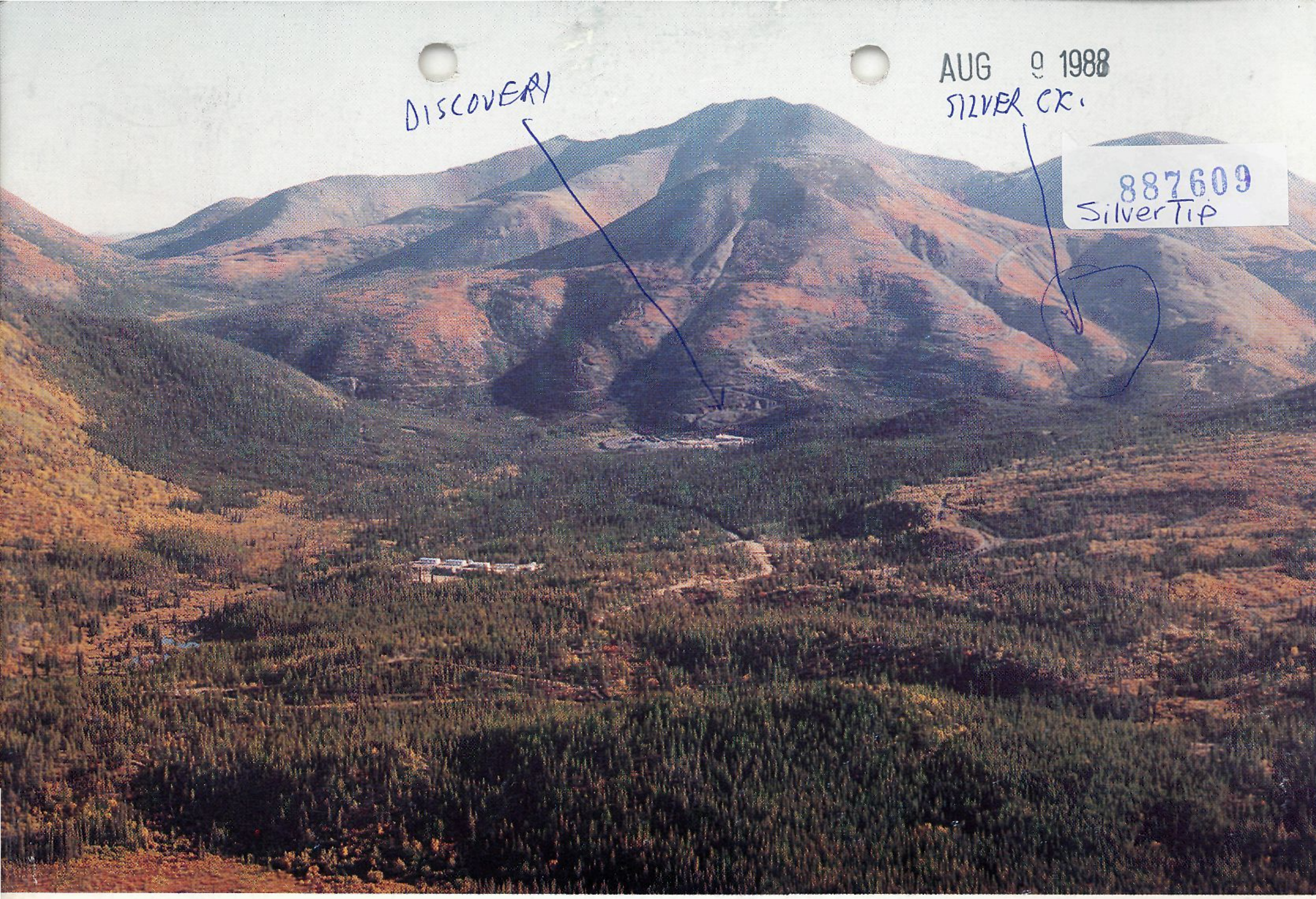
DISCOVERY

SILVER CK.



File → MIDWAY

Regional Resources Ltd.

1987 Annual Report

CORPORATE INFORMATION

DIRECTORS

C.C. Coolican*
Executive Vice-President
Conwest Exploration
Company Limited
Toronto, Ontario

G. Farquharson
President
Strathcona Mineral
Services Limited
Toronto, Ontario

O.S. Hairsine*
Consulting Geologist
Vancouver, British Columbia

J.C. Lamacraft*
President
Conwest Exploration
Company Limited
Toronto, Ontario

J.W. Stollery
President
Cordilleran Engineering Ltd.
Vancouver, British Columbia

*Audit Committee

OFFICERS

G. Farquharson
President

K.G. Hanna
Secretary

N.L. Calder
Treasurer

OTHER INFORMATION

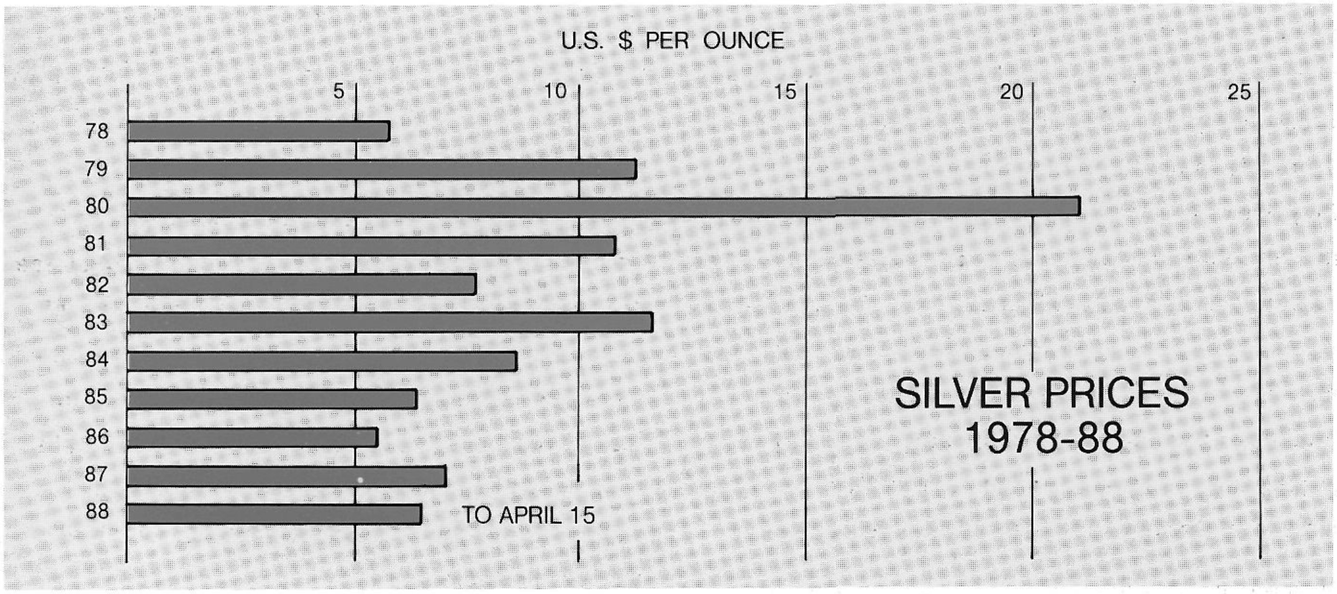
Head Office
12th Floor
20 Toronto Street
Toronto, Ontario
M5C 2B8

Legal Counsel
Lyall McKercher Hanna
Vancouver, British Columbia

Registrar and Transfer Agent
Guaranty Trust Company
of Canada
Vancouver, Regina,
Winnipeg, Toronto

Auditors
Thorne Ernst & Whinney
Toronto, Ontario

Shares Listed (RGL)
The Toronto Stock Exchange
The Vancouver Stock Exchange



SHARE PRICE HISTORY

	1987	1986	1985	1984	1983
High	$4.75	3.90	5.75	6.38	9.25
Low	1.40	1.70	3.60	4.35	4.15

Front Cover: Midway project site

ANNUAL MEETING

The annual meeting of the shareholders of Regional Resources Ltd. will be held in Suite 1500, 885 West Georgia Street, Vancouver, British Columbia, at 9:00 a.m. on June 7, 1988.

REPORT TO THE SHAREHOLDERS

Midway Project

There were no exploration activities carried out on the Midway property, in which Regional has a 51% interest, in 1987. A major underground exploration and development program estimated to cost in the order of $10 million has been planned for the project but has not yet been initiated.

Continuing relatively low silver prices have caused Regional to defer making a strong recommendation to its partners in the Midway Joint Venture, Canamax Resources Inc. and Procan Exploration Company Ltd., to proceed with further substantial expenditures on the project. The strengthening of the Canadian dollar with respect to the U.S. dollar in recent months has further eroded the price of silver in Canadian currency.

Expectations, or perhaps hopes, had been that the price of silver would rise to parallel the relatively strong performance of gold over the last two years and even attain the traditional price ratio of 40:1 for gold to silver rather than the current 70:1. However, silver prices have remained low as the basic market forces of supply and demand appear to have a strong effect on determining silver prices whereas the price of gold has not been adversely affected by an ever increasing supply. The combination of new silver production plus existing inventories continues to indicate a surplus relative to demand and, as most new silver production comes as a by-product of mining operations producing either base metals or gold, low silver prices have not greatly dampened current major sources of newly-mined silver.

On the positive side, prices for zinc, the second most important metal in the Midway deposit, have increased significantly in the early months of 1988 although the increases have been moderated by the strength of the Canadian dollar.

The Midway project currently has geological reserves of about 1.2 million tonnes allocated approximately equally between the Silver Creek and Discovery Zones. Confidence concerning the grade, location, and ground conditions pertaining to reserves in the Silver Creek Zone is at a higher level than for the reserves in the Discovery Zone because of the underground program previously completed.

It is recognized that the next phase of development on the Midway property must include extending the existing underground openings down to the deeper levels on which the Discovery Zone mineralization is found. The objectives of this program will be not only to confirm the presently drill-indicated reserves of the Discovery Zone but also to add further tonnage to raise the total geological reserves to something in the order of two million tonnes at grades comparable to those indicated to date. Such a geological reserve would be adequate to form the basis for a production decision at such time as metal prices permit a profitable outlook for the project.

Regional believes establishing a reserve base of sufficient size to support a production decision is essential so that the opportunity to capitalize on the next inevitable upturn in metal price cycles is not lost. As a consequence Regional intends to pursue currently available possibilities for financing the further development of the Midway project and to have a development program initiated in 1988 subject to the concurrence of the Midway Joint Venture partners.

Midway Project — Geological Reserves

Area	Tonnes	Ag g/t	Pb %	Zn %
Silver Creek	570 000	490	9.5	10.8
Discovery	615 000	330	4.7	8.5
Total	1 185 000	410	7.0	9.6

PROPERTY LOCATIONS

Other Projects

A number of other exploration projects in western Canada have been reviewed in the past year for possible participation by Regional. This process will continue with the objective of achieving participation in projects where the technical skills and financial resources available to Regional can be utilized.

Regional is maintaining in good standing the Logjam Creek tungsten-molybdenum property on the British Columbia — Yukon border where mineralized *reserves of 300 million tonnes grading* 0.095% tungsten (WO_3) and 0.045% molybdenum (MoS_2) have been identified but no further work on this property is anticipated for some time.

Fairfield Minerals Ltd.

Fairfield Minerals, in which Regional currently has a 46% interest has had an active exploration season in 1987. As a result continuing programs costing $3.7 million have been announced for 1988 with most of the funding being provided either by major companies acquiring an interest in the properties or by Fairfield issuing flow-through shares.

In the Yukon Fairfield has two properties, Logan and Ram, on which sizeable programs are planned. On the Logan property, where Fairfield reports 7 million tonnes indicated to date grading 7% zinc plus some silver values, Getty Resources Limited will have earned a 50% interest by funding $1.5 million in exploration work in 1988. On the Ram property the target is base metals with associated precious metal values and Equity Silver Mines Limited has an option to earn a 60% interest by spending a total of $2.4 million.

In southern British Columbia, in the Okanagan Valley, Fairfield has two properties, the Oka and Elk, being assessed for gold potential. Separate agreements have recently been signed with Placer Dome Inc. to allow that company to earn a 50% interest by spending $2 million on each project over a period of time plus cash payments of $500 000. Expenditures for 1988 of $500 000 for Oka and $400 000 for the Elk property have ben budgeted.

Although Regional's equity interest in Fairfield is currently 46% through its holding of 2 250 000 shares, an option exists to Cordilleran Engineering to acquire 670 000 of those shares. This, together with the planned issue of flow-through shares by Fairfield and possible exercise of stock options by directors and management of Fairfield, would reduce Regional's interest to 28% but would still provide for substantial participation by Regional shareholders in any successful exploration efforts by Fairfield. To date, therefore, the original concept in creating Fairfield as an opportunity for Fairfield management and Cordilleran Engineering to further explore some of the original Regional properties and add others to the benefit of both Regional and Fairfield shareholders has worked well.

Financial

With the lower level of activity in 1987 administrative expenses were reduced from the previous year resulting in interest income exceeding expenses and a net income of $120 000 for the year. Exploration and development expenditures during the year of $70 000 were principally for the Midway property and were funded by issuing flow-through shares at $7.00 per share to Nanisivik Mines Ltd. under terms of an agreement made in 1984. A further 320 000 shares remain to be issued under this agreement should Nanisivik decide to participate in further exploration programs initiated by Regional.

Cash balances or equivalent increased slightly during the year to $2.7 million with such funds continuing to be reserved for earning income to cover administrative expenses of the company and possible participation by Regional in new projects.

On behalf of the Board

G. Farquharson
President

April 28, 1988

REGIONAL RESOURCES LTD.

CONSOLIDATED BALANCE SHEET

As at January 31, 1988
(in thousands)

ASSETS	1988	1987
Current Assets		
Cash and short-term investments	**$2,692**	$2,476
Accounts receivable	**50**	68
	2,742	2,544
Investment (note 1)	**437**	443
Resource properties (note 2)	**4,517**	4,467
	$7,696	$7,454
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 65**	$ 124
Deferred income taxes	**89**	89
Shareholders' Equity		
Capital stock (note 3)		
Issued		
5,128,100 common shares (1987 — 5,053,100)	**9,514**	9,383
30,725 common shares allotted but not issued (1987 — 20,747)	**155**	105
	9,669	9,488
Deficit	**2,127**	2,247
	7,542	7,241
	$7,696	$7,454

Approved by the Board

[signature], Director   [signature], Director

AUDITORS' REPORT

To the Shareholders of
Regional Resources Ltd.

We have examined the consolidated balance sheet of Regional Resources Ltd. as at January 31, 1988 and the consolidated statements of operations and deficit, deferred exploration and development expenditures 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 consolidated financial statements present fairly the financial position of the Corporation as at January 31, 1988 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.

Toronto, Canada
March 28, 1988

Thorne Ernst & Whinney
Chartered Accountants

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Year Ended January 31, 1988
(in thousands)

	1988	1987
Interest income	**$ 211**	$ 215
Administration expenses		
Management	**56**	93
Shareholders' information and transfer agent fees	**34**	37
Legal and audit	**19**	46
Engineering fees	**21**	61
	130	237
Operating income (loss)	**81**	(22)
Gain on sale of shares	**43**	
Write-off of resource properties abandoned	**(4)**	
Write-off of general exploration expenditures	**—**	(14)
Write-down of marketable securities	**—**	(22)
Foreign exchange gains	**—**	(3)
	39	(39)
Net income (loss)	**120**	(61)
Deficit at beginning of year	**2,247**	2,186
Deficit at end of year	**$2,127**	**$2,247**

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES

Year Ended January 31, 1988
(in thousands)

	1988	1987
Exploration and development expenditures	**$ 70**	$ 652
Assigned value of income tax benefits flowed through to the subscriber	**20**	159
Net expenditures for the year	**50**	493
Write-off of general exploration expenditures	**—**	14
Net additions for the year	**50**	479
Balance at beginning of year	**3,204**	2,725
Balance at end of year	**$3,254**	$3,204

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended January 31, 1988
(in thousands)

	1988	1987
Operations		
Cash received from interest income	**$ 227**	$ 187
Cash applied to administration expenses	**121**	253
Cash received from (required for) operations	**106**	(66)
Investment		
Cash applied to exploration and development expenditures	**(72)**	(657)
Cash received from options	**—**	80
Cash received from sale of investments	**49**	—
Cash required for investment	**(23)**	(577)
Financing		
Cash received from subscriptions for common shares	**133**	662
Increase in cash and short-term investments	**216**	19
Cash and short-term investments at beginning of year	**2,476**	2,457
Cash and short-term investments at end of year	**$2,692**	$2,476

MANAGEMENT STATEMENT ON FINANCIAL REPORTING

The accompanying consolidated financial statements of Regional Resources Ltd. and all information in the Annual Report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and are approved by the Board of Directors of the Corporation following review by the Audit Committee of the Board.

The financial statements have been examined by the Corporation's independent auditors, Thorne Ernst & Whinney, and their report is included herein.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Year Ended January 31, 1988

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies, Logtung Resources Ltd. and Regional Resources, Inc. The investment in Fairfield Minerals Ltd., 46% owned as at January 31, 1988, has been accounted for by the cost method as the Corporation does not intend to retain significant influence over the direction of Fairfield, as explained in note 1.

Joint ventures

The Corporation accounts for its joint venture on the proportionate consolidation basis.

Resource properties

The Corporation is in the development stage. All exploration and development expenditures, less recoveries in the pre-production stage, relating to resource properties are deferred until such time as the properties are put into commercial production, sold or abandoned. Acquisition costs and deferred exploration and development expenditures on resource properties abandoned are written off. General exploration expenditures which do not relate to specific resource properties are written off in the year incurred.

The costs deferred at any time do not necessarily reflect present or future values. The Corporation does not accrue the estimated future costs of maintaining its resource properties in good standing.

Flow-through common shares

Proceeds received on the issuance of flow-through common shares are allocated as follows:

(i) the market value of the shares on the date of the agreement, together with interest earned on unexpended subscriptions, is credited to capital stock; and

(ii) the excess of the proceeds over the amount credited to capital stock, which is attributed to the value of the tax benefits flowed through to subscribers, is applied against mineral exploration expenditures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended January 31, 1988

1. Investment

By agreement dated January 17, 1986, the Corporation transferred all of its resource properties other than the Midway and Logjam properties to a newly incoporated company, Fairfield Minerals Ltd. In return the Corporation received 2,300,000 common shares of Fairfield. In addition the Corporation granted an option to Cordilleran Engineering, a related party, to acquire 720,000 shares of Fairfield at $1.10 per share, exercisable until December 31, 1995, provided that no more than 25% of the optioned shares may be exercised during each of the first four years commencing with the year ending December 31, 1986. Options for 50,000 shares have been exercised to January 31, 1988.

To January 31, 1988, Fairfield has issued a further 2,610,480 shares and has granted stock options to directors of which options for 380,000 shares, exercisable until December 31, 1990, remain outstanding. In addition, Fairfield has agreed to issue up to approximately 260,000 flow-through shares by December 31, 1988.

If all the above-mentioned options are exercised, the Corporation's interest in Fairfield will be reduced to approximately 28%. Further, the Corporation has agreed with Cordilleran that, until December 31, 1990, the Corporation will vote its shares in Fairfield for their nominees as directors and consequently Cordilleran has effective management control of Fairfield until at least that date.

2. Resource Properties

Resource properties are comprised of:

	1988	1987
Acquisition cost of mineral interests	$1,263,000	$1,263,000
Deferred exploration and development expenditures	3,254,000	3,204,000
	$4,517,000	$4,467,000

(a) Midway property — Watson Lake Mining District, Yukon Territory and Liard Mining Division of British Columbia.

The Corporation holds a 51% interest in the Midway property which is being developed under a joint venture agreement with Canamax Resources Inc. and Procan Exploration Company. The Corporation's share of net costs to date amounts to $3,647,000 (1987, $3,597,000).

(b) Logjam Creek property — Watson Lake Mining District, Yukon Territory and Atlin Mining Division of British Columbia.

The Corporation has 100% ownership of the property. The Corporation's net costs to date amount to $870,000 (1987, $870,000).

3. Capital Stock

The authorized capital consists of an unlimited number of preference and common shares.

During 1984 the Corporation entered into an agreement to finance exploration and development expenditures wherein Nanisivik Mines Ltd. may earn up to 1,200,000 flow-through common shares of the Corporation. Funds are deposited with a custodian in trust to be used by the Corporation for exploration and development expenditures primarily on the Midway property. Nanisivik is entitled to receive one share for each $7.00 of such funds expended by the Corporation on exploration and development. A total of 880,725 shares have been earned to January 31, 1988 of which 850,000 shares have been issued and 30,725 shares have been allotted. At January 31, 1988, 319,275 common shares remain reserved under the agreement.

During the year, the Corporation issued 75,000 common shares for a cash consideration of $131,000 to directors in respect of stock options. No options remain outstanding.

On a cumulative basis capital stock has been issued for the following consideration:

	Shares	Net consideration
Cash	3,234,600	$ 9,633,000
Less assigned value of tax benefits flowed through to the subscriber	—	1,700,000
	3,234,600	7,933,000
Resource properties	605,000	423,000
Shares of Logtung Resources Ltd.	2,039,000	3,059,000
	5,878,600	11,415,000
Less shares held by subsidiary company	750,500	1,901,000
	5,128,100	$ 9,514,000

4. Income Taxes

As a result of acquiring certain properties pursuant to subsection 85(1) of the Income Tax Act and the financing of exploration and development expenditures in exchange for the issuance of flow-through common shares of the Corporation, the following amounts are available to reduce future years' income for income tax purposes:

Canadian exploration expenditures	$ 246,000
Earned depletion	833,000
	$1,079,000

5. Related Party Transactions

One director is the controlling shareholder in an engineering firm retained for management and engineering services. Two other directors are shareholders in other firms retained for consulting and engineering services. During the year these firms received $84,000 (1987 — $327,000) for management and consulting services.

6. Segmented Information

The Corporation is involved solely with the exploration and development of Canadian resource properties.