

*NEWHAWK
GOLD
MINES
LTD.*

*Annual Report
1988*

Sulphorets
888180



An aerial view of the Brucejack Area looking northwest along the West Zone where most work to date has been concentrated.

Also in view are the Gossan Hill and Shore Zones.

The Brucejack Fault, which appears to control mineralization, is evident here - running from lower left to upper centre.

REPORT TO SHAREHOLDERS

I am pleased to present this review of our activities for 1988 and the financial statements for the year ended December 31, 1988.

Significant exploration continued at the Sulphurets property during the year and the company has attained its strongest ever financial position. As operator of the Sulphurets Joint Venture, with a 60% interest in the Sulphurets property, Newhawk conducted exploration work totaling over \$11 million for the year. A 40% interest in Sulphurets is held by Joint Venture partner Granduc Mines Ltd.

Three properties located in the United States under option from Reliant Resources were returned to the Reliant/Nord joint venture. Newhawk conducted limited work with mildly encouraging results, but under existing environmental restrictions, further work was not recommended.

SULPHURETS PROPERTY

The Sulphurets property, hosting numerous known zones of mineralization and comprising an area of about 33 square miles, is located 35 miles northwest of Stewart, British Columbia. The area is becoming known as one of the most prolific gold and silver environments in British Columbia.

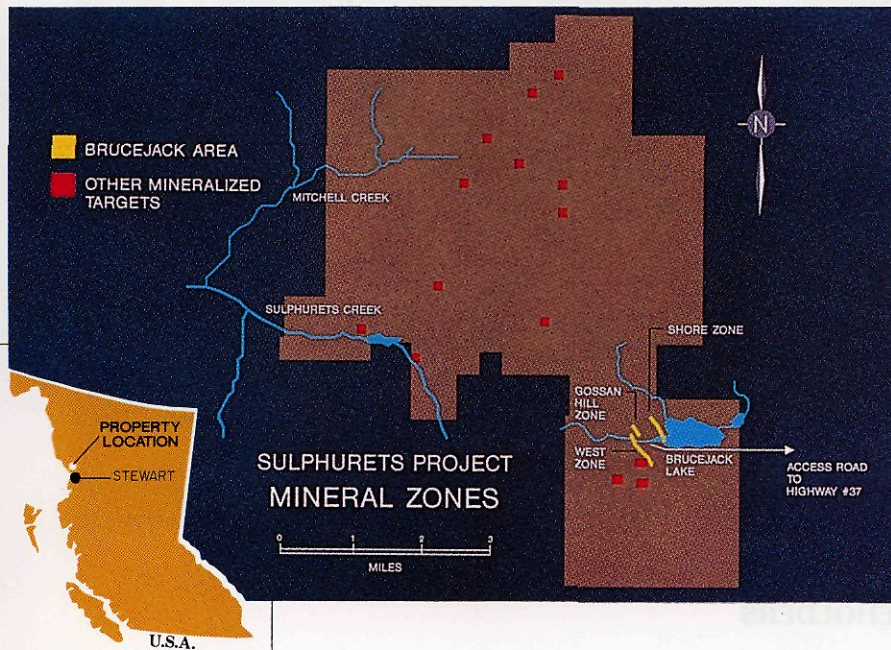
Exploration at Sulphurets advanced at an accelerated rate for the most active year yet on the property. The program again focused on the West Zone located in the Brucejack Area in the southeast corner of the property.

The comprehensive West Zone exploration program was designed to test lateral and vertical continuity of the known gold and silver mineralization. The main objective of the program was to gain sufficient



A "jumbo" drill used for underground work - advancing the decline, drifting and crosscutting.

Although most work to date has been concentrated in the Brucejack Area, the Sulphurets property is host to numerous mineralized zones. Some of these zones are indicated in the map below.



detailed geological information on the West Zone deposit so that a portion of the previously reported mineral inventory could be transferred into geological reserves in the measured or "proven" category. The program was successful and in November of 1988, geological reserves for the West Zone were reported as follows:

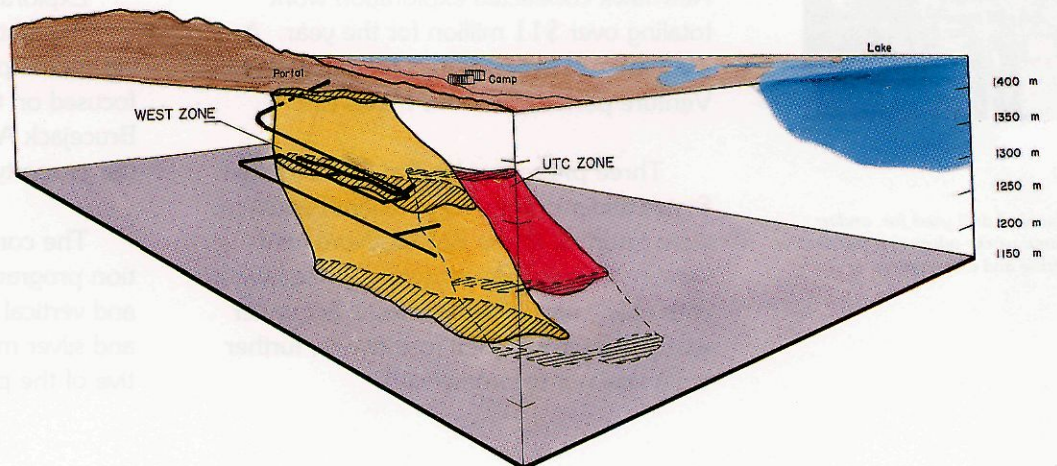
| Category | Tons | Gold oz/ton | Silver oz/ton | Gold Equivalent |
|-------------------------|----------------|----------------|------------------|--------------------|
| Measured & Indicated | 304,044 | 0.387 | 26.19 | 0.780 |
| Inferred | 550,028 | 0.335 | 21.15 | 0.642 |
| Total | 854,072 | 0.354 | 22.94 | 0.698 |

Results from the systematic and detailed geological work during 1988 have been very gratifying. The geological picture of the West Zone was gradually clarified during the year as additional drifts and raises were driven on mineralized veins and structures. This work, together with the West Zone diamond drill results, has greatly improved our understanding of the deposit which was found to be more structurally complex than originally believed. While this factor had slowed our progress somewhat, we have now made significant strides in understanding the genesis of the deposit.

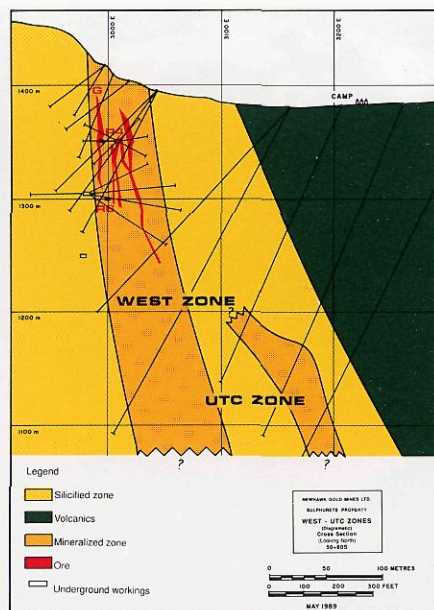
In general, structurally controlled gold and silver bearing veins occur mainly in volcanic or

Seen from above, and looking east, the West Zone and UTC Zones, lie somewhat parallel to each other.

The decline has advanced to the 1250 m level. In 1989, it is proposed to advance a further 50 meters in depth to the 1200 m level, between the two zones to provide drill stations for definition drilling of both zones on that level.



This cross section looking north, shows the location of the "UTC" zone and its proximity to the West Zone



intrusive rocks over a wide area of intense, predominantly sericitic alteration. In the West Zone, silicification occurs as multiple phases of tension fracture quartz filling, quartz stockworks, breccia filling and pervasive quartz flooding of the host rock. Gold and silver mineralization is hosted in quartz and quartz-carbonate veins which range from simple, single veins to complex vein zones and stockworks.

Underground exploration of the West Zone during 1988 included a total of 3,900 feet of drifting and 2,548 feet of raising. In addition, the decline was driven close to the 1,250 meter level, advancing 1,780 feet during the year.

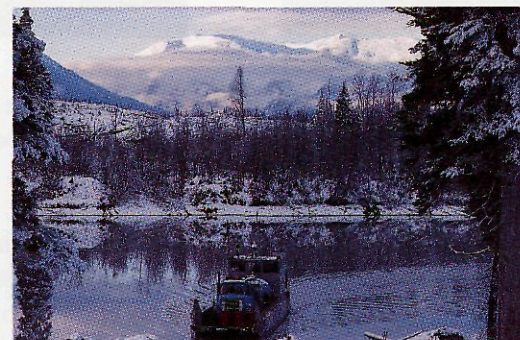
The 1988 program also included 15,900 feet of underground diamond drilling and 8,700 feet of surface diamond drilling on the West Zone. Surface diamond drill holes drilled to test the extension of the West Zone at depth intersected high-grade gold and silver mineralization in what could be a new zone, named the "UTC" Zone. The intersections are located about 250 feet east of the West Zone at about the 1,175 meter elevation. Further underground diamond drilling will be undertaken in mid 1989.

In early 1989, Cominco Engineering Services Ltd. was awarded a contract to

conduct a full feasibility study for the West Zone. The study, which will include an assessment of mineable ore reserves, will provide the basis for a production decision for the West Zone.

The first phase of the 1989 exploration program is essentially complete at a budgeted cost of \$2,300,000 and budgeting for the remainder of the year is underway. The programs are focused on increasing the tonnage of measured or proven reserves to enable completion of a positive feasibility study.

Other work completed during 1988



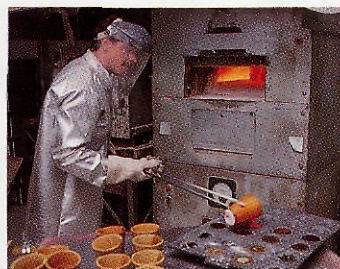
included improvements to the mine access road, construction of a 3,500 foot gravel airstrip near Knipple Camp, enlargement of camp facilities at the project site and installation of an on-site assay lab. A Stage I Environmental and Socioeconomic Impact Assessment for the property was completed and presented to Provincial authorities in early 1989. Approval in Principle is expected in the near future.

Reconnaissance Program

In addition to the extensive work conducted on the West Zone, a reconnaissance program was initiated over other promising areas of the large property.

Several interesting vein systems discovered during this program, in what is called the Golden Marmot Area near the Hanging Glacier, were tested by 2,200 feet of diamond drilling in five holes. All of the holes were geologically encouraging with

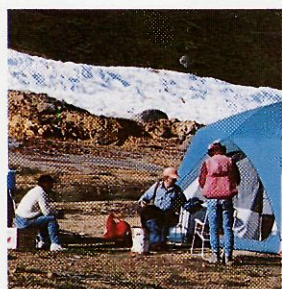
The "Bowser Queen" provides transportation along the length of Bowser Lake enroute from Highway 37 to Sulphurets.



The 1988 program included the completion of the on-site assay lab.



The Mitchell Creek area, one of the many mineralized targets examined this past year, with the 1988 field camp in view.



meaningful intersections being encountered in two of the five holes. Further work is planned for this area.

A further three holes were drilled in the Gossan Zone totalling 3,300 feet and seven holes in the Shore Zone totalling 3,100 feet. All ten of these holes intersected significant but sub-ore grade gold-silver mineralization. Future exploration on the Gossan and Shore Zones will follow up on the promising results achieved to date.

FINANCIAL & OTHER

Exploration funding for the year was provided by way of flow through shares. During the fiscal year, total of 1,319,751 such shares were issued at an average price of \$5.99 per share to generate \$7,899,142. Exercise of warrants and options has added \$1,929,525 to general working capital, which at year end, totaled \$6,192,351. Newhawk has arranged for private placement funding for its portion of the 1989 \$2.3 million phase one program, thereby preserving our attractive working capital position.

It was with deep shock and regret that we reported on February 2, 1989, that a tragic underground explosion had occurred

at Sulphurets. The explosion claimed the life of one of Newhawk's valuable employees, Claude Webber and also the life of Otto Sawatsky, a valued employee of Canadian Mine Development. An investigation into the cause of the explosion is continuing. No serious damage was sustained and normal operations resumed within a week.

We would like to express our appreciation for the support and cooperation we have received this past year from our directors, shareholders, joint venture partners and other business associates and to our employees, whose loyal and dedicated work made possible the strides of the past year. We are optimistic about Newhawk's future and look forward to the opportunities ahead for the Sulphurets property.

On Behalf of the Board of Directors,

Donald A. McLeod
President and Chief Executive Officer

May 4, 1989

To the Shareholders of Newhawk Gold Mines Ltd.
(Formerly Newhawk Gold Mines Ltd. (N.P.L.))

We have examined the consolidated balance sheet of Newhawk Gold Mines Ltd. (formerly Newhawk Gold Mines Ltd. (N.P.L.)) as at 31 December 1988 and the consolidated statements of loss and deficit, changes in financial position and resource property costs 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 company as at 31 December 1988 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.

17 February 1989
Burnaby, B.C.

SMITH, FLYNN, STALEY

Chartered Accountants

| | 31 December | |
|---|----------------------|----------------------|
| | 1988 | 1987 |
| <u>ASSETS</u> | | |
| CURRENT | | |
| Cash and bank term deposits | \$ 6,192,351 | \$ 2,992,969 |
| Accounts receivable | 156,130 | 173,107 |
| Prepaid expenses | 26,189 | - |
| | <u>6,374,670</u> | <u>3,166,076</u> |
| RESOURCE PROPERTIES (Note 3) | 31,062,827 | 25,200,310 |
| FIXED ASSETS (Note 4) | 719,292 | 504,424 |
| INVESTMENTS (Market value \$62,586; 1987 - \$70,080) | 62,586 | 291,208 |
| DEPOSITS | <u>47,500</u> | <u>15,000</u> |
| | <u>\$ 38,266,875</u> | <u>\$ 29,177,018</u> |

| | | |
|--------------------|------------|------------|
| <u>LIABILITIES</u> | | |
| CURRENT | | |
| Accounts payable | \$ 602,694 | \$ 578,233 |

| | | |
|-----------------------------------|----------------------|----------------------|
| <u>SHAREHOLDERS' EQUITY</u> | | |
| SHARE CAPITAL (Note 5) | | |
| Authorized: | | |
| 50,000,000 shares of no par value | | |
| Issued and fully paid: | | |
| 11,123,631 (9,388,380) shares | 42,696,890 | 32,881,473 |
| DEFICIT | <u>(5,032,709)</u> | <u>(4,282,688)</u> |
| | <u>37,664,181</u> | <u>28,598,785</u> |
| | <u>\$ 38,266,875</u> | <u>\$ 29,177,018</u> |

ON BEHALF OF THE BOARD:




Director

Director

See Accompanying Notes

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Canadian Funds

| | Years Ended 31 December | |
|---|-------------------------|---------------------|
| | <u>1988</u> | <u>1987</u> |
| DEFICIT - Beginning of year | \$ 4,282,688 | \$ 4,280,026 |
| Loss for the year, being write-off of costs relating to properties abandoned and outside property examinations. | 518,542 | 2,662 |
| Write-down of investments to market value | <u>231,479</u> | <u>-</u> |
| LOSS FOR THE YEAR | <u>750,021</u> | <u>2,662</u> |
| DEFICIT - End of year | <u>\$ 5,032,709</u> | <u>\$ 4,282,688</u> |

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Canadian Funds

| | Years Ended 31 December | |
|---------------------------------------|-------------------------|---------------------|
| | <u>1988</u> | <u>1987</u> |
| WORKING CAPITAL PROVIDED BY (USED IN) | | |
| Operating activities | | |
| Loss for the year | \$ (750,021) | \$ (2,662) |
| Adjustments for non-cash items | | |
| Write-off of resource property costs | 518,542 | 2,662 |
| Write-down of investments | <u>231,479</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |
| Investing activities | | |
| Resource property costs | (6,381,059) | (3,298,528) |
| Items non affecting working capital | | |
| Depreciation | 204,905 | 115,139 |
| Share capital issued for services | - | 34,740 |
| Gain on disposal of fixed assets | <u>-</u> | <u>(39,636)</u> |
| | (6,176,154) | (3,188,285) |
| Machinery and equipment - net | (419,773) | (365,423) |
| Deposits | (32,500) | (5,000) |
| Investments | <u>(2,858)</u> | <u>(291,208)</u> |
| | <u>(6,631,285)</u> | <u>(3,849,916)</u> |
| Financing activities | | |
| Share capital | <u>9,815,417</u> | <u>5,851,222</u> |
| INCREASE IN WORKING CAPITAL | 3,184,132 | 2,001,306 |
| Changes in non-cash working capital | <u>15,250</u> | <u>429,237</u> |
| NET INCREASE IN CASH | 3,199,382 | 2,430,543 |
| Cash position - Beginning of year | <u>2,992,969</u> | <u>562,426</u> |
| CASH POSITION - End of year | <u>\$ 6,192,351</u> | <u>\$ 2,992,969</u> |

See Accompanying Notes

CONSOLIDATED STATEMENT OF RESOURCES PROPERTY COSTS

Canadian Funds

| | Years Ended 31 December | |
|--|-------------------------|----------------------|
| | 1988 | 1987 |
| DIRECT | | |
| Sulphurets Joint Venture, B.C. | | |
| Underground exploration | \$ 2,115,641 | \$ 601,185 |
| Camp costs | 1,040,755 | 623,159 |
| Freighting | 973,367 | 288,592 |
| Roadwork | 937,636 | 449,759 |
| Engineering and geological | 459,511 | 156,807 |
| Power and pumping | 329,086 | 134,818 |
| Studies | 286,744 | 109,536 |
| Depreciation | 204,905 | 109,789 |
| Surface exploration | 150,397 | 423,418 |
| Joint Venturer's additional contribution | - | (70,726) |
| Government grant | - | (50,000) |
| Acquisition (Note 2) | - | 20,013,291 |
| | 6,498,042 | 22,789,628 |
| Slide Rock, Montana, U.S.A. | 105,920 | 74,982 |
| Smith Canyon, Washington, U.S.A. | 40,658 | 173,572 |
| Sundry and outside property examinations | 7,259 | 2,662 |
| Adams Lake, B.C. | 5,181 | - |
| Mining lease, Minnesota, U.S.A. | 1,500 | - |
| High Grade, California, U.S.A. | 203 | 98,723 |
| Corn Creek, Yukon Territory | - | 160 |
| Hawk Claim, B.C. | - | (3,000) |
| | 6,658,763 | 23,136,727 |
| INDIRECT AND ADMINISTRATIVE - Schedule | (277,704) | 175,092 |
| COSTS FOR THE YEAR | 6,381,059 | 23,311,819 |
| Balance - Beginning of year | 25,200,310 | 1,891,153 |
| Costs related to rights abandoned and outside property examinations written-off to deficit | (518,542) | (2,662) |
| BALANCE - End of year | \$ 31,062,827 | \$ 25,200,310 |

See Accompanying Notes

CONSOLIDATED STATEMENT OF INDIRECT & ADMINISTRATIVE COSTS
Canadian Funds

| | Years Ended 31 December | |
|--|-------------------------|-------------------|
| | <u>1988</u> | <u>1987</u> |
| Management and administrative fees and expenses \$ | 128,000 | \$ 186,297 |
| Shareholders' information and meetings | 92,232 | 65,543 |
| Salaries and benefits | 84,569 | 21,162 |
| Travel and promotion | 65,882 | 117,739 |
| Accounting and audit fees | 37,600 | 14,270 |
| Office and sundry | 37,239 | 39,625 |
| Legal fees and expenses | 31,142 | 56,942 |
| Listing and filing fees | 19,136 | 49,802 |
| Transfer agent fees | 10,190 | 9,872 |
| Gain on disposal of fixed assets | - | (39,636) |
| Rental income - net | - | (5,714) |
| Depreciation | - | 5,350 |
| Gain on sale of marketable securities | (757) | - |
| Recovery of administrative costs | (389,570) | (198,609) |
| Interest income - net | <u>(393,367)</u> | <u>(147,551)</u> |
| | <u>\$ (277,704)</u> | <u>\$ 175,092</u> |

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1988
Canadian Funds**1. SIGNIFICANT ACCOUNTING POLICIES**

a) Basis of Consolidation

These financial statements include the accounts of the company, its wholly-owned subsidiary (Note 2), Lacana Ex (1985) Inc. ("Lacana Ex") accounted for by the consolidation method and an incorporated joint venture, Bowser Leasing Ltd. ("Bowser"), accounted for by the proportionate consolidation method.

b) Resource Properties

The company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for prospects abandoned are written off.

The recoverability of the amounts capitalized for undeveloped mineral properties is dependent upon the confirmation of economically recoverable ore reserves, confirmation of the company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, confirmation of the company's title to the underlying mineral properties, and future profitable production or proceeds from the disposition thereof.

c) Depreciation

The company provides for depreciation on its fixed assets at the rate of 30% for machinery and equipment and 15% for vessels, both on the declining balance method.

d) Segmented Information

The company's only business is exploration for and development of mineral properties in Canada and the United States. Identifiable assets employed in the United States are described in Note 3.

e) Investments

Investments in marketable securities are carried at cost or, where impairment of value is considered other than temporary, at market value. Interest income is recorded on an accrual basis, dividend income is recorded as received and capital gains are recorded as realized.

f) Loss per Share

Loss per share has not been calculated because it is not considered meaningful at this development stage of operations.

2. ACQUISITION OF SUBSIDIARY

Effective 30 June 1987 the company acquired all the outstanding shares of Lacana Ex (1985) Inc. ("Lacana Ex") by issuing 4,025,000 common shares at a deemed value of \$5 per share. This acquisition has been accounted for under the purchase method. Since the acquisition, Lacana Ex has been inactive.

The value attributed to the Sulphurets Joint Venture includes \$18,501,421 of consideration given in excess of the book value.

3. RESURCE PROPERTIES

| Canada | 1988 | 1987 |
|--------------------------------|----------------------|----------------------|
| Sulphurets Joint Venture, B.C. | \$ 30,403,817 | \$ 23,905,775 |
| Other | 578,353 | 583,675 |
| | <u>30,982,170</u> | <u>24,489,450</u> |
| United States | | |
| Smith Canyon, Washington | - | 173,572 |
| High Grade, California | - | 98,723 |
| Slide Rock, Montana | - | 74,982 |
| Other | 1,500 | 1 |
| | <u>1,500</u> | <u>347,278</u> |
| Indirect and administrative | <u>79,157</u> | <u>363,582</u> |
| | <u>\$ 31,062,827</u> | <u>\$ 25,200,310</u> |

Sulphurets Joint Venture

The company is the operator of the Sulphurets Joint Venture with a 30% direct interest and a further 30% interest through Lacana Ex (Note 2). The company's portion of administrative costs received from the joint venture under the joint venture agreement are eliminated in these financial statements.

4. FIXED ASSETS

Details are as follows:

| | | 1988 | | 1987 |
|-------------------------|---------------------|--------------------------|-------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Machinery and equipment | \$ 965,857 | \$ 321,581 | \$ 644,276 | \$ 437,559 |
| Vessels | 88,435 | 13,419 | 75,016 | 66,865 |
| | <u>\$ 1,054,292</u> | <u>\$ 335,000</u> | <u>\$ 719,292</u> | <u>\$ 504,424</u> |

5. SHARE CAPITAL

a) Details are as follows:

Authorized:

50,000,000 shares of no par value

| | Shares | Amount |
|--|-------------------|----------------------|
| Issued: | | |
| Balance - 31 December 1987 | <u>9,388,380</u> | <u>\$ 32,881,473</u> |
| For cash | | |
| Private placements | 1,319,751 | 7,899,142 |
| Options and warrants | 417,500 | 1,929,525 |
| Acquisition of shares from market, cancelled after acquisition | (2,000) | (13,250) |
| | <u>1,735,251</u> | <u>9,815,417</u> |
| Balance - 31 December 1988 | <u>11,123,631</u> | <u>\$ 42,696,890</u> |

During 1988, 1,317,772 shares were issued for cash of \$7,888,970 on a flow-through basis whereby the subscriber receives the benefit for tax purposes of the Canadian exploration expense incurred. (In 1987, 382,509 shares for \$1,279,196 were issued for cash on the flow-through basis.)

5. SHARE CAPITAL - Continued**b) Shares Reserved**

At 31 December 1988, shares have been reserved for potential future issuance as follows:

| | |
|------------------------------|------------------|
| Directors' options | 379.906 |
| Employees' options | 166.000 |
| Employee share purchase plan | 440.021 |
| Flow-through agreements | <u>203.389</u> |
| | <u>1,189.316</u> |

Directors and employee options provide cumulative entitlement over the terms of the agreement which expire in 1991 and 1992 to purchase shares at prices ranging from \$1.75 to \$5.65.

The employee share purchase plan allows full time employees of the company (or affiliated companies, as approved by the directors) to purchase shares through payroll deductions matched by the company. Shares are issued quarterly based on the average closing price for the quarter and are held in safekeeping for one year. On termination of participation in the plan, shares held in safekeeping for the participants are purchased for cancellation and the participants' and company's contributions are returned.

203,389 flow-through shares have been subscribed for and are to be issued in 1989 at \$4.425 per share.

In connection with the acquisition of Lacana Ex, the company entered into an agreement which allows Corona Corporation ("Corona") (formerly Lacana Mining Corporation) to maintain its percentage ownership (40% at 31 December 1988) by subscribing for shares on terms no less favourable than the other subscribers.

c) Voting Trust Agreement

In connection with the acquisition of a 30% interest in the Sulphurets Joint Venture, the president of the company and Corona have agreed to vote their shares to set the number of directors at five, nominate two and three directors respectively and vote for each other's nominees.

The agreement is effective until 12 November 1992, but ceases (at Corona's option) if the president's employment is terminated or if Corona is not the largest single shareholder.

6. INCOME TAXES

The company has incurred certain resource related expenditures which may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

The potential future tax benefits of these expenditures have not been recognized in the accounts of the company.

7. COMPARATIVE FIGURES

The 1987 figures used for comparative purposes have been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

Directors & Officers

D.A. McLeod, * ♦
President & Chief Executive Officer,
Newhawk Gold Mines Ltd.

F.G. Hewett, P.Eng. *
Vice President, Exploration Manager,
Newhawk Gold Mines Ltd.

N. Goodman, *
Chairman,
Corona Corporation

G. Leathley, * ♦
Sr. Vice President, Operations,
Corona Corporation

A. P. Walsh, * ♦
Vice President & Treasurer,
Corona Corporation

G. M. Sharp,
Secretary,
Newhawk Gold Mines Ltd.

* Director
♦ Member Audit Committee

Executive Office

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Solicitors

Boughton & Company
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Angus, McClellan, Rubenstein & Haslam
Vancouver, B.C.

Bankers

The Royal Bank of Canada
Vancouver, B.C.

Auditors

Smith, Flynn, Staley
Burnaby, B.C.

Transfer Agent

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510 Burrard Street
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Common Stock Listed On:

Toronto Stock Exchange
Vancouver Stock Exchange

Stock Symbol: NHG