



SKYLINE EXPLORATIONS LTD. 301 - 675 W. Hastings St., Vancouver, B.C. V6B 1N2 (604) 683-6865 Faxline (604) 685-1207

January 14, 1988

Report to the Shareholders

At the Annual General meeting held in Vancouver on January 12, 1988, the Board of Directors reported significant progress since the December 4, 1987 report to shareholders.

Completion of the Hercules Airlift

The Hercules airlift has been completed and all of the mill machinery, equipment and building steel as well as all accomodation trailers are at the Johnny Mountain mine site. Installation of the larger pieces of mill machinery has been completed and erection of the steel columns for the mill buildings has commenced.

Completion of exterior walls and roof of the mill building is expected in early February. The mill is expected to be commissioned during April and commercial production at the 200 ton per day rate should commence during May. Management is optimistic that the anticipated production of 50,000 oz. of gold will be achieved in calendar 1988. Production costs are estimated to be approximately \$200/ton with an average ore grade between .85 and 1.0 oz.gold/ton.

1988 Exploration

During 1988, a \$1 million exploration program will be concentrated in two areas: firstly, the Crown Grants on our northern border adjoining the Snip claims where significant gold mineralization has been discovered by Cominco/Delaware and secondly, on the C3 zone where strong geochem results have been obtained.

Financial

The cash balance of \$12 million as at October 31, 1987, and an additional \$1.5 million cash anticipated from the exercise of warrants and stock options is expected to be sufficient to meet the monthly expenditures of the Company until the end of April 1988. The additional financing requirements for expenditures after April 1988 and working capital requirements during start up of the mill are anticipated to be provided by short term bank borrowing.

Reserve Update

Drill indicated reserves have been increased by 39,175 tons and drill inferred by 20,000 tons since the estimates contained in the last annual report. As at January 10, 1988, Edward (Ted) W. Grove, consulting geologist, estimates the current ore reserves of the Company's 100% owned property to be as follows:

Reserve Classification	Estimated Tons	Gold Ounces/Ton
Measured	121,000	1.246
Drill Indicated	<u>237,000</u>	<u>.556</u>
	358,000	.789
Drill Inferred	700,000	.570
TOTAL	<u>1,058,000</u>	<u>.644</u>

Excluded from the above table are the McFadden Float reserves which are estimated to be 30,000 tons containing 2.8 ounces of gold per ton. **These reserve estimates indicate a potential of approximately 765,000 oz. of recoverable gold.**

The Company's current mineable reserves of 358,000 tons will provide the Company with more than 5 years of mine life assuming a production rate of 200 tons per day. At the time of the start up of the mill, the Company anticipates that it will have 6 months of ore stockpiled or broken ore in the stopes ready for delivery to the mill.

The mill is capable of being doubled with minimal capital cost. The increased capacity is subject to obtaining the appropriate government approvals for which the company will apply for in due course. The doubling of the mill capacity will result in an annual gold production in excess of 100,000 ounces.

Current Developments

The lower adit on 10 level has advanced to the Discovery zone. Preliminary indications are that the mineralization extends over a width of about six feet and results received to date show approximately .25 ounces of gold per ton at the present face which is considerably higher than the diamond drill core assays. Final assay results from samples of the Discovery zone on level 10 will be announced when available. The cross cut is now proceeding south through the Zephrin towards the 16 zone.

The Board of Directors wishes to express its appreciation to the shareholders of the company for their continued support.

Yours truly,



R.E. Davis, President