



RESEARCH

February 16, 1987

SKYLINE EXPLORATION LIMITED

Issued shares: About 6,500,000 fully diluted. Including options and 1,000,000 warrants at \$5.35 expiring in early 1987.

Liquid assets: About \$3,500,000 plus \$5,000,000 to come from the exercise of the warrants.

Summary & Recommendation

The major asset of the company is its high grade gold deposit in northern British Columbia where surface drilling in 1985 and limited underground development in 1986 has indicated the existence of a new major gold discovery. This has caused the stock price to explode from about \$1.00 in late 1985 to a high of \$14.00 in 1987. However, our analysis indicates that even at the current price, the stock is an excellent discovery/development speculation. **BUY.**

Introduction

The prospect is located in rugged mountain terrain at an elevation of about 4,000 feet. To date, seven veins have been identified over a strike length of 4,700 feet.

The 1986 underground work consisted of 1,020 feet of cross cutting plus 380 feet of drifting and demonstrated that:

- ore grades were substantially higher than those in the surface drilling.
- the ore zones were very continuous and simple in structure, assuring low cost mining.
- the ground is sound and there is not a stick of timber in the mine, again indicating very cheap mining.
- the Zephrin porphyry zone was found to be much larger than expected.
- the metallurgy of the ore is simple with recoveries of over 90% assured.

Ore Reserves

The company has published ore reserve estimates which it believes are realistic but are not too easy to evaluate without knowing the assumptions. Herein, we review the estimates, limiting our review to the gold values only and omitting the relatively minor values of copper and silver.

The ore is very high grade and because of this gold assays have been cut to 3.0 ounces and the very high assays eliminated in the reserve calculation.

Ore reserves as reported are:

	<u>Tons</u>	<u>Gold</u> o.p.t.
Measured	80,000	1.33
Drill Indicated	154,000	0.67
Drill Inferred	705,000	0.67

The measured ore was defined by trenching or drifting using a 65 foot zone of influence.

The drill indicated ore used the same 65 foot zone of influence to calculate tonnage.

The drill inferred ore refers to the undrilled portion of the vein targets, between the zones of influence of the drill indicated reserves and extended this to a maximum depth of 500 feet to the level of the adit.

Underground Ore

This totals 55,000 tons and is included in the measured ore total. The ore is based on 360 feet of drifting in veins and 55 feet of cross cutting through the Zephrin porphyry zone. As outlined to date the underground ore is running at about 600 tons per vertical foot. Since further drifting will quickly increase the ore outline and, since 40 feet of the 95 foot wide Zephrin was left unsampled at the end of the season, we expect that the tons per vertical foot for the underground will quickly expand in the early part of the 1987 field season.

Ore Potential

The company has given a preliminary estimate of the possible potential of the property as 4,000,000 tons of 0.50 ounces per ton gold. This is based on a model of the seven known veins maintaining their grade over the full 4,500 foot length of the zone and to depth of 500 feet to the adit level. This implies that the deposit is running as high as 8,000 tons per vertical foot.

The drill reserves based on the limited work to date are indicated to be close to 2000 tons per vertical foot which indicates that, over time, the preliminary global estimate may be achieved as a safety factor. Not included in the estimate is that the deposit will go to considerable depth and has the potential to prove up significant tonnage in the Zephrin like porphyry ore bodies.

In our opinion the deposit, as known, has the potential of eventually developing several million tons of excellent ore to considerable depth. In conclusion, as now known, both from the geological nature of the deposit and the richness and the distribution of the ore veins, the deposit is comparable to some of the major ore deposits of the east, e.g. Campbell Red Lake in its early days, or the Hollinger - McIntyre gold veins draped around a copper bearing gold rich porphyry.

New Management Leadership

With the realization that the company has a major discovery that can be quickly developed, the company has brought in new, strong leadership. Norman Anderson, who until recently was Chairman of Cominco, has joined the company both as a manager and an investor and will act as Chairman of the company devoting at least 70% of his time to the operation.

Production Plans

The company is adequately financed to well into 1988 with only another \$10 million required to finance into production. Since the ore is so rich we see no difficulty in the company obtaining bank financing without any need to issue equity.

The company is going to first focus on outlining four years ore with the first target being set at 300,000 tons of measured underground ore. We believe this target will be quickly

achieved and exceeded. The air strip (which is right at the mine site) will be lengthened to handle the 25 ton payload of the Hercules Aircraft. In the mine, a raise will be driven to surface to prove ore and put in place the required second mine opening.

With no hold ups, the mine could be operating at 200 to 300 tons per day in 1988 producing at least 60,000 ounces annually for a gross revenue of \$30,000,000 and a cash flow of about \$15 million with earnings well over \$1.00 per share.

By 1989, with the mine in operation, there will be time to define the full extent of the ore body with the obvious aim of doubling or tripling production.

Share Price Outlook

With potential earnings of over \$1.00 per share by 1988 and with the operation ready to begin its 1987 program where more good news is expected, we believe the stock has the potential to trade at \$20.00 within the next year. This is an excellent exploration and development speculation.

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