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November 19, 1986

Dr. Andre Panteleyev  
Geological Survey Branch  
Ministry of Mines, Energy & Petroleum Resources  
300 Fort Street  
Victoria, B.C.  
V8V 1X4

Dear Andre:

**Re: Frasergold Project**

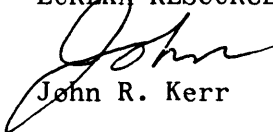
Enclosed is a photocopy from our Annual Report (currently being printed) summarizing our 1986 drill programme. The larger diameter drilling proved very significant, as I am sure you will note from some of the assay intervals.

I am hoping that I can meet with either you or Marianne regarding the work both she completed and we did, in order that we can include any pertinent observations of hers into our final report.

Will give you a more complete update at this time.

Cheers!

EUREKA RESOURCES, INC.

  
John R. Kerr

JRK:gb  
Encl:

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## REPORT TO SHAREHOLDERS

Dear Shareholder:

Despite uncertainties in the mining industry, Eureka experienced an eventful year with continued development on the Frasergold project and acquisitions of two additional British Columbia prospects.

At Frasergold, a \$300,000 drill program completed with larger diameter drill equipment than previously utilized has indicated an appreciable upgrading of gold content by two to two-and-one-half times the original results.

Drilling on the "Jay" Zone suggests the presence of high grade underground reserves as well as large open-pit reserves.

Should the upgrading factor evident in the recent program remain constant, our reserve expectations, to a depth of 150 metres, are in the range of 2.0 to 4.0 million tons, grading 0.2 to 0.30 ounces gold per ton over a three-to-four metre width in an underground operation, or in the range of 15.0 to 20.0 million tons of 0.07 to 0.08 ounces gold per ton, over 25-30 metres in an open pit project.

Additional exploration drilling testing the gold bearing horizon 2 km to the northwest, detected by geochemical methods through 20 to 100 ft. of overburden, indicated the presence of gold bearing structures. Visible gold was observed in four of the five holes drilled in this area. An additional seven to eight kilometres of strike length along this zone remains untested.

Depending upon the final report and recommendations of our consultants, Eureka is in the preliminary planning stages of an aggressive underground test adit for pilot bulk sampling during 1987. A small preliminary bulk test project involving four bulk samples, undertaken in 1986, was highly successful. More than 90 percent of gold content was recovered, in less than 24 hours, utilizing a conventional cyanide leach process.

Other work during the year included acquisition, by option agreement, to purchase the Miller claim near Vernon, B.C., located in the same geological environment and along the projected strike of the newly discovered Huntington gold deposit. The company also acquired the rights to the Noel claims, in the historical Bridge River valley, for completing assessment work requirements during 1986.

Assessment work was completed on the Ahbau Lake property near Quesnel, B.C. Reconnaissance geochemistry in the northern portion of the claims, yielded significant anomalous values in an analogous geological environment to our own Frasergold deposit. The Dor claims remained idle during the year. Interest in other claims in the Cariboo was terminated in April, 1986.

In addition to these projects, the company has actively been seeking new opportunities in northern Ontario and Nevada as well as other areas of British Columbia. Several opportunities for joint participation are currently being pursued.

The operations review and our financial statements should assure all concerned that our presence will be strong next year and in years to come. Your support is appreciated.

On behalf of the Board,

J.J. O'Neill  
President

## OPERATIONS REVIEW

### Frasergold Property, British Columbia

The company has completed a major development and exploration drill program on the Frasergold Property, located 100 kilometres east of Williams Lake in central British Columbia. Project costs exceeded \$300,000, the majority coming from a private placement of \$225,000. In addition, the Provincial Government granted a \$35,000 Mineral Exploration Grant specifically to be spent on the Frasergold Project. The balance of the funds came from the company's uncommitted treasury.

The 1986 programme commenced on break-up in early June. This work consisted of:

- 1) Resampling and re-evaluating surface showings.
- 2) Bulk sampling (150-500 kg) surface outcrops, to complete some preliminary metallurgical tests and to determine the actual content of gold in a bulk of rock.
- 3) Limited reverse circulation rock-chip drilling (4½ inch diameter sample) to compare gold content with NQ core drilling (1⅞ inch diameter) to the larger diameter chip sample.

Results of the initial phase concluded:

- 1) High grade vein or veins are found on surface that indicate continuity along strike length of 15-25 metres. This is in contrast to very lenticular, poddy nature of veins in the area of the 1985 bulk sample.
- 2) Visible particulate gold was located in quartz veins in surface exposures. In addition, very spectacular smearing of gold on cleavage faces of phyllite associated with quartz veins was discovered in float.
- 3) Three larger diameter drill cutting samples provided assays indicating grades two to two-and-one-half times the reported assays of the NQ drill core.
- 4) All bulk samples have been sampled under laboratory conditions, and have provided assay results at a statistically high confidence level. Three bulk samples were milled, indicating total calculated gold content, to approximate the sample assays. It is concluded that our assay procedures of Frasergold ore are extremely good.
- 5) Two bulk samples collected from the high grade hanging-wall of the Jay Zone indicate gold content of 0.4-0.5 ounces per ton. This content of gold had not previously been reported in earlier drilling.
- 6) Preliminary metallurgical testing of the three samples indicates a very high cyanide leach recovery of the gold (greater than 90 percent), in less than 24 hours of leach time. The company's metallurgist is suggesting optimum recovery would be by a combined gravity/flotation preconcentration.

Two portions of the drill tested area (1983/84), were selected for detailed drilling; and commenced September 1, 1986. The drilling was completed with HQ equipment, providing core samples 2½ inch diameter, or approximately 50 percent by volume, larger than the NQ core samples.

1) **Jay Zone:**

Surface sampling and reverse circulation drilling indicated high-grade underground potential of 0.4 - 1.0 ounces per ton over 1.5 to 3 metres; narrow width bulk tonnage reserves grading 0.13 - 0.18 ounces per ton over 9 to 11 metres, and large width bulk tonnage reserves 0.05 - 0.06 ounces per ton over 30 to 40 metres.

2) **Grouse Zone:**

Surface sampling indicated high-grade reserve potential of 0.25 ounces per ton over 2 to 3 metres, and low grade bulk tonnage potential over 20 metres, grading 0.03 - 0.05 ounces per ton. Some spectacular visible gold was found as smears in the schistosity planes of phyllite associated with quartz.

Eleven holes were drilled into the Jay Zone at 25 - 50 metre drill hole spacing. Although preliminary assays indicate erratic results, varying immensely from hole to hole, most holes intersected the high-grade hanging-wall zone, and indicated the width of low grade reserves. Hole number 86-18 was the best drilled into the zone, the raw assay data indicating 1.31 ounces per ton gold over 1.5 metres; 0.107 ounces gold per ton over 24 metres; and 0.072 ounces per ton gold over 39 metres. These are considered true widths.

Visible gold was noted in eight of the eleven holes drilled into the Jay Zone. The size of the particles measured up to 2 mm × 3 mm × 5 mm, however, the best assay of a 1.5 metre length of core with visible gold at these dimensions is 0.100 ounces per ton gold. Assays of drill core with visible gold particles ranged as low as 0.005 ounces gold per ton. It is felt these assays badly misrepresent the gold content in core, and are caused by a combination of the two following factors:

- 1) The particle of gold does not get included into the normal assay procedures.
- 2) Cutting the particle with the drill bits or diamond saw has destroyed the particle for assay purposes.

Samples including some of the coarse particles are being reassayed by special assay methods. On evaluation of these results, it may be necessary to reassay further samples. On return of all assays, a final evaluation of indicated reserves will be derived and released in report form by the company's consultants.

Two holes were drilled into the Grouse Zone. Visible gold was intersected in one hole, however, not to the significance as located on surface. General assays were low and of no economic significance.

Five exploration holes were drilled into the northwest extension of the main gold-bearing horizon. Four holes intersected visible gold, the best intersection of the raw assay data being as follows:

- Hole number 30:           28 metres @ 0.021 ounces gold per ton  
  (inc.)                   6 metres @ 0.057 ounces gold per ton  
  and                      3 metres @ 0.065 ounces gold per ton
  
- Hole number 32:           25 metres @ 0.027 ounces gold per ton  
  (inc.)                   7.5 metres @ 0.054 ounces gold per ton  
  and                      7.5 metres @ 0.062 ounces gold per ton  
  (inc.)                   1.5 metres @ 0.223 ounces gold per ton

Further assay testing of all gold intersections is being contemplated prior to final evaluation.

By the Annual General Meeting it is hoped to have reserve estimates and projections completed.

Based on a preliminary review of data by the company's consultants, their comments have focused upon a major underground bulk sampling and pilot mill testing program slated for 1987. This will test the actual recoverable gold content in rock, and is the generally accepted recommendation for coarse gold deposits. Specific recommendations will be with their final report on completion of total evaluation of results.

### **Dor Claims, British Columbia**

The Doreen Lake Property is located 25 km east of Horsefly and consists of 3 claims (48 units).

One claim was located in 1986 covering the western projection of the geochemical anomaly. Sufficient assessment work was completed on this new claim and was the only work completed during 1986.

In summary only a small portion (200 metres) of a large geochemical anomaly has been explored (1500 m). Assay values reported to date:

Drill core	- 0.026 ounces gold per ton (2.1 metres)
Surface showings	- 0.15 ounces gold per ton (2.0 metres)
Float	- 2.0 ounces gold per ton

Trenching of the entire anomaly is planned for 1987.

### **Quesnel Project, British Columbia**

Interest in four of the five properties in this area was terminated in April, 1986. The Ahbau Lake property, 4 claims (80 units) is located 25 km north of Quesnel, B.C., and was the only property retained under option agreement.

Work during 1986 included detailed soil sampling in areas of anomalous values during the 1985 program, and continued reconnaissance sampling in the northern portion of the property. Of interest are some indicated anomalous values ranging to 2650 ppb Au associated with quartz veins in a similar geological environment to the Frasergold Project. Also indicated in this area is a small but geologically significant ultrabasic stock. Further detailed soil sampling is recommended for 1987.

### **Miller Claim, British Columbia**

The Miller Claim was optioned during 1986 and is located 25 km west of Vernon, B.C.

The claim is located in a similar geological environment and along strike of the "RW" vein gold deposit of Huntington Resources, located 4 km to the northwest. Reconnaissance soil and panned concentrate sampling revealed anomalous values in the eastern portion of the claim. Detailed follow-up work is anticipated in 1987.

### **Noel Property, British Columbia**

By completing assessment work requirements on the precious metal Noel claims located 12 km southwest of Goldbridge, B.C., the company has the right to earn a 100 percent interest in these claims.

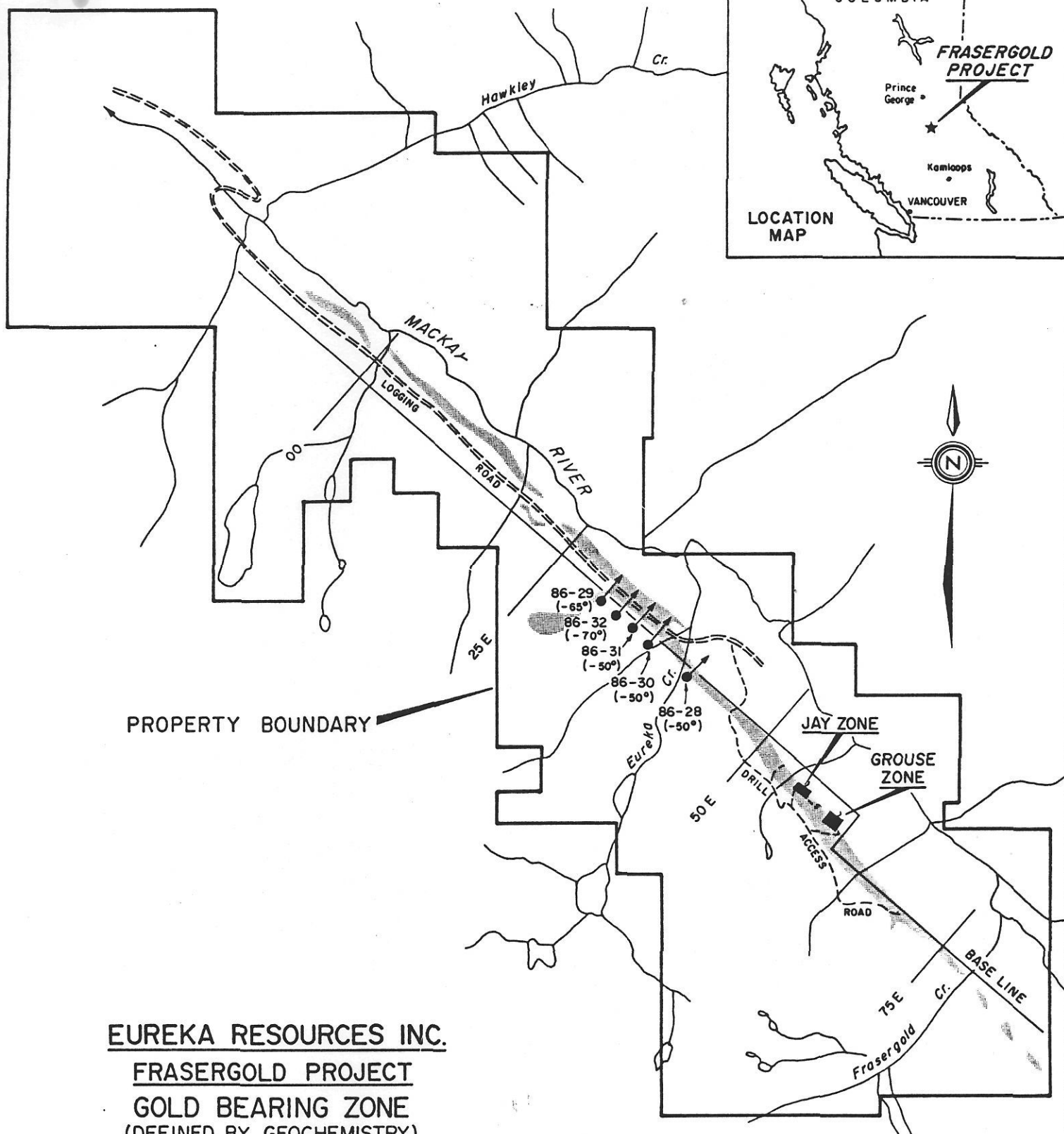
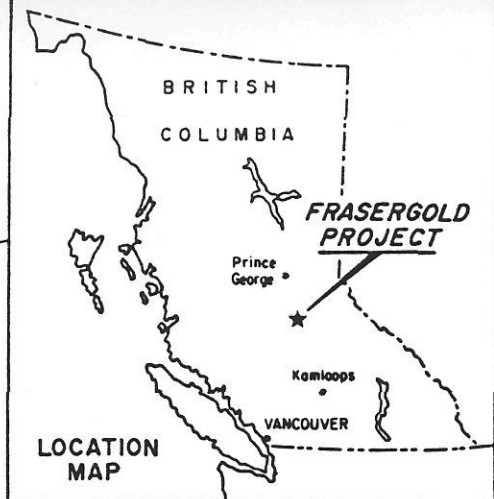
Further reconnaissance geochemistry completed by the claim owners and Eureka have indicated positive anomalous values associated with the known showing, however, not tested by trenching or drilling. Further detailed sampling is suggested during 1987.

### **Crystal Hill Project, Arizona**

All interest in this project was terminated during 1986, due to subeconomic values revealed from an extensive trenching program.

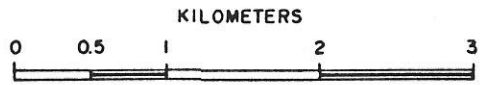
EUREKA RESOURCES, INC.  
SUMMARY DRILL HOLE RESULTS  
FRASERGOLD PROJECT  
1986 DRILL PROGRAMME

ZONE	DRILL HOLE	INTERVAL	WIDTH (metres)	ASSAY oz/T Au	
JAY	86-2A	105.0-144.0	39.0	.057	
	inc.	105.0-117.0	12.0	.181	
	inc.	109.5-112.5	3.0*	.526	
	86-15		21.8-25.5	3.7*	.039
			34.5-39.0	4.5	.028
			48.0-57.0	9.0	anomalous
	86-16	28.5-42.0	13.5	anomalous	
	86-17	76.5-106.3	29.8	anomalous	
	86-18		28.5-67.5	39.0	.072
		inc.	28.5-51.0	22.5	.107
		inc.	30.0-31.5	1.5*	1.311
	86-19		38.9-60.0	21.1	.028
		inc.	38.9-47.9	9.0	.035
		inc.	38.9-39.5	0.6*	.073
	86-20	68.1-68.7	0.6*	.095	
	86-23		28.0-72.0	44.0	.044
		inc.	28.0-48.6	20.6	.068
		inc.	47.6-48.6	1.0*	1.02
	86-24		41.6-66.0	24.4	.067
		inc.	41.6-60.0	18.4	.085
		inc.	41.6-43.7	2.1*	.223
	86-25	Hole terminated before mineralized zone			
	86-26		60.0-63.5	3.5	.061
			91.5-102.2 (end of hole)	10.7	.026
		inc.	99.0-101.5	1.5*	.083
	86-27		22.5-30.0	7.5	.040
			46.0-57.0	11.0	.069
		inc.	46.0-47.0	1.0*	.302
	Surface - channel samples			33.0	.061
				11.0	.13
			1.5*	.998	
and bulk sample			2.0*	.394	
*hanging wall portion of Jay Zone.					
GROUSE	86-21	30.1-31.5	1.4	.080	
		30.1-51.0	20.9	.019	
	86-22	45.0-55.5	10.5	anomalous	
N.W. EXTENSION	86-28	49.5-51.0	1.5	.057	
		108.0-109.1	1.1	.071	
		123.0-127.5	4.5	.023	
86-29		115.5-121.5	6.0	.019	
		140.1-153.0	12.9	anomalous	
86-30		29.3-31.5	2.2	.065	
		52.5-79.5	27.0	.021	
	inc.	55.5-61.5	6.0	.065	
86-31	no significant mineralization				
86-32		129.0-153.0	24.0	.028	
	inc.	146.0-153.0	7.0	.054	
		193.5-201.0	7.5	.062	
	inc.	195.0-196.5	1.5	.223	



**EUREKA RESOURCES INC.**  
**FRASERGOLD PROJECT**  
**GOLD BEARING ZONE**  
 (DEFINED BY GEOCHEMISTRY)  
**AND 1986 DRILL HOLES**

CARIBOO MINING DIVISION, B.C.



**LEGEND**

Gold Bearing Zone

J.

open v l

J

Entire Jay Zone contains  
0.06 - 0.15 oz/t Gold  
across width 10 - 39 m.

86-25 (-50°)  
86-26 (v«rt.)

\ X- Possible site for  
x underground test adit.  
(1987 Programme)

**4-**

Hanging Wall Portion contains  
0.3 - 0.75 oz/t Gold  
across 1 - 4 m.

EUREKA RESOURCES INC.

FRASERGOLD PROJECT

JAY ZONE

1986 DRILL HOLE LOCATION PLAN

CARIBOO MINING DIVISION, B.C.

METRES

0 3 10 20 30 40 50

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