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Northern
Dynasty
Explorations
Ltd.



Annual Report 1987

Northern Dynasty Explorations Ltd. is a Canadian company engaged in precious metal exploration and production in North America. The company was founded in 1983 with its head office in Vancouver, British Columbia. It began public trading on the Vancouver Stock Exchange in 1984, and was listed on the Toronto Stock Exchange in April, 1987 (Symbol NDX).

Through its wholly owned American subsidiary, New Dynasty Mines (U.S.), Inc., Northern Dynasty owns 43 percent, and is operator, of the Little Bald Mountain Gold Mine, located in White Pine County, Nevada. In addition, the company has a number of ongoing exploration projects in the southwestern United States and the Canadian Shield.

Dynasty's objective is to become a significant producer of precious metals in North America.

The company is in sound financial position with secure backing and experienced management.

- successful development of underground mining system at Little Bald Mountain Mine, Nevada.
- operating profit of \$690,000 (U.S.) achieved at L.B.M. mine operation.
- participation in \$1.3 million exploration ventures in 1987.
- encouraging results at Zeke, Nevada and Arseno Lake, Ontario exploration plays.
- working capital of \$1.5 million and strong projected cash flow from mine operations.

The Company's Annual General Meeting will be held in the Okanagan Room, Four Seasons Hotel, Vancouver, British Columbia at 2:00 p.m. on Thursday, May 26, 1988.

Photo: Drill Mobilization, Arseno Lake.



Report to Shareholders

Northern Dynasty broke new ground in 1987 with the successful development of underground mining at Little Bald Mountain. This was achieved with an operating profit to Dynasty of almost \$400,000 (Can.) on the basis of 35,000 tons mined in an experimental stope. The L.B.M. mine is one of only two combined underground/heap leach operations in the U.S. We are now confident of our ability to function smoothly with a year-round mining schedule which will more than double production to 90,000 tons containing over 9,000 ounces of recoverable gold. Operating costs of \$245 (U.S.) per ounce should be maintained or reduced in 1988. Profitability for the project is secured by hedging options against possible declines in gold prices below \$400 (U.S.) without limiting gains from price increases.

Exploration activity has been intense with over 30,000 feet of rotary and core drilling on two U.S. and three Canadian projects. These efforts resulted in additional open pit potential at L.B.M. and thick base metal sulphide intercepts at Arseno Lake in Ontario. The Zeke project in Nevada, with previously proven tonnage at two million tons of 0.056 ounces per ton gold and 0.224 ounces per ton silver, is scheduled for continued exploration drilling over the next two years to define and extend reserves.

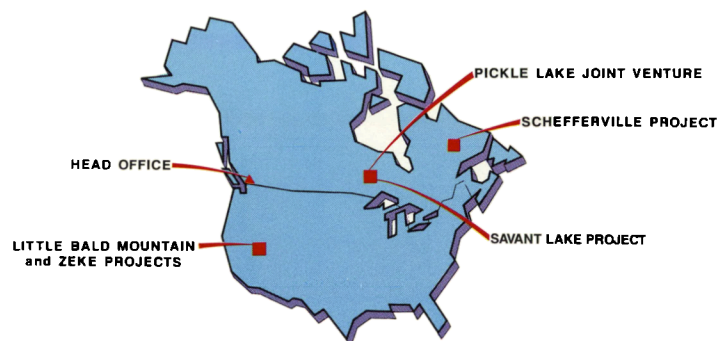
For 1988, we look forward to an ambitious and profitable mining program at Little Bald Mountain with multi-level mine development and an exciting deep drilling program. The latter could prove a major orebody some 300 feet below the projected mine base which would be accessible by relatively cheap expansion of existing underground facilities. In exploration, we plan to extend our efforts in Ontario with deep drilling of the strongest sections at Arseno Lake, initial drill testing of a major gold-bearing ironstone formation at Mischkow River and expansion of programs on a newly-staked property in the Savant Lake area of Ontario.

The only area of disappointment in 1987 was the faltering stock markets precipitated by the events of October resulting in uncertainty in markets and equity funding. This Company is fortunate to be at a stage of positive net cash flow which will allow us to proceed with development and expansion of our Nevada operations and carry out significant new exploration in both the U.S. and Canada. We feel confident that these efforts and appreciation of our asset value will translate into better rewards for our shareholders.

On behalf of the Board



J. Glenn Simpson
President
25 March, 1988



Mobilizing



Drilling



Core Logging



Operations Review

Little Bald Mountain 1987

The Little Bald Mountain Mine (43% owned) produced 3,570 ounces of gold in 1987 which were sold for an average price of \$460 (U.S.) per ounce or \$2,140,000 (Can.), Dynasty's share of which was \$907,000. During the largely development-phase of the new underground operation, some 35,000 tons of ore were mined with an average grade of 0.130 ounces per ton gold. While recovered ounces were slightly less than projected in 1987, this will be offset by the decision to increase development work on two additional levels for 1988 ore production scheduled to exceed 90,000 tons of 0.14 ounces per ton material with a consequent doubling in production. Operating costs were reduced to around \$245 (U.S.) per ounce and should be maintained at or below this rate for the balance of the current reserve of 230,000 tons of proven ore with an average grade of 0.13 ounces per ton gold.

Exploration - U.S.

L.B.M.

Exploration drilling at L.B.M. in 1987 indicated additional open pit ore potential immediately south of the main pit which, together with low grade stockpile material from 1985, could provide an additional 5,000 ounces of recoverable gold. While exploration to date has been directed at relatively shallow depths, the successful development of the underground mine has opened up exciting prospects for a deeper level mine development and a major increase in reserves. Recent discoveries in the Carlin district of Nevada demonstrate the potential for a series of stacked ore bodies adjacent to major faults beneath gold deposits being mined by open pit methods. Gold-bearing fluids have moved up along major faults and spread into favourable stratigraphic horizons separated by barren intervals in a "layer-cake" fashion. The "deep" ore bodies may not be exposed at surface but can be detected by drill testing intervals where favourable horizons coincide with the "plumbing system" for mineralization. At L.B.M., a 200-foot thick barren dolomite forms the base of the mine workings and is underlain by a very favourable thin bedded silty limestone, the Nine Mile Formation, adjacent to the major mineralizing fault. The Nine Mile presents an excellent target for a deeper level mine development. A major deep drilling program is scheduled to begin in early April, 1988 to test this potential which could significantly increase production and mine life at L.B.M.

An option to acquire 100% interest (subject to either a 2½ % net smelter return or a 15% net profits interest) in a 147-claim block adjoining the southwest corner of the L.B.M. claims has recently been completed with Aurun Mines Inc. The property will be exposed to detailed exploration over the next two years.

Zeke

At the Zeke property (41% owned) in Eureka County, Nevada, a 5,000-foot drill program in 1987 was designed to define and confirm the estimated two million tons of 0.056 ounces per ton gold and 0.224 ounces per ton silver.

Recently, Cominco Resources International announced high-grade intercepts up to 1.1 ounces per ton gold over 55 feet from 350 to 405 feet in alteration zones at the Buckhorn Mine which shares a common boundary and structural continuity with the Zeke property. Continued drilling at Zeke will be targeted to extend the previous high-grade intercepts, the best of which to date was in Hole #84-12 in which the last fifty feet, from 330 to 380, averaged 0.35 ounces per ton gold and 0.56 ounces per ton silver and bottomed in this high-grade section. A 10,000-foot rotary drilling program is scheduled for 1988 to test both the Zeke high-grade extension and parallel structures.



L.B.M. portal



Ore transport

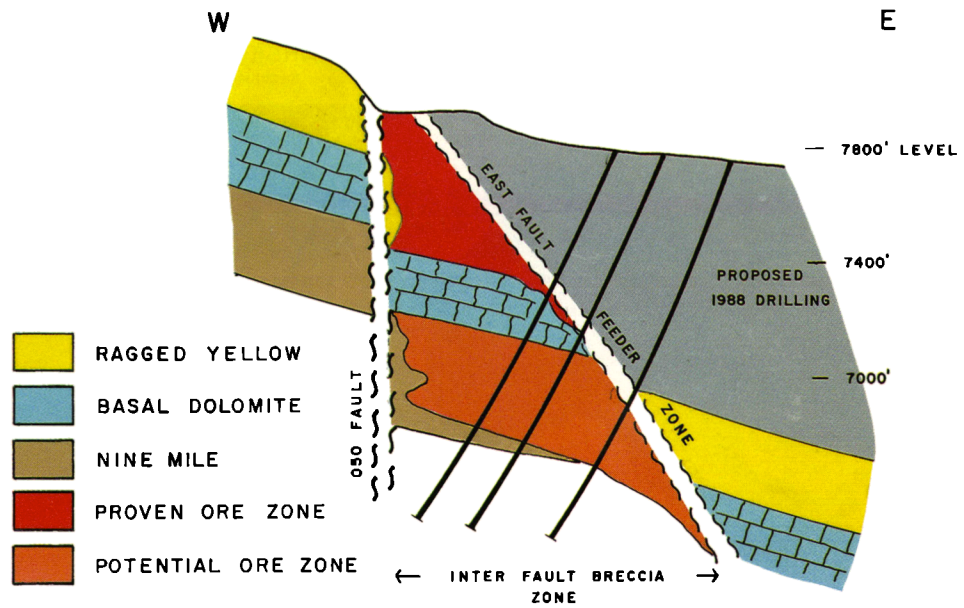


Pad sprinklers



L.B.M. leach plant

L.B.M. MINE SECTION



Indian Ranch

Dynasty has acquired an exploration and mining lease on a 1,650-acre claim block in Eureka County, midway between the historic Cortez Mine and the newly operational Gold Bar deposit. Initial surface exploration of structurally controlled jasperoids generated samples assaying from 0.03 to 0.22 ounces of gold per ton over a strike length exceeding 3,000 feet. A preliminary drill program and surface sampling shows strong coincidence of structures, intense hydrothermal alteration and gold, mercury and arsenic mineralization. Shallow drill holes beneath high arsenic-mercury anomalies cut up to 40 feet of 0.02 ounces per ton gold. Follow-up drilling of the extensive alteration zones and associated anomalies is planned for 1988.

Exploration – Canada

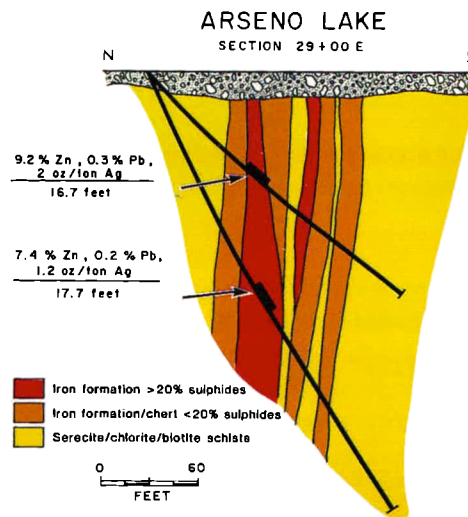
Pickle Lake Joint Venture

Dynasty holds a 32% working interest in and is operator of the joint venture with Westfield Minerals Limited (54%) and Newfields Minerals Inc. (14%). The venture owns over 600 claims (25,000 acres) acquired over favourable gold-bearing ironstone formations in active Ontario greenstone belts. All of the properties comprising the venture were covered by work programs in 1987 to a total expenditure of over \$900,000.

Arseno Lake

A major effort of the venture was some 9,000 feet of diamond drilling on the Arseno Lake property defining a major shear zone hosting a polymetallic sulphide deposit. The drilling program has increased the known extent of a breccia matrix sulphide zone over three kilometers to a depth of 200 feet. This complex polymetallic deposit shows metal zoning from high-grade zinc intercepts of 16.7 feet of 9.2% zinc and 2.0 ounces of silver per ton to high zinc-lead-silver up to 8.0 feet of 5.2% zinc, 2.5% lead and 6.0 ounces silver per ton. Gold content is significant but erratic from 0.01 to 0.40 ounces per ton over variable widths. As yet, there is no clear cut relationship between the distribution of base metals and gold.

The results of this preliminary drilling were very encouraging with strong similarities to the Estrades gold-sulphide deposits being developed by Teck Explorations in the Casa Berardi area of Quebec. Further work is planned for a deep drilling program on the thickest sulphide and highest gold value sections to depths in excess of 1,000 feet.



Misehkow River

Geochemical sampling and prospecting carried out on the Misehkow River property, together with airborne geophysical surveys previously conducted, show a major fold closure in gold-bearing ironstone formation. Extensions of this formation are currently being drilled by Placer-Dome immediately adjacent to the joint venture property. Detailed geophysical definition of the folded ironstone and preliminary exploration drilling are planned for 1988.

Dempster Lake

The 7,500-acre property, adjoining St. Joe's Golden Patricia deposit, covers a broad shear zone hosting a number of iron formations and gold occurrences. Detailed geochemical sampling in 1987 showed a large area of previously uninvestigated gold anomalies which will be followed up in 1988 by trenching and sampling.

Other Canadian Properties

Savant Lake

Literature research on the gold occurrences in part of the Wabigoon Greenstone Belt of Ontario identified a regional fault structure with well-developed carbonate alteration, silicification and associated gold prospects bearing strong similarities to the Kirkland-Larder Lake belt. A 1,500-acre property was staked by Dynasty in 1987 over the known showings and strongest alteration with the intent of expanding the holdings as the regional geological and geochemical picture develops. Preliminary exploration has resulted in expansion of the original claim block to 5,000 acres (100% owned) and detailed geophysical surveys are in progress on the main alteration zones and known gold occurrences.

Schefferville

Two large exploration leases covering 60 square miles northwest of Schefferville, Quebec were acquired in 1986. These properties were subsequently optioned to Vior and Mazarin who, by expending \$184,000 in 1987 as part of a major exploration program on both their own and Dynasty's leases, have acquired a 50% interest. Dynasty may participate in 1988 or reduce progressively to a 10% carried interest. Vior/Mazarin carried out extensive geochemical and geophysical surveys and detailed sampling and drilling of surface targets. A number of highly anomalous zones, including some on Dynasty shared leases, were drilled with sub-economic but promising results. A major program of follow-up ground geophysics and further drilling is proposed for 1988.

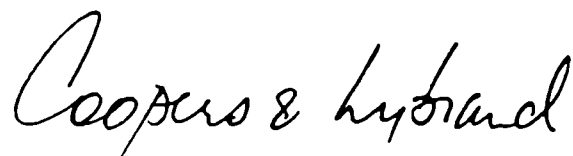


Auditors' Report to the Shareholders

**Northern
Dynasty
Explorations
Ltd.**

We have examined the consolidated balance sheet of Northern Dynasty Explorations Ltd. as at December 31, 1987, and the consolidated statements of loss, deficit and changes in cash for the year ended December 31, 1987. 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 December 31, 1987 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.

A handwritten signature in cursive script that reads "Coopers & Lybrand".


Vancouver, B.C.
March 4, 1988

Consolidated Balance Sheet

Northern
Dynasty
Explorations
Ltd.

As at December 31, 1987	1987 \$	1986 \$
ASSETS		
CURRENT ASSETS		
Cash	1,055,385	1,441,114
Cash held in trust	—	75,000
Accounts receivable (note 3)	151,835	163,543
Accrued interest receivable	4,324	55,444
Expense advances	3,525	10,608
Mine supplies	122,018	118,240
Deferred mining costs	271,382	24,671
	1,608,469	1,888,620
MINERAL PROPERTIES AND DEFERRED COSTS (note 4)	1,812,154	1,350,254
FIXED ASSETS (note 5)	547,978	485,502
	3,968,601	3,724,376
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	150,160	179,739
CASH HELD IN TRUST	—	75,000
	150,160	254,739
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)	4,003,750	3,466,250
(DEFICIT) RETAINED EARNINGS	(185,309)	3,387
	3,818,441	3,469,637
	3,968,601	3,724,376

APPROVED BY THE DIRECTORS


Director


Director

Consolidated Statement of Deficit

**Northern
Dynasty
Explorations
Ltd.**

	1987 \$	1986 \$ (thirteen months)
For the year ended December 31, 1987		
RETAINED EARNINGS – BEGINNING OF PERIOD	3,387	85,582
Loss for the period	(164,696)	(82,195)
	(161,309)	3,387
Costs relating to the issue of common shares	24,000	—
(DEFICIT) RETAINED EARNINGS – END OF PERIOD	(185,309)	3,387

Consolidated Statement of Loss

**Northern
Dynasty
Explorations
Ltd.**

	1987 \$	1986 \$ (thirteen months)
For the year ended December 31, 1987		
REVENUE FROM GOLD PRODUCTION	907,176	976,189
COST OF PRODUCTION	518,920	645,480
NET PRODUCTION REVENUE	388,256	330,709
EXPENSES		
Depreciation and amortization of mine assets	256,086	262,320
Administrative costs (see Schedule)	273,566	233,501
Exploration and property costs	9,726	105,738
	539,378	601,559
LOSS FROM OPERATIONS	151,122	270,850
OTHER INCOME (EXPENSE)		
Interest	63,255	122,148
Foreign exchange	(92,654)	(4,408)
Consulting	15,825	38,415
	(13,574)	156,155
LOSS BEFORE INCOME TAXES	164,696	114,695
RECOVERY OF DEFERRED INCOME TAXES	—	32,500
LOSS FOR THE PERIOD	164,696	82,195
LOSS PER SHARE	(\$.03)	(\$.02)

Consolidated Statement of Changes in Cash

**Northern
Dynasty
Explorations
Ltd.**

	1987 \$	1986 \$ (thirteen months)
<hr/>		
For the year ended December 31, 1987		
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Loss for the period	(164,696)	(82,195)
Items not affecting cash –		
Depreciation and amortization	268,010	276,113
Deferred income taxes	—	(32,500)
Incorporation costs written off	—	1,963
	<hr/>	<hr/>
	103,314	163,381
Increase in non-cash working capital items	(210,157)	(166,771)
	<hr/>	<hr/>
	(106,843)	(3,390)
FINANCING ACTIVITIES		
Proceeds from issue of common shares	162,500	—
Proceeds from subscriptions received for issuance of common shares	375,000	—
Costs relating to the issue of common shares	(24,000)	—
	<hr/>	<hr/>
	513,500	—
INVESTING ACTIVITIES		
Proceeds from sale of mineral property	600	(60,531)
Deferred exploration and development costs	(628,059)	(319,253)
Additions to fixed assets	(164,927)	(270,176)
	<hr/>	<hr/>
	(792,386)	(649,960)
DECREASE IN CASH	(385,729)	(653,350)
CASH – BEGINNING OF PERIOD	1,441,114	2,094,464
	<hr/>	<hr/>
CASH – END OF PERIOD	<u>1,055,385</u>	<u>1,441,114</u>

Consolidated Schedule of Administrative Costs

**Northern
Dynasty
Explorations
Ltd.**

	1987 \$	1986 \$ (thirteen months)
For the year ended December 31, 1987		
Audit and accounting	37,220	38,985
Depreciation	11,924	13,793
General corporate expenses	32,050	36,884
Insurance	24,453	8,211
Legal	19,768	15,897
Office	26,148	10,945
Public relations	24,891	35,849
Rent, utilities and maintenance	18,062	17,205
Salaries and employee benefits	180,935	302,148
Stock exchange fees	16,590	5,780
Telephone	14,248	14,502
Transfer agent	5,790	4,032
	<u>412,079</u>	<u>504,231</u>
Less: Rent recovered	5,558	5,850
Administrative costs recovered	<u>132,955</u>	<u>264,880</u>
	<u>138,513</u>	<u>270,730</u>
ADMINISTRATIVE COSTS – net	<u><u>273,566</u></u>	<u><u>233,501</u></u>

Notes to Consolidated Financial Statements

Northern
Dynasty
Explorations
Ltd.

For the year ended December 31, 1987

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, New Dynasty Mines (U.S.) Inc.

(b) Interests in Joint Ventures

The company records its interest in producing joint ventures using the proportionate consolidation method. Non-producing joint ventures are accounted for using the equity method.

(c) Mine Supplies

Mine supplies are carried at the lower of cost, determined on the first-in, first-out basis, and replacement cost.

(d) Deferred Mining Costs

Mining costs associated with products being processed are deferred until such time as the gold and silver are recovered, which is expected to be within the next fiscal year.

(e) Mineral Properties and Deferred Costs

Mineral properties and deferred costs are carried at cost. These costs do not necessarily reflect present or future values.

Exploration and development costs relating to mineral properties are deferred until such time as mineral properties are brought into production, abandoned or sold, at which time they are amortized on the unit-of-production basis or written off. Gains or losses on disposals are credited or charged to income.

(f) Administrative Costs

All administrative costs are written off as incurred, except for those administrative costs which directly relate to exploration and development of mineral properties. Administrative costs relating to mineral properties are deferred until such time as mineral properties are brought into production, abandoned or sold, at which time they are amortized on the unit-of-production basis or written off.

(g) Option Agreements

From time to time, the company acquires properties pursuant to the terms of option agreements. Because options are exercisable entirely at the discretion of the optionee, the amounts payable are not recorded as a liability. Option payments are recorded as mineral property costs when the payments are made.

(h) Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Annual depreciation is provided as follows:

Asset	Method	Rate
Office furniture and equipment	Diminishing balance	20%
Automotive equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	term of lease
Mine, plant and equipment	Unit-of-production	
Preproduction development costs	Unit-of-production	

(i) Income and Mining Taxes

The company follows the tax allocation method whereby the provision for income and mining taxes is based on income reported in the financial statements.

(j) Translation of Foreign Currency

Foreign currency transactions and balances of the company are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates, non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses (other than depreciation and amortization which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current period.

NOTE 2. INTEREST IN JOINT VENTURE

The company owns a 43.112% participating interest in the Little Bald Mountain Joint Venture (L.B.M.), located in White Pine County, Nevada, U.S.A. The company's interest in L.B.M. is subject to a 2.5% net smelter return royalty.

The following amounts are included in the financial statements and represent the company's 43.112% proportionate share of the assets and liabilities, and 42.108% of revenue and operations of the L.B.M. mine:

	1987	1986
	\$	\$
ASSETS		
Deferred mining costs	271,382	24,671
Inventory and supplies	122,018	118,240
Mineral properties and deferred costs	956,549	984,110
Preproduction development costs	113,823	133,438
Mine, plant and equipment	413,880	323,622
	<u>1,877,652</u>	<u>1,584,081</u>
LIABILITIES		
	<u>56,103</u>	<u>36,135</u>
Revenue from gold production	907,176	976,189
Cost of production	518,920	645,480
Net production revenue	<u>388,256</u>	<u>330,709</u>

NOTE 3. ACCOUNTS RECEIVABLE

	1987	1986
	\$	\$
Ontario mineral exploration grant receivable	85,000	—
Due from Little Bald Mountain Joint Venture partners	63,677	54,263
Due from Ontario Gold Joint Venture partners	—	28,991
Other	3,158	80,289
	<u>151,835</u>	<u>163,543</u>

NOTE 4. MINERAL PROPERTIES AND DEFERRED COSTS

	1987			1986	
	Mineral properties \$	Deferred exploration and administrative expenditures		Net \$	Net \$
		Cost \$	Accumulated amortization \$		
Little Bald Mountain (note 2)	258,377	1,145,211	447,039	956,549	984,110
Pickle Lake Joint Venture	—	391,200	—	391,200	147,117
Zeke Property	93,876	91,795	—	185,671	179,043
Virginiatown	20,020	103,106	—	123,126	—
Savant Lake	—	61,561	—	61,561	—
Indian Ranch	6,630	47,312	—	53,942	—
Schefferville Gold Project	—	40,105	—	40,105	39,984
	<u>378,903</u>	<u>1,880,290</u>	<u>447,039</u>	<u>1,812,154</u>	<u>1,350,254</u>

(a) Pickle Lake Joint Venture

By an agreement dated June 5, 1984, the company entered into a joint venture to explore and develop certain designated areas of interest in northwestern Ontario.

The company maintains its 30.81% participating interest by paying 32.43% of ongoing costs. The company may elect to cease to participate and convert its 30.81% participating interest into a 10% net profits interest.

(b) Zeke Property

The company owns a 41% interest in the Zeke property in Eureka County, Nevada.

During the year, the company granted an option to a participant whereby the participant can increase its proportional interest in the joint venture from 41% to 70% by incurring expenditures otherwise chargeable to the participants in the amount of a minimum of \$75,000 per annum for each of the three years ending December 31, 1989 and aggregate expenditures of \$750,000 on or before December 31, 1990. The company's effective interest would be diluted from 41% to 20.85%.

In the event that aggregate expenditures by December 31, 1990 are less than \$750,000 but exceed \$500,000, the participant will have earned a 60% interest and the company's interest will have been diluted to 27.8%.

The joint venture is responsible to the original owners of the Zeke property for annual payments of U.S. \$24,000 and a 3% net smelter return to a total buy-out of U.S. \$2,000,000. In addition, there is a further 1.5% net smelter return on the property, which will increase to 2% if the above buy-out payments are made.

(c) Virginiatown

By an agreement dated March 18, 1987, the company acquired a 100% interest in the Virginiatown mineral property located in McGarry Township, Ontario.

The company is committed to make annual lease payments of \$25,000 in 1988 and 1989 and \$50,000 in 1990 and 1991. The agreement is renewable thereafter by payment of an annual renewal fee of \$100,000. If the property is placed into commercial production, there will be a 2½% net smelter return royalty payable on production.

(d) Savant Lake

The company owns a 100% interest in the Savant Lake property located in Ontario.

(e) Schefferville Gold Project

The company has a 41.02% interest in a joint venture that has acquired permits to explore and develop 173.5 square kilometres of land located near Schefferville, Quebec. The permits are valid for five years with annual rental payments of \$60 per square kilometre. Work commitments are \$500 per square kilometre for 1988 and 1989, and \$1,000 per square kilometre for 1990.

During the year, two Quebec companies earned an undivided 58.98% participating interest in the Schefferville Gold Project properties by incurring \$189,760 of exploration and development expenditures on the properties by November 30, 1987.

(f) Indian Ranch

By agreement dated April 20, 1987, the company acquired a 100% interest in the Indian Ranch mineral property located in Eureka County, Nevada.

The company is required to make annual lease payments of U.S. \$10,000 in 1988, U.S. \$20,000 in 1989 and U.S. \$50,000 annually thereafter. In addition, the company is committed to a minimum exploration and development program of U.S. \$20,000 in 1988, U.S. \$40,000 in 1989 and U.S. \$80,000 annually thereafter. The agreement will remain in force until 1997.

At such time as the property is placed into commercial production, a 5% net smelter return royalty will be payable on production.

NOTE 5. FIXED ASSETS

	1987		1986	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Office furniture and equipment	21,792	9,234	12,558	12,953
Automotive equipment	17,554	9,837	7,717	11,024
Leasehold improvements	14,615	14,615	—	4,465
Mine, plant and equipment	592,290	178,410	413,880	323,622
Preproduction development costs	178,009	64,186	113,823	133,438
	<u>824,260</u>	<u>276,282</u>	<u>547,978</u>	<u>485,502</u>

NOTE 6. CAPITAL STOCK

	1987 \$	1986 \$
Authorized – 10,000,000 common shares without par value		
Subscriptions received – 166,665 common shares	375,000	—
Issued and fully paid – 5,250,000 common shares (1986 – 5,125,000 common shares)	3,628,750	3,466,250
	<u>4,003,750</u>	<u>3,466,250</u>

During the year:

- i. directors and employees exercised options to acquire a total of 87,500 shares for \$87,500; and
- ii. the company issued 37,500 flow-through shares for \$75,000 of eligible Canadian Exploration Expenditures (CEE) incurred.

Subscriptions Received

During the year, the company received subscriptions for 166,665 common shares for a cash consideration of \$375,000 under a private placement arrangement. The shares will be issued on a flow-through basis for the renoucement by the company of eligible CEE incurred.

The following stock options are outstanding at December 31, 1987:

- i. director and employee options to acquire an aggregate of 172,500 shares at \$1.00 per share exercisable on or before July 3, 1991; and
- ii. options to other investors entitling the holder to acquire 50,000 shares in the company at \$1.50 per share exercisable on or before October 1, 1989. Options on 25,000 of the shares may be exercised only after the shares have traded for 30 consecutive days at a price in excess of \$2.75 per share. Options on the remaining 25,000 shares may be exercised only after the shares have traded for 30 consecutive days at a price in excess of \$3.75 per share.

NOTE 7. OPERATING LEASE

The minimum annual lease payment under an operating property lease expiring on December 1, 1989 is \$14,400 and in total amounts to \$27,600.

NOTE 8. FUTURE INCOME TAXES

The company has accumulated losses for tax purposes of \$275,000 which may be carried forward and used to reduce taxable income in future years and for which no future tax benefit has been recognized in the accounts. These losses may be claimed no later than:

	\$
Year ending December 31, 1992	72,000
1993	15,000
1994	188,000
	<u>275,000</u>

NOTE 9. RELATED PARTY TRANSACTIONS

During the year, the company charged \$138,513 (1986 – \$270,730) to joint venture partners for their share of administrative expenditures relating to joint venture projects. Included in accounts receivable is \$63,677 (1986 – \$83,254) due from joint venture partners.

Corporate Directory

OFFICERS

**J. Glenn Simpson, Ph.D, P.Eng.
President**

**Daniel B. Kilby, P.Eng.
Vice President**

**Robert A. C. Douglas
Secretary and Corporate Counsel**

**Carolyn G. Kent
Assistant Secretary**

DIRECTORS

J. Glenn Simpson, Ph.D., P.Eng.

David S. Jennings, Ph.D.

John Bruk

R. E. Gordon Davis, P.Eng.

Jeff Knaebel

HEAD OFFICE

REGISTERED AND RECORDS OFFICE

844 West Hastings Street

Vancouver, B.C.

Canada

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(604) 682-3727

AUDITORS

Coopers & Lybrand

Vancouver, B.C.

BANKS

Bank of British Columbia

Division of Hongkong Bank of Canada

Main Branch

885 West Georgia Street

Vancouver, B.C.

First Interstate Bank of Nevada

Main Branch

Reno, Nevada

TRANSFER AGENT

The Canada Trust Company

Four Bentall Centre

P.O. Box 49390

Vancouver, B.C.

The Canada Trust Company

110 Yonge Street

Toronto, Ontario

EXCHANGE LISTINGS

Vancouver Stock Exchange

Toronto Stock Exchange

Trading Symbol: NDX

SUBSIDIARY

New Dynasty Mines (U.S.), Inc.



Dynasty Office, Eureka, Nevada

*Northern
Explorations
Ltd.*



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