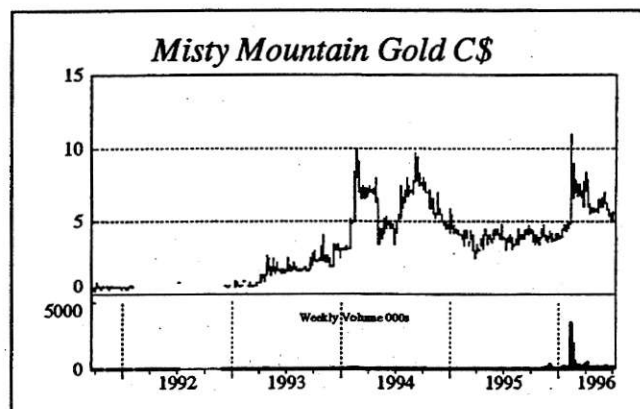



Scotia Capital Markets
Misty Mountain Gold (MGL-T) C\$5.50
Felix Freeman (416) 863 7284
Associate: Susan Muir (416) 863 7284
July 5th 1996
Good Value in a Misunderstood Project.
Recommendation: Speculative 2-Buy One-Year Target C\$14.00 R.O.R. 156%

- * MGL's 100% owned Harmony project is a significant 2+ million ounce gold deposit on the Queen Charlotte Islands, B.C., a sufficient resource to either attract a potential acquiror or start a meaningful operation.
- * Our C\$14.00/share target price is predicated on the project being able to be developed as an open pit and its successful sale on a timely basis.
- * Allowing for time & risk discounts there is potential for a creditable rate of return from today's share price under either the open pit or underground scenarios, although the underground option would be less attractive on a sale basis. There is further upside from local and regional exploration, and, assuming sale, little likelihood of more than 25% dilution by further equity issues.
- * Previous development efforts at Harmony were based on misinterpretation of the deposit, and have led to a negative market image. We believe such concerns are largely erroneous, although permitting risks do exist.
- * Unlike many other exploration projects, MGL is working to re-evaluate a previously defined reserve at Harmony and bring it to feasibility. MGL is well-equipped to conduct such activities in-house.
- * Recent drilling has upgraded the previously calculated reserve by 24%, an effect that we expect to apply to the deposit as a whole. An increase in reserves both through upgrading and extensions is almost a certainty given experience to date.


MGL NPV Calculation

	Option	
	Open Pit	Underground
Price, C\$/Sh	\$5.50	\$5.50
Gold	\$382	\$382
C\$:US\$	\$1.360	\$1.360
Tonnes, M	31.000	7.716
Grade, opt	0.077	0.200
Ounces, M	2.383	1.543
Recovery	85.0%	85.0%
Recovered Ounces	2.026	1.312
Cash Cost, US\$/Oz	\$201	\$218
Gross Cash Flow, US\$M	\$366.668	\$214.740
Capital Cost, US\$M	\$55.000	\$75.000
Tax Losses, US\$M	\$43.956	\$43.956
Tax Rate	43.0%	43.0%
Taxes, US\$M	\$90.061	\$16.132
Net CF, US\$M	\$221.607	\$123.608
Cash, C\$M (On dil.)	\$14.000	\$14.000
Net Cash Flow, C\$M	\$315.385	\$182.107
Shares Out (FD)	11.200	11.200
NPV, C\$/Sh	\$28.16	\$16.26
Per 0.1 M oz Found	\$0.78	\$0.72
FD Market Cap, C\$M	\$61.600	\$61.600
Adj. MCap/Oz Res, US\$	\$15	\$23
50% Discount to NPV	\$14.08	\$8.13
ROR	156%	48%
Value of 0.1 M oz	\$0.39	\$0.36

Residual IRR Run - Open Pit Scenario

Year	0	1	2	3	4	5	6	7	8	9	10	11	12
Gold	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400
C\$/US\$	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360	\$1.360
Reserves, Tonnes, BOY	31,000	28,417	25,833	23,250	20,667	18,083	15,500	12,917	10,333	7,750	5,167	2,583	
Production, Tonnes	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583	2,583
Grade, opt	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077
Recovery, %	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Oz Produced	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169	0.169
Cash Cost, US\$/Tonne	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16	\$13.16
Cash Cost, US\$/Oz	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201	\$201
All in millions except where stated													
Total Revenues	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526	\$67,526
Total Costs	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000
Depreciation	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583	\$4,583
Capex	\$55,000	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
Pre-Tax Profits	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943	\$28,943
Tax Rate	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
Tax Loss Carryforwards	\$43,956	\$15,013	(\$13,930)	(\$42,873)	(\$71,816)	(\$100,759)	(\$129,702)	(\$158,644)	(\$187,587)	(\$216,530)	(\$245,473)	(\$274,416)	
Taxes	\$0,000	\$0,000	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445	\$12,445
Cash Flow, US\$	\$32,026	\$32,026	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581	\$19,581
Cash Flow, C\$	\$43,556	\$43,556	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630	\$26,630
Discounted Cash Flow, C\$	\$211,000	\$39,596	\$35,996	\$20,007	\$18,189	\$16,535	\$15,032	\$13,665	\$12,423	\$11,294	\$10,267	\$9,334	\$8,485

Acquisition Cost, C\$M	\$156,000
Discount Rate	10.0%
Shares Issued	11,200
Discounted Cash Flow, C\$	(\$0,177)
Variance	\$210,823
Sale Price/Share	\$13.93
Equivalent to	\$84 per developed recovered ounce

Investment Logic

The Harmony Project was significantly misinterpreted by past operators, and it is likely that a medium-sized mine with in excess of 2 million ounces in reserves and cash costs in the low \$200 range can be built. While there appears to be little technical difficulty to building a mine, even on the current level of knowledge, there are risks associated with permitting and native land claims. These should be superable, but delays are probable. As is the strategy for other companies within the Hunter & Dickinson group, it is likely that the project will be sold. The timing and price of such a sale is difficult to determine due to a lack of ultimate scoping. The project would be very attractive for a number of mid-sized or ambitious junior gold producers, but most will likely wish to have MGL take the permitting risk. The company's cash position is currently C\$3 million, but the exercise of in-the-money warrants would bring in a further C\$8 million. Total costs to feasibility are likely to be in the range of C\$15-C\$20 million, so a further financing is likely but not a necessity at present. Target prices are difficult to derive due to the early stage of engineering scoping, but our target price of C\$14.00/share is determined by assuming a sale with a residual 10% IRR for the purchaser at \$400 gold. See the sections Operating Assumptions & Values below.

Values

Assumptions

Due to the lack of scoping data we have had to make a number of assumptions regarding capital and operating costs and scaling for a mine at Harmony. Due to the morphology and grade of the deposit it would be best mined as an open pit, although a higher-grade underground option is possible. Based on the current size of the reserve, including the already demonstrated upgrading effect, our open pit scenario is for a 7,100 tonne/day, US\$55 million mine with a mill producing around 170,000 oz per year for 12 years at a cash cost of just over \$200/oz. A higher-grade underground mine would of

necessity be smaller, and we have developed a scenario of a US\$75 million 2,600 tonne/day mill producing around 165,000 oz/year for 8 years at a cash cost in the \$220/oz range.

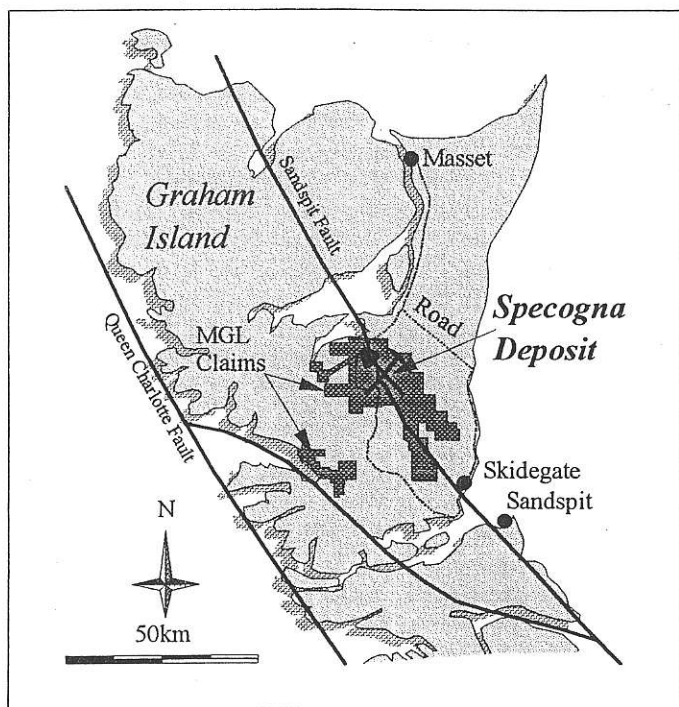
Valuation

Two methods of valuation give very close agreement as to the value of the stock. We have used the residual IRR method to calculate the maximum a potential acquirer could pay and still maintain a reasonable (10%) IRR. At a long-term gold price of \$400 this generates a FD value of C\$13.93/sh for the open-pit scenario (table above) and C\$8.62/sh for the underground scenario. Using a conventional NPV analysis on the cover shows the results from two possible scenarios. As pre-production properties typically sell in the market at a 50% discount to their NPV this is a reasonable value to assume that an acquirer might be prepared to pay. This works out at C\$14.08/sh for the open-pit scenario and C\$8.23 for the underground scenario.

Both these methods indicate a potential sale price of C\$14.00/share, although, given that the deposit is a desirable commodity in a market full of companies desperate to grow, an actual sale price could potentially be higher. On the basis of value per developed, recovered ounce of reserves this value equates to around US\$84/oz, compared to typical recent North American sales in the US\$70 to US\$130 per oz range, a number highly dependent on project economics.

If MGL was to develop the open pit project itself it would ultimately, on current FD shares, have an in-production value of C\$36.61/sh (C\$21.41/sh for UG). However, once time-to-production discounts are applied (assuming a long 4.5 year lead time for permitting) these values have fallen to C\$17.75/sh open pit and C\$10.38/sh UG. Into this must also be factored considerable dilution for both maintenance and construction capital and an assumption of all the development risks.

A significant benefit to valuation of the stock is a C\$60 million tax-loss carryforward retained on the acquisition of the property and exploration tax pools. This is of adequate duration to last until likely production.



Property Description

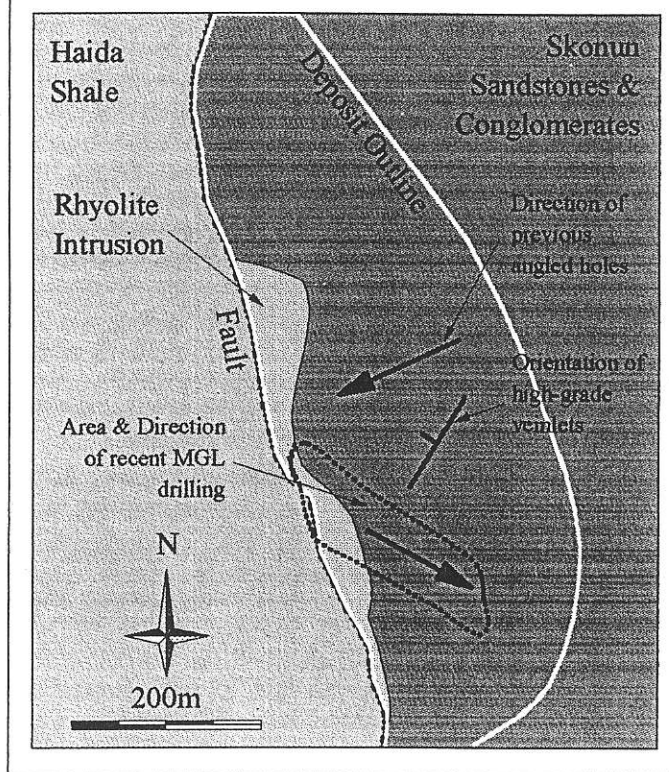
Misty Mountain Gold acquired the Harmony (formerly Cinola) project on Graham Island in the Queen Charlotte Islands, B.C., from the creditors of Barrack Mines of Australia. Under the previous explorer, City ResourcesCanada Ltd, Harmony acquired a reputation as a large but very difficult orebody. It now appears that, due to poor past methodology, much of its difficult reputation is either exaggerated or simply wrong.

Orebody & Exploration

The deposit was discovered by chance in 1970 during logging and explored by a number of companies, most notably City Resources. The orebody is a complex shallow epithermal system, with gold contained both in nine stages of veining and, at a lower grade, disseminated in the wall rocks. The system has been located by a flexure on the regional Sandspit fault which formed a pathway for a Miocene rhyolite intrusion apparently contemporaneous with the mineralisation. The stockwork has developed in the brittle Skonun sandstones on the east side of the fault rather than the more ductile and less permeable Haida shales to the west of the fault. Most of the gold appears to occur as free gold, sometime quite coarse, with the balance associated with pyrite and minor arsenopyrite. The alteration is highly siliceous, with an average of only 3% of the rock being sulphides, of which 95% is pyrite. Most of the quartz veinlets are 10-50 cm wide and sub-vertical with a NW-SE trend, forming a stockwork. The individual veinlets frequently grade in excess of 6.0 g Au/t while the wallrock grades around 1.0 g Au/t. All the mineralisation to date has been in this low-temperature stockwork zone, although theory suggests that there could be a narrower bonanza zone starting 100-150m below the current drilling. The orebody is not homogeneous; there are large and well defined areas of higher-grade ore. This opens up a number of processing possibilities and gives uncommon flexibility in choosing a method to best suit permitting.

Almost all drilling prior to MGL was either done vertically on variable 50 to 100m centres or at an angle to the SW. This outlined a shallow reserve of 31 million tonnes grading 0.062 oz

Specogna deposit - Geology & drilling



Au/ton. An adit was driven in 1981 and a 4,000 tonne bulk sample processed on site. It was only once an extension to the adit was driven at the end of the exploration program in 1986, that the true morphology of the orebody was seen.

Metallurgically the ore does not seem too complex, with a large component of free gold and the balance in sulphides. Chasing of very high recoveries by City led to the belief that the ore was refractory. Recoveries of over 90% were achieved using the Nitrox process on whole rock, but as low as 62% when flotation was used alone.

Previous vertical drilling would have resulted in very few of the drill-holes intersecting the higher grade veinlets. Even those angle holes previously drilled towards the SW, parallel to the veinlets, would have missed most of the higher grade material, and the drill would likely have been deflected away from the veinlets into the softer hostrock or frequent clay gouges. The first 49 holes drilled by MGL tested about 20% of the known deposit on 20m centres, with the holes angled to give a representative sample, including the veinlets. The net effect was to upgrade the area by 24% over City's reserve estimate, to 0.077 oz Au/tonne. There were also some spectacular intersections, including 41m of 41 g Au/t. A 120 hole drill program has just started, working N & S of the area previously drilled by MGL. This should include a higher grade area in the north of the orebody.

While Harmony is the only defined gold deposit on MGL's 46,000 hectare property on Graham Island there are a number of potential targets on the controlling Sandspit fault. Graham Island was the site of a placer gold rush in the 1860s, suggesting that gold is likely widespread. The Harmony orebody is an obvious relief feature due to its strong silicification in an area of generally poorly consolidated sediments, and there are several other such prominent features immediately south of the project which have never been examined.

Operating Assumptions

In most locations Harmony would certainly be an open pit, and that is indeed the most likely route. Such a pit would be relatively shallow, under 150m deep, and likely have a good geometry with a strip ratio of 2:1 or less. Due to location mining costs would not be comparable to large continental open pits, but should not be excessive. If permitting of an open pit and its associated external waste storage areas is too difficult, there is an alternative; to go underground. Should environmental concerns force the mine underground it is amenable to adit-accessed bulk mining, but poor ground conditions near the surface would likely require leaving a large crown pillar, which could be recovered later. We have assumed a bulk underground operation using a combination of long hole and cut & fill mining. If the potential deep higher grade bonanza vein shoots, postulated to exist beneath the stockwork, are found there would ultimately be an underground operation in any case.

Processing would have to be by milling due to the ore grade, climate and mineralogy. There are various possible mill parameters. Due to both mineralogy and environmental sensitivity cyanide leach is not likely to be an option. The most likely method will be a gravity circuit with flotation, shipping the concentrate off-island for treatment. A less likely route would be shipping higher-grade whole ore to a mainland mill. Our operating assumptions for both an open pit and underground operation were outlined earlier. We assume an operating cost of US\$13.10 per tonne for an open pit and US\$37.10/tonne for an underground mine. The relative head grade and reserve for the underground option have been derived from a likely high grade/low grade split in a two-population deposit.

We assume a three-year feasibility and permitting schedule or 4 1/2 years to start-up for our time-to-event annual discounts. The most likely time for a sale would be post-permitting, but the deposit is attractive enough to possibly attract bids prior to permitting if there is obvious progress.

Management

Misty Mountain is one of the Hunter & Dickinson group of companies, one of the largest groups of junior exploration vehicles in Canada. In the past they have been best known for acquiring, advancing and selling challenging projects, such as Golden Bear, Mt. Milligan and South Kerness, an activity in which they have been very successful. In Harmony we believe that the group has found a project, which, while controversial, will have adequate economics to form a highly profitable mine. The group has over 80 employees, mostly involved with engineering and permitting issues, who have a demonstrated ability to generate professional and accurate feasibility studies. For all the questions over the porphyry copper deposits in the group, the engineering work done on them has been of very high quality. On past record, MGL is also likely to end up being sold at the most opportune moment.

Environmental & Permitting

Under City Resources the project gained a reputation for being likely extremely difficult to permit, although little actual production permitting work was done. We believe that the project is permittable, although it may be a drawn-out process. MGL has already started baseline studies. The main issues appear to be acid rock drainage and siltation of salmon spawning areas. The project is located in a remote area that was clear-cut in the mid 1980s and active forestry continues, so visual and terrestrial biotic impact is likely to be low. It should be possible to avoid the use of cyanide. The acid rock drainage issue appears to have been exaggerated. The orebody contains only 3% sulphides, associated with some of the precious metal values. A bulk flotation concentrate would remove almost all sulphide material, leaving the resulting tailings with little acid-generating potential, easily neutralised by lime. A footwall rhyolite could also generate acid, but is not a major rock type. The view of the orebody as highly arsenical also appears to be unfounded, with an average of only 290 ppm arsenic found to date; again this could largely report to a flotation concentrate. It is worth noting that not only is the natural soil of the island acidic, but that forestry roads made by McMillan Bloedel are capped with crushed acid-generating rhyolite and appear to have caused no problems. The project is in the drainage of the Yakoun River, an important salmon river for the island, but is not near the headwaters. Three small creeks in the immediate mine are used for spawning. With suitable impoundment of both waste and tailings the project should generate zero particulate discharge. The only reason an underground mine might be called for is to minimise surface waste disposal. If the mine should ultimately be an underground one much of the tailings could be used as backfill, reducing storage problems. Having seen the excellent environmental protection at the RTZ/Hella Greens Creek polymetallic mine, which is in a far more sensitive area and has far higher-sulphide rock, we are convinced that Harmony can be built with minimum impact.

Haida

The most significant issue facing the Harmony project is its acceptance by the Haida people. The area is within an active land claim similar to other areas in B.C., and there can be no absolute certainty about the outcome. MGL is sensitive to the issue, and we believe that they are handling community relations in a responsible and pro-active manner. To date there appears to have been no native objection to the project, although land claims have a habit of taking unpredictable turns. The most serious issue on the islands is the local economy. With the near-closure of the West Coast salmon fishery and a drastic downscaling of the Canadian Forces base at Masset there is little employment outside forestry and a highly seasonal and poor tourist trade. A major new employer in the area would likely be welcomed if all local concerns are met.

MLN 206 & 207

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