

800172

To: Mike Gilley

December 18, 1987

Re: MISTRAL RESOURCES LTD.

In accordance with your memorandum I have reviewed two reports by W.G. Hainsworth, P.Eng. (B.C.) which have to do with 21 placer claims and fractions in the Atlin Mining Division located 20 kilometers east of Atlin B.C. These claims extend 2 kilometers southerly up Otter Creek from Surprise Lake. I have also reviewed the draft of the undated filing statement.

The Issuer holds this property under an agreement worked out in early 1987 with Genie Resources Ltd. The Issuer purchased a wash plant which was put into operation on October 16, 1987 and which ceased operation on October 26, 1987 due to weather conditions.

1. UPDATE REPORT FOR MISTRAL RESOURCES LTD., DATED OCTOBER 30, 1987, BY W.G. HAINSWORTH, P.ENG.

Page 5 of the report advises that in 1983 Genie Resources Ltd. acquired 13 placer claims adjoining and upstream (south) of the subject 21 placer claims. Pages 6, 7 and 8 describe expenditures by Genie Resources Ltd. I interpret these expenditures are in excess of \$4,500,000, which includes purchase of the property, camp and equipment, the drilling of 100 bore holes, stripping of what appears to be 800,000 cubic yards of waste, mining and sluicing 180,000 cubic yards of placer ground and the recovery of 106,000 oz of gold.

On pages 4-8 of this report there is mention of the Rose Pit, Strand Shaft, Moran Level, Suoboda Level, Berthard Shaft, Main or Dorflinger Shaft, and the Drain Lease Mine. The Rose pit is identified as being within the subject property. The Main or Dorflinger shaft is identified as being within the Genie property which adjoining and is up stream (south) of the subject property. I have had difficulty identifying the portion of the other shafts, levels and leases.

Pages 10-11 advise that during 1986 Genie stripped 288,000 cubic yards of waste and processed 149,450

cubic yards of placer material at a cost of \$1,532,971.

Pages 12-17 advise that during 1987 a new wash plant capable of processing 250 cubic yards per hour was assembled, the old Genie plant was shut down and winterized and the company measured, sampled and processed 400 to 500 tons from the stock pile.

Page 14 advises that Two M Mining Company is working the Tina Group of claims located several hundred feet below the south border of Mistral's PL1702 Claim.

In my opinion this report is not acceptable and I would invite the Issuer to respond to the following comments or queries.

- A. This report does not provide a clear description or identification of the area of past activity on the property. Pages 5 - 8, 10 - 11 and page 14.
- B. Figure 2 shows the outline of the subject 21 claims and a block of 13 adjoining claims held by the vendor of the subject 21 claims. In my opinion it is difficult to determine which property is being described.
- C. On page 1 the author refers to a qualifying report dated April 14, 1986 amended October 5, 1986. As the report does not contain a bibliography, I would ask who wrote that report, who commissioned the report, does it have maps to identify the shafts, mines, drill holes, reserves, was it used as part of a prospectus or statement of material facts?
- D. I would invite the Issuer to show on Figure 2 the position of the Tina Group of Claims where Two M Mining Company is working (page 14).

2. EVALUATION REPORT FOR MISTRAL RESOURCES LTD., DATED NOVEMBER 25, 1987, BY W.G. HAINSWORTH, P.ENG.

The author advises that in his April 14, 1986 report, amended October 5, 1986, he identified

Shavel

*auriferous
granite*

1,530,000 cubic yards of pay horizon with a grade of 0.052 oz gold per cubic yard, classified as both drill indicated and possible, in 4 pay horizons which average 10 feet thick. Using a stripping ratio of 2 1/2 to 1, and assuming the waste has a grade of 0.015 oz gold per yard he has assigned an "Ore Reserve of 5,355,000 cubic yards with a grade of 0.026 oz gold per cubic yard."

Based on an operating season of 137 days, an annual throughput of 548,000 yards, gold price of \$552,50 per oz Cdn., annual labour costs of \$729,600, annual mining costs for both waste and "ore" \$1,850,000 and a complicated royalty agreement, the author shows an annual net profit of \$1,738,366 before taxes or \$28,806,000 over the 10 year life of the operation. By discounting this at 15% the author puts forward a present value calculation of \$13,690,274.

In my opinion this report is not acceptable and I would invite the Issuer to respond to the following comments or queries.

- A. This report does not provide full and plain disclosure and it does not conform with the guidelines set-out in Form 54 of the Securities Act and in National Policy 2A.
- B. I would invite the Issuer to advise as to the percent of proven (drill indicated) ore in the 1,530,000 yard ore reserve and the percent in the possible category.
- C. I would invite the Issuer to provide a map and section showing the proven (drill indicated) reserve.
- D. I would call the Issuers attention to Section 4.7.4.3 of National Policy 2A:
"possible or inferred reserves must not be added to other categories of reserves and their inclusion is not acceptable in any economic analysis or feasibility study of a project"
- E. I would call the Issuers attention to Appendix 1 of Form 54 of the Securities Act:

"Care should be taken in the use of the word ore",
-- the term is defined in this Appendix.

3. FILING STATEMENT UNDATED

Page 12 of the Filing Statement advises that Mr. Hainsworth reviewed reports dated August 17, 1983 and December 15, 1983 by M.D. Kierans, P.Eng. and presumably wrote an amended report which is referred to as the first report. Page 12 of the Filings Statement advises that page 17 of the first report shows the blocks, tonnage and grade used to obtain both drill indicated and possible classifications.

A. I would query the Issuer as to whether the Hainsworth first report might satisfy all of the queries posed above regarding the Hainsworth second report (October 30, 1987).