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November 23, 1987

Mistral Resources Ltd.
302 - 698 Seymour Street
Vancouver, B.C.
V6B 3K4

Attention: Mr. Bruce Luckman
Ms. Lauri Goodman

Dear Sirs:

Re: Atlin Property

In connection with the proposed acquisition by Mistral Resources Ltd. of the shares of Genie Resources Ltd. we have reviewed certain documents relating to the following placer leases and placer mining leases located in the Atlin Mining Division of the Province of British Columbia:

(a) Drain Leases:

| <u>Name</u> | <u>Record Number</u> |
|-------------------|----------------------|
| Drain Lease - PML | 1697 |
| PL | 4607 |
| PL | 4606 |
| PL | 4605 |
| PL | 4604 |
| PL | 1739 |
| PL | 1528 |
| PL | 2302 |

(b) Dan Leases:

| <u>Name</u> | <u>Record Number</u> |
|---------------|----------------------|
| Snoopy - PML | 1687 |
| Rose - PML | 1702 |
| Joy - PML | 1703 |
| Lake - PML | 1745 |
| Dan - PML | 1782 |
| Randy - PML | 1849 |
| Lucy - PML | 1866 |
| Pauline - PML | 1867 |
| Ford - PML | 1868 |

| <u>Name</u> | <u>Record Number</u> |
|----------------|----------------------|
| Surprise - PML | 1869 |
| PL | 4688 |
| PL | 4689 |
| PL | 4690 |

(the above listed placer leases and mining leases are hereinafter collectively referred to as the "Atlin Property").

You have asked us to report to you on the state of title to the Atlin Property based upon the documentation we have reviewed. We understand that you have been requested by Mr. Lyle Hallman to provide him with a copy of this report.

Please understand that this report does not purport to be a legal opinion on title to the Atlin Property and we are not expressing any view as to the enforceability of the agreements and charges described herein. There may be agreements, affecting title to or claims against the Atlin Property of which we are not aware. We have not inspected any maps or surveys; you have advised us that you have done so. Our investigations have been strictly limited to the examination of the documents enumerated herein which have been provided to us and of which we are aware as a consequence of certain searches conducted by us which are described below. Most of the documents we have examined are copies and we have assumed the authenticity of the same. Certain of the documents we have examined are unsigned. We have assumed that these documents nevertheless reflect the agreements of the parties. Because many of the documents we have reviewed are photocopies, we are often unable to determine whether or not the same have been sealed.

The following is a list of the documents which we have reviewed in this regard:

A. Documentation
Relating to the Acquisition
by Genie of the Leases and Royalties Thereon

1. Agreement dated May _____, 1977 between Shirley J. Connolly, as Optionor, and Northwest Placer Syndicate, as Optionee (unsigned);
2. Assignment of Lease dated January 24, 1979 from Rutherford Day to Shirley Jean Connolly relating to placer mining leases 1849, 1866, 1867, 1868 and 1869 and recorded February 28, 1979 against the same in the Office of the Gold Commissioner in Atlin, B.C. under M.R. 121327E;
3. Agreement dated _____, 1980 between Matthew Phillip Sherman, Orval Gillespie and Edward A. Angus, as Vendor, and Milmac Mines Ltd. as Purchaser (without schedules);
4. Agreement dated May 1, 1981 between Milmac Mines Ltd., as Vendor, and Richard John Watson and Kenneth Albert O'Connor, as Purchaser;

Handwritten note:
 We advised that
 Title is subject to
 compliance with the
 Mining (Placer) Act and
 regulations governing the
 location and
 recording
 of
 claims

5. Agreement dated as of May 3, 1982 (also dated June 20, 1982) between Richard John Watson and Kenneth Albert O'Connor and Cypress Consulting Services Inc.;
6. Agreement dated June 20, 1982 between Richard John Watson and Kenneth Albert O'Connor, as Vendors, and Eystar Holdings Ltd.;
7. Assignment dated March 28, 1983 between Cypress Consulting Services Inc., as Assignor, and Sebrew Holdings Ltd., as Assignee;
8. Agreement dated as of March 28, 1983 between Kenneth Albert O'Connor and Sebrew Holdings Ltd.;
9. Letter dated July 19, 1983 from Sundance Gold Ltd. to Sebrew Holdings Ltd. and agreed to by Sebrew Holdings Ltd.;
10. Letter dated July 25, 1983 from Richard John Watson to Sebrew Holdings Ltd.;
11. Agreement dated as of August 5, 1983 between Cypress Consulting Services Inc., Eystar Holdings Ltd. and Sebrew Holdings Ltd.;
12. Assignment dated August 5, 1983 between Eystar Holdings Ltd., as Assignor and Sebrew Holdings Ltd., as Assignee;
13. Agreement dated August 22, 1983 between Richard John Watson and John Vroom;
14. Agreement dated September 6, 1983 between Rutherford Day, Lucy Day, Gordon McIntyre and G. & D. Mining Ltd., as Vendors, and Genie Resources Ltd., as Purchaser, including an agreement dated August 31, 1973 between David Minerals Ltd. (NPL) and Lucy W. Day attached thereto as Schedule "F";
15. Agreement dated September 6, 1983 between Richard John Watson and David Minerals Ltd., as Vendors and Island Cash Buyers Ltd. and John Vroom, as Purchasers;
16. Bill of Sale dated October 12, 1983 from Connolly Holdings Ltd. to Kenneth Albert O'Connor relating to placer mining leases 1687, 1702, 1703, 1745, 1782, 1849, 1866, 1867, 1868 and 1869, among others, and recorded July 29, 1985 against the same in the Office of the Gold Commissioner in Atlin, B.C. under M.R. 179071E;
17. Agreement dated October 20, 1983 between Genie Resources Ltd. and Sebrew Holdings Ltd., as Vendors, and 124664 Canada Inc., as Purchaser;
18. Agreement dated October 20, 1983 between 124664 Canada Inc. and Sundance Gold Ltd.;

19. Agreement dated December 12, 1983 between Richard John Watson as Assignor, and Roulette Resources Ltd., as Assignee;
20. Agreement dated December 12, 1983 between Richard John Watson, Roulette Resources Ltd., John Vroom and James Dennis, and Gibson Lake Holdings Ltd. and Johil Developments Limited;
21. Agreement dated December 12, 1983 between Roulette Resources Ltd., as Assignor, and Johil Developments Limited and Gibson Lake Holdings Ltd.;
22. Agreement dated December 13, 1983 between John Vroom, as Assignor, and Johil Developments Limited and Gibson Lake Holdings Ltd.;
23. Agreement dated as of February 29, 1984 between Sebrew Holdings Ltd., as Assignor, and Genie Resources Ltd., as Assignee;
24. Agreement (stated) effective as of April 2, 1984 and executed July _____, 1984 between Genie Resources Ltd., Sebrew Holdings Ltd. and 124664 Canada Ltd. including the form of agreement to be entered into between unitholders and Genie Resources Ltd. and Sebrew Holdings Ltd. attached thereto as Schedule "B";
25.
 - (a) Agreement dated for reference May 7, 1984 and (stated) effective April 1, 1984 between Charles Gordon Awde, Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (b) Agreement dated for reference _____, 1984 and (stated) effective April 1, 1984 between Sundance Gold Ltd. (now Argrel Resources Ltd.), Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (c) Agreement dated for reference August 15, 1984 and (stated) effective April 1, 1984 between Gibson Lake Holdings Inc., Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (d) Agreement dated for reference _____, 1984 and (stated) effective April 1, 1984 between Michel St-Hilaire, Genie Resources Ltd. and Sebrew Holdings Ltd., and assignment dated _____, 1985 by Michel St-Hilaire to Soline Brien (unsigned);
 - (e) Agreement dated for reference _____, 1984 and (stated) effective April 1, 1984 between Alex Overseas Corporation, Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (f) Agreement dated for reference August 3, 1984 and (stated) effective April 1, 1984 between Bissett Management Ltd., Genie Resources Ltd. and Sebrew Holdings Ltd., and assignment dated as of May 1, 1985 by Bissett Management Ltd. to Seteco Developments Ltd. and Naradi Investments Ltd.;

- (g) Agreement dated for reference _____, 1984 and (stated) effective April 1, 1984 between John Vroom, Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (h) Agreement dated for reference August 2, 1984 and (stated) effective April 1, 1984 between Dr. Yves DuMont, Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (i) Agreement dated for reference August (51), 1984 and (stated) effective April 1, 1984 between Pierre Lessard, Genie Resources Ltd. and Sebrew Holdings Ltd.;
 - (j) Agreement dated for reference August 15, 1984 and (stated) effective April 1, 1984 between Itag Trading & Investment Inc., Genie Resources Ltd. and Sebrew Holdings Ltd.;
26. Agreement dated as of April 2, 1984 between Genie Resources Ltd. and Sebrew Holdings Ltd.;
27. Agreement dated June 22, 1984 between Roulette Resources Ltd., as Assignor, and Johil Developments Limited and Gibson Lake Holdings Ltd., as Assignees;
28. Agreement dated June 29, 1985 between Sebrew Holdings Ltd., as Assignor and Melanie R. Stevens, as Assignee;
29. Agreement dated April 30, 1986 between Gibson Lake Holdings Inc. and Johil Developments Limited, as Vendors and Hans G. Ruschke as Purchaser stated to be effective April 23, 1987 by letter dated April 23, 1987 from Johil Developments Limited and Gibson Lake Holdings Inc. to Genie Resources Ltd., Sebrew Holdings Ltd. and Mr. K.A. O'Connor;
30. (a) Assignment dated April 23, 1987 between Gibson Lake Holdings Inc. and Johil Developments Limited, as Assignors, and Hans G. Ruschke, as Assignee, relating to P.L. 1697;
- (b) Assignment dated April 23, 1987 between Gibson Lake Holdings Inc. and Johil Developments Limited, as Assignors, and Hans G. Ruschke, as Assignee, relating to the Dan Leases;
31. (a) Assignment dated April 24, 1987 between Hans G. Ruschke, as Assignor, and LSH Investments Ltd., as Assignee, relating to P.L. 1697;
- (b) Assignment dated April 24, 1987 between Hans G. Ruschke, as Assignor, and LSH Investments Ltd., as Assignee, relating to the Dan Leases;

32. Notice dated June 11, 1987 by Eystar Holdings Ltd. to Mistral Resources Ltd. of Assignment dated August 5, 1983 by Cypress Consulting Services Inc. to Eystar Holdings Ltd.

B. Documents Relating
to Advance by 666030 Ontario Limited

33. Letter dated April 25, 1986 from Mr. Kenneth A. O'Connor to Mr. Lyle S. Hallman agreed to and accepted by Mr. Hallman May 5, 1986;
34. Agreement dated as of June 11, 1986, as amended as of October 30, 1986, between Genie Resources Ltd., 666030 Ontario Limited and 307784 B.C. Ltd. (amendment unsigned);
35. (a) Bill of Sale from Sebrew Holdings Ltd. to Genie Resources Ltd. dated June 3, 1986 recorded in the Office of the Gold Commissioner in Atlin, B.C. June 12, 1986 under M.R. 196275E;
- (b) Bill of Sale from Genie Resources Ltd. to 666030 Ontario Limited dated May 30, 1986 and recorded June 12, 1986 in the Office of the Gold Commissioner in Atlin, B.C. under M.R. 196276E;
- (c) Form of Bill of Sale (unsigned) from 666030 Ontario Limited to Genie Resources Ltd.;
36. Debenture dated for reference June 11, 1986 in the face amount of \$2,000,000 from Genie Resources Ltd. to 666030 Ontario Limited; and recorded June 12, 1986 against the Atlin Property in the Office of the Gold Commissioner in Atlin, B.C. under M.R. 196279E; and including the Instrument of Delivery of even date relating thereto;
37. Agreement dated as of June 11, 1986 between Genie Resources Ltd. and 307784 B.C. Ltd.;
38. Debenture dated for reference June 11, 1986 in the face amount of \$2,000,000 from 307784 B.C. Ltd. to 666030 Ontario Limited and including the Instrument of Delivery of even date relating thereto;
39. Agreement made as of May 30, 1986 between Genie Resources Ltd., 307784 B.C. Ltd. and Welling Industries Ltd. and Dominion Placers (Yukon) Ltd. carrying on business as a joint venture under the name Atlin Mining;
40. Discharge dated June 12, 1986 from Western & Pacific Bank of Canada and letter dated June 4, 1986 to the Gold Commissioner and letter dated June 13, 1986 to the Bank of Canada from Western & Pacific Bank of Canada and Bank of Canada confirmation of same dated June 17, 1986;

41. Letters dated June 10, 1986 from Hope Heinrich, Barristers & Solicitors, to the Gold Commissioner regarding the release of his pendens and builder's lien and supporting documentation therefor;

C. Documentation Relating
to Offer by Mistral Resources Ltd.
to Acquire Shares of Genie Resources Ltd.

42. Letter of Intent dated March 16, 1987 from Mistral Resources Ltd. to Mr. Lyle Hallman acknowledged and accepted by Mr. Hallman March 25, 1987;
43. Offer dated April 14, 1987 by Mistral Resources Ltd. to the shareholders and unitholders of Genie Resources Ltd. and letters of acceptance from the shareholders and unitholders accepting the same;
44. Letter dated April 16, 1987 from Mistral Resources Ltd. to Genie Resources Ltd. acknowledged and accepted by Genie Resources Ltd. April _____, 1987;
45. Letter dated June 10, 1987 from Mr. Lyle Hallman, 666030 Ontario Limited and LSH Investments Ltd. to Mistral Resources Ltd. acknowledged and agreed to by Mistral Resources Ltd. June _____, 1987;
46. Letter dated June 10, 1987 from Mr. Lyle Hallman, 666030 Ontario Limited and LSH Investments Ltd. to Genie Resources Ltd. acknowledged and agreed to by Genie Resources Ltd. June _____, 1987;
47. Letter dated October 20, 1987 from Genie Resources Ltd. to Mistral Resources Ltd.;
48. Filing Statement of Mistral Resources Ltd. under its proposed new name, Sun Stone Resources Ltd., dated August 21, 1987 and submitted to the Vancouver Stock Exchange;
49. Letter to Mistral Resources Ltd. dated August 19, 1987 from Mr. Lyle Hallman, 666030 Ontario Limited and LSH Investments Ltd. acknowledging obligations as contained in Filing Statement;
50. Letter to Mistral Resources Ltd. dated August 11, 1987 from Mr. Kenneth O'Connor and Genie Resources Ltd. acknowledging obligations as contained in Filing Statement;
51. (a) Letter dated May 12, 1987 from Mistral Resources Ltd. to Atlin Mining acknowledged and agreed to by Atlin Mining May 21, 1987;
(b) Draft settlement agreement dated as of May 21, 1987 between Atlin Mining, Genie Resources Ltd., 307784 B.C. Ltd. and Mistral Resources Ltd.;

- (c) Approval dated August 7, 1987 of draft settlement agreement by Mr. Lyle Hallman, 666030 Ontario Limited and LSH Investments Ltd;
- 52. (a) Letter dated May 12, 1987 from Mistral Resources Ltd. to Dominion Placers (Yukon) Ltd. acknowledged and agreed to by Dominion Placers (Yukon) Ltd. May 20, 1987;
- (b) Draft settlement agreement dated as of May 20, 1987 between Dominion Placers (Yukon) Ltd., Genie Resources Ltd., 307784 B.C. Ltd. and Mistral Resources Ltd.;
- (c) Approval dated August 7, 1987 of draft settlement agreement by Mr. Lyle Hallman, 666030 Ontario Limited and LSH Investments Ltd.;
- 53. Draft Settlement Agreement between dated as of June 16, 1987 between Rutherford Day, Lucy Day, Gordon McIntyre, G. & D. Mining Ltd., Genie Resources Ltd., Kenneth Albert O'Connor and Mistral Resources Ltd.;
- 54. Letters of Acceptance of Settlement Offer relating to repayment in gold from unitholders accepting the same;
- 55. Form of debenture dated _____, 1987 in the face amount of \$3,000,000 from Genie Resources Ltd. to LSH Investments Ltd.;

In addition, we have reviewed the report on the Atlin Property dated April 14, 1986, as amended October 5, 1986 and the update report dated October 30, 1987 by W.G. Hainsworth, P. Eng.

We have reviewed the Form 1's with respect to each lease as at November 3, 1987.

We have also conducted a search of Genie Resources Ltd. in the Supreme Court of British Columbia, Vancouver Registry, on May 22, 1987 and October 29, 1987. While litigation affecting the Atlin Property may be and, in fact, has been commenced in other registries or courts, in the interest of practicality we have not conducted other court searches.

The history of ownership of and claims against the Atlin Property is long and complex. Discussion of the Drain Leases and the Dan Leases is initially separated for ease of the reader as Genie Resources Ltd. acquired the Drain Leases and the Dan Leases through distinctly different chains of title and there are royalties applicable exclusively to each. After a review of these matters, we review the effect on the Atlin Property of the advance by 666030 Ontario Limited to Genie Resources Ltd. We then set out the other existing charges on the Atlin Property. Thereafter we describe certain other liabilities of Genie Resources Ltd. and litigation commenced against Mistral Resources Ltd. which are not registered at this time as charges against the Atlin Property, but which may be registered as charges against the Atlin Property in the future. Based on the foregoing, we then summarize the existing state of title to the Atlin Property.

We then describe the arrangements which have been made by Mistral Resources Ltd. with creditors of Genie Resources Ltd. and with LSH Investments Ltd. to borrow funds in connection with the proposed acquisition by Mistral Resources Ltd. of the shares of Genie Resources Ltd. The acquisition and arrangements are all subject to regulatory approval and are disclosed in the Filing Statement dated and submitted to the Vancouver Stock Exchange August 21, 1987 as at such date. Based on completion of the foregoing transactions and certain subsequent arrangements and events of which we are aware the proposed state of title to the Atlin Property is then described.

In this report we will refer to royalty interests held by various parties. Each royalty is to be paid and calculated in accordance with the specific terms relating thereto in the particular agreement in which the royalty is granted. A description of these specific terms is beyond the scope of this report. Reference should be made to the relevant agreements for particulars of these terms.

In the following report:

- (a) "Acquisition" means the acquisition by Mistral of the shares of Genie and completion of transactions disclosed in the Filing Statement and as described in Parts VII and VIII hereof;
- (b) "Genie" means Genie Resources Ltd.;
- (c) "Island Cash" means Island Cash Buyers Ltd.;
- (d) "LSH" means LSH Investments Ltd.;
- (e) "Mistral" means Mistral Resources Ltd.;
- (f) "666030" means 666030 Ontario Limited; and
- (g) "Sebrew" means Sebrew Holdings Ltd..

Other terms are defined throughout the body of the report.

All shares of Mistral described herein are on the proposed post consolidated basis unless expressly noted otherwise.

Based on our review as aforesaid, we report as follows:

I. Drain Leases

- a. Acquisition by Genie
and Existing Royalties
Relating only to Drain Leases

The Drain Leases (together with certain related assets) were acquired by Genie pursuant to an agreement (the "Drain Lease Sale Agreement") dated

September 6, 1983 entered into by Genie with Rutherford Day, Lucy Day, Gordon McIntyre and G. & D. Mining Ltd. (the "Vendors") whereunder Genie agreed to pay a purchase price of \$3,000,000 plus two minimum advance royalty payments of \$125,000 each, subject to a 10% gross overriding royalty until the Vendors have received the royalty payments. The first payment of \$125,000 was paid to the Vendors and the final payment of \$125,000 remains due and owing. The Vendors instituted a proceeding in the Supreme Court of British Columbia with respect to the outstanding payment. Arrangements have been made to settle the same which are more fully described below; however until the settlement is effected, the said royalty remains in effect.

In addition, the Drain Lease 1697 is presently subject to:

- (i) a 1.875% gross overriding royalty in favour of Island Cash; and
- (ii) a 1.875% gross overriding royalty in favour of LSH.

b. History of Title

We note that all of the Drain Leases were originally in the name of Rutherford or Lucy Day except PML 1697. According to the Form 1 for PML 1697 the original lessee was Allan V. Mattson; a Bill of Sale was registered on September 10, 1973 transferring a 100% interest to John K. Campbell, who Mr. Greenslade believes was the lawyer for David Minerals Ltd. ("David Minerals"). Pursuant to an agreement dated August 31, 1973, David Minerals granted an option to Lucy Day to purchase PML 1697. There is no recorded transfer PML 1697 to Lucy Day. We are not aware of the manner in which Gordon McIntyre and G. & D. Mining Ltd. acquired their interests in the Drain Leases nor of the arrangements among the Drain Lease Vendors.

As mentioned above, Genie acquired its interest in the Drain Leases pursuant to the Drain Lease Sale Agreement dated September 6, 1983 and described above. (This agreement disclosed a lawsuit relating to PML 1697; this lawsuit was dismissed by consent order filed October 23, 1984.) On October 19, 1983 a Bill of Sale was recorded transferring a 100% interest in each of the Drain Leases, including PML 1697 to Genie.

By agreement dated October 20, 1983 between Genie and Sebrew, as Vendors, and 124664 Canada Inc. ("124664"), as Purchaser, Genie agreed to sell to 124664 a 50% undivided interest in the Drain Leases (and Sebrew agreed to sell to 124664 a 50% undivided interest in the Dan Leases.) 124664 was unable to complete payment of the purchase price and by agreement effective as of April 2, 1984 and executed July _____, 1984, 124664 transferred and quit claimed its rights in the Drain Leases to Genie.

c. History of Royalties

As set out above, the 10% royalty to the vendors of the Drain Leases was reserved in the Drain Lease Sale Agreement.

The royalties pertaining to PML 1697 now held by Island Cash and LSH were originally reserved by David Minerals in the option agreement dated August 31, 1973 between David Minerals and Lucy Day referred to above. The royalty initially reserved was 7.5% effective until September 1, 1978 or after the \$100,000 purchase price had been paid and thereafter the royalty was reduced to 3.75%.

At some point, David Minerals appears to have entered into an agreement with Richard John Watson whereby Mr. Watson acquired an interest in the royalty from David Minerals. We do not have a copy of the agreement relating to this acquisition by Mr. Watson.

By agreement dated September 6, 1983, Island Cash and John Vroom acquired the 3.75% royalty from David Minerals and Mr. Watson.

By agreement dated December 13, 1983, Mr. Vroom assigned and transferred a 1.875% royalty (on the assumption he was intitled to one-half the 3.75% royalty acquired by him and Island Cash) equally to Johil Developments Limited ("Johil") and Gibson Lake Holdings Ltd. ("Gibson").

By assignment dated April 23, 1987, Johil and Gibson assigned their 1.875% royalty to Mr. Hans Ruschke.

By assignment dated April 24, 1987, Mr. Ruschke assigned the said 1.875% royalty to LSH.

Please note that the Drain Leases are presently also subject to certain encumbrances and, upon the Acquisition, will be subject to certain encumbrances to which the Dan Leases are and will be subject. These are discussed below.

II. Dan Leases

a. Acquisition by Genie and Existing Royalties Relating Only to Dan Leases

Genie acquired the Dan Leases from Sebrew pursuant to agreements dated as of February 29, 1984 and as of April 2, 1984 pursuant to which Genie assumed certain obligations to unitholders as further described below.

The Dan Leases are burdened by gross overriding royalties totalling 10% of all gold and other minerals produced from the Dan Leases and held as follows:

- (i) a 2.5% gross overriding royalty is held by LSH;
- (ii) a 5.0% gross overriding royalty is held by Melanie R. Williams; and

On July 13, 1981 a Bill of Sale transferring a 100% interest to Connolly Holding Ltd. was recorded against each of the leases in the First and Second Group.

(iii) a 2.5% gross overriding royalty is held by Eystar Holdings Ltd. payable to Eystar Holdings Ltd. until it has received \$1,000,000 whereupon payment of this royalty is to be made to Melanie R. Williams.

In addition to the foregoing burdens, Genie may be obligated to process not less than 150,000 cubic yards of material annually from the Dan leases commencing in 1984 and requiring minimum royalties of \$150,000 per year, payable to LSH and to Ms. Williams.

b. History of Title

The first agreement which we examined relating to title to the Dan Leases, an unsigned agreement dated May , 1987 pursuant to which Shirley J. Connolly granted to Northwest Placer Syndicate an option to purchase the following placer mining leases of which she was the recorded owner: 1687, 1702, 1703, 1745 and 1782 (the "First Group") (among others), as well as the following placer mining leases if she were to acquire the same: 1849, 1866, 1867, 1868 and 1869 (the "Second Group"). Documents were recorded evidencing Ms. Connolly's interest in each of the aforesaid leases.

Ms. Connolly's interests were derived from several different sources. We have not examined documentation in support of her chain of title except for a statutory declaration made by her and recorded May 2, 1987 under MR 109429E including an option granted by her late husband, Thomas O. Connolly to Rutherford Day to purchase the First Group. This option states that the optionee, Rutherford Day, intended to stake and record other mineral claims in a prescribed area and that the same would be included in the optioned property. The option is recorded against the First Group; a Bill of Sale to Mr. Day is recorded against the Second Group except for 1868, the original lessee of which is Rutherford Day. The Statutory Declaration states that Ms. Connolly has given Mr. Day notice to terminate the option with respect to all the leases in the First and Second Group except 1867 which is not named. The Statutory Declaration and/or a termination of option has been recorded against the said leases.

On February 28, 1979, an assignment of lease of a 100% interest in each of the leases in the Second Group to Ms. Connolly including 1867 was recorded against such leases.

By agreement dated , 1980, Matthew Phillip Sherman, Orval Gillespie and Edward A. Angus, claiming to be the persons acceding to the interest of Northwest Placer Syndicate in its agreement with Shirley Connolly assigned all their rights in the leases to Milmac Mines Ltd. ("Milmac"). We note that there is no consideration stated for the assignment. The copy of the agreement we have is unsigned and contains no schedules. The interest of Milmac is not recorded against any of the First and Second Group Leases.

On March 18, 1981 a Bill of Sale of placer leases 4688, 4689 and 4690 (the "Third Group") was recorded against those leases by Milmac. Milmac was not the original lessee and we have not examined any documentation relating to the acquisition of its interest.

By agreement dated as of May 1, 1981, Richard John Watson and Kenneth O'Connor acquired Milmac's interest in the Dan Leases. A Bill of Sale to each of Mr. Watson and Mr. O'Connor for 50% was recorded July 29, 1985 against each lease in the First and Second Group (presumably upon completion of the option payments to Shirley Connolly) and October 15, 1982 against each lease in the Third Group.

Pursuant to an agreement (the "Cypress Agreement") dated as of May 3, 1982 Mr. Watson and Mr. O'Connor sold their interests in the Dan Leases (among others) to Cypress Consulting Services Inc. ("Cypress"). The purchase price was to be paid in instalments (which included option payments to Ms. Connolly). By assignment dated March 28, 1983, Cypress recites that it is unable to make the required payments pursuant to the Cypress Agreement and assigned its interest in the Cypress Agreement to Sebrew.

By agreement dated as of March 28, 1983, Mr. O'Connor assigned to Sebrew his interest in:

- (i) the agreement dated May _____, 1977 between Shirley J. Connolly, as Optionor, and Northwest Placer Syndicate, as Optionee;
- (ii) the agreement dated May 1, 1981 between Milmac, as Vendor, and Richard John Watson and Mr. O'Connor, as Purchaser; and
- (iii) the agreement dated as of May 3, 1982 between Richard John Watson and Cypress Consulting Services Inc.

and Sebrew agreed to perform to Mr. O'Connor's obligations thereunder. A Bill of Sale of a 50% interest from Mr. O'Connor to Sebrew was recorded against each Dan Lease in the First and Second Groups on July 29, 1985 and against each Dan Lease in the Third Group on April 18, 1984.

On June 12, 1986 a Bill of Sale of a 50% interest from Richard J. Watson to Sebrew was recorded against each Dan Lease. We have not examined any documentation in this regard. Presumably this Bill of Sale was given pursuant to the assignment by Cypress of its rights to Sebrew.

In a letter agreement dated July 19, 1983 between Sebrew and Sundance Gold Ltd. ("Sundance") the parties express their intent that Sundance purchase 50% of the Dan Leases. It does not appear that this intent was ever effected.

By agreement dated October 20, 1983, Sebrew agreed to sell to 124664 a 50% undivided interest in the Dan Leases (and Genie agreed to sell to 124664 a 50% undivided interest in the Drain Leases; see discussion above).

By agreement dated as of February 29, 1984, Sebrew assigned 50% of its interest (i.e. 25% interest in the Dan Leases) to Genie.

By agreement (stated) effective as of April 2, 1984 and executed July _____, 1984, 124664 transferred and quitclaimed its interest in the Dan Leases (i.e. 50% interest in the Dan Leases) in consideration for Genie assuming obligations to the unitholders described therein.

By agreement dated as of April 2, 1984, Sebrew transferred and quitclaimed its interest in the Dan Leases (i.e. the remaining 25% interest) except for its interest in the underlying burdens which underlying burdens are therein acknowledged to be gross overriding royalties not exceeding 10%, an obligation to process 150,000 yards of material annually and minimum royalties of \$150,000 per annum.

A Bill of Sale of a 100% interest from Sebrew to Genie was recorded against each of the Dan Leases on June 12, 1986.

c. History of Royalties

Ms. Connolly was entitled to receive a 10% royalty pursuant to the option granted by her to Northwest Placer Syndicate for so long as the option was in effect. As it appears the purchase price thereunder was fully paid this royalty is no longer in effect.

Pursuant to the Cypress Agreement dated May 3, 1982, Mr. Watson and Mr. O'Connor reserved a 10% royalty. Pursuant to this agreement Cypress was obligated to put the property into commercial production by August 1, 1983 (subsequently extended to August 1, 1984 by letter dated July 25, 1983 from Mr. Watson to Sebrew) and to mine and process a minimum of 150,000 cubic yards of gravel annually commencing in 1984. Mr. Watson and Mr. O'Connor were entitled to a minimum annual royalty of \$150,000 in the event Cypress failed to process the required yardage of gravel and their royalty was less than \$150,000.

As mentioned above, by assignment dated March 28, 1983, Cypress assigned its interest in the Cypress Agreement to Sebrew but Sebrew did not specifically agree to assume the obligations of Cypress under the Cypress Agreement. Nevertheless, by conduct, Sebrew appears to have done so.

Pursuant to an agreement dated for reference June 20, 1982, Mr. Watson and Mr. O'Connor sold and assigned to Eystar Holdings Ltd. ("Eystar") 50% of the 10% royalty reserved to them provided that in the event Cypress failed to process the required yardage and if the portion of the royalty which would be received by Mr. Watson and Mr. O'Connor would be less than \$150,000 then they would be entitled to receive Eystar's portion to the extent required for Mr. Watson and Mr. O'Connor to receive \$150,000.

By assignment dated August 5, 1983, Eystar assigned to Sebrew all of its interest in the aforesaid agreement thereby entitling Sebrew to receive its 5% royalty. By the same agreement Cypress transferred its interest in the Dan Leases to Sebrew reserving to itself a 2.5% gross overriding royalty on the Dan Leases

until Cypress received \$1,000,000. By assignment dated August 5, 1983, (notice of which was given by Eystar to Mistral dated June 11, 1987), Cypress assigned this 2.5% royalty to Eystar.

By agreement made as of March 28, 1983, Mr. O'Connor assigned his +2.5% royalty interest to Sebrew.

Thus Sebrew became entitled to a 2.5% royalty interest (received from Mr. O'Connor) and a 5% royalty interest received from Eystar, the latter accepted as being subject to 2.5% royalty interest to Eystar (as assignee of Cypress). (While the August 5, 1983 agreement provides for the creation of the Cypress royalty by reservation upon the transfer by Cypress, subsequent documentation considers the same as if it were an assignment of a portion of the royalty acquired by Sebrew from Eystar. In this report, we therefore treat the royalty acquired by Sebrew as subject to reduction until the \$1,000,000 is paid.)

Sebrew's royalty interest was assigned to Melanie R. Stevens (now Melanie R. Williams) by assignment dated June 29, 1985.

By agreement dated August 22, 1983, Mr. Watson agreed to sell to John Vroom his 2.5% royalty interest, among other things. This agreement was terminated by agreement dated December 12, 1983 between Mr. Watson, Roulette Resources Ltd. ("Roulette"), Mr. Vroom and Mr. James Dennis, Gibson and Johil. This latter agreement recites that Mr. Watson has assigned his interest in the royalty, with the consent of Mr. Vroom, to Roulette (effected by an agreement dated December 12, 1983). In this agreement, Roulette agrees to sell the 2.5% royalty equally to Gibson and Johil. The royalty is assigned to Gibson and Johil as to one-half by agreement made December 12, 1983 and one-half by agreement made June 22, 1984.

By agreement dated April 30, 1986 stated by letter to be effective April 23, 1987, Gibson and Johil agreed to sell their royalty interest to Mr. Hans Ruschke. By assignment made April 23, 1987, Gibson and Johil assigned the said royalty to Mr. Ruschke.

By assignment made April 24, 1987 Mr. Ruschke assigned the said royalty to LSH.

Please note that the Dan Leases are presently also subject to certain encumbrances and, upon the Acquisition, will be subject to certain encumbrances to which the Drain Leases are and will be subject. These are discussed below.

III. Advance to Genie by 666030 Ontario Limited

By agreement (the "Earning Option Agreement") made as of June 11, 1986, as amended as of October 1, 1986 between Genie, 666030 and 307784 B.C. Ltd. ("307784"), Genie sold 5700 troy ounces of fine gold to 666030 for \$2,000,000 and 666030 was intitled to have at least 40% of the production from the Atlin Property applied to payment of the

same. Pursuant to the Earning Option Agreement, 666030 was granted the right to earn a 50% undivided interest in the Atlin Property by advancing an additional \$2,000,000. This option has expired.

Pursuant to the Earning Option Agreement, Genie was to execute a Mining Deed of Conveyance and 666030 was to execute a Quit Claim Deed. Both deeds were to be deposited with Sikula, Werbes & Brown, as escrow agent. The escrow agent was to register the Mining Deed in order to provide notice to third parties of the interest of 666030 under the Earning Option Agreement, provided that if the purchase option was terminated, Genie would be entitled to instruct the escrow agent to register the Quit Claim Deed. Bills of Sale were prepared in this regard. The Bill of Sale from Genie to 666030 was executed and filed in the Office of the Gold Commissioner.

Genie granted 666030 a debenture in the face amount of \$2,000,000 to 666030 dated for reference June 11, 1986 and filed in the Office of the Gold Commissioner in Atlin, B.C. against each of the leases on June 12, 1986. The debenture granted by Genie contains a fixed charge against the Atlin Property and structures, fixtures, machinery and equipment as well as a floating charge. 307784 also granted 666030 a debenture in the face amount of \$2,000,000 dated for reference June 11, 1986. The debenture granted by 307784 contains a floating charge.

In connection with Genie's arrangements with 666030, Genie and 307784 entered into an agreement with Welling Industries Ltd. and Dominion Placers (Yukon) Ltd. carrying on business as a joint venture under the name Atlin Mining ("Atlin Mining") made as of May 30, 1986 wherein Atlin was retained for the 1986 mining season with the right to continue to be retained through the 1990 mining season. Arrangements were made to settle previous debts and to discontinue an action which had been brought by Atlin Mining.

Also in connection with these arrangements encumbrances filed against the Atlin Property by the Western & Pacific Bank of Canada were discharged.

IV. Other Existing Charges on the Atlin Property

A review of the Form 1's with respect to the Atlin Property discloses the following additional outstanding charges:

1. a builder's lien in the amount of \$365,712 in favour of Atlin Mining filed November 13, 1986;
2. a builder's lien in the amount of \$184,365.21 in favour of Dominion Placers (Yukon) Ltd. ("Dominion Placers") filed November 27, 1986; and
3. a certificate of judgment in favour of Seteco Developments Ltd. and Naradi Investments Ltd. filed on September 17, 1987 and September 21, 1987 against all of the Leases comprising the Atlin Property except 1703 and 1867 in respect of a consent judgment in the aggregate amount of \$426,006.22 plus costs.

A debenture in the face amount of \$3,000,000 from Genie Resources Ltd. to LSH was prepared containing a fixed charge on the Atlin Property. As at November 3, 1987 the same had not been registered against the Atlin Property in the Office of the Gold Commissioner in Atlin. We presume that registration has since or will be effected in this regard.

We have been advised by Mr. Gary Brown of Hope Heinrich, solicitors for Atlin Mining and Dominion Placers, that actions were commenced on November 12, 1987 by Atlin Mining and Dominion Placers against Genie and 307784 in respect of the builder's lien claims described above. Mr. Brown has advised that these actions were commenced in order to preserve the builder's lien claims as required by applicable legislation. Under such legislation, the claimants have one year before a writ must be served. Mr. Brown advised us that his clients do not intend to serve the defendants or otherwise proceed in these actions unless the settlement arrangements are not completed within the requisite time period.

V. Other Liabilities

Liabilities of Genie

We point out that Genie has other liabilities which have not been registered against the Atlin Property, the most significant of which are its liabilities to unitholders. These liabilities arose as follows:

By an agreement dated October 20, 1983, between Genie, Sebrev and 124664, 124664 acquired a right to purchase an undivided 50% interest in the Atlin Property. If 124664 defaulted in payments owing under that agreement, Genie and Sebrev had the right to purchase the interest of 124664, to its investors (the "Unitholders").

124664 did in fact default in its payments and in an agreement stated effective April 2, 1984, Sebrev assigned all its interest in the Atlin Property to Genie, and Genie agreed to assume Sebrev's obligations to the unitholders arising out of the repurchase provisions in the October 20, 1983 agreement between Genie, Sebrev and 124664.

Thus Genie has assumed the obligations of 124664 to repay sums advanced by the unitholders in the aggregate amount of \$1,100,000 plus accrued interest in cash or kind (200 ounces of raw gold per \$50,000 unit) at the option of the unitholders on or before November 1, 1985. To date, Genie has paid \$15,000 to one unitholder and is liable to pay the \$1,085,000 balance plus interest. Two unitholders have reduced their claims to judgments. Seteco Developments Ltd. and Naradi Investments Ltd. have obtained the consent judgment described above in the amount of \$426,006.22 (plus costs) which has been registered against the Atlin Property. Soline Brien has obtained two judgments in the aggregate amount of \$53,750 (plus costs) which, as at November 3, 1987, had not been registered against the Atlin Property. Two unitholders, Gibson and Johil had commenced proceedings in respect of the four units held by them; this proceeding has been discontinued.

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to its investors

~~These liabilities arose pursuant to~~

By an agreement dated October 20, 1983, between Gene, Selw, and 124664, 124664 acquired a right to purchase an undivided 50% interest in the Atlin property. Gene and Selw ~~had the~~ ^{under which they assumed the obligations of 124664} right to repurchase the interest of 124664 if 124664 defaulted on payments owing under the agreement, ~~on the condition~~

These liabilities arose as follows:

By an agreement dated October 20, 1983, between Gene, Selw and 124664, 124664 acquired a right to purchase ~~a~~ ^{50%} undivided ^{50%} interest in the Atlin property. If 124664 defaulted on payments owing under that agreement, Gene and Selw had the right to repurchase the interest of 124664, provided that they assumed the obligations of 124664 to its investors (the "unit holders").

124664 did in fact default on its payments and in an agreement dated effective April 2, 1984, between Gene, Selw and 124664, 124664 transferred its interest in the Atlin property ~~back~~ to Gene, and Gene agreed to assume the obligations of 124664 to ~~its investors~~ the "unit holders."

In an agreement dated as of April 2, 1984, Selw assigned all its interest in the Atlin property ^{to Gene,} and Gene agreed to assume Selw's obligations to the unit holders arising out of the repurchase provisions in the October 20, 1983 agreement between Gene, Selw and 124664.

Thus Gene has assumed the obligations of 124664 to ^{pay} amounts advanced by the unit holders, in the following ^{adequate amount:} \$1,100,000 plus accrued interest in cash or kind (200 ounces of new gold per 250,000 unit) at the option of the unit holder as of November 1, 1985.

These and other liabilities of Genie are described in Part VII of this report wherein we describe arrangements which Mistral has made or proposed to creditors. Reference is made to the descriptions therein set forth.

Other Litigation

Edgeworth Construction Ltd. ("Edgeworth") and Dominion Placers have each commenced proceedings against Mistral on November 4, 1987. The action by Edgeworth is in respect of \$20,000 claimed to be due and owing to Edgeworth pursuant to an agreement dated July 20, 1987 for the sale by Edgeworth to Mistral of a Volvo power unit generator and a Fruehoff trailer. The action by Dominion Placers is in respect of \$35,000 claimed to be due and owing to Dominion Placers pursuant to an oral agreement which Dominion Placers claims was made for the rental of a trommel for \$8,750 per month. We have received copies of the documentation in this matter from Hope Heinrich, counsel to the claimants. Mistral has not yet been served.

There is a possibility that a notice of lis pendens has been or will be registered against the Atlin Property in this regard subsequent to November 3, 1987.

Mineral Claims

You have advised us that while checking the maps and surveys, you discovered that the Atlin Property is overstaked by mineral claims. You have advised us that this situation is acceptable to you.

VI. Summary of Existing Title and Royalties

Based upon the foregoing and without taking into account agreements made relating to the Acquisition, we summarize the status of the Atlin Property as follows:

Genie holds a 100% beneficial interest in and to the 21 leases comprising the Atlin Property which are subject to the following royalties and encumbrances:

1. The Drain Leases are subject to a 10% gross overriding royalty in favour of Rutherford Day, Lucy Day, Gordon McIntyre and G & D Mining Ltd., the vendors of such leases, until they receive the final \$125,000 minimum advance royalty payment due and owing to them;
2. Drain Lease 1697 is subject to:
 - (a) a 1.875% gross overriding royalty in favour of Island Cash; and
 - (b) a 1.875% gross overriding royalty in favour of LSH;
3. The Dan Leases are subject to:
 - (a) a 2.5% gross overriding royalty in favour of LSH.;
 - (b) a 5.0% gross overriding royalty in favour of Melanie R. Williams;

- (c) a 2.5% gross overriding royalty in favour of Eystar Holdings Ltd., payable to Eystar until it has received \$1,000,000 whereupon payment of this royalty is to be made to Ms. Williams;
4. The Atlin Property as a whole is subject to:
- (a) Genie may be bound by an obligation to process not less than 150,000 cubic yards of material annually from the Dan Leases commencing in 1984 and requiring minimum royalties of up to \$150,000 per year to the holders of royalties other than Eystar described in 3 above;
 - (b) A royalty to 666030 of at least 40% of production from the Atlin Property until the 5700 troy ounces of fine gold to be delivered to 666030 under the Earning Option Agreement are so delivered;
 - (c) A debenture dated for reference the 11th day of June, 1986 in the face amount of \$2,000,000 in favour of 666030 given by Genie;
 - (d) A debenture dated for reference the 11th day of June, 1986 in the face amount of \$2,000,000 in favour of 666030 given by 307784;
 - (e) A builder's lien in the amount of \$365,712 registered in favour of Atlin Mining;
 - (f) A builder's lien in the amount of \$184,365.21 registered in favour of Dominion Placers ; and
 - (g) A consent judgment in the amount of \$426,006.22 plus costs in favour of Seteco Developments Ltd. and Naradi Investments Ltd. (Note that this does not appear to be registered against PML 1867 and PML 1703.)

We presume that a debenture in the face amount of \$3,000,000 will be given by Genie to LSH and will be registered against the Atlin Property.

In addition unless arrangements are made with Mr. Gordon Awde in respect of the five units held by him and Sikula, Werbes & Brown with respect to their legal fees there is a risk that legal proceedings may be commenced resulting in charges on the Atlin Property. The actions by Edgeworth and Dominion Placers against Mistral may also result in charges on the Atlin Property. We understand that there are expenses which have been incurred by Mistral which relate to the Atlin Property which have not yet been paid and which, if they remain unpaid, may result in charges on the Atlin Property. There may also be outstanding accounts of Genie which relate to the Atlin Property of which we are not aware which may result in charges on the Atlin Property.

VII. Acquisition by Mistral of Genie and Related Arrangements

Mistral made an offer (the "Offer") by letter dated April 14, 1987 to the shareholders of Genie to acquire the shares of Genie in exchange for the shares of Mistral subject

to the terms and conditions set forth in the Offer and regulatory approval of the same. Holders of substantially all of the shares of Genie have accepted the Offer and Mistral intends to exercise its rights under the Company Act (B.C.) to acquire the shares of the shareholders who have not accepted the Offer.

Prior to making the Offer, Mistral made arrangements with Mr. Lyle Hallman to borrow the funds required to enable Mistral to carry out the terms of the Offer.

In order to take advantage of the 1987 mining season, by letter dated June 10, 1987, Mr. Hallman, on behalf of himself, 666030 and LSH requested Mistral to commence and proceed with operations at the Atlin Property and agreed that in the event the required approvals could not be obtained, Mistral's obligations to repay funds borrowed and expended in connection with the Atlin Property would be forgiven and Mistral would be considered to have been acting as their agent and on their behalf. By letter dated October 20, 1987 Genie confirmed its approval of the actions taken by Mistral in this regard.

By letter dated June 10, 1987 Genie agreed with Mr. Hallman, 666030 and LSH that in the event the required regulatory approvals could not be obtained, the funds expended by 666030 and LSH would be repaid from production prior to any other payments or that subject to their election, the amount advanced would become a charge on the Atlin Property in priority to any other charges secured by a debenture. Given the existing royalties and other encumbrances on the Atlin Property, we question Genie's ability to honour the aforesaid agreement as to priority. The \$3,000,000 debenture has presumably been granted pursuant to this Agreement.

In connection with the Acquisition and, in each case subject to regulatory approval, Mistral has made arrangements with creditors of Genie to settle liabilities of Genie as hereinafter described.

a. Claims of Unitholders

The following arrangements have been made with unitholders:

- i. Holders of \$200,000 in principal amount of units have accepted the Offer and will receive 40,000 shares of Mistral subject to earnout as described therein.
- ii. Holders of \$600,000 in principal amount of units have agreed to accept repayment of the principal in raw gold, 200 ounces per \$50,000 in principal amount of units, as per their original agreement, for an aggregate payment of 2,400 ounces of raw gold. Interest on the outstanding balance of the units will be at prime plus 2% per annum which will accumulate and be payable in gold commencing January 1, 1988. Mistral has agreed to set aside 10% of the annual production for such payment and we are advised that this has been done.
- iii. The holder of one unit, having an outstanding principal balance of \$35,000 has agreed to accept 16,000 free-trading shares of Mistral in full and final settlement of its claims.

To date, Mistral has not yet negotiated a settlement with Mr. Gordon Awde, the holder of the remaining five units in the aggregate principal amount of \$250,000. Mistral is continuing its efforts in this regard.

b. Builder's Liens

1. Johil and Gibson are the holders referred to in (i) above. Those firms commenced proceedings in the Supreme Court of British Columbia with respect to Genie's default in repayment. These proceedings have been discontinued.

As noted above, one of the unitholders, Seteco Developments Ltd., which holds \$300,000 in principal amount of the units, obtained a consent judgment and, in connection therewith, a court order. Seteco has verbally agreed not to execute upon the judgment for three mining seasons to enable Mistral to carry out the terms of the settlement accepted by it which is described in (ii) above, provided regulatory approval is obtained. It is intended that formal documentation to reflect the foregoing be prepared.

Also noted above are the judgments obtained by Soline Brien. She has accepted the arrangement described in (ii) above in full and final settlement of her claims.

Atlin Mining has agreed to a full and final settlement of all of its claims against Genie and to discharge the builder's lien filed by it against the Atlin Property in consideration for \$300,000 plus that number of common shares of Mistral as may be received in respect of the settlement of \$100,000 of debt in accordance with the relevant policies of the Vancouver Stock Exchange. Mistral proposes to issue 60,606 common shares to Atlin Mining. Atlin Mining claims that it is owed \$560,245.

2. Dominion Placers has agreed to a full and final settlement of all of its claims against Genie, to discharge the builder's lien filed by it against the Atlin Property and to transfer to Mistral the plant (except for two Ross boxes) supplied by Dominion Placers to Genie in consideration for \$60,000 and that number of common shares of Mistral as may be received in respect of the settlement of \$70,000 of debt in accordance with the relevant policies of the Vancouver Stock Exchange. As part of the settlement, the agreement dated May 30, 1986 granting Atlin Mining the right to continue to work the Atlin Property will be terminated. Mistral proposes to issue 40,000 common shares to Dominion Placers. Dominion Placers claims that it is owed \$184,365.

The above settlements are being made by Mistral on behalf of Genie and the value thereof shall constitute a non-interest bearing loan from Mistral to Genie.

By letter dated March 16, 1987, Mr. Hallman agreed to loan up to \$400,000 to Mistral for this purpose. The terms of the settlement agreements were approved by Mr. Hallman, 666030 and LSH on August 7, 1987.

c. Claim by Vendors of Drain Leases

Rutherford Day, Lucy Day, Gordon McIntyre and G. & D. Mining Ltd., the vendors of the Drain leases, have instituted a proceeding in the Supreme Court of British Columbia against Genie and Kenneth O'Connor relating to the final minimum advance royalty payment in the amount of \$125,000 due them under the sale agreement which has not been paid. The sum claimed is \$161,963.67 plus pre-judgment interest and costs. As described above, until the final minimum advance royalty payment is made, the vendors are entitled to a 10% gross overriding royalty on the Drain Leases.

The vendors have agreed to a full and final settlement of their claims in consideration of \$62,500 plus 66,000 common shares of Mistral.

By letter dated March 16, 1987, Mr. Hallman agreed to loan up to \$125,000 to Mistral for this purpose.

The settlement is being made by Mistral on behalf of Genie and the value thereof shall constitute a non-interest bearing loan from the Company to Genie.

d. Liabilities of Genie to be Forgiven

By letter dated April 16, 1987 from Mistral to Genie and accepted by Genie, it is a term of the Offer that certain amounts owed to certain related parties would be forgiven by those parties. Subsequently, Mr. O'Connor has identified Melanie Williams, Island Cash, Sebrev and Quatesi Investment and Development Company Ltd. as parties within that relationship. As of June 30, 1987 the aggregate of such amounts owing to these parties is reported to be \$979,397.

In consideration ^{of} and these parties forgiving the amounts owing and the transfer by Island Cash, Ms. Williams of their royalty interests described herein, Mistral will issue and deliver 250,000 common shares of Mistral to Mr. O'Connor (in trust for all interested parties). As at November 3, 1987, except for the aforesaid royalties, these claims do not constitute charges on the Atlin Property. X

e. Liabilities of Genie to Solicitors and Auditors

Pursuant to the Offer, Mistral has agreed, subject to regulatory approval, to issue one (pre-consolidated) common share of Mistral for each \$1.00 owed by Genie to its solicitors, Sikula, Werbes & Brown and its auditors, Dunwoody and Company. As at June 30, 1987, Genie reported such amounts to be \$7,435 and \$33,477, respectively and the Company proposed to issue 1,487 and 6,696 common shares to Sikula, Werbes & Brown and Dunwoody & Company, respectively. Sikula, Werbes & Brown have recently advised us that the debt to them is approximately \$17,000. No settlement has yet been arrived at; discussions for settlement are continuing. Dunwoody & Company have since advised Mistral that the debt owing to them is \$36,159.48 and on this basis Dunwoody & Company have agreed to accept 7,232 shares of Mistral in

settlement. As at November 3, 1987, these claims do not constitute charges on the Atlin Property. These settlements will be made by Mistral on behalf of Genie and the value thereof shall constitute a non-interest bearing loan from Mistral to Genie.

f. Liability to 666030 and Loan to Mistral by LSH

As described above, 666030 has a right to a 40% royalty as security for payment of the 5,700 troy ounces of refined gold purchased by it under the Earning Option Agreement. 666030 also holds two debentures on the Atlin Property, one given by Genie and one given by 307784 in respect of the \$2,000,000 advanced by it for the said purchase.

Mistral has agreed to assume Genie's obligation to repay the principal amount of \$2,000,000 by delivery of 5,700 troy ounces of refined gold (the "Assumed Obligation"). As at August 21, 1987, LSH had loaned Mistral \$1,570,000 of which approximately \$1,520,000 (the "Loan") was expended on the Atlin Property.

LSH has agreed to convert \$100,000 in advances under the Loan made by it into 133,333 common shares of Mistral upon receipt of regulatory approval. The Loan and the Assumed Obligation will bear interest at 1½% per annum over the prime rate of The Royal Bank of Canada from time to time and are due and payable on November 1, 1990, subject to mandatory prepayment by delivery of 40% of the annual gold production from the Atlin Property less amounts required to pay other existing royalties (except royalties to Mistral) at an agreed value of \$350.88 per troy ounce of refined gold delivered. Principal on the Loan (less the portion thereof to be converted into shares) and the Assumed Obligation are repayable by delivery of 4,189.5 and 5,700 ounces of refined gold, respectively, to the extent the same is available. In addition, a bonus of 800 troy ounces of refined gold is payable to LSH.

The Loan and the Assumed Obligation will be secured by a guaranty of Genie, the same to be secured by floating charge debentures given to LSH and 666030, respectively, which shall contain a fixed charge on the Atlin Property and structures, machinery and equipment and which shall rank pari passu.

The amount of the Loan together with the amount of the Assumed Obligation shall constitute a shareholders loan from Mistral to Genie payable on the same terms and conditions as the Loan and Assumed Obligation to enable Mistral to pay the same to LSH and 666030.

In connection with the Acquisition, the royalty rights contained in the Earning Option Agreement and the Debenture granted by Genie will be amended in accordance with the agreements of the parties described herein. The Debenture granted by 307784 will be discharged.

Subsequent to August 21, 1987, Mistral borrowed approximately \$ _____ from LSH and expects to borrow approximately \$ _____ (collectively, the "New Loan") in order to pay the

balance of expenses incurred in connection with the Atlin Property during the 1987 mining season, to pay the settlements, and to fund the balance of expenses relating to regulatory approval. No agreement has been formalized with regard to these additional borrowings.

g. Acquisition of Royalties

The royalties held by Melanie Williams and Island Cash are to be transferred to Mistral. Mr. Kenneth O'Connor has agreed that Island Cash will transfer the 1.875% royalty held by it to Mistral. LSH has agreed that Mistral will have the option, exercisable for 10 years, to purchase the royalties held by it on Drain Lease 1697 and the Dan Leases for a price equal to the purchase price paid by it plus an amount equal to prime + 2% of the said purchase price for the period of time during which LSH held the said royalties.

h. Other Matters

Ms. Williams and LSH will forgive Genie's obligations which it assumed from Sebrew to process the minimum required yardage and to pay the annual minimum royalties described above.

The agreement dated as of June 11, 1986 whereby 307784 was appointed operator of the Atlin Property will be terminated.

VIII. Summary of Title and Royalties Upon Acquisition

Upon acquisition of the shares of Genie by Mistral and assuming the completion of the transactions described in the Filing Statement and in this report the status of the Atlin Property can be summarized as follows:

Genie will hold a 100% beneficial interest in and to the 21 leases comprising the Atlin Property subject to the following royalties and encumbrances:

1. (i) a 1.875% gross overriding royalty in favour of Mistral; and
(ii) a 1.875% gross overriding royalty in favour of LSH on production won from Drain Lease 1697;
2. (i) a 2.5% gross overriding royalty in favour of LSH;
(ii) a 5.0% gross overriding royalty in favour of Mistral; and
(iii) a 2.5% gross overriding royalty in favour of Eystar Holdings Ltd. until it has received \$1,000,000 and thereafter in favour of Mistral;
on production won from the Dan Leases;

3. a 10% gross overriding royalty on production won from the Atlin Property in favour of unitholders holding up to \$850,000 in principal amount of units;
4. a gross overriding royalty on production won from the Atlin Property equal to 40% of production won from the Atlin Property less amounts required to pay all existing royalties (except the royalty payments due Mistral) in favour of LSH and 666030 until the Loan, the Assumed Obligation and presumably, the New Loan, and interest thereon has been paid plus a bonus of 800 troy ounces of refined gold;
5. a debenture in the face amount equal to the sum of \$1,520,000 plus the principal amount of the New Loan containing a fixed charge on the Atlin Property and the buildings, plant and equipment located thereon given by Genie in favour of LSH securing Genie's guaranty of Mistral's obligations in respect of amounts advanced by LSH to Mistral under the Loan and New Loan and interest thereon and expended on or in connection with the Atlin Property;
6. a debenture in the face amount of \$2,000,000 containing a fixed charge on the Atlin Property and the buildings, plant and equipment located thereon given by Genie in favour of 666030 securing Genie's guaranty of Mistral's obligations to 666030; and
7. a consent judgment in favour of Setece Developments Ltd. and Naradi Investments Ltd. in the amount of \$426,006.22, subject to defeasance by the performance of Mistral of its obligations pursuant to the settlement described herein.

In addition, unless Mistral is able to settle the outstanding claims described in this letter (i.e., the claims of Mr. Awde relating to the \$250,000 in principal amount of units held by him and the outstanding account of Sikula, Werbes & Brown claimed to be approximately \$17,000) there is a risk that legal proceedings may be commenced resulting in charges on the Atlin Property. The actions by Edgeworth Construction and Dominion Placers against Mistral may result in charges on the Atlin Property. We understand that there are also expenses which have been incurred by Mistral which relate to the Atlin Property which have not yet been paid and which, if they remain unpaid, may result in charges on the Atlin Property. There may also be outstanding accounts of Genie of which we are not aware which may result in charges on the Atlin Property.

Yours very truly,

RUBIN HAWES & COMPANY

Adrienne Rubin Hawes

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