

TO: F. Daley, R. Dujardin
FROM: S. Gardiner
RE: Velvet Exploration Co. Ltd. Research
DATE: September 14, 1988

The following is a summary of my notes from the search of public files of Velvet Exploration Co. Ltd.

March 30, 1978 Agreement between Velvet Exploration Co. Ltd. and United Cardigan Development Ltd. (summary attached).

April 2, 1978 Agreement between Velvet and Allen Diamond Drilling Co. Ltd. (summary attached).

May 10, 1978 Name changed from Kendal Mining & Exploration Ltd. to Velvet Exploration Co. Ltd. and consolidated shares: 1 new for 5 old shares.

June 29, 1978 News Release Diamond drilling at Velvet had begun Hole #405-407 completed ...

Jan 10, 1979 Quarterly Report of Velvet states "Allen agreement for drilling extended for 6 months."

April 2, 1979 Filing Statement Allen has carried out 800' diamond drilling, Velvet has option to earn 100% in 9 Crown Grants...

July 14, 1979 Quarterly Report of Velvet
20,000 shares issued to Allen D. Drilling @ \$0.50 each
50,000 shares issued to United Cardigan @ \$0.75 each

Aug 23, 1979 Notice to Shareholders 2200' of diamond drilling planned ...

Sept 15, 1979 Quarterly Report
Mentions recommendations for work on property by J. Elwell, P.Eng. (copy of report is available)

Nov 14, 1979 United Cardigan holds 50,000 shares of Velvet. Cardigan is a reporting non trading Co., 90% owned by Ponder Oils of Calgary.

April 30, 1980 News Release Work commenced in UG at Velvet Mine, Allen agreement extended to March 31, 1981.

June 5, 1980 Statement of Material Facts mention of 3rd party - interest earned 10% (Allen?).
Filing Statement Summary of Agreements (see Mar 30, April 2, 1978).

Jan 15, 1981 Quarterly Report of Velvet
Velvet Mines, Rosslund : Underground crew continuing work as outlined in K.F. Brunnings Report Nov, 1980 (copy of report available).

May 1, 1981 News Release Progress report on work at mine (copy available).

June 2, 1981 News Release Evaluation of Mine Dumps. (copy available)

July 14, 1981 Quarterly Report
Rehabilitation of underground partially completed. Arrangements for shipment of 2000 ton sample to decide whether to crush before shipping.

Nov 5, 1981 Quarterly Report
Mine readied for production.
Negotiation underway regarding milling and smelting.

November, 1981 Report on the Velvet Mine by John O. Rud, geological consultant. (copy is available)

Nov 24, 1981 News Release
Letter of Intent with Carnelian Mines for purchase of mill.

April 14, 1982 Quarterly Report
(1) Magnetometer & VLF survey by Glen White (copy available, no maps).
(2) Securities sold 25,000 shares for contract work @ Velvet Mine
35,000 shares as partial payment for mill.

Oct 8, 1982 Quarterly Report
1300 tons dump material removed by Kenmar Mine Services milled and smelted. Ave. grade 0.16 Au/ton.

Oct 14, 1982 Report to Shareholders
Value of dump material shipped to Cominco via mill owned by David Minerals Ltd.

Dec 31, 1982 Contract between Velvet and Kenmar
Re: removal of dump materials and proceeds from smelter.

Jan 12, 1983 Quarterly Report
1000 tons dump material removed. Company received cheque for 15% of NSR.

Jan 13, 1984 Quarterly Report
Letter of Intent with Acadia Mineral Development Corp. (NPL) as to participation to the extent of 30% of the Velvet Mine, Rossland, B.C.

March 31, 1984 Financials
Acadia option cancelled due to failure to make \$150,000 property payment.

1985 Financials
United Cardigan struck from Register of Companies in 1984, restored in 1985, title to claims restored to vendor subsequent to balance sheet (crown grants had forfeited to crown). Velvet Management intends to have title registered in its name in coming year.

1986-1988 Quarterly Reports "holdings"
Velvet Mine 9 crown grants.

March 31, 1987 Financials
100% interest in 9 crown granted mineral claims near Rossland, B.C.
Interest acquired for consideration of 50,000 shares and Royalty of 5% NSR of first 20,000 tons of ore removed from claims and 10% thereafter.
Company has not received transfer of title to the claims. Management has initiated action to have the title to the claims registered in its name in the upcoming fiscal year. (Please note: this has been said throughout the financials).

Aug 8, 1988 News Release
Letter of Intent with Inland Au-Ag Resources Ltd.

Original Filing Statement
April 20/78
This description, with
extension to Alien DD.
agreement & from
Filing Statement dated
June 5,
1980.

The consideration payable by the Issuer to Graham for the Mexican Property interest is the sum of \$5,000. (paid) plus the allotment and issue of 120,000 consolidated shares in the capital stock of the Issuer of which 25,000 have been allotted and issued to date. The remaining 95,000 shares are to be allotted and issued by the Issuer as work progresses on the property and subject to the filing by the Issuer of satisfactory engineering reports with the Vancouver Curb Exchange.

If all 120,000 shares are allotted and issued to Graham by the Issuer, they will represent 9.31% of the presently issued shares of the Issuer. Graham is a Director/Promoter of the Issuer. The Issuer proposes to proceed with leaching operations of the stockpiled and ore dump material.

[b] Velvet Property

The Issuer entered into an Agreement dated March 30, 1978 with United Cardigan Development Ltd. ("United Cardigan") of 1211 Centre Street North, Calgary, Alberta, whereby the Issuer agreed to purchase 100% interest in nine (9) Crown Granted Mineral Claims in the Nelson/Slocan Assessment District of British Columbia, known as Copper Wonder, Lot No. 3493, Princess, Lot No. 4669, Velvet, Lot No. 2521, Portland, Lot No. 2523, Last Chance, Lot No. 3027, Whoop Up, Lot No. 3324, Tootsie, Lot No. 3325, Velvet Fraction, Lot No. 5205 and Bluebell, Lot No. 5206. In consideration for the sale of the claims to the Issuer, the Issuer has allotted and issued 50,000 consolidated shares to United Cardigan which shares are being held for delivery to United Cardigan. The shares represent 3.88% of the issued shares of the Issuers and will be delivered upon completion of 3,000 feet of diamond drilling on the property which was to be concluded by September 30, 1979. Further, the Issuer has agreed to pay to United Cardigan 5% of net smelter returns on the first 20,000 tons of ore removed from the claims and thereafter, a 10% net smelter return. William Graham, Director and Promoter of the Issuer, is a Director and President of United Cardigan. Approximately 79% of the issued shares of United Cardigan are owned by Ponder Oils Ltd., of 1211 Centre Street North, Calgary, Alberta. Ponder Oils Ltd. is a public company, the issued shares of which trade on the Toronto Stock Exchange.

Pursuant to a letter from United Cardigan dated September 30, 1979 to the Issuer, the Issuer has been granted an extension until March 31, 1981 to conclude the 3,000 feet of diamond drilling on the property.

The Issuer entered into an Agreement dated April 2, 1978 with Allen Diamond Drilling Co. Ltd. ("Allen") of Merritt, B. C., with respect to diamond drilling on the Velvet Property. Under the Agreement, Allen agreed to carry out 3,000 feet of diamond drilling on the Velvet Property prior to September 30, 1979 at a cost of \$50,000.

To date, 755 feet of diamond drilling has been carried out at an approximate cost of \$36,488. Under the Agreement, Allen can earn the following interest in the Velvet Property and in consolidated shares of the Issuer:

- [i] upon the expenditure of \$20,000. an undivided 5% interest in the claims plus 10,000 shares (completed);
- [ii] upon the expenditure of another \$10,000. another 5% interest in the claims and 10,000 shares (completed);
- [iii] upon the expenditure of another \$10,000. another 5% interest in the claims and 10,000 shares;
- [iv] upon the expenditure of another \$10,000. another 5% interest in the claims and 10,000 shares.

If commercial ore is encountered through diamond drilling, Allen must perform bulk sampling at its own expense and consisting of 20,000 tons of ore. In such event, it will pay to the Issuer 7 1/2% of net smelter returns therefrom while retaining the balance (92 1/2%). Of the Issuer's 7 1/2% interest, 5% will be received for the account of United Cardigan.

Pursuant to separate letter agreements between Allen and the Issuer dated September 30, 1979 and May 3, 1980 respectively the period of time in which Allen was to conclude the 3,000 feet of diamond drilling has been extended to March 31, 1981. Further, in order to earn the 20% interest in the claims Allen must complete a total of 3,000 feet of diamond drilling on the property, regardless of cost. If the 3,000 feet of drilling is not completed in full, any interest in the property shall revert to the Issuer with Allen retaining its interest in any shares of the Issuer already earned.

The principal of Allen is Herbert Allen of P.O. Box 1397, Merritt, British Columbia. If all 40,000 shares of the Issuer are allotted and issued to Allen, they will represent 3.1% of the total issued shares of the Issuer.

The Issuer has spent approximately \$2,900. to open up the No. 8 portal this year. Allen is presently continuing with drilling operations.