

Watts, Griffis and McOuat
Consulting Geologists and Engineers

8 August, 2005

Mr. Robert D. Gibbens
Laxton & Company
10th Floor, 1285 West Pender Street
Vancouver, BC V6E 4B1

Dear Mr. Gibbens:

**RE: CRITIQUE OF A VALUATION OF THE BLUE ICE CLAIMS, KAMLOOPS
MINING DIVISION, BRITISH COLUMBIA BY ROSCOE POSTLE ASSOCIATES**

SUMMARY

This report constitutes a review and critique of a valuation of the abovementioned **Blue Ice Property** (the "**Property**") carried out by **Roscoe Postle Associates ("RPA")** dated 31 May, 2005. The RPA valuation contained a critique of a historical valuation and of a recent valuation by **Watts, Griffis and McOuat Limited ("WGM")** dated 23 February, 2005. In doing this review, we have expanded the scope of our review to include historical facts which we believe are material to the valuation. Our principal conclusions are as follows:

- 1) The Blue Ice Property consists of a group of mining claims acquired by legal staking in accordance with the Mining Act of British Columbia during 1923;
- 2) During the late 1920s and early 1930s surface sampling of rocks on the Property gave promising results for gold. During 1938, 9 drill holes were completed (excluding one abandoned) on the Property which gave similar results including intersections of 0.53 ounces of gold per ton (0.53 oz Au/ton) across an interval of 10 feet as well as 1.77 oz Au/ton across 12.3 feet. There were several other lower grading intersections. One hole in four (25%) intersected either economically interesting values or gold values of significance in respect to exploration.
- 3) The value of the property, as an exploration asset, was negatively impacted by the actions of the British Columbia government as follows:
 - i- the surrounding Wells Gray Park (Class B) was established by the BC government during 1965 causing all exploration activity to cease;
 - ii- the value of the property was irretrievably eroded during 1973 when the status of the Wells Gray Park was up-graded to Class A by the BC government; and,

- iii- on 25 November, 1988, the British Columbia government prohibited exploration in Wells Gray Park and on 21 March, 1989 it revoked an earlier decision to permit a restricted level of exploration work.
- 4) During 1985, the Supreme Court of Canada ruled that the mining rights of the owners of the Property had been reduced and that the owner should be compensated, but until this time, the BC government has not acted on this ruling.
 - 5) Under a professional services agreement with the owner of the Property, WGM carried out a valuation of the Property to estimate its Fair Market Value as of a 21 March, 1989 Valuation Date.
 - 6) The Valuation Date was arbitrarily set as 21 March, 1989, the date on which all exploration and mining rights attached to the Property were officially revoked by the BC government thereby expropriating those rights.
 - 7) In keeping with normal valuation practices for mineral properties, WGM estimated the Fair Market Value of the Blue Ice Property as of the 21 March, 1989 Valuation Date whereas RPA estimated Market Value as of the same date, but resulting in a significantly lower estimated value.
 - 8) The difference in the WGM and RPA valuation standards is significant.
 - 9) Both RPA's Market Value approach and WGM's Fair Market Value valuation standard require an "open and unrestricted market" and it is difficult to imagine that the circumstances surrounding the Property qualify as such.
 - 10) No previous valuation reflected the considerable damage done to the Property over a long period of time beginning with establishment of the Wells Gray Class B Park during 1965, and this accumulated damage has profoundly affected the exploration of the claims.
 - 11) The actions of the BC government have made it impossible to explore the Property and impossible for the owners to capitalize on financing opportunities which would have increased the value of the Property.
 - 12) No previous valuation has taken into account the value of lost opportunity to the owners.
 - 13) The RPA valuation has reached conclusions concerning the exploration potential of the Property which cannot be supported by any balanced review of the exploration results up to the cessation of activity.
 - 14) WGM concludes that, as of the 21 March, 1989 Valuation Date, no "willing seller", having generally positive exploration results in hand, would sell the Property for the \$40,000 valuation estimated by RPA unless unusual circumstances were brought to bear that made it impossible to retain the asset.

INTRODUCTION

In accordance with your instructions, **Watts, Griffis and McOuat Limited ("WGM")** has reviewed the valuation of the Blue Ice property in a report by **Roscoe Postle Associates ("RPA")** dated 31 May, 2005.

The Blue Ice property consists of four mineral claims 100% owned by Mr. Sean Morriss.

The claims were effectively expropriated by the Government of British Columbia as a result of the establishment of the Wells Gray Provincial Park and its designation as a Class A Park.

WGM prepared a valuation opinion concerning the fair market value of the four Blue Ice claims (the "**Property**") as at March 21, 1989 (the "**Valuation Date**"), in a report dated 23 February, 2005 (Lawrence, 2005). This date is deemed to be the date of "taking". This is also the valuation date used in the RPA valuation.

This critique is prepared by Mr. Al Workman, P.Geo., Vice-President of WGM and a qualified valuator. Mr. Workman, whose résumé is attached, prepared this critique in consultation with Mr. Ross D. Lawrence, Principal Consultant to WGM and the primary author of the aforementioned WGM valuation report. Mr. Workman has no interest, directly or indirectly, in the Blue Ice claims and has no previous association with Mr. Morriss or the claims. WGM's fees for this review are based solely on time expended on the assignment.

VALUATION STANDARDS

There are many standards of value which can be used by valuers in estimating the value of a thing, whether it is a residential property, a piece of equipment or a mineral property. In respect to mineral properties, the standard normally applied is defined by the term 'Fair Market Value', however, according to the Canadian Institute of Chartered Business Valuators, the various ways in which a thing can also be valued include, amongst others:

- | | | |
|---------------------------|---|---|
| Investment Value | - | the value to the owner |
| Forced Liquidation Value | - | following a business termination, the net proceeds from the forced sale of assets, say by auction; |
| Orderly Liquidation Value | - | following a business termination, the net proceeds from the sale of assets over a period of time to maximize the proceeds received. |

Fair Market Value is defined in accordance with Revenue Canada guidelines as "*the highest price available in an open and unrestricted market between informed and prudent parties, acting at arm's length, and under no compulsion to act, expressed in terms of money or money's worth*". This is the standard that WGM used in its valuation. The implication of this definition is clear, that there should be a willing seller and a willing buyer and that the transaction should be free of encumbrances.

The RPA and WGM approaches to the valuation of the Blue Ice property differ in that RPA estimated Market Value as defined by the British Columbia Mining Rights Compensation Regulations. This definition is restated in the RPA report as *"the market value of an estate or interest in land is the amount that would have been paid to the holder of the expropriated mineral title if the title had been sold on the date of expropriation, in an open and unrestricted market between informed and prudent parties acting at arm's length"*. While this definition is clear, it does not allow for the valuator to consider events leading up to the expropriation which may have negatively impacted the status or value of the thing that was expropriated and is the subject of the valuation.

In respect to the two standards of value used, the difference in approach between RPA and WGM is significant. In determining Market Value, a valuator is required to weigh all possible outcomes arising out of the sale of an asset, and then judge which outcome in his opinion is most likely to occur. This is a conservative approach which generally satisfies the requirements of financial institutions that have a desire to safeguard their investments, and a duty to that effect in respect to the investments of their clients. In determining Fair Market Value, a valuator is required to weigh all possible outcomes arising out of the sale of an asset, and then select the most reasonable outcome that provides the greatest return to the seller. This is a less conservative approach than that for determining Market Value, however it should be noted that the valuator must still use his discretion in eliminating unlikely outcomes, and the valuator is not required to weight all outcomes equally. Nevertheless, in estimating Fair Market Value, the valuator has a duty to search for evidence of higher value, a duty that he does not have if he is estimating Market Value.

In estimating the value of a newly discovered mineral property, WGM believes it is important that the valuator uphold certain fundamental principles concerning the value of the asset as a going concern. An opinion as to the likelihood of the property achieving its greatest and best use as a developed mine (say) may be illusory, because in the case of new mineral properties, there is nearly always insufficient evidence to make a meaningful judgement in this respect at the time of the valuation. This is also true in the case of older but still under-explored mineral properties for which the available information may yield inconclusive results. A valuator's judgment based on his own prejudices can lead to a valuation which is out of step with the value that might be assigned by a willing buyer, that is, a buyer that envisions the potential of the property.

The **American Society of Appraisers** ("ASA") states that it is erroneous to conclude that comparable sales are always the best evidence of value as it applies to properties that are sporadically traded and for which good comparables are lacking¹. The ASA states ".....one is tempted to conclude that marketability generates the value. But it is our opinion that the reverse is the case: the 'value in use' generates the marketability". WGM agrees with this in that a mineral property asset must be viewed as a going concern in the exploration context and it is this optimistic view on the part of the willing buyer that generates value. In the case of an exploration property, if it cannot be viewed as having potential for "value in use", that is as

¹ Opinions, Volume 1, a document by the **American Society of Appraisers** ("ASA") which is a collection of opinions regarding valuation practices spanning the period 1975-1996, pp. 33-34.

potential mine, then it has no value other than Liquidation Value. The judgment as to whether the property has value in use must be based on evidence and not conjecture.

THE BLUE ICE PROPERTY

Description

The Blue Ice property is described in the WGM and RPA valuation reports and will not be described in detail herein. It consists of four mineral claims (Blue Ice, Future Price #1, Future Price #2 and Caribou). They are located in the northwest part of the Kamloops Mining Division, in a mountainous area approximately 50 km west of Valemont, BC, near the headwaters of Hobson Creek. The property is most easily reached by helicopter from Valemont, 50 km east. The closest logging road terminates about 20 km southeast of the property. Previous work done on the property included geological mapping, trenching and sampling, and diamond drilling.

No work has been done on the property since 1953 as a result of various BC government restrictions.

Early History

It is uncertain when prospectors first entered the area of the southern Cariboo Mountains. The region about 100 kilometres to the west and north of the Blue Ice property was the scene of the famous Cariboo Gold Rush of 1862-1865. To the south and west, the relatively minor Kootenay Gold rush took hold in 1865. It is reasonable to assume that some work was done in the area, either before or after the gold rush, but it is certain that the gold-bearing gravels in the Cariboo acted as a strong magnet to prospectors at the time. Anyone working in the Clearwater Lakes area would have been loath to miss the action so close at hand. Later, when the railway companies were searching for routes through the Rocky Mountains, many of the surveyors also took up prospecting as a sideline and so it may be that the area was examined long before gold was discovered and claims were staked.

The property lies about 40 km north from Dawson Falls, and about 85 km east of Horsefly a major stopping point for the Kootenay gold rush on the Dewdney Trail in 1865. Although the area could be considered as remote, it was also located relatively close to major rivers that were used as transportation routes at the time. What is clear is that during 1923, sufficient work had been done to lead prospectors into the upper part of the North Thompson River and the Clearwater River drainage system, above Clearwater Lake and to the headwaters of Hobson Creek where the Blue Ice claims were staked.

The Blue Ice mineral claims were first staked in 1923, and several exploration campaigns have been completed since that time. Exploration work was ongoing between 1926 and 1928, and again in 1933. During 1938, 10 diamond drill holes (tot. 1,500 feet) were drilled by Anglo-Huronian Limited. Limited exploration work was carried out in 1953. During 1965, exploration work terminated with the establishment of the Wells Gray Park by the province of British

Columbia. The four claims were protected by an order-in-council made during 1973, but permission to work the claims has been denied as recently as 1992 (*see following section on expropriation*).

EXPLORATION, GEOLOGY AND MINERALIZATION

Hedley described the geology of the area in some detail and the following outline is based on his description of the three mineralized zones discovered to date:

Zone 1 is a quartz vein that is well exposed for over 600 feet on the Caribou claim. It varies in width from about 6-8 feet at the upper end, narrowing to 4-5 feet for the remainder of the vein, locally blowing outwards to about 15 feet. Most of the vein is barren, but selected samples from the upper end returned results as follows:

- Upper open cut – 0.62 oz Au/ton and 2.4 oz Ag/ton;
- Second open cut – 2.9 oz Au/ton and 0.3 oz Ag/ton in fine pyrite; and,
- Almost solid sulphide – 0.6 oz Au/ton, 7.0 oz Ag/ton and 2.1% Cu.

Zone 2 is a mineralized alteration zone in limestone referred to as the Replacement Zone. A limestone horizon strikes across the Blue Ice, Future Price #1 and Future Price #2 claims. On the Future Price #1 claim, there is a heavily mineralized zone with pyrite forming a replacement zone. Surface channel sampling across 15 feet gave the following results:

- 0-5 feet, located 5 feet from the NE wall - nearly solid (100%) pyrite: 0.74 oz Au/ton and 0.3 oz Ag/ton;
- 5-10 feet - 75% pyrite: 0.16 oz Au/ton and trace of silver; and,
- 10-15 feet - 75% pyrite: 0.24 oz Au/t and 0.6 oz Ag/t.

Other samples were taken southeast of this line:

- Ten feet southeast - almost solid fine pyrite near footwall: 1.96 oz Au/ton and trace silver across 2 feet;
- Thirty feet southeast - almost solid, coarse pyrite near centre: 0.62 oz Au/ton and 0.4 oz Ag/ton in a selected sample; and,
- Forty feet southeast and 1 foot from footwall: 0.28 oz Au/ton and 0.3 oz Ag/ton across a 5-ft section.

During 1938, 10 drill holes tested the limestone horizon on each side of a glacier lobe (which has apparently since retreated almost 500 feet) to test the limestone band containing the Replacement Zone.

Two achievements of this drilling are vital to its exploration potential:

- 1) surface trenching and sampling yielded some very positive results from rocks which were later referred to as "leached and honeycombed"² and which were described as needing additional blasting to expose fresher rocks that might yield representative results; and,
- 2) 40% of the drill holes intersected zones having some economic interest.

Over a strike length of 150 feet, four significant intersections were obtained:

- 0.53 oz Au/ton over 10.0 feet;
- 1.77 oz Au/ton over 12.3 feet;
- 0.18 oz Au/ton over 5.0 feet; and,
- 0.15 oz Au/ton over 5.0 feet.

The weighted average grade for these drill hole intersections is 0.89 oz Au/t over 8.1 feet. The true thickness, according to previous estimates, would be approximately 6.0 feet.

HISTORICAL MINERAL RESOURCE ESTIMATES

During 1989, Glanville provided an interpretation of the Replacement Zone, based on the surface information and the five holes drilled in this area (one was abandoned). He extended the zone for 225 feet along strike, to a depth of 225 feet and over an average width of six feet. Based on these estimates, Glanville calculated a tonnage of 18,225 tons having an average grade of 0.89 oz Au/ton based on an assumption that 60% of that zone is of ore grade. WGM notes that this estimate is not compliant with present standards and guidelines for the estimation of mineral resources as specified in National Instrument 43-101, however, this standard was not in place in 1989. Under present guidelines, this estimate might be considered an Inferred Mineral Resource.

Zone 3, situated east of the limestone band, is a large area of gold-bearing, sulphide-rich stockwork quartz veining. The full extent of this complex is unknown, but Hedley's Figure 3 indicates that the exposure extends for 460 feet in length with widths of up to 20 feet. Surface sampling in several areas has returned significant gold assays, such as 0.68 oz Au/t; 1.6 oz Au/t and 2.82 oz Au/t.

A fourth area of quartz veining lies some 2,000 feet to the southeast on the Future Price claims. Veining is more widely spaced and widths are variable over lengths of 200 to 300 feet. Samples of well-mineralized quartz include: 0.8 oz Au/ton over 10 inches; 0.34 oz Au/ton over 13 inches; 0.32 oz Au/ton (grab sample?); 0.52 oz Au/ton across a 24-inch vein and 0.66 oz Au/ton (grab sample?).

In summary, there is important and significant gold mineralization encountered in the surface sampling and drilling on the Limestone Zone, trenching on Zone 3 was very rewarding and Zone 4 also produced attractive results.

² William Dunn, a report on the Blue Ice Property by the Manager of Silver Standard Mines Ltd. dated 19 September, 1953, p. 5.

EXPROPRIATION

As mentioned in the foregoing sections, exploration activity was probably first active in the southern part of the Cariboo Mountains near the area of the Blue Ice property in the latter part of the 19th Century as a result of the Cariboo and Kootenay Gold Rushes. The Blue Ice claims were legally acquired under the Mining Law of British Columbia as a result of prospecting and exploration in this area during the first few decades of the 20th Century.

The British Columbia government created the Wells Gray Recreational Area as a Class B park during 1965 knowing that valid mining claims were present within the park boundary. At the time, the designation "Class B" allowed certain forms of economic activity in the park although most observers would agree that the creation of the park created sufficient doubt concerning mining land tenure (exploration and mining rights) that it would be difficult to justify on-going investments in exploration, especially in the knowledge of the long lead-time between initial discovery and mine development, commonly five years or more. Evidence of the park's impact is clear - all exploration activity ceased in 1965.

During 1973, the BC government up-graded the status of the Wells Gray Park to Class A, and as a result, commercial activity was banned. Following a protracted legal action against the BC government, the Supreme Court of Canada ruled during 1985 that the mining rights of the owners of the Property had been reduced and that the owner should be compensated, but until this time, the BC government has not acted on this ruling.

During the period that followed, the British Columbia government reviewed its options and determined on 4 September, 1987 that it would remit the owners to carry out exploration on the Property subject to the owners complying with the Mineral Act and the Parks Act. On 25 November, 1988 the BC government reversed its decision and prohibited mineral exploration in Wells Gray Park. On 21 March, 1989, the government officially revoked its decision of 4 September, 1987.

THE WGM VALUATION

Ross D. Lawrence prepared the WGM valuation report, with assistance from John R. Sullivan and other WGM staff. Neither WGM nor Lawrence or Sullivan had any interest, directly or indirectly, in the Blue Ice claims and had no previous association with Mr. Morriss or the claims. WGM's fees for the report were based solely on time expended on the assignment.

WGM relied on a report prepared by Mr. Ross Glanville in November 1989.³ WGM also reviewed certain other documents including all of the documents referred to in the Glanville report. These are listed below:

³ Glanville, Ross, A Valuation of the Blue Ice Property for Consolidated Silver Standard Mines Limited, November 1989, Burnaby, BC.

Hedley, M.S., 1938: in Annual Report of the Minister of Mines of the Province of British Columbia for the year ended December 31, 1938, Part D.

Anglo-Huronian Limited, 1939: Diamond drillhole results and maps.

Langley, A.G., 1938: Summary Report of the Blue Ice Property, August 12, 1938.

Langley, A.G., 1940: Letter to W.C. Douglass, General Manager of Kelowna Exploration Co., describing the Blue Ice property, January 23, 1940.

Fearnly, R., 1953: Report on Blue Ice, Caribou and Future Price Mineral Claims, September 19, 1953.

Hachey, J. H., 1968: Report on the Blue Ice Group, March 15, 1968.

Quartermain, R.A., 1986: Report on the Blue Ice Property, May 1986.

Correspondence between the British Columbia government and Silver Standard Resources Inc. and predecessor companies from December 1963 to January 2001.

WGM concluded that the Blue Ice property is a difficult type of mineral asset to value because there is no demonstrable current market as a result of the creation of the Wells Gray Park which effectively terminated all mining rights conveyed to the owner under the provincial mining law. There is also little doubt that the uncertain land tenure situation which predated the formation of the park contributed to an atmosphere under which investment of public funds in mineral exploration was ill advised. This clearly led, in WGM's view, to the withdrawal of Silver Standard Resources Inc. and the sale of its property rights. As a direct result, only a very modest resource has been identified on the property despite the long period which has elapsed since the claims were originally staked.

WGM addressed this issue in its valuation opinion based on guidance from the College of Fellows of the American Society of Appraisers⁴ which concluded that the investment analysis method is applicable using Discounted Cash Flow analysis to determine Net Present Value based on a forecast of the earnings expectancy of the property being valued. The complete opinion was appended to the WGM Valuation.

WGM concluded that all of the three traditional approaches to valuation, income, market and cost, could be used in respect to valuing the Blue Ice property. Discounted Cash Flow Analysis was used to estimate a Net Present Value for the property based on the Glanville resources and estimates concerning revenue (the gold price), metallurgical recovery, capital and operating costs. Comparable Transaction Analysis was used based on the Principle of Substitution, which says that the economic value of a thing tends to be determined by the cost of acquiring an

⁴ *Valuation*, vol. 22, no. 1 in June, 1975

equally desirable substitute. The principle applies equally to all types of property. It is important to emphasize the phrase *equally desirable*. An equally desirable substitute is not an asset that is *identical* to the one being valued. Comparable does not mean identical. An asset that may differ in several respects from the one being valued may be an equally desirable substitute. Further, it is necessary that the comparable transactions not only be similar, but that they are also relevant. Finally, the Appraised Value Method was used based on the premise that the real value of an exploration property lies in its potential for the existence or discovery of an economic mineral deposit,⁵ assuming that the amount of exploration expenditure justified on a property is related to its value.

WGM summarized the results of its valuation as follows in Exhibit 1:

Exhibit 1
Summary of the WGM Valuation

Valuation Method	Weighting	Assigned Value
DCF Modeling	high	\$1,125,000
Comparable Transaction (best fit)	medium	\$1.3 to 1.6 million
Comparable Transaction (total market)	low	\$600,000
Appraised Value	medium	\$1,000,000

WGM concluded that the Fair Market Value (assuming that the owner would be able to operate in an unrestricted market) for the Blue Ice claims as at the Valuation Date is in the range of \$1.0 million to \$1.3 million, and suggested a settlement price of \$1.2 million in respect to the owners grievances with the provincial government. This appears to be a reasonable conclusion based on the graphic presentation of assigned values shown in Exhibit 2.

Exhibit 2
Summary of WGM Valuation Estimates

Valuation Method	Value				
	\$600,000	\$900,000	\$1,200,000	\$1,500,000	\$1,800,000
DCF Modeling			●		
Comparable Transaction (best fit)			■		
Comparable Transaction (total market)	●				
Appraised Value			●		
WGM Valuation Conclusion			↔		

⁵ Roscoe, William E. 2001: Outline of the cost approach to valuation of mineral exploration properties, in Mineral Asset Valuation Issues for the Next Millennium 2001 (VALMIN 01), AusIMM Publication Series 5/01, Melbourne, Australia.

WGM believed that it was necessary to underscore the fact that the claims were valued in a “best use” context because one of the key elements of the Fair Market Value definition is that there be an “open and unrestricted market”. This key tenet is implicit in all of the valuation considerations that led to our opinion. Specifically, it is assumed that full access to the property was available to the owner, and that the owner would not face unusual impediments to development and exploitation of the property. WGM also assumed that there would be no artificial restrictions imposed such as regulations that might apply to securities matters.

THE GLANVILLE VALUATION

During November, 1989, **Glanville Management Ltd.** (“**Glanville**”) completed a valuation of the Blue Ice Property using discounted cash flow modeling as its primary valuation method. Glanville set aside the restrictions imposed by the creation of the Wells Gray Provincial Park to allow the property to be valued as if it existed in an open and unrestricted market. Value was principally attached to an inferred resource based on the results of drilling on the Replacement Zone and on Glanville’s estimate of the potential for additional similar zones. Glanville estimated that a small-scale mining operation could be developed on the Replacement Zone, and in-pit parameters were estimated for operating and capital costs, stripping ratios (20:1), gold recovery, commodity prices etc. Glanville estimated that the value of the Blue Ice Property was \$1.5 million for the known resources plus another \$700,000 to take into account the potential for additional similar zones.

In acquiring mineral resources ‘in the ground’, that is mineral deposits which are indicated by drill hole data but are otherwise undeveloped, exploration and mining companies use a rule-of-thumb approach whereby they review the acquisition cost per unit of metal to be obtained. While this may not offer an over-riding valuation, it is commonly one of the factors used by companies as a reasonableness test. Companies have been known to acquire deposits solely on the basis of an estimate as to the hypothetical size of a deposit, both large and small. Glanville attached a value of US \$75 per ounce of gold for the 16,180 ounces in the Replacement Zone and valued the deposit at \$1.43 million.

Glanville also opined that, using market capitalization, the value of a company holding the Blue Ice Property as its sole asset would be greater than \$2 million. This opinion was not supported by hard data, but was based on Glanville’s opinion that the “exploration results to date are very good and the exploration potential of the Blue Ice property is excellent”. It should be noted that this approach is consistent with the American Society of Appraiser’s view that ‘value-in-use’ determines marketability and therefore value.

THE RPA VALUATION

RPA was frequently been retained by the BC government in respect to valuations relating to expropriated mineral properties. William E. Roscoe, a founder of RPA, prepared a valuation of the Blue Ice Property dated 31 May, 2005. As far as WGM is aware, Mr. Roscoe had no

interest, directly or indirectly, in the Blue Ice claims and had no previous association with Mr. Morriss or the claims.

The RPA report states that **“the real value of an exploration property lies in its potential for the existence and discovery of an economically viable deposit. Only a very small number of exploration properties will ultimately become mining properties, but they have value until such time as exploration work has been sufficient and justified to test such potential”**.

The RPA valuation report reiterates the exploration history according to documents that RPA reviewed, and up-holds the facts as reported previously in the WGM valuation. RPA also reports the exploration results as earlier summarized by WGM, including the work reportedly carried out by Silver Standard Mines Ltd. during the late 1950's.

Based on its review of the data, RPA concludes:

“In RPA's view, the exploration potential for economic gold deposits on the Blue Ice claims is limited to small, moderate grade gold deposits. Because of the remoteness of the area, difficulty of access and the harshness of the climate, the capital and operating costs of a mining operation would be very high. It is difficult to image that small, moderate grade gold zones in the order of tens of thousands of tonnes would be economic. Testimony to the limited potential are the facts that no work has been done on the property since about 1940 and that the property holders at that time and subsequently were unable to interest other parties in spending money to carry out further exploration work”.

RPA also stated that “Results were not sufficiently encouraging to warrant more exploration work after 1940, even though a small gold zone was outlined in pyritized limestone and scattered high gold values were obtained on other parts of the property”. RPA concluded that “the probability of a deposit of sufficient size and grade to be economic in this area is very low. It is therefore difficult to justify any further exploration work on the Blue Ice claims, in RPA's view.”

RPA rejected most of the WGM valuation logic for various reasons, including the weakness of the Glanville resource estimate (18,225 tons @ 0.89 oz Au/ton) and the lack of supportable cost information to provide for a small-scale mining operation as envisioned by Glanville. RPA estimated that the Blue Ice Property had a market value of \$40,000 as of the Valuation Date.

DISCUSSION

RPA has commented that the Blue Ice Property is remote and beset by difficult climate. WGM believes that RPA have construed this in such a manner as to imply that the terrain and climate are major impediments to exploration and therefore the property should be discounted as virtually unexplorable. This implication denigrates the long history of mineral exploration activity that opened the interior of Canada and paved the way for settlers of all kinds. The mineral exploration industry is founded on their efforts. Innumerable remote communities sprang up where solitary prospectors made significant mineral discoveries. In British Columbia,

the Royal Engineers completed the 365-mile long Cariboo Wagon Road in 1865 to make what had been a long hard trip to the Cariboo gold-fields a relatively fast and easy journey⁶! The fact that the Blue Ice Property lies a mere 50 km from a major source of supply is hardly remote by the standards of an industry that flings geologists half-way around the world to explore in remote jungles supported by helicopters and teams of local inhabitants⁷.

WGM is of the opinion that, while access is an issue, access is nearly always an issue in greenfields exploration. Lack of good access commonly results in a slower pace to exploration and higher costs. Whether higher costs also impact a mining operation really depends on the size of the deposit that is discovered because a large deposit is more able to absorb one-time costs relating to development. Further, we believe that climate is largely irrelevant in Canada because explorers accept the climate for what it is, and while it can be an impediment, it cannot be considered a significant factor in a country such as Canada where mines are constructed in the Arctic Islands at the top of the world. WGM believes that RPA have erred in allowing location and climate to cloud the issue of value as it pertains to an exploration property.

RPA had a negative opinion of Glanville's valuation based on DCF modeling and criticized many of the in-pit parameters used. For example, RPA stated that they believed the waste:ore stripping ratio used by Glanville (20:1) was much too low. While WGM views such speculation as inadvisable for such an early stage property, we can envision scenarios whereby the stripping ratio on a steeply dipping 6 ft wide zone would be approximately 20:1 based on a combination of open pit mining and slot mining at the base of the pit. We do not view Glanville's estimate as unreasonable if one assumes a very small scale mining operation and the use of contractors to limit upwards cost escalation. Glanville estimated mining, milling and administration costs of \$113 per ton – this is a relatively high operating cost estimate compared to other, albeit larger, mines. WGM is of the opinion that Glanville made a reasonable attempt to factor higher costs into his analysis, and at this time it is difficult to reach any certain or meaningful conclusion as to the potential for such costs to actually be realized.

Notwithstanding the foregoing, WGM also cautioned that it believed that some of the in-pit parameters were optimistic. However, Glanville's approach was commonly used in the mining industry at the time, and his view probably reflects the optimism that was shaping the industry at a time when it was relatively easy to raise venture capital. The conclusion that capital and operating costs will be high, while it may be likely, cannot be adequately demonstrated at this time because the size of the deposit is unknown. We believe that the property is in fact less remote than a host of other exploration projects and is closer to supporting infrastructure. Further, as a gold project, its demands on infrastructure are markedly less than the demands of a copper or zinc project, for example. Base metals projects are typically larger scale operations with correspondingly greater demands for water and electricity, as well as transportation routes to move large tonnages of low unit value metal (compared to significantly smaller tonnages of high-unit value gold).

⁶ Government of Canada Historical Information Website at <http://collections.ic.gc.ca/cariboo/index.htm> - supported by BC Heritage and by the BC Ministry of Education

⁷ Author's personal experience

The author believes that it was inappropriate for Glanville to speculate about a resource and mining plan after so little exploration even though the results indicated a potential for very high grade gold mineralization over considerable widths: 1.48 oz Au/ton across 15 feet or 50.7 g Au/t across 4.6 metres. Nevertheless, the resource that he estimated was extremely modest, even accepting the fact that it was based on a very small set of surface and drill hole samples. Rightly or wrongly, extrapolations such as these were commonplace in the junior exploration sector at the time, and many exploration agreements were settled on the basis of such back-of-the-envelope studies. In discounting the Glanville approach, we believe that RPA's valuation has failed to accept the results from the point of view of a buyer that is motivated and willing to view the results as positive. WGM's critical review of Glanville's estimate, and its incorporation into WGM's valuation, was meant as a means of adding dimension to the WGM valuation in the same context that we believed a knowledgeable and willing investor (buyer) would view the data, the important point being that **the buyer was willing and motivated to act.**

RPA based its assessment of the claims on its belief that the mineralization would never amount to more than a few ten's of thousands of tonnes of moderate grade mineralization. RPA concluded that the results of the earlier work were insufficient to justify continuing exploration.

Exploration is a long term proposition evidenced by the many mine discoveries which have come into existence as a result of prospecting successes many years before⁸. The initial results of surface sampling on the Property were positive and this encouraged follow-up drilling. Those results also were positive. The contention that the results were not good enough to justify additional work is simply not tenable.

RPA disparaged initial exploration results that any company would find to be highly encouraging. The drilling results on Zone #3 indicate a 25% success rate from drilling on this zone (one hole in four). The results indicate a 60% success rate in drilling on the #2 Zone (3 holes in 5), although the zone produced lower gold assays. Any exploration company would be more than happy with such results from a first phase exploration program. By way of comparison, the author commenced management of the McDermott gold project in northern Ontario after 4 holes out of 16 intersected economically interesting mineralization (25% rate), the best hole returning approximately 5 g Au/t across a true thickness of 7 metres. A mine, the Holt-McDermott Mine, was eventually developed after 3 ½ years and nearly 300 drill holes and it produced over 1.3 million ounces. In determining the resource at the time a production decision was made, 86 out of 241 holes were taken into the resource estimate effectively indicating an overall hit rate of 36%. This dramatically shows that even for deposit which becomes a producing mine, the success rate on the exploration drilling is modest. In fact, many gold projects never return economically interesting mineralization, and it is not unusual to drill immediately below a gold occurrence on surface and fail to intersect any detectable gold. The

⁸ Lake Superior Mining Corp. (LSMC) drilled 1,500 m in a program that gave intersections as much as 9 m wide with values to 46 g Au/t (1.4 oz/ton) during 1947 at Hemlo, Ontario. By 1958, sporadic exploration had increased the resource to 64,400 tonnes at 7.5 g Au/t gold in a body measuring 168 m long, 3.3 m wide and to a depth of 90 m. Corona Resources completed a \$600,000 drilling program in 1981 and announced discovery "of a significant gold occurrence" of 680,000 tonnes grading 3.43 g Au/t gold in the West Zone and 227,000 t at 6.6-8.6 g Au/t in the East Zone. In 1985 three companies were each mining portions of a 70+ million tonne deposit and each poured their first gold bricks 38 years after the original discovery.

fact that gold is widely distributed in the area of the Blue Ice Property, and that several independent high grade zones are present, is highly significant because such widespread mineralization is commonly found to be early evidence of an economically interesting deposit. RPA has no basis in fact for discounting the importance of the Blue Ice discovery.

In Roscoe, 2002, it is often stated that the value of an exploration property is based on the use of different approaches and methods "all of which are subjective". Roscoe also states that property transactions are based on the "perceived exploration potential"⁹ and that "the key to the valuation of inactive properties is a realistic assessment of the remaining exploration potential, which could be in the form of untested targets, potential to increase the grade and tonnage of the existing resource, or potential for development with changes in technology or economic conditions"¹⁰. WGM agrees with all of these statements, but we believe that RPA has erred in its valuation of the Blue Ice Property by simply casting aside any hope for a significant discovery.

Exploration is a long term proposition evidenced by the many mine discoveries which have come into existence as a result of prospecting successes many years before¹¹. The initial results of surface sampling on the Property were positive and this encouraged follow-up drilling. Those results also were positive.

WGM is of the opinion that valuers must exercise discretion in not allowing valuations to be overly influenced by market sentiment, yet at the same time, valuers must accept the mood of the market as a key element affecting what the average buyer is willing to pay. In fact, the very definition of Fair Market Value is not what the average purchaser is willing to pay, but rather, it is what the most highly motivated buyer is willing to pay. Glanville has approached its valuation from the mindset of a motivated buyer, and its optimistic approach must be reviewed in this context. If the buyer is not motivated, then a transaction based on Fair Market Value is not possible. RPA's valuation based on the Market Value standard reflects the firm's less than optimistic view of the Blue Ice Property, and very effectively allows it to assign a lower value.

RPA acknowledges, as does WGM, that using comparable transaction analysis for the valuation of mineral properties is problematic because mineral properties almost always differ in respect to the key factors which influence value: geology, grade and quantity of mineralization, location and access, stage of exploration. Even the presence of deleterious elements can differ between otherwise comparable deposits making one more desirable than another. When special circumstances intervene, such as the suspension of exploration for a 40-year period as on the Blue Ice Property, finding a property that compares can be truly difficult even if the circumstances of the suspension are ignored. The time which has passed cannot be regained, and it is difficult to quantify opportunities missed.

⁹ Roscoe, 2002, Page 10 in Roscoe, 2005.

¹⁰ Roscoe, 2002, Page 16 in Roscoe, 2005.

¹¹ Lake Superior Mining Corp. (LSMC) drilled 1,500 m in a program that gave intersections as much as 9 m wide with values to 46 g Au/t (1.4 oz/ton) during 1947 at Hemlo, Ontario. By 1958, sporadic exploration had increased the resource to 64,400 tonnes at 7.5 g Au/t gold in a body measuring 168 m long, 3.3 m wide and to a depth of 90 m. Corona Resources completed a \$600,000 drilling program in 1981 and announced discovery "of a significant gold occurrence" of 680,000 tonnes grading 3.43 g Au/t gold in the West Zone and 227,000 t at 6.6-8.6 g Au/t in the East Zone. In 1985 three companies were each mining portions of a 70+ million tonne deposit and each poured their first gold bricks 38 years after the original discovery.

An on-looker can reasonably judge that, if the Blue Ice Property been active during the gold boom of the 1970's or the 1980's, it would have received some amount of attention due to the high gold grades discovered. Two very powerful forces influencing the level of attention were:

- 3) the availability of venture capital; and,
- 4) the competition for exploration investment opportunities

WGM believes that it is likely that the owner could have optioned the property to an investor, however we cannot know the outcome of the resulting exploration program. If an on-looker were to speculate on an outcome based simply on the odds for a discovery given the mining industry average, one would conclude that the property had little chance for a significant discovery. However, the Blue Ice Property has high grade gold values, and some degree of demonstrated continuity in the mineralization. These qualities are more common to properties containing significant rather than insignificant mineralization. These qualities certainly give force to the assertion that the property should be perceived as having potential. WGM is of the opinion that RPA was overly influenced by the odds of making a significant discovery rather than the merits of the property as it exists.

Despite the clear exploration potential of the Property, British Columbia government created the Wells Gray Recreational Area as a Class B park during 1965. The designation Class B allows certain forms of economic activity in the park, however, WGM is of the opinion that any outside observer would conclude that the creation of the park signalled the intention of the government to restrict the commercial impacts of industries such as forestry and mining. WGM believes that the creation of the park created sufficient doubt concerning mining land tenure (exploration and mining rights) that it would be difficult to justify on-going investments in exploration, especially in the knowledge of the long lead-time between initial discovery and mine development, commonly five years or more. Evidence of the park's impact is clear - all exploration activity ceased in 1965.

WGM believes that the value of the Property was irreparably damaged during 1973 when the status of the Wells Gray Park was up-graded to Class A by the BC government, and as a result, commercial activity was banned. Following a protracted legal action against the BC government, the Supreme Court of Canada ruled during 1985 that the mining rights of the owners of the Property had been reduced and that the owner should be compensated, but until this time, the BC government has not acted on this ruling.

During the period that followed, the British Columbia government reviewed its options and determined on 4 September, 1987 that it would remit the owners to carry out exploration on the Property subject to the owners complying with the Mineral Act and the Parks Act.

On 25 November, 1988 the BC government reversed its decision and prohibited mineral exploration in Wells Gray Park. On 21 March, 1989, the government officially revoked its decision of 4 September, 1987.

WGM is of the belief that the atmosphere surrounding the Blue Ice claims was sufficiently uncertain as of 1965 that it would be very difficult for an exploration company to justify

additional investment in the claims, including the acquisition of adjacent claims. These points are important as they directly impact the claims as they exist today. If the market had been open and unrestricted, WGM believes there is little doubt that the owners would have acquired additional claims to increase the chances for the discovery of an economically interesting gold deposit. During this period of doubt, several gold exploration booms occurred, the first during the late 1970's and early 1980's due to high gold prices related to an inflationary economic cycle, and the second during the period 1986-1989 due to the advent of flow through financing for Canadian exploration projects. A third exploration boom occurred during 1995-1996 which also could have seen meaningful exploration of the Blue Ice claims.

Based on the foregoing, WGM is of the opinion that constructive expropriation occurred during 1965, and that any valuation based on the status of the claims on 21 March, 1989 is in effect a valuation of damaged goods. On proper consideration, and in full knowledge of the sequence of events affecting the Property, perhaps a much earlier valuation date should have been selected than that chosen for the original WGM valuation.

RPA have valued the Blue Ice Property as a marginal mineral prospect with limited potential, largely on the basis that no work has been carried out on the property for a long period of time. If the apparent neglect of the property was a willing decision, made in an unrestricted market, WGM might agree with RPA's valuation. However, the owner's neglect has been anything but willing and evidence suggests that the operating environment has been anything but unrestricted. WGM is of the opinion that the Blue Ice Property should be valued as a going exploration concern. It is therefore not surprising that the WGM and RPA valuations differ.

Based on WGM's experience, we believe that a property such as the Blue Ice Property could have attracted an investor to agree to a \$1-2 million, 3-year exploration program for a 51% interest during the flow through period of 1986-89. Such an agreement represents a modest level of expenditure which would be staged over the term of the agreement. Most investors would agree to a small percentage as a cash payment, or a combination of cash and stock, usually on signing and annually on each anniversary. Using a standard approach to valuing such agreements, such as that found in RPA 2005, WGM is of the opinion that the resulting fair market value would be in the range of \$420,000 to \$820,000 for a 51% interest or \$824,000 to \$1.6 million for 100%. The details of our assessment are as follows in Exhibit 3:

**Exhibit 3
Potential Exploration Agreement During Late 1980's**

Date	Cash	Exploration Commitment	NPV (@10%)	Probability (%)	Accumulated FMV
On Signing	\$20,000	see following	\$20,000	100%	\$20,000
During Year 1	\$20,000	\$180,000 - \$380,000	\$182,000 - \$364,000	100%	\$182,000 - \$364,000
During Year 2	\$20,000	\$280,000 - \$580,000	\$248,000 - \$496,000	50%	\$124,000 - \$496,000
During Year 3	\$20,000	\$480,000 - \$980,000	\$376,000 - \$751,000	25%	\$94,000 - \$188,000
<i>Retained Value (FMV) for 51% (rounded)</i>					\$420,000 - \$820,000
<i>Retained Value (FMV) for 100% (rounded)</i>					\$824,000 - \$1.6 million

Had the Blue Ice Property been open to a normal exploration process, much additional work would have been done on it. Given the previous results, we do not believe that anyone can doubt this, although this might be questioned as to the amount and scope of follow-up work. This new exploration would have added to the fair market value of the property even if some of the expenditures were dropped as value-added because the results were negative. Although CIMVal guidelines allow a valuator to take into his valuation warranted future expenditures, TSX rules, as previously stated, forbid this. Thus WGM was unable to attach value to the property which might evolve out of such warranted expenditures.

In this critique, WGM does not feel constrained by TSX rules. Our speculation as to the value of a 'typical option agreement', as defined in Exhibit 3, indicates a Fair Market Value in the range of approximately \$824,000 to \$1.6 million. When overlain on our previous valuation results taken from Exhibit 2, the result is compelling as shown in Exhibit 4.

**Exhibit 4
Summary of WGM Valuation Estimates**

Valuation Method	Value				
	\$600,000	\$900,000	\$1,200,000	\$1,500,000	\$1,800,000
DCF Modeling			●		
Comparable Transaction (best fit)			[Bar]		
Comparable Transaction (total market)	●				
Appraised Value		●			
WGM Initial Valuation Conclusion			↔		
Valuation Based on Option Agreement				↔	

This approach, based on the kind of option agreement which was commonplace at the time, and suitably discounted for duration and probability for completion, supports our belief that the Blue

Ice Property has a value in the neighbourhood of \$1 million, and that its value could be significantly higher in the mind of a motivated buyer.

The inability of the owners of the Blue Ice Property to carry out exploration over a period of 40 years (1965 to present) represents a considerable loss as measured in opportunity. It is not possible to adequately measure this loss. Since the Class B park was declared in 1965, the property owners have missed the opportunity to participate in two of the largest gold exploration booms Canada had seen, the coming in the mid- to late 1970s fueled by the run-up in gold prices, and the second in the mid- to late 1980s fueled by high gold prices and the advent of flow-through financing as a means of raising venture capital. Given the positive results of previous exploration program, it is clear to WGM that the owners could have raised money on the basis of the results, or alternatively, optioned the property to another company in exchange for payments in cash or shares, and a exploration commitment. It is also clear, in WGM's view that the only possible reason that this did not happen was the untenable status of the claims in Wells Gray Park. This has also prevented the owners from capitalizing on the excellent exploration results by increasing the property size which would be the first reaction to such results. Thus the property remains small and certainly less interesting than it might otherwise have become.

Ultimately WGM believes that the RPA valuation does not pass the reasonableness test. Many companies, in WGM's opinion, fail to achieve results as good as those on the Blue Ice property even after spending millions of dollars on exploration. Yet they retain the property, raise additional venture capital and continue exploring. WGM would ask, *'Is it reasonable, given the favourable inaugural results of surface sampling and diamond drilling on the Blue Ice Property that have not been followed up, that the owners would sell the property for \$40,000 in an open and unrestricted market?'* WGM is of the belief that no company would willingly surrender a property such as this for such a small sum. It is vital to understand that a key tenet in the definition of Fair Market Value is that the vender is willing, and not forced to sell under duress.

Respectfully submitted,

WATTS, GRIFFIS AND McOUAT LIMITED

Per: Al Workman, P.Geo.
Vice-President