



831159  
103P/12E

Form 12  
Securities Act

Date Accepted  
For Filing July 11, 1980

SUPERINTENDENT OF BROKERS  
AND  
VANCOUVER STOCK EXCHANGE  
VANCOUVER CURB EXCHANGE

STATEMENT OF MATERIAL FACTS

VANCOUVER STOCK EXCHANGE  
Name of Exchange

DOLLY VARDEN MINERALS INC.  
Name of Issuer

1540 - 800 West Pender Street, Vancouver, British Columbia  
Address of Head Office of Issuer

1540 - 800 West Pender Street, Vancouver, British Columbia  
Address of Registered Office of Issuer

1540 - 800 West Pender Street, Vancouver, British Columbia  
Address of Records Office (Section 38 - Companies Act)

Canada Permanent Trust Company, 750 West Georgia Street, Vancouver,  
Name & address of Registrar & Transfer Agent  
for Issuer's shares in British Columbia. British Columbia

Neither the Superintendent of Brokers nor the Vancouver Stock Exchange/Vancouver Curb Exchange has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

1. DETAILS OF THE CIRCUMSTANCES RELATING TO THE OFFERING OF SECURITIES.

New Offering

Pursuant to an agreement dated April 10, 1980, (the "Agreement") between Dolly Varden Minerals Inc., of Suite 1540-800 West Pender Street, Vancouver, British Columbia (the "Issuer") and Canarim Investment Corporation Ltd. of #1350-409 Granville Street, Vancouver, British Columbia ("Canarim"), Canarim has agreed:

(a) Agency Offering

to use its best efforts to sell to the public in British Columbia through the facilities of the Vancouver Stock Exchange (the "Exchange") 100,000 common shares of the Issuer (the "Agency Shares") at the market price prevailing from time to time on the Exchange but not less than \$4.30 per share. The offering of the Agency Shares will commence on a date specified by the Exchange being the "Effective Date" set forth on the first page hereof and continue for a period of thirty (30) trading days, or until all of the 100,000 shares are sold, whichever shall first occur; and

(b) Firm Underwriting

to purchase from the Issuer 150,000 common shares of the Issuer (the "Underwritten Shares") at a price of \$4.00 per share and to offer the same for sale to the public in British Columbia through the facilities of the Exchange at a price to be determined by Canarim which shall not be higher than the price of shares of the Issuer on the Exchange on the day prior to the Offering Day (as defined herein) and not lower than \$4.30 per share, provided that if the price of shares of the Issuer determined by Canarim and approved by the Exchange for the Offering Day is higher than \$4.30, then the price to be paid by Canarim for the Underwritten Shares shall be at a 7-1/2% discount from such closing price. The Underwritten Shares will not be sold by the Company to Canarim for less than \$4.00.

The date of the purchase of the Underwritten Shares from the Issuer by Canarim and the offering of the said shares to the public in British Columbia through the facilities of the Exchange (the "Offering Day") shall be a day specified by Canarim and approved by the Exchange but shall not be more than ten (10) business days after the date of the completion of the sale of the Agency Shares subject to an orderly market for the shares of the Issuer having been established to the satisfaction of the Exchange.

Between the hours of 2:00 p.m. and 5:00 p.m. on the business day immediately preceding the Offering Day, and between the hours 6:30 a.m. and 6:55 a.m. on the Offering Day, a book

will be maintained on the floor of the exchange to receive purchase orders for the Underwritten Shares. Under the terms of the Agreement, Canarim may reserve not more than eighty percent (80%) of the Underwritten Shares for its own clients or clients of other members of the Exchange, and at least twenty percent (20%) of the Underwritten Shares will be offered to other members of the Exchange. In the event of an over subscription with respect to such twenty percent (20%) of the said shares, the said shares available shall be pro rated amongst the subscriptions, subject to the approval of the Exchange.

Canarim will receive in respect of the sale of the Agency Shares a fee of Five Hundred Dollars (\$500.00) on the Effective Date, six percent (6%) of the gross sales at the time the Agency Shares are sold; and in the event that all of the Agency Shares are sold, it will receive an additional one and one-half percent (1-1/2%) of gross sales, less the original fee of Five Hundred Dollars (\$500.00).

In consideration of the purchase of the Underwritten Shares, Canarim has been granted an option to purchase an additional 100,000 common shares in the capital of the Issuer at a price of \$4.50 per share exercisable within 90 days after the Effective Date.

Although it is not possible to determine the actual net proceeds from the offering of shares pursuant to the Statement, in the event that all of the Agency Shares are sold at the minimum price \$4.30 per share, the proceeds will be \$430,000 less commissions of \$32,250.00 to net the Company \$397,750. The Issuer cannot estimate with certainty the price at which the Underwritten Shares will be purchased by Canarim but the Issuer will receive a minimum of \$600,000 upon the purchase by Canarim of such shares at a price of \$4.00 per share for a total proceeds pursuant to the Statement of \$997,750.

There is no sub-underwriting or sub-option agreement outstanding or proposed to be given. The Underwriter, however, reserves the right to offer selling group participation, in the normal course of the brokerage business to selling groups of other licenced broker dealers, brokers and investment dealers, who may or who may not be offered part of the discounts, commissions or bonuses derived from this offering.

There are no payments in cash, securities or other consideration made or to be made to a promoter, finder or any other person or company in connection with this offering.

The following persons beneficially own, directly or indirectly, in excess of 5% of each class of issued shares of the Underwriter:

| <u>Name and Address</u>   | <u>Number &amp; Class</u> | <u>Percentage of Class</u> | <u>Percentage of Voting Rights</u> |
|---|---------------------------|----------------------------|------------------------------------|
| A.E. Turton Investments Ltd.<br>1350 - 409 Granville St.,<br>Vancouver, B.C.              | 17,982 Class A<br>Common  | 100%                       | 40%                                |
| The MacLachlan Investments<br>Corporation<br>1350 - 409 Granville St.,<br>Vancouver, B.C. | 17,982 Class B<br>Common  | 100%                       | 40%                                |
| Petersham Holdings Ltd.<br>1350 - 409 Granville St.,<br>Vancouver, B.C.                   | 6,744 Class C<br>Common   | 100%                       | 15%                                |
| Channing Investments Corp.<br>1350 - 409 Granville St.,<br>Vancouver, B.C.                | 2,248 Class D<br>Common   | 100%                       | 5%                                 |

100% of the shares of A. E. Turton Investments Ltd. are owned by Alfred E. Turton of 1130 - 444 St. Mary Avenue, Winnipeg, Manitoba.

100% of the shares of The MacLachlan Investments Corporation are owned by Peter M. Brown of 1350 - 409 Granville Street, Vancouver, British Columbia.

100% of the shares of Petersham Holdings Ltd. are owned by Brian D. Harwood of 1350 - 409 Granville Street, Vancouver, British Columbia.

100% of the shares of Channing Investments Corporation are owned by Charles Channing Buckland of 1350 - 409 Granville Street, Vancouver, British Columbia.

The Issuer has only very recently been listed on the Vancouver Stock Exchange. However, the range of the market price of the shares of the Issuer and the volume of sales for the period during which its shares have traded on the Vancouver Stock Exchange immediately preceding the date of the acceptance of this Statement of Material Facts, is as follows:

| <u>Week</u>       | <u>Market Range</u> | <u>Volume</u> |
|-------------------|---------------------|---------------|
| June 24 - June 27 | \$4.50 - \$7.00     | 2300 shares   |
| June 30 - July 4  | \$5.25 - \$5.25     | 500 shares    |
| July 7 - July 9   | \$5.00 - \$5-5/8    | 2121 shares   |

The Vancouver Stock Exchange is the only exchange in Canada upon which securities of the Issuer are listed and posted for trading.

Canarim may be considered the "market maker" of the shares of the Issuer during the period of primary distribution of the shares offered pursuant to this Statement of Material Facts and may, subject to the by-laws of the Vancouver Stock Exchange, make purchases and sales of the shares of the Issuer for the purpose of maintaining an orderly market of the shares. The Underwriter does not beneficially own any shares of the Issuer and has no such shares under its control. Insiders of the Issuer may purchase shares offered hereby.

The promoters, directors, senior officers and persons holding 10% or more of the issued shares of the Issuer own, as a group, directly or indirectly, 2,300,517 shares representing approximately 77% of the presently issued shares of the Issuer.

2. PARTICULARS CONTRIBUTING TO THE SPECULATIVE  
NATURE OF THE SECURITIES BEING OFFERED

Although the Kitsault Valley Property contains a deposit of what appears to be commercial ore it is at present only in the drill indicated category. The purpose of the additional work on the property for which a portion of the proceeds of this issue are to be spent is to substantiate the indicated reserves.

The Issuer's Maple Bay and Lebel properties are without known bodies of commercial ore and any future work on them would be exploratory searches for ore.

No survey has been made of the Issuer's located mineral claims and therefore, in accordance with the mining laws of the jurisdictions in which such claims are situate, their existence and area could be in doubt.

With regard to the Issuer's Elmworth Property, it should be noted that petroleum and natural gas exploration and development is a speculative business marked among other things by unprofitable efforts resulting not only from the drilling of dry holes but from wells which, though productive, will not produce petroleum or natural gas in sufficient amounts to return a profit on the capital expended. The marketability of petroleum and natural gas will be affected by numerous factors, including market fluctuations, the proximity and capacity of pipelines, government regulation, including regulations relating to royalties, allowable production, importing and exporting petroleum and natural gas and environmental protection, which cannot be accurately predicted. The proposed program is an exploratory search for oil and gas.

For the above reasons, the shares of the Issuer must be considered speculative securities.

3. DETAILS OF ANY MATERIAL CHANGES OR PROPOSED MATERIAL CHANGES IN THE AFFAIRS OF THE ISSUER

- (a) For the purpose of limiting liability, the Issuer proposes to transfer its Kitsault Valley Property to Torbrit Silver Resources Ltd., a wholly owned subsidiary.
- (b) The Issuer proposes to transfer as of April 15, 1980, 1.333% of its 5.333% working interest in Crown Drilling Reservation #527 located in the West Elmworth area of British Columbia to Pecunex Oil & Gas Partnership II, of Suite 600-470 8th Ave. S.W., Calgary, Alberta for consideration of \$145,000.

4. THE ESTIMATED NET PROCEEDS OF THE ISSUE ARE TO BE SPENT

The net proceeds of \$997,750 are to be spent by the Issuer in order of priority as follows:

- (a) To pay the cost of this issue including legal, audit and printing costs; \$ 30,000
  - (b) To pay the remainder of the Issuer's share of the cost of installing a compressor for two producing gas wells in the Yoyo Field located in northeastern British Columbia in which the Issuer holds a 11.84598% working interest \$ 150,000
  - (c) To pay \$137,000 of the Issuer's estimated \$188,000 share of a 4,110 metre exploration test on Crown Drilling Reservation #527 which is located in the West Elmworth area of British Columbia;\* \$ 137,000
  - (d) To proceed with the recommendations of Derry, Michener & Booth, Geological Consultants, in their report dated March 26, 1980 on the Issuer's Kitsault Valley Property which report is reproduced in this Statement of Material Facts;\*\* \$ 680,750
- \$ 997,750**

If the option held by Canarim is exercised, the proceeds received by the Issuer will be allocated towards the Kitsault Valley Property and added to the \$680,750 set out above to be spent in accordance with the recommendations of Derry, Michener & Booth, geological consultants, in their report dated March 26, 1980 which

is reproduced in this Statement of Material Facts. If and to the extent that the option is not exercised, the balance of the required funds will be raised by the Issuer by either the sale of its marketable securities or by private debt financing or both.

\* Although the Issuer currently holds a 5.333% working interest in Crown Drilling Reservation #527, it proposes to transfer as of April 15, 1980, 1.333% of it's working interest therein to Pecunex Oil and Gas Partnership II of Suite 600 - 470 8th Avenue S.W., Calgary, Alberta and to retain only a 4% working interest. The Issuer's share of the exploration test mentioned herein assumes the Issuer to hold a 4% working interest in Crown Drilling Reservation #527. The balance of the Issuer's share of the cost of the exploration test, being \$51,000, will be raised by the Issuer by either the sale of its marketable securities, or by private debt financing or both.

\*\* The report of Derry, Michener and Booth provides for expenditures by the Issuer of \$300,000 for head office, overhead and consulting, \$200,000 of which the Issuer expects to pay from its continuing cash flow presently estimated at \$45,000.00 per month.

5. FULL NAME, HOME ADDRESS AND CHIEF OCCUPATION, THE NUMBER OF SHARES OF THE ISSUER BENEFICIALLY OWNED, DIRECTLY OR INDIRECTLY BY EACH SENIOR OFFICER OR DIRECTOR OF THE ISSUER AND IF EMPLOYED DURING THE PAST FIVE YEARS THE NAME OF EACH EMPLOYER

| <u>Name and Address</u>  | <u>Chief Occupation</u>   | <u>Number of Shares Beneficially Owned</u>   |
|--|---|--|
| William Frederick Christensen<br>"The Jungle"<br>Tuckers Town<br>Bermuda<br>Director & President | Director & President-<br>Dolly Varden Minerals Inc.<br>Director-<br>Chancellor Energy Resources Inc.                                    | 2,263,896<br>common shares<br>(Indirectly owned through Yorkshire Securities Limited)* |
| Daniel George Kelly<br>#911-24 Leith Hill Road<br>Willowdale, Ontario<br>Director & Secretary    | Lawyer-<br>Campbell, Godfrey, & Lewtas<br>Toronto, Ontario  | Nil  |
| Kenneth Bertram Blakey<br>2885 Ashley Road<br>Victoria, B.C.<br>Director                         | Director-<br>Silver Spring Mines Ltd.,<br>Piper Petroleums Ltd.,<br>Queenstake Resources Limited,<br>The Mosquito Creek Gold Mines Ltd. | 27,566<br>common shares  |

| <u>Name and Address</u>  | <u>Chief Occupation</u>  | <u>Number of Shares Beneficially Owned</u> |
|--|--|--|
| David George Child<br>Menzel, Q.C.<br>34 Stratheden Road<br>Toronto, Ontario<br>Director | Lawyer-<br>Campbell, Godfrey, & Lewtas<br>Toronto, Ontario<br><br>Director-<br>Chancellor Energy Resources Inc.<br>Arbor Capital Resources Inc.<br>Dejour Mines Limited<br>Pedlar Industries Inc.                  | Nil  |
| Dr. Charles Edward<br>Michener<br>#306-31 Rosedale Road<br>Toronto, Ontario<br>Director  | Consulting Geologist-<br>Derry, Michener & Booth<br>Ontario<br><br>Director-<br>Chancellor Energy Resources Inc.<br>Canadian Natural Resources Ltd.<br>Dynamar Energy Resources Limited<br>Invex Resources Limited | Nil  |
| Mervyn Arthur Upham<br>#802-581 Avenue Road<br>Toronto, Ontario<br>Director              | Chairman of the Board -<br>Kilborn Limited and Inter-<br>national Minerals and<br>Chemical Corporation<br>(Canada) Limited<br>Director-<br>Chancellor Energy<br>Resources Ltd.                                     | Nil  |
| John Stewart Watt<br>335 Rabbit Lane<br>West Vancouver<br>British Columbia<br>Treasurer  | Treasurer -<br>Dolly Varden Minerals Inc.  | 9,055<br>Class A Shares                    |

\* Mr. Christensen and his wife, Norma Louise Christensen, own 87% and 13% respectively of the issued and outstanding shares of Yorkshire Securities Limited which in turn owns 2,263,896 common shares of the Issuer.

6. PARTICULARS OF THE CORPORATE STANDING OF THE ISSUER

The Issuer was formed by the amalgamation of the following companies pursuant to the Ontario Business Corporations Act on December 21, 1979:



- (1) Dolly Varden Resources Limited
- (2) Yorkshire Resources Limited
- (3) Yorkshire Copper Mines Limited
- (4) Kitsault Silver Mines Ltd.
- (5) Copper Cliff Mines Ltd.

The Issuer was registered in British Columbia on January 21, 1980 as an extra-provincial company.

All filings required to be made by the Issuer under the Securities Act and Companies Act of British Columbia, and similar statutes of Ontario are up-to-date.

The latest audited financial statements for the Issuer cover the amalgamation as of December 21, 1979 and the opening balance sheet arising therefrom. The Issuer has not yet held its first annual general meeting.

There is no business which the Issuer is restricted from carrying on. However, the Issuer is primarily engaged in the business of acquiring and developing natural resource properties.

7. THE AUTHORIZED AND ISSUED SHARE CAPITAL OF THE ISSUER

The authorized capital of the Issuer consists of 6,000,000 common shares without par value and 6,000,000 convertible Class A special shares without par value (herein called the Class A shares). An aggregate of 2,999,920.9 common and Class A shares of the Issuer are currently issued and outstanding.

The holders of Class A shares are entitled at any time and from time to time to convert any or all of their Class A shares into common shares upon the basis of one common share for one Class A share. The holders of Class A shares are not entitled to receive dividends.

Upon the amalgamation of the Issuer, 2,999,920.9 Class A shares of the Issuer were allotted and issued in exchange for all of the outstanding shares of the predecessor companies save and except for those shares of predecessor companies held within the group of predecessor companies. The terms of the amalgamation agreement provided for the issuance of Class A shares of the Issuer in exchange for shares of the predecessor companies in accordance with the following exchange ratios:

- (a) 1 common or Class A special  
share of Yorkshire  
Resources Limited = 1.5752 Class A shares  
of the Issuer

- (b) 1 share of Dolly Varden Resources Limited = .5024 Class A shares of the Issuer
- (c) 1 share of Yorkshire Copper Mines Limited = .1497 Class A shares of the Issuer
- (d) 1 share of Kitsault Silver Mines Ltd. = .0038 Class A shares of the Issuer.

Each Class A shareholder is entitled to elect at any time to convert some or all of his Class A shares into common shares of the Issuer on a 1 for 1 basis.

The Issuer was formed as a result of an amalgamation of five corporations on December 21, 1979. the Issuer has two classes of shares, common and Class A. One of the corporations that participated in the amalgamation was a corporation with a similar name to the Issuer. Prior to amalgamation that corporation had the following names and common shares bearing that corporation's name or its predecessor names exchangeable into Class A of the Issuer as detailed:

| <u>Name</u>                    | <u>Exchange Rate into Class A Shares of the Issuer</u> |
|--------------------------------|--|
| Dolly Varden Resources Limited | .5024 Class "A" for every one (1) old share            |
| Dolly Resources Ltd.           | .5024 Class "A" for every one (1) old share            |
| <u>Name</u>                    | <u>Exchange Rate into Class A Shares of the Issuer</u> |
| Silver Dolly Resources Ltd.    | .11049 Class "A" for every one (1) old share           |
| Dolly Varden Mines Ltd.        | .02512 Class "A" for every one (1) old share           |

It should be noted that while Class A shares of the Issuer will not be listed for trading, those shares are convertible into common shares on a one for one basis.

A significant number of shareholders of the predecessor companies have not as yet converted their Class A shares into common shares of the Issuer but it is anticipated that the relative numbers of common and Class A shares of the Issuer which are issued and outstanding will continue to change as conversions take place. The following table depicting the relative numbers of Class A and common

shares of the Issuer issued and outstanding as at the date indicated was obtained by calculating (using the exchange ratios) the number of Class A shares of the Issuer outstanding as at the amalgamation date and then subtracting from that figure the number of common shares of the Issuer existing as at the indicated date.

As of March 25, 1980 the issued and outstanding shares of the Issuer, calculated as aforesaid are as follows:

| <u>Class A</u> | <u>Common</u> |
|----------------|---------------|
| 524,954.9      | 2,474,966     |

524,954.9 common shares of the Issuer are reserved to be exchanged for Class A shares as conversions take place.

8. THE PRICES AT WHICH SECURITIES OF THE ISSUER  
HAVE BEEN ISSUED DURING THE PAST YEAR

On December 21, 1979 the Issuer was formed by the amalgamation of the following predecessor companies:

1. Dolly Varden Resources Limited
2. Yorkshire Resources Limited,
3. Yorkshire Copper Mines Limited
4. Kitsault Silver Mines Ltd.
5. Copper Cliff Mines Ltd.

Pursuant to the terms of the amalgamation agreement, on the amalgamation date an aggregate of 2,999,920.9 convertible Class A shares of the Issuer were allotted to be exchanged for the shares of the predecessor companies in accordance with complex exchange ratios. No shares of the Issuer have been issued since the date of the amalgamation other than in connection with the conversion of Class A shares into common shares.

9. PARTICULARS OF ANY BONDS, DEBENTURES, NOTES, MORTGAGES,  
CHARGES, LIENS, OR HYPOTHECATIONS OF THE ISSUER

(a) The Issuer issued to Western Mack Truck (Calgary) Ltd. of 2213 Birch Street, Vancouver, British Columbia, a promissory note dated November 1, 1979 in the principal amount of Seven Hundred and Twenty-Five Thousand (\$725,000) Dollars with interest payable at 15% per annum in consideration for a 3.948667% working interest in two producing gas wells in the Yoyo field located in north eastern British Columbia. The note is secured by a letter of credit which was issued by the Royal Bank of Canada and will mature on October 15, 1980.

(b) The Issuer has outstanding demand production notes dated August 18, 1977 and November 29, 1979 which were issued to The Royal Bank of Canada pursuant to Section 82 of the Bank Act. The loans total Seven Hundred and Seventy-nine Thousand Five Hundred and Seventy-three (\$779,573) Dollars and are repayable in monthly principal instalments of Fourteen Thousand Four Hundred (\$14,400) Dollars with interest at the prime commercial lending rate of interest plus one percent (1%) per annum.

(c) There is a lien registered against Parcels 1076, 1835 and 848 of the Lebel Township Property for \$23,422.31 with interest at six (6%) percent per annum in favour of The Deputy Minister of Natural Resources for the Province of Ontario pursuant to subsection 176(8) of the Mining Act (Ontario) which was registered on April 8, 1975.

(d) There is a lien registered against Parcel 1835 of the Lebel Township Property for \$3,563.34 in favour of Dominion Engineering Company Limited pursuant to the Conditional Sales Act (Ontario) which was registered on June 28, 1934.

10. PARTICULARS OF IMPORTANT PROPERTIES PRESENTLY OWNED, LEASED, HELD UNDER OPTION OR OPERATED BY THE ISSUER OR ANY SUBSIDI-SUBSIDIARY THEREOF OR PROPOSED TO BE OWNED, LEASED, HELD UNDER OPTION OR OPERATED BY THE ISSUER OR ANY SUBSIDIARY THEREOF

KITSAULT VALLEY PROPERTY

(a) Mineral Claims

(i) The Issuer is the recorded and beneficial owner of the following staked mineral claims and fractional mineral claims located in the Skeena Mining Division of the Province of British Columbia:

|     | <u>Name of Claim</u> | <u>Record Number</u> |
|-----|----------------------|----------------------|
| 1.  | Wolf No. 8           | 367                  |
| 2.  | Wolf No. 9           | 368                  |
| 3.  | Arm No. 1 Fr.        | 19606                |
| 4.  | Arm No. 2 Fr.        | 19607                |
| 5.  | Mink                 | 28821                |
| 6.  | Marten               | 28822                |
| 7.  | Blue Jay Fraction    | 28823                |
| 8.  | Midget Fr.           | 28824                |
| 9.  | Bosun Fr.            | 28825                |
| 10. | Bear Fr.             | 28826                |
| 11. | Polly Fr.            | 28827                |
| 12. | Sable Fr.            | 28828                |
| 13. | Wolf #10             | 21735                |
| 14. | Dana #1              | 35410                |

|     | <u>Name of Claim</u> | <u>Record Number</u> |
|-----|----------------------|----------------------|
| 15. | Dana #2              | 35411                |
| 16. | Dana #3              | 35412                |
| 17. | Dana #4              | 35413                |
| 18. | Dana #5              | 35414                |
| 19. | Dana #6              | 35415                |
| 20. | Copper Cliff No. 4   | 15806                |
| 21. | Copper Cliff No. 5   | 15807                |
| 22. | Copper Cliff No. 6   | 15808                |
| 23. | Copper Cliff No. 7   | 15809                |
| 24. | Roan Antelope        | 15347                |
| 25. | Roan Antelope #1     | 15348                |
| 26. | Missing Link Fr.     | 15604                |
| 27. | Surprise             | 14218                |
| 28. | Surprise No. 1 Fr.   | 18311                |
| 29. | D.V. # 3             | 33523                |
| 30. | D.V. # 4             | 33524                |
| 31. | D.V. # 5             | 33525                |
| 32. | D.V. # 6             | 33526                |
| 33. | D.V. # 8             | 33528                |
| 34. | Wolf No. 4           | 21159                |
| 35. | Wolf No. 5           | 21160                |
| 36. | Wolf No. 6           | 21161                |
| 37. | Wolf No. 7           | 21162                |
| 38. | Arm Fr.              | 19605                |
| 39. | Rivermouth Fr.       | 1415                 |
| 40. | Waterfront           | 1416                 |
| 41. | Waterfront Fr.       | 1416                 |
| 42. | Beach                | 1417                 |

(ii) The Issuer is the recorded and beneficial owner of the following crown granted mineral claims located in the Skeena Mining Division of the Province of British Columbia:

|     | <u>Name of the Grant</u> | <u>Lot Number</u> |
|-----|--------------------------|-------------------|
| 1.  | Red Point No. 1          | L 3809            |
|     | <u>Name of the Grant</u> | <u>Lot Number</u> |
| 2.  | Red Point Extension      | L 3810            |
| 3.  | Sportsman                | L 3816            |
| 4.  | Dolly Varden No. 4       | L 3195            |
| 5.  | Dolly Varden No. 5       | L 3196            |
| 6.  | Dolly Varden No. 6       | L 3197            |
| 7.  | Wolfe # 2                | L 3794            |
| 8.  | Wolverine                | L 3797            |
| 9.  | Anglo                    | L 934             |
| 10. | Toric                    | L 935             |
| 11. | Moose                    | L 936             |
| 12. | Lamb                     | L 937             |

|     | <u>Name of the Grant</u> | <u>Lot Number</u> |
|-----|--------------------------|-------------------|
| 13. | Kitsol No. 2             | L 3814            |
| 14. | Kitsol No. 1             | L 3815            |
| 15. | Maud McPhee              | L 3817            |
| 16. | Sunset No. 1             | L 3818            |
| 17. | Sunset No. 2             | L 3819            |
| 18. | North Star Fraction      | L 4211            |
| 19. | Copper Cliff             | L 3806            |
| 20. | Copper Cliff # 1         | L 3807            |
| 21. | Copper Cliff # 2         | L 3808            |
| 22. | Copper Cliff # 3         | L 3798            |
| 23. | Alice Fraction           | L 3515            |
| 24. | Ferro Fraction           | L 3822            |
| 25. | Dan Patch                | L 3825            |
| 26. | Nancy Hawks              | L 3826            |
| 27. | North Star               | L 3634            |
| 28. | Dolly Varden No. 1       | L 3192            |
| 29. | Dolly Varden No. 2       | L 3193            |
| 30. | Dolly Varden No. 3       | L 3194            |
| 31. | Dolly Varden No. 7       | L 3198            |
| 32. | Wolfe                    | L 3795            |
| 33. | Wolfe No. 3              | L 3796            |

(b) Mineral Leases

- (i) The Issuer is the recorded and beneficial holder of the following mineral leases located in the Skeena Mining Division of British Columbia:

|    | <u>Name of Lease</u>  | <u>Lease Number</u> | <u>Lease Lot Number</u> |
|----|-----------------------|---------------------|-------------------------|
| 1. | Nome Fraction         | M 36                | L 3519                  |
| 2. | Yellow Cedar          | M 38                | L 4213                  |
|    | Gray Copper           | M 38                | L 4214                  |
|    | Big Lode              | M 38                | L 4215                  |
| 3. | Maud F                | M 39                | L 3828                  |
| 4. | Hill Billy            | M 40                | L 4263                  |
| 5. | Climax                | M 22                | L 941                   |
|    | Climax No. 2          | M 22                | L 942                   |
|    | Silver Horde No. 2    | M 22                | L 3805                  |
| 6. | Silverado Fraction    | M 296               | L 4266                  |
| 7. | Silver Horde          | M 57                | L 3804                  |
|    | Silver Horde Fraction | M 57                | L 3803                  |
|    | Silver Horde No. 3    | M 57                | L 3802                  |

- (ii) The Issuer holds a mineral lease on three (3) Crown granted mineral claims located in the Skeena Mining Division of British Columbia. The lease, which was granted to the Issuer by Anaconda Canada Exploration

Limited ("Anaconda") of P.O. Box 11309, Tucson, Arizona, U.S.A., is dated October 12, 1973 and will expire October 12, 1983. The lease is renewable for an additional ten years on terms mutually agreeable to the parties. There is a royalty of \$.75 per ton of ore mined or removed from the claims and a minimum annual advance royalty of \$500.00 payable to Anaconda by the Company. The claims which are the subject of the lease are more particularly described as follows:

| <u>Name of Claim</u>  | <u>Lot Number</u> |
|-----------------------|-------------------|
| No. 1 Tiger           | L 3613            |
| No. 2 Lion            | L 3614            |
| No. 3 Plutus Fraction | L 3615            |

(c) Properties under option

- (i) By an agreement dated June 7, 1973 between the Issuer and New Jersey Zinc Exploration Company (Canada) Ltd. of 2045 City Line Road, Bethlehem, Pennsylvania, U.S.A., the Issuer acquired the option to purchase Six (6) crown granted mineral claims located in the Skeena Mining Division of the Province of British Columbia for the sum of Fifty-one Thousand Two Hundred (\$51,200) Dollars. Under the terms of the option agreement there is a royalty of \$.50 per ton of ore mined payable to New Jersey Zinc Exploration Company (Canada) Ltd. Of the Fifty-one Thousand Two Hundred (\$51,200) Dollars referred to above, One Thousand Two Hundred (\$1,200) Dollars has been paid by the Issuer and the balance is due on or before April 1, 1983. The claims which are the subject of the Option are more particularly described as follows:

| <u>Name of Claim</u>      | <u>Lot Number</u> |
|---------------------------|-------------------|
| 1. Mutt and Jeff Fraction | L 4265            |
| 2. Lue Dillon             | L 3827            |
| 3. Blueberry              | L 4217            |
| 4. Surprise               | L 4335            |
| 5. Swiftwater             | L 4336            |
| 6. Uist                   | L 4337            |

From April 1, 1979 to March 15, 1980 the Issuer spent the sum of \$109,839.00 on the Kitsault Valley Property which sum was largely in respect of a geochemical survey and preparatory costs for an environmental impact study.

The Issuer intends to use the proceeds of this issue in part to carry out the program of development of the Kitsault Valley Property recommended in a report written by Derry, Michener and Booth, Geological Consultants, and dated March 26, 1980 which is reproduced in this Statement of Material Facts.

MAPLE BAY PROPERTY

(a) Mineral Claims

- (i) The Issuer is the recorded and beneficial holder of the following staked mineral claims located in the Skeena Mining Division of the Province of British Columbia:

| <u>Name of Claim</u> | <u>Record Number</u> |
|----------------------|----------------------|
| 1. OB 1              | 33877                |
| 2. OB 2              | 33878                |
| 3. OB 3              | 33879                |
| 4. OB 4              | 33880                |
| 5. OB 5              | 33881                |
| 6. OB 6              | 33882                |
| 7. OB 7              | 33883                |
| 8. OB 8              | 33884                |
| 9. OB 9              | 33885                |
| 10. OB 10            | 33886                |
| 11. OB 11            | 33887                |
| 12. OB 12            | 33888                |
| 13. OB 14 Fraction   | 33890                |
| 14. OB 16 Fraction   | 33892                |
| 15. OB 22 Fr.        | 37322                |
| 16. OB 23 Fr.        | 37323                |
| 17. OS 28 Fr.        | 37324                |
| 18. OS 29            | 37325                |
| 19. OS 31            | 37326                |
| 20. OS 32            | 37327                |
| 21. OS 33            | 37328                |
| 22. OS 34            | 37329                |
| 23. OS 36            | 37330                |
| 24. OS 37            | 37331                |
| 25. OS 38            | 37332                |
| 26. OS 39            | 37333                |
| 27. OS 40            | 37334                |
| 28. OB 17 Fraction   | 33893                |
| 29. OB 18 Fraction   | 33894                |
| 30. OB 19            | 33895                |



| <u>Name of Claim</u> | <u>Record Number</u> |
|----------------------|----------------------|
| 31. OB 20            | 33896                |
| 32. OB 21            | 33897                |
| 33. OS 1             | 33898                |
| 34. OS 2             | 33899                |
| 35. OS 3             | 33900                |
| 36. OS 4             | 33901                |
| 37. OS 5 Fraction    | 33902                |
| 38. OS 6             | 33903                |
| 39. OS 7 Fraction    | 33904                |
| 40. OS 8             | 33905                |
| 41. OS 9 Fraction    | 33906                |
| 42. OS 10            | 33907                |
| 43. OS 11 Fraction   | 33908                |
| 44. OS 12            | 33909                |
| 45. OS 13            | 33910                |
| 46. OS 14            | 33911                |
| 47. OS 15            | 33912                |
| 48. OS 16            | 33913                |
| 49. OS 17            | 33914                |
| 50. OS 18            | 33915                |
| 51. Anaconda Fr.     | 34757                |

(ii) The Issuer is the recorded and beneficial holder of the following crown granted mineral claims located in the Skeena Mining Division of British Columbia:

| <u>Name of Claim</u>          | <u>Lot Number</u> |
|-------------------------------|-------------------|
| 1. Princess May               | 489               |
| 2. Princess Alexandria        | 500               |
| 3. Star                       | 562               |
| 4. Regina                     | 564               |
| 5. Copper King                | 565               |
| 6. Hope                       | 566               |
| 7. Brown                      | 567               |
| 8. Constance Fraction         | 568               |
| 9. Tunnel Fraction            | 569               |
| 10. Blue Bell                 | 571               |
| 11. Rose                      | 575               |
| 12. Thistle                   | 576               |
| 13. May Queen                 | 577               |
| 14. Eagle                     | 578               |
| 15. Scotland Forever Fraction | 579               |
| 16. Duck Fraction             | 938               |
| 17. Comstock                  | 2877              |
| 18. Anaconda                  | 2878              |
| 19. Gertie                    | 2879              |
| 20. Lizzie                    | 2880              |
| 21. Maple Bay Fraction        | 2881              |
| 22. Comstock Fraction         | 2882              |

There is no plant or equipment on the Maple Bay Property, no work has been carried out on or in respect of it during the past year, and no development of it is currently contemplated by the Issuer.

A report relating to the Maple Bay Property, written by Derry, Michener and Boot9, Geological Consultants, and dated October, 1974 is available for examination at the Issuer's head office. It is believed that there has been no significant change in the property since the date of the report. The aforesaid report was prepared by Dr. Charles Edward Michener at a time when he had no interest in the Issuer nor any expectation of acquiring an interest therein. However, since the date of the report, Mr. Michener has become a Director of the Issuer and has also been granted the option to purchase 25,000 common shares of the Issuer for the sum of \$4.50 per share exercisable until September 15, 1981.

LEBEL TOWNSHIP PROPERTY

The Issuer is the recorded and beneficial holder of the following crown granted mineral properties located in the Lebel Township of the Province of Ontario.

ALL AND SINGULAR those certain parcels or tracts of land situate, lying and being in the Township of Lebel, in the District of Timiskaming and Province of Ontario and more particularly described as follows:

Parcel 1076, Centre Section Timiskaming, Mining Claim L3095;

Parcel 1835, Centre Section Timiskaming, Mining Claim L9882;

Parcel 848, Centre Section Timiskaming, Mining Claim L6796;

Parcel 1460, Centre Section Timiskaming, Mining Claim L8027;

Parcel 1836, Centre Section Timiskaming, Mining Claim L9886;

Parcel 1197, Centre Section Timiskaming, Mining Claim L7592;

Parcel 1249, Centre Section Timiskaming, Mining Claim L8086;

Parcel 1503, Centre Section Timiskaming, Mining Claim L8005;

Parcel 1228, Centre Section Timiskaming, Mining  
Claim L7763;

Parcel 1198, Centre Section Timiskaming, Mining  
Claim L7593;

Parcel 1681, Centre Section Timiskaming, Mining  
Claim L9031;

Parcel 1451, Centre Section Timiskaming, Mining  
Claim LS221;

Parcel 842, Centre Section Timiskaming, Mining  
Claim L3094;

Parcel 1234, Centre Section Timiskaming, Mining  
Claim L7764;

Parcel 1194, Centre Section Timiskaming, Mining  
Claim L7407;

Parcel 847, Centre Section Timiskaming, Mining  
Claim L6781;

Parcel 1225, Centre Section Timiskaming, Mining  
Claim L7762;

Parcel 1226, Centre Section Timiskaming, Mining  
Claim L7761;

Parcel 1227, Centre Section Timiskaming, Mining  
Claim L7760;

Parcel 1837, Centre Section Timiskaming, Mining  
Claim L9891;

Parcel 1473, Centre Section Timiskaming, Mining  
Claim LS6;

Parcel 1250, Centre Section Timiskaming, Mining  
Claim L8006;

Parcel 1767, Centre Section Timiskaming, Mining  
Claim L8935.

There is no plant or equipment on the Lebel Township Property. No significant work has been carried out on its since 1949 and no further development is currently contemplated by the Issuer.

ELMWORTH PROPERTY

On June 27, 1979, Dolly Varden Resources Limited acquired from Her Majesty the Queen in Right of the Province of British Columbia a 5.333% working interest in Crown Drilling Reservation #527 located in the West Elmworth area of British Columbia at a cost to it of \$500,000. The total cost of the said drilling reservation was \$9,375,000 and the holders are as follows:

- (a) Husky Oil Operations Ltd.,
- (b) N. B. U. Mines Ltd.,
- (c) Chancellor Energy Resources Inc. and
- (d) Dolly Varden Minerals Inc.

These parties are committed to drill a well on Crown Drilling Reservation #527 at an estimated total cost of \$4,700,000.

The Issuer proposes to transfer as of April 15, 1980, 1.333% of its working interest in Crown Drilling Reservation #527 to Pecunex Oil and Gas Partnership II of Suite 600-470 - 8th Avenue, S.W., Calgary, Alberta and to retain only a 4% working interest therein.

The Issuer intends to pay \$137,000 of the proceeds of this issue as part of its 4% share of a 4,110 metre exploration test on the Elmworth Property. Crown Drilling Reservation #527 is a "tight hole" and, at the request of the operator, Husky Oil Operations Ltd., no information concerning it may be disclosed at this time.

A report relating to the Elmworth Property written by James A. Lewis Engineering Co. Ltd., Petroleum Reservoir Analysts and Energy Consultants, and dated March 17, 1980 is reproduced in this Statement of Material Facts.

YOYO PROPERTY

By an agreement dated November 1, 1979, Dolly Varden Resources Ltd., a predecessor company of the Issuer, acquired from Western Mack Truck (Calgary) Ltd., of 2213 Birch Street, Vancouver, British Columbia a 3.948667% working interest in the following two producing gas wells in the Yoyo Field located in northeastern British Columbia to give the Issuer a total working interest in the gas wells of 11.84598%:

| <u>Leases</u>                             | <u>Lands</u>  | <u>Block</u> | <u>Unit</u>       |
|---|---|--------------|-------------------|
| P & NG Lease 3860<br>dated August 5, 1964 | National Topographic<br><u>Series Index Map</u><br>94-I-13<br>containing<br>660 acres | 1            | 34, 35,<br>44, 45 |

Leases

Lands

|   | <u>National Topographic<br/>Series Index Map</u> | <u>Block</u> | <u>Unit</u>      |
|---|--|--------------|------------------|
| P & NG Lease 4081<br>dated February 25,<br>1965 | 94-I-14<br>containing<br>660 acres               | L            | 38, 39<br>48, 49 |

The total cost of the Issuer of the recently acquired 3.948667% working interest in the Yoyo Property was \$1,476,000 of which \$751,000 was paid by way of cash and the balance of \$725,000 by the issuance of a promissory note.

The following table presents the net proved gas reserves owned by the Issuer less all interests owned as of November 1, 1979. The table also presents the future cash flow from these reserves undiscounted and discounted at 10 percent and 15 percent, per annum after deducting the Issuer's share of all future operating and capital costs.

| <u>Net<br/>Reserves</u><br>MMcf | <u>Future Cash Flow</u> |   |                     |
|---------------------------------|-------------------------|---|---------------------|
|                                 | <u>Undis.</u><br>\$M    | <u>Present Worth</u><br><u>@ 10%</u><br>\$M | <u>@ 15%</u><br>\$M |
| 8,983                           | 18,061.2                | 7150.6                                      | 5216.3              |

The Issuer intends to use \$150,000 of the proceeds of this issue as its share of the cost of installing a compressor on the Yoyo Property.

The Issuer currently receives an income of approximately \$45,000 per month from the Yoyo Property.

11. PARTICULARS OF THE COST OF THE PROPERTIES ACQUIRED BY THE ISSUER OR ANY SUBSIDIARY THEREOF WITHIN THE PAST THREE YEARS OR PROPOSED TO BE ACQUIRED BY THE ISSUER OR ANY SUBSIDIARY THEREOF

- (a) By an agreement dated November 1, 1979, Dolly Varden Resources Limited, a predecessor company of the Issuer, acquired from Western Mack Truck (Calgary) Ltd., of 2213 Birch Street, Vancouver, British Columbia a 3.948667% working interest in the following two producing gas wells in the Yoyo Field located in northeastern British Columbia to give the Issuer a total working interest in the gas wells of 11.84598%.

The total cost to Dolly Varden Resources Limited of the 3.948667% working interest in the Yoyo Property was \$1,476,000 of which \$751,000 was paid by way of cash and the balance of \$725,000 by the issuance of a promissory note. The note, upon which interest of 15% per annum is payable will mature and will be paid in full on

October 15, 1980. The only owner, directly or indirectly of more than 10% shares of Western Mack Truck (Calgary) Ltd. is Hartland Punt of Vancouver, British Columbia.

The Elmworth Property was purchased on June 27, 1979 from Her Majesty the Queen in Right of the Province of British Columbia for a total cash consideration of \$9,375,000 of which Dolly Varden Resources Limited acquired a 5.3333% interest for \$500,000 which was paid by way of cash.

12. THE NAME AND ADDRESS OF ANY PERSON OR ISSUER WHO OR THAT IS OR HAS BEEN A PROMOTER OF THE ISSUER WITHIN THE PRECEDING TWO YEARS AND THE NATURE AND AMOUNT OF ANYTHING OF VALUE RECEIVED OR TO BE RECEIVED FROM THE ISSUER

---

The promoter of the Issuer is William Frederick Christensen, of "The Jungle", Tuckers Town, Bermuda.

By a contract made between the Issuer and Northern Royalties Ltd., (as contrasted with Northern Royalties Limited) of Reid House, Church Street, Hamilton, Bermuda, a company which is wholly owned by Mr. Christensen, Northern Royalties Ltd. provides management services to the Issuer on an annual basis. The contract may be renewed by the Issuer at its discretion. Under the terms of the contract, Northern Royalties Ltd. provides senior management and related office services to the Issuer. The amounts payable by the issuer to Northern Royalties Ltd. depends upon services actually rendered to a limit of \$120,000 in U.S. funds per annum.

The contract between the Issuer and Northern Royalties Ltd. is an oral contract only and is subject to review upon submission of a formal written agreement. Acceptance of this Statement of Material Facts does not constitute acceptance of the contract.

13. THE NUMBER OF THE SHARES OF THE ISSUER HELD IN ESCROW OR IN POOL AND A BRIEF STATEMENT OF THE TERMS OF THE ESCROW OR POOLING AGREEMENT

---

There are no shares of the Issuer held in escrow or in pool.

14. THE NUMBER OF EQUITY SHARES OF THE ISSUER OWNED BENEFICIALLY, DIRECTLY OR INDIRECTLY, BY EACH PERSON OR ISSUER WHO OWNS, OR IS KNOWN BY THE SIGNATORIES HERETO TO OWN BENEFICIALLY, DIRECTLY OR INDIRECTLY, MORE THAN 10% OF THE EQUITY SHARES OF THE ISSUER

---

Yorkshire Securities Limited  
1504-800 West Pender Street  
Vancouver, British Columbia

2,263,896  
common shares

Mr. William Frederick Christensen, who is the promoter, President and Director of the Issuer and his wife own all of the issued and outstanding shares of Yorkshire Securities Limited.

15. A BRIEF STATEMENT OF ANY LEGAL PROCEEDINGS TO WHICH THE ISSUER OR ANY OF ITS SUBSIDIARIES IS A PARTY OR WHOSE PROPERTY IS THE SUBJECT OF SUCH PROCEEDINGS

There are no legal proceedings to which the Issuer or any of its subsidiaries is a party and the Issuer's property is not the subject of any proceedings nor are any proceedings pending or known to be contemplated.

16. THE AGGREGATE DIRECT OR INDIRECT REMUNERATION PAID OR PAYABLE BY THE ISSUER AND ITS SUBSIDIARIES DURING THE PAST YEAR TO INSIDERS OF THE ISSUER

The aggregate direct or indirect remuneration paid or payable to the insiders of the Issuer during the period since its amalgamation on December 21, 1979 to March 31, 1980 was approximately \$53,000.

17. BRIEF PARTICULARS OF ALL OPTIONS TO PURCHASE SECURITIES OF THE ISSUER UNLESS OTHERWISE DISCLOSED HEREIN

(a) Options Granted to Insiders

- (i) The Issuer has granted to Dr. Charles Edward Michener, a director of the Issuer, the option to purchase 25,000 of its common shares for the sum of \$4.50 per share from March 15, 1980 to March 15, 1981 and from March 16, 1981 to September 15, 1981 for the sum of \$4.75.
- (ii) The Issuer has granted to Mervyn Arthur Upham, a director of the Issuer, the option to purchase 10,000 of its common shares for the sum of \$4.50 per share from March 15, 1980 to March 15, 1981 and from March 16, 1981 to September 15, 1981 for the sum of \$4.75.
- (iii) The Issuer has granted to John Stewart Watt, an officer of the Issuer, the option to purchase 20,000 of its common shares for the sum of \$4.50 per share from March 15, 1980 to March 15, 1981 and from March 16, 1981 to September 15, 1981 for the sum of \$4.75.

(b) Options Granted to Non-Insiders

- (i) The Issuer has granted to Luard Joseph Manning, a mining consultant for the Issuer, the option to purchase 10,000 of its common shares for the sum of \$4.50 per share from March 15, 1980 to March 15, 1981 and from March 16, 1981 to September 15, 1981 for the sum of \$4.75.

The above options are all subject to a s.55 determination by the Superintendent of Brokers for British Columbia in respect thereof.

18. THE DATES OF AND PARTIES TO AND THE GENERAL NATURE OF EVERY MATERIAL CONTRACT ENTERED INTO BY THE ISSUER OR ANY SUBSIDIARY WITHIN THE PRECEDING TWO YEARS WHICH IS STILL IN EFFECT AND NOT PREVIOUSLY DISCLOSED THEREIN

All material contracts to which the Issuer is a party may be inspected at the registered office of the Issuer #1830 - 505 Burrard Street, Vancouver, British Columbia within normal business hours during the primary distribution of the securities offered hereby and for 30 days after completion of such primary distribution.

19. PARTICULARS OF ANY AND OTHER MATERIAL FACTS RELATING TO THE SECURITIES BEING OFFERED AND NOT DISCLOSED UNDER ANY OTHER TERM

- (a) By the terms of the Agreement between Canarim Investment Corporation Ltd. and the Issuer referred to herein Canarim has been granted a right of first refusal for all public equity and debt financings by the Issuer within six months of the date of acceptance of this Statement of Material Facts by the Vancouver Stock Exchange.
- (b) The Issuer owns Four Thousand Seven Hundred (4,700) common shares of Chancellor Energy Resources Inc. of Suite 500-840 6th Avenue, S.W., Calgary, Alberta. The average cost of the shares to the Issuer was \$1.25 per share. The present market value of the shares, which are listed on the Toronto Stock Exchange, is approximately \$4.50 - \$5.00 per share.
- (c) The Issuer holds an 8% debenture issued by Chancellor Energy Resources Inc. dated April 17, 1978 which was issued originally in the principal amount of Eight Hundred and Fifty Thousand (\$850,000) Dollars. Principal repayments totaling Five Hundred and Seventy-Five Thousand Six Hundred (\$575,625) Dollars have been received to date, leaving a current balance of Two Hundred and Seventy-Four Thousand Three Hundred and Seventy-Five (\$274,375) Dollars. The debenture is repayable as follows:



- (i) \$ 96,875 due December 31, 1982
- (ii) \$150,000 due December 31, 1983
- (iii) \$ 27,500 due December 31, 1984;

The Issuer may also elect to apply all or any portion of the amounts owing under the debenture against the purchase price payable upon the exercise of the share warrant referred to in paratraph (d) below.

- (d) The Issuer holds a warrant to purchase Five Hundred Thousand (500,000) common shares of Chancellor Energy Resources Inc. at a price of \$1.25 per share. The warrant expires on December 31, 1982. The present market value of common shares of Chancellor Energy Resources Inc. is approximately \$4.50 - \$5.00 per share.
- (e) The Issuer holds a 15% debenture in the principal amount of Seven Hundred and Fifty Thousand (\$750,000) Dollars which was issued to the Issuer by Western Mack Truck (Calgary) Ltd., of 2213 Birch Street, Vancouver, British Columbia. The debenture is repayable on April 15, 1980 together with interest at 15% thereon. The debenture is secured by a letter of credit issued by The Royal Bank of Canada.



**DERRY, MICHENER & BOOTH**  
MINING GEOLOGICAL CONSULTANTS

*2302 - The Simpson Tower  
401 Bay Street  
Toronto, Canada M5H 2Y4  
Telephone (416) 368-4636  
Cable: Dembee  
Telex: 06-23686*

March 26, 1980

Dolly Varden Minerals Inc.  
Suite 1710  
1177 West Hastings Street  
Vancouver, British Columbia V6E 2L3

Gentlemen:

Re: Kitsault Valley Silver Properties

In accordance with your request, Derry, Michener & Booth (DMB) has undertaken an independent assessment of the silver properties owned by Dolly Varden Minerals Inc. (DVM) and located in the Kitsault Valley, Skeena District of British Columbia. The status date of this assessment is December 1, 1979.

Our assessment is based on and represents summaries of two previous DMB reports: "Preliminary Valuation of the Kitsault Valley Silver Deposits Owned by Dolly Varden Resources Ltd.", Volumes 1-3, dated November 23, 1979, and "Report on the Property of Torbrit Silver Resources Ltd., Kitsault River Area, British Columbia", dated February 28, 1980. We have also completed additional reserve calculations and cash flow projections to take into account the recent fluctuations in the price of silver.

Properties, Location and Access

The properties, for which DMB has not confirmed the title, are understood to comprise 42 mineral claims, 7 mineral leases and 33 Crown Grants. These properties contain three silver deposits: the North Star, Wolf #1 and Wolf #2; and also numerous prospects, including the former Torbrit Mine. In addition, DVM owns three Crown Grants, presently under option to Anaconda Canada Explorations Ltd., and holds six claims optioned from New Jersey Zinc Exploration Company (Canada) Ltd. These properties total approximately 3,500 acres.

The above deposits and prospects straddle the Kitsault River over a 9-mile length, commencing 16 miles upstream from the coastal settlement of Alice Arm and the recently reactivated Climax Molybdenum Mine at Kitsault.

Development will entail rehabilitation of the old mine road which connects Torbrit with Alice Arm; however, a major portion of this work, as far as the 14 mile post, has already been completed by the timber company operating in the area.

Alice Arm is serviced by barge and light aircraft from Prince Rupert, 85 miles to the south, and a road will soon link Kitsault with the Stewart-Terrace Highway to the east.

### History

Numerous mineral prospects are located along the Kitsault River Valley, the majority of which were discovered between the First and Second World Wars.

The Dolly Varden Mine operated for two years from 1919-1921 and Torbrit Silver Mines for ten years from 1949-1959. Together, they recorded a production of 1.4 million tons of ore, from which 20 million ounces of silver and 10 million pounds of lead were recovered.

During the operation of the Torbrit Mine, a considerable amount of exploration and development work was completed on other prospects in the area but the low silver price prevented any of these from being exploited.

Limited amounts of work have since been carried out, but it is only in the past year that the price of silver has been sufficiently high to justify a detailed development programme.

### Geology and Mineralization

The properties lie near the center of a 40-mile by 15-mile, north-northwest trending synform, comprising a panel of Lower Jurassic volcanic and sedimentary rocks of the Hazelton Assemblage, which have been intruded by diorite and granodiorite stocks of Cretaceous and/or Tertiary age.

The economic mineralization occurs in epithermal veins composed of galena, argentiferous galena, sphalerite, marcasite, pyrrargyrite, and native silver within a quartz-calcite-barite gangue.

The majority of these veins occur within a volcanic sequence, consisting of massive, fine-grained lavas, tuffs, and agglomerates, which are pyritized and silicified in the vicinity of the mineralization.

### Reserves

In the case of the North Star, DMB has calculated the "Probable" or "Drill-Indicated" reserves of a high-grade central block of the deposit, which has been outlined by surface and underground drilling and by partial development. This high-grade block is a fairly uniform lens, about 350 ft. in diameter, from 5 ft. to 32 ft. in thickness, and dipping about 45° to the northwest.

Using a tonnage factor of 11 cu. ft. per short ton, DMB has undertaken two reserve estimates: the first, based on a cut-off, or minimum grade, of 8 oz. Ag/ton and, the second, at a cut-off of 4 oz. Ag/ton. In both cases we used a minimum mining width of 5 ft. plus dilution.

In the case of the Wolf #1 and #2 deposits, the mineralization occurs in two steep, northwest-dipping vein segments, varying from 20 ft. to 52 ft. in width and offset by faulting; these have been outlined by surface diamond drilling, drifting, and underground ring-percussion drilling. DMB has not completed an independent assessment of these deposits, but has used calculations undertaken by the predecessor company to DVM which were

reviewed by Wright Engineers in 1977. From these calculations, we have estimated the "Proven and Probable" reserves of these two deposits based on the same tonnage factor and cut-off criteria as used for the North Star calculations.

For all the reserve calculations, we have relied on estimates of dilution and recoverability made by Mr. L. J. Manning, Mining Consultant to Dolly Varden Minerals Inc.

On the basis of the above criteria and in accordance with generally accepted professional standards within the mining industry, our estimates of the "Proven and Probable", mineable\* reserves of the North Star, Wolf #1 and Wolf #2 deposits are summarized in Exhibit 1 below:-

EXHIBIT 1

DOLLY VARDEN MINERALS INC.

KITSAULT VALLEY SILVER DEPOSITS  
MINEABLE\* PROVEN AND PROBABLE RESERVES  
NORTH STAR, WOLF #1 AND WOLF #2 DEPOSITS

| <u>Cut-Off Grade</u> | <u>Deposit</u> | <u>S.D. Tons</u><br><u>(000's)</u> | <u>Grade</u><br><u>(oz. Ag/S.D.T.)</u> | <u>Ounces of</u><br><u>Silver</u><br><u>(000's)</u> |
|----------------------|----------------|------------------------------------|--|---|
| 8 oz. Ag/ton         | North Star     | 96                                 | 13.9                                   | 1,328   |
|                      | Wolf #1        | 64                                 | 14.2                                   | 911   |
|                      | Wolf #2        | 93                                 | 12.6                                   | 1,175   |
| Totals & Average     |                | <u>253</u>                         | <u>13.5</u>                            | <u>3,414</u>  |
| 4 oz. Ag/ton         | North Star     | 142                                | 11.2                                   | 1,595   |
|                      | Wolf #1        | 72                                 | 13.2                                   | 958   |
|                      | Wolf #2        | 280                                | 9.2                                    | 2,575   |
| Totals & Average     |                | <u>494</u>                         | <u>10.4</u>                            | <u>5,128</u>  |

\* defined as in-situ diluted reserves, after deductions for pillars where appropriate.

In the case of the old Torbrit Mine, DMB has reviewed six separate estimates of "Proven and Probable" reserves: four by independent professional engineers and two by Dolly Varden staff. These estimates range from 360,000 tons grading 7.6 oz. Ag/ton to 867,000 grading 9.1 oz. Ag/ton.

In addition to the North Star deposit, the Wolf deposits and the Torbrit prospect, the company owns or controls numerous other silver prospects. Of these, the principal ones are the old Dolly Varden Mine; the Wolf #3, Moose-Lamb, Tiger, Kitsol, "V" and Mitchell Veins; and the Surprise Showing.

#### 1980 Exploration and Development Programme

Dolly Varden Minerals Inc. initially plans to develop and sequentially mine the North Star, Wolf #1 and Wolf #2 deposits. In preparation for an application for a mining license, the company has already commenced site and environmental studies.

During 1980 the company plans a 6-month programme of exploration and development work, including 3,300 ft. of development and test mining on the North Star deposit and 1,500 ft. of confirmatory diamond drilling to substantiate the indicated reserves of the Wolf #1 deposit. In addition, work is planned on infrastructural items, such as accommodation facilities and the construction of bridges to provide access to the property.

Based on the available evidence, DMB recommends this programme as a necessary prerequisite to carrying out a feasibility study, which we understand the company intends to implement as soon as possible.

The total budget for the 1980 exploration and development programme is \$1,383,000, as summarized in Exhibit 2.

### Mining and Milling

Based on preliminary recommendations by Mr. Manning and Mr. R. W. Burton, formerly mill manager and latterly general manager at Torbrit Silver Mines, the North Star, Wolf #1 and Wolf #2 deposits are to be exploited as a small scale, 150 to 300 t.p.d. operation.

Final production details will form part of the proposed feasibility study but, at this stage, it is envisaged that production will begin in 1981 with the mining of the North Star, using a down-hole benching method and removing the broken material by air or electric powered LHD equipment to a central ore pass. The Wolf deposits would likely come on stream in late 1982, using close-spaced, sub-level blast hole stoping.

It is proposed that the ore will be treated at a mill to be constructed close to Alice Arm. Pilot metallurgical tests, completed at the Department of Energy, Mines and Resources in Ottawa in 1969, show that 85% of the silver can be recovered by flotation. The method of tailings disposal is still the subject of discussions with the Department of the Environment and the Department of Fisheries.

The silver concentrate will probably be shipped by barge to Vancouver and, thence, by rail either to the Cominco smelter at Trail, B.C., or to such other smelters that may be acceptable.

### Evaluation

Based on the preliminary development proposals and cost estimates, as supplied by Mr. Manning, DMB has undertaken two sets of case studies to evaluate the proposed exploitation of the North Star and Wolf deposits.

The first set, Case A, is based on exploiting the high-grade portions of the deposits (based on a cut-off of 8 oz. Ag/ton) by means of a low-tonnage,

## EXHIBIT 2

DOLLY VARDEN MINERALS INC.KITSAULT VALLEY SILVER DEPOSITS  
RECOMMENDED 1980 EXPLORATION & DEVELOPMENT PROGRAMCOST ESTIMATES \*

(5000's)

|   |                | <u>CDN \$</u>      |
|---|----------------|--------------------|
| 1. NORTH STAR DEVELOPMENT   |                |                    |
| including allowances for  |                |                    |
| mine camp & assay office  | \$100,000      |                    |
| power house & line  | 100,000        |                    |
| mining equipment  | 100,000        |                    |
| operating costs   | <u>364,134</u> | say 664,000        |
| 2. WOLF EXPLORATION   |                |                    |
| 1500 ft. @ \$16.00/foot   |                | 24,000             |
| 3. BRIDGES  |                |                    |
| Bailey Bridge   | 25,000         |                    |
| Footbridge Torbrit-North Star<br>(assuming road not complete)                   | <u>15,000</u>  | 40,000             |
| 4. MOBILIZATION, DEMOBILIZATION & SERVICE                                       |                |                    |
| Basic Mobilization  | 35,000         |                    |
| Demobilization  | <u>15,000</u>  | 50,000             |
| Additional costs assuming road not complete:                                    |                |                    |
| Helicopter mobilization<br>(214B @ \$1500/hr. + fuel)                           | 25,000         |                    |
| Helicopter service<br>(3 mos. @ 8 hr./mo. @ \$350/hr. from<br>base at Kitsault) | <u>8,400</u>   | say 34,000         |
| 5. GENERAL  |                |                    |
| Additional Staff (2 men - 9 mo.)  | 45,000         |                    |
| House at Alice Arm  | 30,000         |                    |
| Dock Crane  | 15,000         |                    |
| Head Office, Overhead & Consulting  | <u>300,000</u> | <u>390,000</u>     |
| SUB-TOTAL   |                | 1,202,000          |
| plus contingency @ 15%  |                | <u>181,000</u>     |
| TOTAL ESTIMATED COST  |                | <u>\$1,383,000</u> |

\* as of December 1, 1979



150 t.p.d. operation. The second set, Case B, is based on exploiting a lower grade of reserves (based on a cut-off of 4 oz. Ag/ton) by means of a higher tonnage, 300 t.p.d. operation. In Case B we have used a recovered grade of 10.0 oz. Ag/ton, rounded from the reserve grade of 10.4 oz. Ag/ton. The other criteria for these case studies, including a 15% contingency applied to the cost estimates, are summarized in Exhibit 3.

Based on these criteria, for each size of operation we have calculated five preliminary cash flow projections, at silver prices between Cdn. \$40 and \$20 per ounce. In all cases it was assumed that the \$1,383,000 for the recommended 1980 exploration and development programme would be provided in return for capital stock of DVM and the balance of capital funds would be financed by a loan.

Copies of the cash flow projections are included as Appendix 1 and summaries of the total operating profit and the net, after tax, cash flow are provided in Exhibits 4 and 5, respectively.

From these cash flows and assuming a discount rate of 18%, the net present value of the proposed operation, as of December 1, 1979, varies from \$24,783,000 to \$4,248,000, as summarized in Exhibit 6.

The variations in total operating profit, net cash flow and net present value, with changes in the price of silver, are shown graphically in Exhibit 7.

#### Other Exploration and Development Work

We understand that the company plans to undertake additional work on the other prospects as soon as it commences development and exploitation of the known deposits.

Having studied all of the available data, DMB recommends that the Torbrit should be re-opened and a programme of drilling, mapping and sampling should be undertaken with the objective of delineating recoverable reserves

Dolly Varden Minerals Inc.  
Page - 8  
March 26, 1980

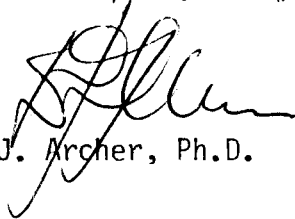
of approximately 500,000 tons averaging 5 oz. Ag/ton or better. The evidence supports the opinion that this is a realistic initial target to be established in preparation for commencing a mining operation.

We estimate that the cost of re-examining the Torbrit, together with a limited amount of prospecting on the adjacent veins, would be about \$1,200,000, excluding any expenditures on road building..

Yours very truly,

DERRY, MICHENER & BOOTH

I. S. Thompson, P.Eng.

A handwritten signature in black ink, appearing to read "D. J. Archer", is written over the typed name below.

D. J. Archer, Ph.D.

IST/DJA/r  
Enclosures

EXHIBIT 3

DOLLY VARDEN MINERALS INC.

KITSAULT VALLEY SILVER DEPOSITS  
SUMMARY OF VALUATION CRITERIA

| ITEM   | CASE A   | CASE B   |
|--|--|--|
|  | <u>High Grade-Low Tonnage</u><br><u>Operation (150 tpd)</u>                                    | <u>Low Grade-High Tonnage</u><br><u>Operation (300 tpd)</u>                                |
| 1. Mineable Reserves   | 253,000 tons @ 13.5 oz. Ag/ton<br>(cut-off of 8 oz. Ag/ton)                                    | 494,000 tons at 10.0 oz. Ag/ton<br>(cut off of 4 oz. Ag/ton)                               |
| 2. Mining Sequence   | North Star, Wolf # 1,<br>Wolf #2   | North Star, Wolf # 1,<br>Wolf #2   |
| 3. Mining Rate   | 300 ton/day for 6 mos.<br>= 52,000 ton/annum   | 300 ton/day for 12 mos.<br>= 104,000 ton/annum   |
| 4. Milling Rate  | 150 ton/day for 12 mos.<br>= 52,000 ton/annum  | 300 ton/day for 12 mos.<br>= 104,000 ton/annum   |
| 5. Mine Life   | 4.5 years commencing<br>in 1981  | 4.75 years commencing<br>in 1981   |
| 6. Mill Recovery   | 85% Ag   | 85% Ag   |
| 7. Recovered Grade<br>(oz. Ag/ton ore)   | 11.5   | 8.5  |
| 8. Concentrate Grade<br>(oz. Ag/ton)   | 200  | 200  |
| 9. Concentrate Shipments<br>(total tons)   | 14,512   | 20,995   |
| 10. Silver Prices Cdn.\$/oz.   | 40,35,30,25,20   | 40,35,30,25,20   |
| 11. NSR/ton concentrate, based<br>on payment for silver and<br>no other payments or penal-<br>ties, Cominco Open Schedule<br>Trail, B.C. | <u>Silver Price</u><br>- \$40/oz -<br>- \$35/oz -<br>- \$30/oz -<br>- \$25/oz -<br>- \$20/oz - | <u>Net Smelter Return</u><br>\$7,350 -<br>\$6,420 -<br>\$5,490 -<br>\$4,560 -<br>\$3,630 - |
| 12. Preproduction Exploration<br>Dev. and Capital Costs  | \$9,893,000  | \$12,797,000   |
| 13. Interest on Debt   | 15%  | 15%  |
| 14. Capital Additions and<br>Ongoing Development<br>Expenses over the life<br>of the operation   | \$576,000  | \$1,362,000  |
| 15. Operating Costs/ton ore  | \$73.59  | \$50.00  |
| 16. Freight/ton of Concentrate<br>(from mill site to Trail,<br>B.C.)   | \$125.00   | \$125.00   |
| 17. Taxes  | - At rates currently applicable  | -  |
| 18. Inflation  | - Constant Dollars are consumed  | -  |
| 19. Residual Value   | - Zero   | -  |

B. & C. LTD.

EXHIBIT 4

DOLLY VARDEN MINERALS INC.

KITSAULT VALLEY SILVER DEPOSITS  
PROJECTED TOTAL OPERATING PROFIT

|    | SILVER<br>PRICE<br>CDN. \$/oz | CASE A<br>HIGH GRADE -<br>LOW TONNAGE<br>150 tpd<br>OPERATION<br>(\$'000s) | CASE B<br>LOW GRADE -<br>HIGH TONNAGE<br>300 tpd<br>OPERATION<br>(\$'000s) |
|----|-------------------------------|--|--|
| 1. | 40                            | 86,888   | 127,124  |
| 2. | 35                            | 73,389   | 107,596  |
| 3. | 30                            | 59,893   | 88,073   |
| 4. | 25                            | 46,397   | 68,547   |
| 5. | 20                            | 32,901   | 49,023   |

EXHIBIT 5

DOLLY VARDEN MINERALS INC.  
KITSAULT VALLEY SILVER DEPOSITS  
PROJECTED NET CASH FLOW \*

|    | SILVER<br>PRICE<br>CDN. \$/OZ | CASE A<br>HIGH GRADE -<br>LOW TONNAGE<br>150 tpd<br>OPERATION<br>(\$'000s) | CASE B<br>LOW GRADE -<br>HIGH TONNAGE<br>300 tpd<br>OPERATION<br>(\$'000s) |
|----|-------------------------------|--|--|
| 1. | 40                            | 35,078   | 51,883   |
| 2. | 35                            | 29,184   | 43,369   |
| 3. | 30                            | 23,292   | 34,844   |
| 4. | 25                            | 17,397   | 26,317   |
| 5. | 20                            | 11,394   | 17,716   |

\* (after deducting taxes, loan repayments and capital items)

D. & C. LTD.

EXHIBIT 6

DOLLY VARDEN MINERALS INC.

KITSAULT VALLEY SILVER DEPOSITS  
NET PRESENT VALUE OF OPERATIONS\*

|    | SILVER<br>PRICE<br>CDN. \$/OZ. | CASE A<br>HIGH GRADE -<br>LOW TONNAGE<br>150 tpd<br>OPERATION<br>(\$'000s) | CASE B<br>LOW GRADE -<br>HIGH TONNAGE<br>300 tpd<br>OPERATION<br>(\$'000s) |
|----|--------------------------------|--|--|
| 1. | 40                             | 16,769   | 24,783   |
| 2. | 35                             | 13,682   | 20,370   |
| 3. | 30                             | 10,567   | 15,909   |
| 4. | 25                             | 7,420  | 11,396   |
| 5. | 20                             | 4,248  | 6,924  |

\* as of December 1, 1979, based on a discount factor of 18% p.a., and revenues received mid-year.

B. & C. LTD.

### Exhibit 7

## Dolly Varden Minerals Inc.

PROJECTED OPERATING PROFIT, NET CASH FLOW  
and NET PRESENT VALUE (18%)  
with  
VARIATIONS in SILVER PRICE

Canadian Dollars (Millions).

Silver Price in Canadian Dollars.

300 tpd  
TOTAL  
OPERATING  
PROFIT

150 tpd

300 tpd  
NET  
CASH  
FLOW

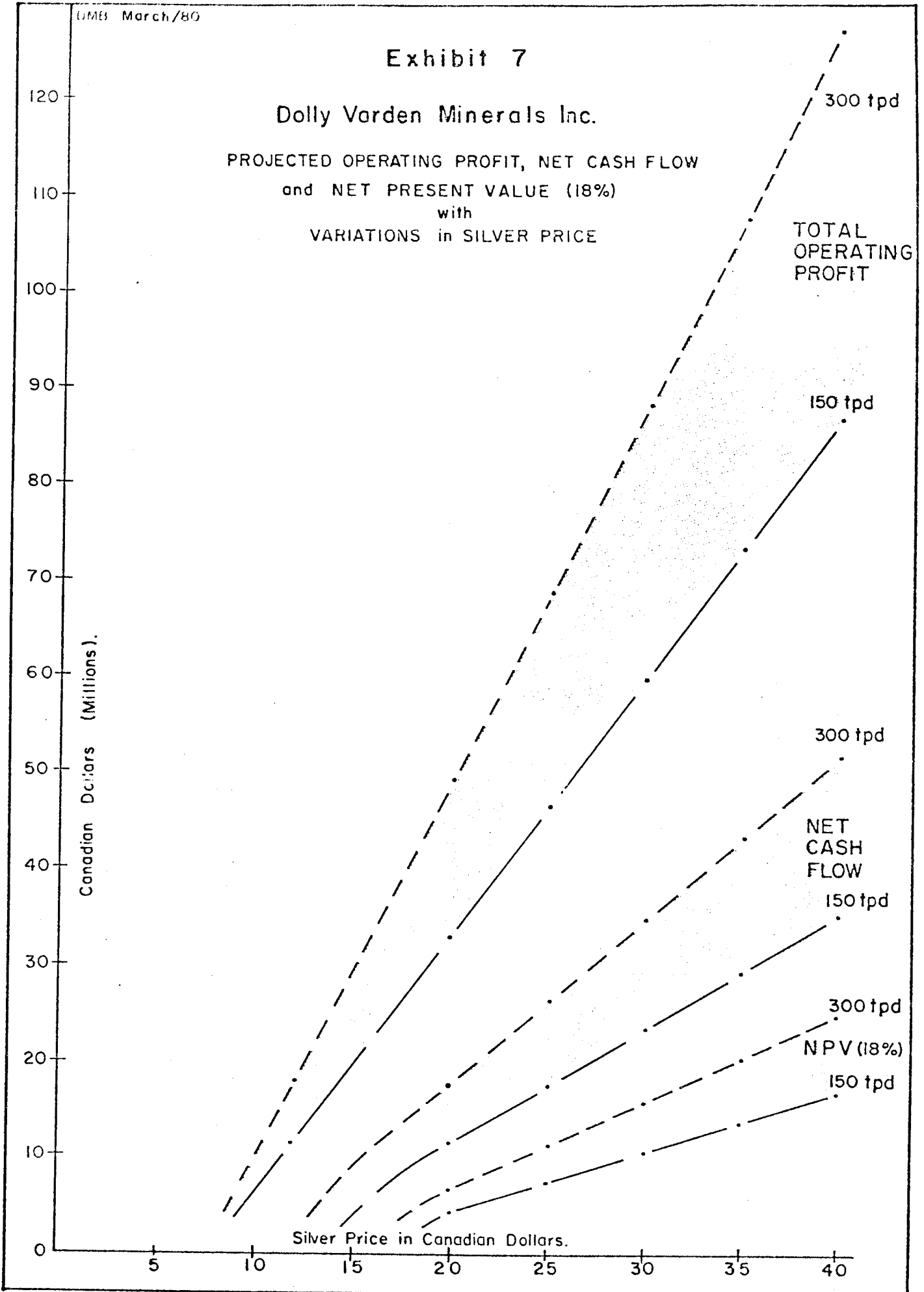
150 tpd

300 tpd  
NPV (18%)

150 tpd

120  
110  
100  
90  
80  
70  
60  
50  
40  
30  
20  
10  
0

5 10 15 20 25 30 35 40



APPENDIX I

| <u>OPERATION</u>                       | <u>CASE NO.</u> | <u>SILVER PRICE<br/>(CDN. \$/OZ)</u> |
|--|-----------------|--------------------------------------|
| High Grade -<br>Low Tonnage<br>150 tpd | A1              | \$40                                 |
|  | A2              | \$35                                 |
|  | A3              | \$30                                 |
|  | A4              | \$25                                 |
|  | A5              | \$20                                 |
| <hr/>                                  |                 |                                      |
| Low Grade -<br>High Tonnage<br>300 tpd | B1              | \$40                                 |
|  | B2              | \$35                                 |
|  | B3              | \$30                                 |
|  | B4              | \$25                                 |
|  | B5              | \$20                                 |

S. & C. LTD.



KITSAULT VALLEY SILVER DEPOSITS

Case A1

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

High Grade - Low Tonnage, 150 tpd operation, Silver at Cdn. \$40/oz.

|  | <u>1980</u>      | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|------------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -                | 11,297      | 22,594       | 22,907       | 21,984       | 20,551       | 7,332        | 106,665       |
| less: Operating costs                    | -                | 2,826       | 3,826        | 3,826        | 3,826        | 3,124        | 535          | 17,963        |
| Freight                                  | -                | 192         | 384          | 390          | 374          | 349          | 125          | 1,814         |
| Operating Profit                         | -                | 8,279       | 18,384       | 18,691       | 17,784       | 17,078       | 6,672        | 86,838        |
| less: Federal Income Tax                 | -                | -           | 3,148        | 4,932        | 4,797        | 4,605        | 1,797        | 19,279        |
| Provincial Income Tax                    | -                | -           | 2,075        | 2,755        | 2,665        | 2,558        | 999          | 11,052        |
| Provincial Mineral Resources Tax         | -                | -           | 2,116        | 2,732        | 2,643        | 2,537        | 990          | 11,018        |
| Cash Flow after taxes                    | -                | 8,279       | 11,045       | 8,272        | 7,679        | 7,378        | 2,886        | 45,539        |
| less: Working Capital                    | -                | 2,000       | -            | -            | -            | -            | (2,000)      | -             |
| Capital Purchases & Development Expenses | 3,999            | 3,894       | 259          | 259          | 29           | 29           | -            | 8,469         |
| Loan & Interest Repayments (Advances)    | (2,616)          | 2,385       | 2,223        | -            | -            | -            | -            | 1,992         |
| NET CASH FLOW                            | <u>(1,383) *</u> | <u>0</u>    | <u>8,563</u> | <u>8,013</u> | <u>7,650</u> | <u>7,349</u> | <u>4,886</u> | <u>35,078</u> |

\* Represents Equity Capital financing to the project

KITSAULT VALLEY SILVER DEPOSITS

Case A2

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

High Grade - Low Tonnage, 150 tpd Operation, Silver at Cdn. \$35/Oz.

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -               | 9,868       | 19,736       | 20,009       | 19,202       | 17,948       | 6,403        | 93,166        |
| less: Operating costs                    | -               | 2,826       | 3,826        | 3,826        | 3,826        | 3,124        | 535          | 17,963        |
| Freight                                  | -               | 192         | 384          | 390          | 374          | 349          | 125          | 1,814         |
| Operating Profit                         | -               | 6,850       | 15,526       | 15,793       | 15,002       | 14,475       | 5,743        | 73,389        |
| less: Federal Income Tax                 | -               | -           | 2,166        | 3,897        | 4,045        | 3,902        | 1,547        | 15,557        |
| Provincial Income Tax                    | -               | -           | 1,400        | 2,321        | 2,247        | 2,168        | 859          | 8,995         |
| Provincial Mineral Resources Tax         | -               | -           | 1,446        | 2,301        | 2,229        | 2,150        | 852          | 8,978         |
| Cash Flow after taxes                    | -               | 6,850       | 10,514       | 7,274        | 6,481        | 6,255        | 2,485        | 39,859        |
| less: Working Capital                    | -               | 2,000       | -            | -            | -            | -            | (2,000)      | -             |
| Capital Purchases & Development Expenses | 3,999           | 3,894       | 259          | 259          | 29           | 29           | -            | 8,469         |
| Loan & Interest Repayments (Advances)    | (2,616)         | 956         | 3,866        | -            | -            | -            | -            | 2,206         |
| NET CASH FLOW                            | <u>(1,383)*</u> | <u>0</u>    | <u>6,389</u> | <u>7,015</u> | <u>6,452</u> | <u>6,226</u> | <u>4,485</u> | <u>29,184</u> |

\* Represents Equity Capital Financing to the Project

DMB Reference Case 19

KITSAULT VALLEY SILVER DEPOSITS

Case A3

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

High Grade - Low Tonnage, 150 tpd Operation, Silver at Cdn. \$30/Oz.

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -               | 8,438       | 16,877       | 17,110       | 16,421       | 15,348       | 5,476        | 79,670        |
| less: Operating costs                    | -               | 2,826       | 3,826        | 3,826        | 3,826        | 3,124        | 535          | 17,963        |
| Freight                                  | -               | 192         | 384          | 390          | 374          | 349          | 125          | 1,814         |
| Operating Profit                         | -               | 5,420       | 12,667       | 12,894       | 12,221       | 11,875       | 4,816        | 59,893        |
| less: Federal Income Tax                 | -               | -           | 1,239        | 2,805        | 3,295        | 3,200        | 1,296        | 11,835        |
| Provincial Income Tax                    | -               | -           | 848          | 1,762        | 1,830        | 1,778        | 720          | 6,938         |
| Provincial Mineral Resources Tax         | -               | -           | 884          | 1,762        | 1,815        | 1,763        | 714          | 6,938         |
| Cash Flow after taxes                    | -               | 5,420       | 9,696        | 6,565        | 5,281        | 5,134        | 2,086        | 34,182        |
| less: Working Capital                    | -               | 2,000       | -            | -            | -            | -            | (2,000)      | -             |
| Capital Purchases & Development Expenses | 3,999           | 3,894       | 259          | 259          | 29           | 29           | -            | 8,469         |
| Loan & Interest Repayments (Advances)    | (2,616)         | (474)       | 5,511        | -            | -            | -            | -            | 2,421         |
| NET CASH FLOW                            | <u>(1,383)*</u> | <u>0</u>    | <u>3,926</u> | <u>6,306</u> | <u>5,252</u> | <u>5,105</u> | <u>4,086</u> | <u>23,292</u> |

\* Represents Equity Capital Financing to the project.

DMR Reference Case 18.

KITSAULT VALLEY SILVER DEPOSITS

Case A4

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

High Grade - Low Tonnage, 150 tpd Operation, Silver at Cdn. \$25/0z.

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -               | 7,009       | 14,018       | 14,212       | 13,639       | 12,748       | 4,548        | 66,174        |
| less: Operating costs                    | -               | 2,826       | 3,826        | 3,826        | 3,826        | 3,124        | 535          | 17,963        |
| Freight                                  | -               | 192         | 384          | 390          | 374          | 349          | 125          | 1,814         |
| Operating Profit                         | -               | 3,991       | 9,808        | 9,996        | 9,439        | 9,275        | 3,888        | 46,397        |
| less: Federal Income Tax                 | -               | -           | 314          | 1,959        | 2,298        | 2,498        | 1,046        | 8,115         |
| Provincial Income Tax                    | -               | -           | 341          | 1,159        | 1,413        | 1,308        | 581          | 4,882         |
| Provincial Mineral Resources Tax         | -               | -           | 382          | 1,164        | 1,401        | 1,376        | 576          | 4,899         |
| Cash Flow after taxes                    | -               | 3,991       | 8,771        | 5,714        | 4,327        | 4,013        | 1,685        | 28,501        |
| less: Working Capital                    | -               | 2,000       | -            | -            | -            | -            | (2,000)      | -             |
| Capital Purchases & Development Expenses | 3,999           | 3,894       | 259          | 259          | 29           | 29           | -            | 8,469         |
| Loan & Interest Repayments (Advances)    | (2,616)         | (1,903)     | 7,154        | -            | -            | -            | -            | 2,635         |
| NET CASH FLOW                            | <u>(1,383)*</u> | <u>0</u>    | <u>1,358</u> | <u>5,455</u> | <u>4,298</u> | <u>3,984</u> | <u>3,685</u> | <u>17,397</u> |

\* Represents Equity Capital Financing to the Project.

KITSAULT VALLEY SILVER DEPOSITS

Case A5

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

High Grade - Low Tonnage, 150 tpd Operation, Silver at Cdn. \$20/Oz.

(\$000's)

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u> | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|-------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues   | -               | 5,580       | 11,159      | 11,313       | 10,857       | 10,148       | 3,621        | 52,678        |
| less: Operating costs  | -               | 2,826       | 3,826       | 3,826        | 3,826        | 3,124        | 535          | 17,963        |
| Freight  | -               | 192         | 384         | 390          | 374          | 349          | 125          | 1,814         |
| Operating Profit (Table 18)                                    | -               | 2,562       | 6,949       | 7,097        | 6,657        | 6,675        | 2,961        | 32,901        |
| less: Federal Income Tax (Schedule 2A)                         | -               | -           | -           | 675          | 1,344        | 1,466        | 795          | 4,280         |
| Provincial Income Tax (Schedule 2B)                            | -               | -           | -           | 571          | 768          | 998          | 442          | 2,779         |
| Provincial Mineral Resources Tax (Schedule 2C)                 | -               | -           | -           | 610          | 776          | 989          | 438          | 2,813         |
| Cash Flow after taxes  | -               | 2,562       | 6,949       | 5,241        | 3,769        | 3,222        | 1,286        | 23,029        |
| less: Working Capital  | -               | 2,000       | -           | -            | -            | -            | (2,000)      | -             |
| Capital Purchases & Development Expenses<br>(Tables 14 and 15) | 3,999           | 3,894       | 259         | 259          | 29           | 29           | -            | 8,469         |
| Loan & Interest Repayments (Advances) (Schedule 2D)            | (2,616)         | (3,332)     | 6,690       | 2,424        | -            | -            | -            | 3,166         |
| NET CASH FLOW  | <u>(1,333)*</u> | <u>0</u>    | <u>0</u>    | <u>2,558</u> | <u>3,740</u> | <u>3,193</u> | <u>3,286</u> | <u>11,394</u> |

\* Represents Equity Capital Financing to the project

DMB Reference Case 2

KITSAULT VALLEY SILVER DEPOSITS

Case B1

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

Low Grade High Tonnage, 300 tpd Operation, Silver at Cdn. \$40/Oz.

|  | <u>1980</u>      | <u>1981</u> | <u>1982</u>   | <u>1983</u>   | <u>1984</u>   | <u>1985</u>   | <u>1986</u>  | <u>Total</u>  |
|--|------------------|-------------|---------------|---------------|---------------|---------------|--------------|---------------|
| Operating Revenues                       | -                | 16,244      | 32,487        | 32,487        | 32,487        | 32,487        | 8,122        | 154,314       |
| less: Operating costs                    | -                | 3,768       | 5,200         | 5,200         | 5,200         | 4,550         | 650          | 24,568        |
| Freight                                  | -                | 276         | 552           | 552           | 552           | 552           | 138          | 2,622         |
| Operating Profit                         | -                | 12,200      | 26,735        | 26,735        | 26,735        | 27,385        | 7,334        | 127,124       |
| less: Federal Income Tax                 | -                | -           | 5,780         | 6,990         | 7,153         | 7,382         | 1,972        | 29,277        |
| Provincial Income Tax                    | -                | 105         | 3,455         | 3,914         | 4,005         | 4,101         | 1,095        | 16,675        |
| Provincial Mineral Resources Tax         | -                | 151         | 3,441         | 3,881         | 3,971         | 4,067         | 1,086        | 16,597        |
| Cash Flow after taxes                    | -                | 11,944      | 14,059        | 11,950        | 11,606        | 11,835        | 3,181        | 64,575        |
| less: Working Capital                    | -                | 3,910       | -             | -             | -             | -             | (3,910)      | -             |
| Capital Purchases & Development Expenses | 4,172            | 4,924       | 518           | 518           | 58            | 58            | -            | 10,248        |
| Loan & Interest Repayments (Advances)    | (2,789)          | 3,110       | 2,123         | -             | -             | -             | -            | 2,444         |
| NET CASH FLOW                            | <u>(1,383)</u> * | <u>0</u>    | <u>11,418</u> | <u>11,432</u> | <u>11,548</u> | <u>11,777</u> | <u>7,091</u> | <u>51,883</u> |

\* Represents Equity Capital financing to the project.

KITSAULT VALLEY SILVER DEPOSITS

Case B2

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

Low Grade - High Tonnage, 300 tod Operation, Silver at Cdn. \$35/Oz.

|  | <u>1980</u>      | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>   | <u>1986</u>  | <u>Total</u>  |
|--|------------------|-------------|--------------|--------------|--------------|---------------|--------------|---------------|
| Operating Revenues                       | -                | 14,188      | 28,376       | 28,376       | 28,376       | 28,376        | 7,094        | 134,786       |
| less: Operating costs                    | -                | 3,768       | 5,200        | 5,200        | 5,200        | 4,550         | 650          | 24,568        |
| Freight                                  | -                | 276         | 552          | 552          | 552          | 552           | 138          | 2,622         |
| Operating Profit                         | -                | 10,144      | 22,624       | 22,624       | 22,624       | 23,274        | 6,306        | 107,596       |
| less: Federal Income Tax                 | -                | -           | 3,963        | 5,880        | 6,098        | 6,272         | 1,694        | 23,907        |
| Provincial Income Tax                    | -                | -           | 2,594        | 3,297        | 3,388        | 3,485         | 941          | 13,705        |
| Provincial Mineral Resources Tax         | -                | -           | 2,635        | 3,270        | 3,360        | 3,455         | 933          | 13,653        |
| Cash Flow after taxes                    | -                | 10,144      | 13,432       | 10,177       | 9,778        | 10,062        | 2,738        | 56,331        |
| less: Working Capital                    | -                | 3,910       | -            | -            | -            | -             | (3,910)      | -             |
| Capital Purchases & Development Expenses | 4,172            | 4,924       | 518          | 518          | 58           | 58            | -            | 10,248        |
| Loan & Interest Repayments (Advances)    | (2,789)          | 1,310       | 4,193        | -            | -            | -             | -            | 2,714         |
| NET CASH FLOW                            | <u>(1,383)</u> * | <u>0</u>    | <u>8,721</u> | <u>9,659</u> | <u>9,720</u> | <u>10,004</u> | <u>6,648</u> | <u>43,369</u> |

\* Represents Equity Capital financing to the project

DMB Reference Case 17

KITSAULT VALLEY SILVER DEPOSITS

Case B3

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

Low Grade - High tonnage, 300 tpd Operation, Silver at Cdn. \$30/Oz.

|  | <u>1980</u>      | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|------------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -                | 12,133      | 24,266       | 24,266       | 24,266       | 24,266       | 6,066        | 115,263       |
| less: Operating costs                    | -                | 3,768       | 5,200        | 5,200        | 5,200        | 4,550        | 650          | 24,568        |
| Freight                                  | -                | 276         | 552          | 552          | 552          | 552          | 138          | 2,622         |
| Operating Profit                         | -                | 8,089       | 18,514       | 18,514       | 18,514       | 19,164       | 5,278        | 88,073        |
| less: Federal Income Tax                 | -                | -           | 2,501        | 4,457        | 4,989        | 5,162        | 1,417        | 18,526        |
| Provincial Income Tax                    | -                | -           | 1,623        | 2,681        | 2,771        | 2,868        | 787          | 10,730        |
| Provincial Mineral Resources Tax         | -                | -           | 1,672        | 2,658        | 2,748        | 2,844        | 781          | 10,703        |
| Cash Flow after taxes                    | -                | 8,089       | 12,718       | 8,718        | 8,006        | 8,290        | 2,293        | 48,114        |
| less: Working Capital                    | -                | 3,910       | -            | -            | -            | -            | (3,910)      | -             |
| Capital Purchases & Development Expenses | 4,172            | 4,924       | 518          | 518          | 58           | 58           | -            | 10,248        |
| Loan & Interest Repayments (Advances)    | (2,789)          | (745)       | 6,556        | -            | -            | -            | -            | 3,022         |
| NET CASH FLOW                            | <u>(1,383)</u> * | <u>Ø</u>    | <u>5,644</u> | <u>8,200</u> | <u>7,948</u> | <u>8,232</u> | <u>6,203</u> | <u>34,844</u> |

\* Represents Equity Capital financing to the project



KITSAULT VALLEY SILVER DEPOSITS

Case B4

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

Low Grade - High Tonnage, 300 tpd Operation, Silver at Cdn. \$25/Oz.

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u>  | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -               | 10,078      | 20,155       | 20,155       | 20,155       | 20,155       | 5,039        | 95,737        |
| less: Operating costs                    | -               | 3,768       | 5,200        | 5,200        | 5,200        | 4,550        | 650          | 24,568        |
| Freight                                  | -               | 276         | 552          | 552          | 552          | 552          | 138          | 2,622         |
| Operating Profit                         | -               | 6,034       | 14,403       | 14,403       | 14,403       | 15,053       | 4,251        | 68,547        |
| less: Federal Income Tax                 | -               | -           | 1,169        | 2,903        | 3,879        | 4,053        | 1,139        | 13,143        |
| Provincial Income Tax                    | -               | -           | 847          | 1,869        | 2,155        | 2,251        | 633          | 7,755         |
| Provincial Mineral Resources Tax         | -               | -           | 887          | 1,869        | 2,137        | 2,233        | 628          | 7,754         |
| Cash Flow after taxes                    | -               | 6,034       | 11,500       | 7,762        | 6,232        | 6,516        | 1,851        | 39,895        |
| less: Working Capital                    | -               | 3,910       | -            | -            | -            | -            | (3,910)      | -             |
| Capital Purchases & Development Expenses | 4,172           | 4,924       | 518          | 518          | 58           | 58           | -            | 10,248        |
| Loan & Interest Repayments (Advances)    | (2,789)         | (2,800)     | 8,919        | -            | -            | -            | -            | 3,330         |
| NET CASH FLOW                            | <u>(1,383)*</u> | <u>0</u>    | <u>2,063</u> | <u>7,244</u> | <u>6,174</u> | <u>6,458</u> | <u>5,761</u> | <u>26,317</u> |

\* Represents Equity Capital Financing to the project

KITSAULT VALLEY SILVER DEPOSITS

Case B5

PRELIMINARY CASH FLOW PROJECTION  
AS A DVM OPERATION

Low Grade - High Tonnage, 300 tpd Operation, Silver at \$20/Oz.

|  | <u>1980</u>     | <u>1981</u> | <u>1982</u> | <u>1983</u>  | <u>1984</u>  | <u>1985</u>  | <u>1986</u>  | <u>Total</u>  |
|--|-----------------|-------------|-------------|--------------|--------------|--------------|--------------|---------------|
| Operating Revenues                       | -               | 8,022       | 16,045      | 16,045       | 16,045       | 16,045       | 4,011        | 76,213        |
| less: Operating costs                    | -               | 3,768       | 5,200       | 5,200        | 5,200        | 4,550        | 650          | 24,568        |
| Freight                                  | -               | 276         | 552         | 552          | 552          | 552          | 138          | 2,622         |
| Operating Profit                         | -               | 3,978       | 10,293      | 10,293       | 10,293       | 10,943       | 3,223        | 49,023        |
| less: Federal Income Tax                 | -               | -           | -           | 1,721        | 2,140        | 2,942        | 861          | 7,664         |
| Provincial Income Tax                    | -               | -           | 119         | 1,072        | 1,435        | 1,635        | 479          | 4,740         |
| Provincial Mineral Resources Tax         | -               | -           | 151         | 1,064        | 1,438        | 1,621        | 475          | 4,749         |
| Cash Flow after taxes                    | -               | 3,978       | 10,023      | 6,436        | 5,280        | 4,745        | 1,408        | 31,870        |
| less: Working Capital                    | -               | 3,910       | -           | -            | -            | -            | (3,910)      | -             |
| Capital Purchases & Development Expenses | 4,172           | 4,924       | 518         | 518          | 58           | 58           | -            | 10,248        |
| Loan & Interest Repayments (Advances)    | (2,789)         | (4,856)     | 9,505       | 2,046        | -            | -            | -            | 3,905         |
| NET CASH FLOW                            | <u>(1,383)*</u> | <u>0</u>    | <u>0</u>    | <u>3,872</u> | <u>5,222</u> | <u>4,687</u> | <u>5,318</u> | <u>17,716</u> |

\* Represents Equity Capital financing to the project

DMB Reference Case 7

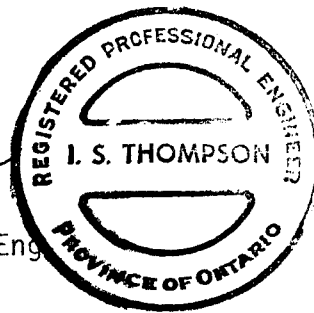
CERTIFICATE OF QUALIFICATION

I, Ian Stuart Thompson, residing at 16 Edenbrook Hill, Islington, Ontario, do hereby certify that:-

- (1) I am a consulting geologist associated with the firm Derry, Michener & Booth.
- (2) I am a graduate of the University of Toronto in Honours Geological Sciences with the degree of B.A. in 1959 and have been practising my profession since graduation.
- (3) I am a registered Professional Engineer in the Province of Ontario and in the Province of British Columbia and am a Fellow of the Geological Association of Canada and of the Society of Economic Geologists.
- (4) I have not received, nor do I expect to receive, any interests, directly or indirectly, in the stock of Dolly Varden Resources Ltd.
- (5) The statements contained in this report and the conclusions reached are based upon my review of the data made available to me by Dolly Varden Resources Limited.
- (6) I visited the property twice in connection with the supervision of a geochemical exploration programme undertaken by Derry, Michener & Booth on the Company's properties from July to September 1978.

*I. S. Thompson*

I. S. Thompson, P. Eng

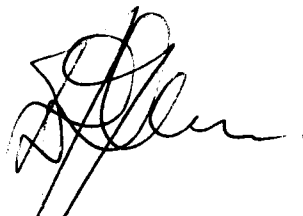


Toronto, Ontario  
March 26, 1980

CERTIFICATE OF QUALIFICATION

I, Derek John Archer, residing at 22 Oakmount Road, Apt. #702, Toronto, Ontario, do hereby certify that:-

- (1) I am a geologist employed by the firm Derry, Michener & Booth.
- (2) I am a graduate of the University of Manchester, England, in Honours Geology with the degree of B.Sc. in 1966 and Ph.D. in 1969, and of the University of Cape Town, South Africa with the degree of MBA in 1975.
- (3) I have been practising my profession for seven years.
- (4) I have not received, nor do I expect to receive, any interest, directly or indirectly, in the stock of Dolly Varden Resources Ltd.
- (5) The statements contained in this report and the conclusions reached are based upon my review of the data made available to me by Dolly Varden Resources Ltd.
- (6) I have not visited the property.



D. J. Archer, Ph.D.

Toronto, Ontario  
March 26, 1980

**JAMES A. LEWIS ENGINEERING CO. LTD.**

*Petroleum Reservoir Analysts and Energy Consultants*

500 - 736 EIGHTH AVENUE S.W.  
CALGARY, ALBERTA, CANADA T2P 1H4

BELA BALAZ, P.ENG.  
PRESIDENT

TELEPHONE (403) 263-6600  
TELEX 03-822820

March 17, 1980

File: 1859

Dolly Varden Minerals Ince.  
Suite #1710, 1177 West Hastings Street  
Vancouver, British Columbia

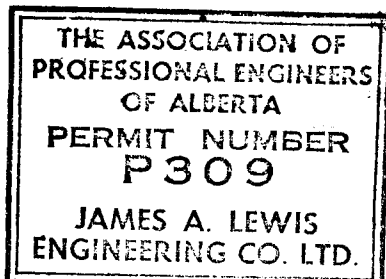
Attention: Mr. Fred Christensen

SUBJECT: WEST ELMWORTH AREA, B.C.

Gentlemen:

In accordance with your authorization, we have evaluated the interest owned by Dolly Varden Minerals Inc. in the West Elmworth Area of British Columbia. Dolly Varden has a 5.333 per cent working interest in Crown Drilling Reservation #527 covering some 5,917 hectares (approximately 14,621 acres) purchased at the June 27, 1979 land sale for a total (100 per cent working interest) consideration of \$9,368,833. A 4,110 metre exploration test on this acreage is scheduled for June 1980 at a total cost of \$4,691,500. Husky Oil Operations Ltd. is the Operator with a working interest of 53 per cent in the acreage. At this time, a value of \$675 per reservation acre has been assigned to this acreage. Dolly Varden's interest is consequently evaluated at \$526,000 which is slightly greater than Dolly Varden's actual cost of \$500,000. Certificates of Qualification have been prepared for this evaluation and are attached.

If we can be of further assistance in this matter, please do not hesitate to call.



Yours very truly,

JAMES A. LEWIS ENGINEERING CO. LTD.

Gordon G. Hoover, P. Eng.

GGH:jsh

Attachments (2)

## CERTIFICATE OF QUALIFICATION

This is to certify that James A. Lewis Engineering Co. Ltd. with offices located at 736 Eighth Avenue S.W., Calgary, Alberta, Canada, did prepare an appraisal report of the prospective land holdings in the West Elmworth Area of British Columbia owned by Dolly Varden Minerals Inc., as of March 17, 1980.

- (1) James A. Lewis Engineering Co. Ltd. is a corporation of consulting petroleum engineers engaged primarily in the appraisal and supervision of petroleum and natural gas properties.
- (2) Gordon Hoover, Petroleum Engineer, was the person directly responsible for the preparation of this report. Mr. Hoover has in excess of eleven years experience in petroleum engineering and has been associated with James A. Lewis Engineering Co. Ltd. for approximately three years. Petroleum property evaluation experience of Mr. Hoover extends throughout Canada and the United States of America. He is an engineering graduate from the University of Manitoba, Canada, and has completed numerous industry/university courses in petroleum engineering and economics. He is a registered member of the Association of Professional Engineers in the Province of Alberta and is a member of the Petroleum Society of the CIM.
- (3) James A. Lewis Engineering Co. Ltd. has no interest, directly or indirectly, nor does it expect to receive any interest, directly or indirectly, in any of the property interests or securities of Dolly Varden Minerals Inc.
- (4) The property studied in this report are located in the Province of British Columbia.

JAMES A. LEWIS ENGINEERING CO. LTD.



Gordon G. Hoover, P. Eng.  
Vice-President

Calgary, Alberta  
March 17, 1980

CERTIFICATE OF QUALIFICATION (Continued)

I, Gordon G. Hoover, hereby certify that I have no interest, directly or indirectly, nor do I expect to receive any interest, directly or indirectly, in any of the property interests or securities of Dolly Varden Minerals Inc.

A handwritten signature in cursive script that reads "Gordon G. Hoover". The signature is written in black ink and is positioned to the right of the main text block.

Gordon G. Hoover, P. Eng.

Calgary, Alberta  
March 17, 1980

# JOHN P. HUNTER & ASSOCIATES LTD.

CONSULTING PETROLEUM ENGINEERS AND GEOLOGISTS

726 CALGARY HOUSE, 550 SIXTH AVENUE S.W.

CALGARY, ALBERTA T2P 0S2

(403) 261-9081

JOHN P. HUNTER, P.ENG.

July 3, 1979

Mr. W.F. Christensen  
Chancellor Energy Resources Inc.  
2301 - 401 Bay Street  
TORONTO, Ontario  
M5H 2Y4

Dear Sir:

Re: Evaluation of Yoyo, British Columbia

As requested, an evaluation has been prepared of the interests of Chancellor Energy Resources Inc. in the Yoyo field of northeastern British Columbia.

Chancellor Energy Resources Inc. is hereinafter referred to as the 'Company' in this report.

The effective date of this study is July 1, 1979. The following table presents the net proved gas reserves owned by the Company less all interests owned. The table also presents the future cash flow from these reserves undiscounted and discounted at 10 percent per annum after deducting the Company's share of all future operating and capital costs.

| Net Reserves<br>MMcf | Company Share      |                           |
|----------------------|--------------------|---------------------------|
|                      | Undiscounted<br>\$ | Present Worth @ 10%<br>\$ |
| 3,063                | 4,918,700          | 1,922,600                 |

In this study, proved reserves are defined as those reserves which are considered to be recoverable, to a high degree of certainty, at commercial rates, assuming current depletion methods, operating conditions, prices and costs but providing for normal inflationary pressures on prices and costs.

/...2



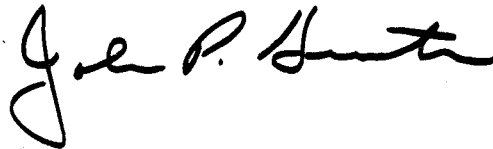
A discussion is given in the following report of the pertinent characteristics of the pool. A forecast of production, net production revenue and present worth is also included.

The reserve calculations and income projection upon which this report is based was determined in accordance with generally accepted evaluation practices.

The extent and character of ownership and all of the actual data supplied by the Company were accepted as represented.

Yours very truly,

JOHN P. HUNTER & ASSOCIATES LTD.

A handwritten signature in black ink, appearing to read "John P. Hunter". The signature is written in a cursive style with a large initial "J".

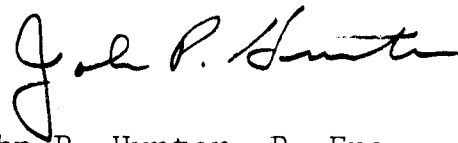
John P. Hunter, P.Eng.  
President

JPH:bm

CERTIFICATE OF QUALIFICATION

I, John P. Hunter, Petroleum Engineer of Room 726, 550 Sixth Avenue S.W., CALGARY, Alberta, Canada, hereby certify:

1. That I am the President of John P. Hunter & Associates Ltd. which Company did prepare a report on certain interests of Chancellor Energy Resources Inc. during the month of July, 1979.
2. That John P. Hunter & Associates Ltd. or its officers, have no direct or indirect interest nor do they expect to receive any direct or indirect interest in the properties or in an securities of Chancellor Energy Resources Inc.
3. That I attended the Montana School of Mines and that I graduated with a Bachelor of Science Degree in Petroleum Engineering in 1959. That I am a registered Professional Engineer in the Province of Alberta. That I have in excess of twenty years experience in reservoir studies and evaluations of oil and gas fields in Canada and the United States.
4. That a personal field inspection of producing properties was not made, however, such an inspection was not considered necessary in view of the nature of the information available on the areas studied; and that the basic data employed in preparing the said report were obtained from the files of Chancellor Energy Resources Inc.



John P. Hunter, P. Eng.

July 1, 1979

Yoyo Field, British Columbia

The Company has a 3.94866 percent working interest subject to the British Columbia Crown Royalty in two producing Elk Point gas wells in the Yoyo field in northeastern British Columbia.

The wells are located in c-34-I, 94-I-13 and a-49-L-94-I-14.

The c-34-I well began producing in March, 1975 and to the end of 1978 had produced a total of 13,493 MMcf of raw gas. The a-49-L well began producing October, 1972 and to the end of 1978 had produced 41,112 MMcf of raw gas.

The original gas-in-place as recognized by the British Columbia Ministry of Mines and Petroleum Resources is 1140 Bcf. A detailed reservoir depletion study prepared by Pacific Petroleum Ltd. in September, 1978 determined the original gas-in-place to be 1912 Bcf. In this evaluation, the original gas-in-place of 1912 Bcf was accepted.

The Pacific study came to the conclusion that field compression will be required in early 1980 and will result in the pool having at least another 30 years to produce.

Based on past performance it is estimated that the Company wells will produce 9.888 percent of the total pool production.

The Yoyo gas is considered to be 'old' and as a result the Company is currently receiving \$0.78 Mcf. In this study the following gas prices were used:

|      |   |                |                     |   |                |
|------|---|----------------|---------------------|---|----------------|
| 1979 | - | \$0.86 per Mcf | 1985                | - | \$1.49 per Mcf |
| 1980 | - | \$0.94 per Mcf | 1986                | - | \$1.62 per Mcf |
| 1981 | - | \$1.02 per Mcf | 1987                | - | \$1.78 per Mcf |
| 1982 | - | \$1.07 per Mcf | 1988                | - | \$1.91 per Mcf |
| 1983 | - | \$1.24 per Mcf | 1989                | - | \$2.11 per Mcf |
| 1984 | - | \$1.36 per Mcf | 1990 and thereafter | - | \$2.25 per Mcf |

A large compressor is assumed to be installed during 1980 and the wells share is estimated to cost \$1,500,000. Operating costs are estimated at \$9,000. per month in 1979 and increase to \$12,500 per month in 1980 with the addition of the compressor. The well costs were increased 8 percent per year from 1981 to 1990 and then held constant to depletion.

Table 1 is a forecast of production, net production revenue and present worth for the Company interest at Yoyo.

TABLE 1

NATURAL GAS APPRAISAL -YOYO B.C.-ELK POINT-PROVED PRODUCING

EVALUATION BY :- JOHN P. HUNTER & ASSOCIATES LTD.  
 COMPANY EVALUATED :- CHANCELLOR ENERGY RESOURCES INC.  
 WELL AND LOCATION :- C-34-I 94-I-13 + A-49-L 94-I-14  
 APPRAISAL FOR :- CHANCELLOR ENERGY RESOURCES INC.  
 CO PARTICIPATION :- WORKING INTEREST 3.949 %

EFFECTIVE DATE :- JUL 1,1979  
 TRACT FACTOR :- 100.000 FCT  
 POOL RESERVES :- 126566 MMCF  
 PROD TO DATE :- 48987 MMCF  
 GROSS CAP COSTS:- 1635000 DOLLARS

ROYALTY :- B.C. CROWN

POOL OR TRACT SHARE

COMPANY SHARE

\*\*\*\*\*

\*\*\*\*\*

| YEAR   | GROSS GAS |               | OPER. COSTS<br>DOLLARS | CAPITAL COSTS<br>DOLLARS | NO. WELLS | ---PRODUCTION--- |          |                   | -----COSTS----- |                |             | -NET OPER. REVENUE- |                 | -----CASH FLOW----- |  |  |
|--------|-----------|---------------|------------------------|--------------------------|-----------|------------------|----------|-------------------|-----------------|----------------|-------------|---------------------|-----------------|---------------------|--|--|
|        | PROD MCF  | PRICE \$/MMCF |                        |                          |           | GROSS MMCF       | NET MMCF | OPERATING DOLLARS | CAPITAL DOLLARS | ANNUAL DOLLARS | CUM DOLLARS | UNDISC. DOLLARS     | FW 10 % DOLLARS | CUM FW DOLLARS      |  |  |
| 1977   | 2624      | 860           | 54148                  | 0                        | 2         | 104              | 104      | 2138              | 0               | 86958          | 86958       | 86958               | 84894           | 84894               |  |  |
| 1980   | 5233      | 940           | 150000                 | 1500000                  | 2         | 207              | 207      | 5923              | 59230           | 188313         | 275270      | 129083              | 117302          | 202196              |  |  |
| 1981   | 4952      | 1020          | 162000                 | 0                        | 2         | 196              | 196      | 6397              | 0               | 193050         | 468320      | 193050              | 159483          | 361678              |  |  |
| 1982   | 4865      | 1070          | 174960                 | 0                        | 2         | 192              | 192      | 6909              | 0               | 198644         | 666965      | 198644              | 149186          | 510865              |  |  |
| 1983   | 4813      | 1240          | 188957                 | 80000                    | 2         | 190              | 190      | 7461              | 3159            | 228194         | 895159      | 225035              | 153642          | 664507              |  |  |
| 1984   | 4507      | 1360          | 204073                 | 0                        | 2         | 178              | 178      | 8058              | 0               | 233996         | 1129155     | 233996              | 145237          | 809743              |  |  |
| 1985   | 4221      | 1490          | 220399                 | 0                        | 2         | 167              | 167      | 8703              | 0               | 239632         | 1368787     | 239632              | 135213          | 944956              |  |  |
| 1986   | 3953      | 1620          | 238031                 | 55000                    | 2         | 156              | 156      | 9399              | 2172            | 243464         | 1612251     | 241293              | 123773          | 1068729             |  |  |
| 1987   | 3701      | 1780          | 257074                 | 0                        | 2         | 146              | 146      | 10151             | 0               | 249985         | 1862236     | 249985              | 116574          | 1185303             |  |  |
| 1988   | 3465      | 1910          | 277640                 | 0                        | 2         | 137              | 137      | 10963             | 0               | 250361         | 2112597     | 250361              | 106136          | 1291439             |  |  |
| 1989   | 3027      | 2110          | 299851                 | 0                        | 2         | 120              | 120      | 11840             | 0               | 240355         | 2352952     | 240355              | 92631           | 1384070             |  |  |
| 1990   | 2929      | 2250          | 323839                 | 0                        | 2         | 116              | 116      | 12787             | 0               | 247401         | 2600353     | 247401              | 86679           | 1470749             |  |  |
| 1991   | 2738      | 2250          | 323839                 | 0                        | 2         | 108              | 108      | 12787             | 0               | 230489         | 2830842     | 230489              | 73412           | 1544161             |  |  |
| 1992   | 2560      | 2250          | 323839                 | 0                        | 2         | 101              | 101      | 12787             | 0               | 214676         | 3045518     | 214676              | 62160           | 1606321             |  |  |
| 1993   | 2394      | 2250          | 323839                 | 0                        | 2         | 95               | 95       | 12787             | 0               | 199891         | 3245409     | 199891              | 52617           | 1658937             |  |  |
| 1994   | 2238      | 2250          | 323839                 | 0                        | 2         | 88               | 88       | 12787             | 0               | 186067         | 3431475     | 186067              | 44525           | 1703463             |  |  |
| 1995   | 2093      | 2250          | 323839                 | 0                        | 2         | 83               | 83       | 12787             | 0               | 173141         | 3604617     | 173141              | 37666           | 1741129             |  |  |
| 1996   | 1957      | 2250          | 323839                 | 0                        | 2         | 77               | 77       | 12787             | 0               | 161056         | 3765672     | 161056              | 31852           | 1772980             |  |  |
| 1997   | 1830      | 2250          | 323839                 | 0                        | 2         | 72               | 72       | 12787             | 0               | 149756         | 3915428     | 149756              | 26924           | 1799905             |  |  |
| 1998   | 1711      | 2250          | 323839                 | 0                        | 2         | 68               | 68       | 12787             | 0               | 139191         | 4054619     | 139191              | 22750           | 1822655             |  |  |
| 1999   | 1599      | 2250          | 323839                 | 0                        | 2         | 63               | 63       | 12787             | 0               | 129312         | 4183931     | 129312              | 19214           | 1841868             |  |  |
| 2000   | 1495      | 2250          | 323839                 | 0                        | 2         | 59               | 59       | 12787             | 0               | 120076         | 4304007     | 120076              | 16220           | 1858088             |  |  |
| 2001   | 1398      | 2250          | 323839                 | 0                        | 2         | 55               | 55       | 12787             | 0               | 111440         | 4415446     | 111440              | 13685           | 1871773             |  |  |
| 2002   | 1307      | 2250          | 323839                 | 0                        | 2         | 52               | 52       | 12787             | 0               | 103365         | 4518811     | 103365              | 11539           | 1883312             |  |  |
| 2003   | 1222      | 2250          | 323839                 | 0                        | 2         | 48               | 48       | 12787             | 0               | 95815          | 4614626     | 95815               | 9724            | 1893035             |  |  |
| 2004   | 1143      | 2250          | 323839                 | 0                        | 2         | 45               | 45       | 12787             | 0               | 88756          | 4703382     | 88756               | 8189            | 1901224             |  |  |
| SUBTOT | 73975     |               | 7084714                | 1635000                  |           | 2921             | 2921     | 279751            | 64561           | 4703382        |             | 4638821             | 1901224         |                     |  |  |
| REMAIN | 3604      |               | 1021120                | 0                        |           | 142              | 142      | 40321             | 0               | 279862         |             | 279862              | 21339           |                     |  |  |
| TOTAL  | 77579     |               | 8105834                | 1635000                  |           | 3063             | 3063     | 320072            | 64561           | 4983244        |             | 4918684             | 1922563         |                     |  |  |

| DISCOUNT RATE PERCENT | PRESENT WORTH CASH FLOW | PRESENT WORTH NET REVENUE | DISCOUNTED CAP COSTS |
|-----------------------|-------------------------|---------------------------|----------------------|
| 00.000                | 4918684                 | 4983244                   | 64561                |
| 10.000                | 1922563                 | 1979658                   | 57095                |
| 12.000                | 1677013                 | 1732860                   | 55848                |
| 15.000                | 1397307                 | 1451403                   | 54096                |
| 18.000                | 1190825                 | 1243296                   | 52470                |
| 20.000                | 1081724                 | 1133173                   | 51449                |
| 25.000                | 876550                  | 925438                    | 49088                |

CALCULATED COMPANY NET PARTICIPATION 3.949 PERCENT

DOLLY VARDEN MINERALS INC.

FINANCIAL STATEMENTS

FOR THE PERIOD DECEMBER 21, 1979

(date of amalgamation)

TO MARCH 15, 1980

(unaudited)

# COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

OFFICES THROUGHOUT CANADA  
AND IN PRINCIPAL AREAS  
OF THE WORLD

TELEPHONE (604) 682-7821  
28<sup>TH</sup> FLOOR, THE ROYAL BANK OFFICE TOWER  
1055 WEST GEORGIA STREET  
VANCOUVER, BRITISH COLUMBIA, CANADA  
V6E 3R2

MAILING ADDRESS

P.O. BOX 11128, ROYAL CENTRE  
1055 WEST GEORGIA STREET  
VANCOUVER, BRITISH COLUMBIA, CANADA V6E 3R2

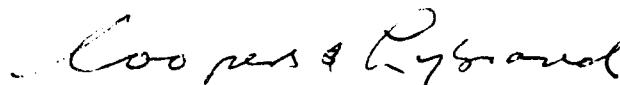
CABLE ADDRESS: COLYBRAND, VANCOUVER, B. C.  
TELEX: 04-507630

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accompanying balance sheet of Dolly Varden Minerals Inc., as at December 21, 1979. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet presents fairly the financial position of the company as at December 21, 1979 in accordance with generally accepted accounting principles.

Vancouver, B.C.  
March 18, 1980

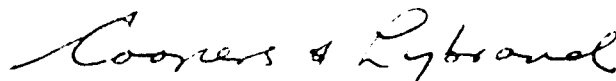


CHARTERED ACCOUNTANTS

### ACCOUNTANTS' COMMENTS ON UNAUDITED FINANCIAL STATEMENTS AND UNAUDITED PRO-FORMA BALANCE SHEET AND STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE PERIOD FROM DECEMBER 21, 1979 TO MARCH 15, 1980

We have reviewed the accompanying unaudited pro-forma balance sheet and the unaudited balance sheet as at March 15, 1980 and the unaudited statements of earnings and deficit and changes in financial position and unaudited pro-forma statement of changes in financial position for the period from December 21, 1979 to March 15, 1980. Our review consisted primarily of enquiry, comparison and discussion of such information. We have not performed an audit and consequently do not express an opinion on this unaudited interim financial information.

Vancouver, B.C.  
March 18, 1980 except for  
note 11 which is at  
April 10, 1980



CHARTERED ACCOUNTANTS

**DOLLY VARDEN MINERALS INC.**

**BALANCE SHEET**

**AS AT MARCH 15, 1980**

**ASSETS**

|   | March 15,<br>1980<br>Pro-Forma<br>(unaudited) | March 15,<br>1980<br>(unaudited) | December 21,<br>1979 |
|---|---|----------------------------------|----------------------|
|   | \$  | \$                               | \$                   |
| <b>CURRENT ASSETS</b>                               |   |                                  |                      |
| Cash and short term deposits                        | 1,461,241                                     | 13,491                           | 1,097,239            |
| Accounts receivable                                 | 203,031                                       | 203,031                          | 547,675              |
| Current portion - debentures receivable             | <u>750,000</u>                                | <u>750,000</u>                   | <u>1,022,500</u>     |
|   | 2,414,272                                     | 966,522                          | 2,667,414            |
| <b>INVESTMENTS (note 4)</b>                         | 280,251                                       | 280,251                          | 377,454              |
| <b>PROPERTY, PLANT AND EQUIPMENT (note 6 and 7)</b> | <u>3,261,988</u>                              | <u>3,261,988</u>                 | <u>3,256,116</u>     |
|   | <u>5,956,511</u>                              | <u>4,508,761</u>                 | <u>6,300,984</u>     |

**LIABILITIES**

|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| <b>CURRENT LIABILITIES</b>               |                  |                  |                  |
| Accounts payable and accrued liabilities | 206,163          | 206,163          | 237,307          |
| Demand note payable (note 5)             |                  |                  | 1,718,857        |
| Promissory note                          | <u>725,000</u>   | <u>725,000</u>   | <u>725,000</u>   |
|  | 931,163          | 931,163          | 2,681,164        |
| Current portion of bank loan (note 7)    | 173,500          | 173,500          | 173,500          |
| Current income taxes                     | 614,200          | 614,200          |                  |
| Deferred income taxes                    |                  |                  | <u>552,000</u>   |
|  | 1,718,863        | 1,718,863        | 3,406,664        |
| <b>TERM BANK LOAN (note 7)</b>           | 620,473          | 620,473          | 663,673          |
| <b>OTHER LIABILITIES (note 8)</b>        | 38,000           | 38,000           | 330,500          |
| <b>DEFERRED INCOME TAXES</b>             | <u>720,054</u>   | <u>720,054</u>   | <u>664,154</u>   |
|  | <u>3,097,390</u> | <u>3,097,390</u> | <u>5,064,991</u> |

**SHAREHOLDERS' EQUITY**

|                                   |                  |                  |                  |
|-----------------------------------|------------------|------------------|------------------|
| <b>SHARE CAPITAL (note 9)</b>     | 3,046,952        | 1,599,202        | 1,599,202        |
| <b>DEFICIT</b>                    | <u>187,831</u>   | <u>187,831</u>   | <u>363,209</u>   |
| <b>APPROVED BY THE DIRECTORS:</b> | <u>2,859,121</u> | <u>1,411,371</u> | <u>1,235,993</u> |
| <i>R. B. Blakey</i> Director      | <u>5,956,511</u> | <u>4,508,761</u> | <u>6,300,984</u> |
| <i>Quinn</i> Director             |                  |                  |                  |

DOLLY VARDEN MINERALS INC.

STATEMENT OF LOSS AND DEFICIT

FOR THE PERIOD FROM DECEMBER 21, 1979 TO MARCH 15, 1980

(unaudited)

|  |                         |
|--|-------------------------|
|  | \$                      |
| REVENUES   |                         |
| Gas sales  | 109,826                 |
| Interest income  | <u>59,421</u>           |
|  | <u>169,247</u>          |
| EXPENSES   |                         |
| Operating costs  | 5,679                   |
| Property assessments   | 995                     |
| General and administrative   | 73,249                  |
| Bank and other interest  | 48,400                  |
| Depreciation and depletion   | <u>29,000</u>           |
|  | <u>157,323</u>          |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES AND<br>EXTRAORDINARY ITEM     | <u>11,924</u>           |
| PROVISION FOR INCOME TAXES   |                         |
| Current  | 11,200                  |
| Deferred   | <u>34,900</u>           |
|  | <u>46,100</u>           |
| LOSS BEFORE EXTRAORDINARY ITEM   | (34,176)                |
| EXTRAORDINARY ITEM   |                         |
| Gain on sale of investments, net of deferred<br>income taxes of \$72,000 | <u>209,554</u>          |
| EARNINGS FOR THE PERIOD  | 175,378                 |
| DEFICIT - BEGINNING OF PERIOD  | <u>(363,209)</u>        |
| DEFICIT - END OF PERIOD  | <u><u>(187,831)</u></u> |



**DOLLY VARDEN MINERALS INC.**

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980

(unaudited)

|  | Pro-Forma        |                  |
|--|------------------|------------------|
| SOURCE OF WORKING CAPITAL                        | \$               | \$               |
| Issuance of share capital                        | 1,447,750        |                  |
| Sale of investments                              | 327,589          | 327,589          |
| Operations before extraordinary items            | 29,724           | 29,724           |
| Debenture repayment                              | <u>53,125</u>    | <u>53,125</u>    |
|  | <u>1,858,188</u> | <u>410,438</u>   |
| USE OF WORKING CAPITAL                           |                  |                  |
| Bank loan repayments                             | 43,200           | 43,200           |
| Repayment of other liabilities                   | 292,500          | 292,500          |
| Property and plant additions                     | 19,249           | 19,249           |
| Purchase of securities                           | 53,125           | 53,125           |
| Mine development costs                           | <u>15,455</u>    | <u>15,455</u>    |
|  | <u>423,529</u>   | <u>423,529</u>   |
|  | 1,434,659        | 13,091           |
| WORKING CAPITAL DEFICIENCY - BEGINNING OF PERIOD | <u>(739,250)</u> | <u>739,250</u>   |
| WORKING CAPITAL DEFICIENCY - END OF PERIOD       | <u>695,409</u>   | <u>(752,341)</u> |
| REPRESENTED BY:                                  |                  |                  |
| Current assets                                   | 2,414,272        | 966,522          |
| Current liabilities                              | <u>1,718,863</u> | <u>1,718,863</u> |
|  | <u>695,409</u>   | <u>(752,341)</u> |

**DOLLY VARDEN MINERALS INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**AS AT DECEMBER 21, 1979 (audited)**

**AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)**

**1. PRO-FORMA STATEMENTS**

The pro-forma balance sheet gives effect to:

- (i) the proposed agency offering of 100,000 common shares at a price of \$4.30 per share to net the Company \$397,750 but before estimated share issue expenses of \$30,000 (note 11);
- (ii) the proposed firm underwriting of 150,000 common shares to net the Company a minimum of \$600,000 or \$4.00 per share;
- (iii) the exercise of a proposed option to purchase 100,000 common shares of the Company at a price of \$4.50 per share or \$450,000 (note 9).

**2. ACCOUNTING POLICIES**

**Natural Gas Properties and Depletion**

All direct costs relating to the exploration and development of natural gas properties are capitalized. Depletion is computed by the unit of production method based on the total estimated proven reserves of gas. Gains or losses on dispositions of major portions of reserves are taken into earnings as extraordinary items.

**Fixed Assets and Depreciation**

Additions, improvements, repairs and maintenance that significantly add to productive capacity or extend the life of the asset are capitalized at cost. Expenditures for repairs and maintenance are charged to income as incurred. Depreciation is calculated by the diminishing-balance method at the rate of 30%.

**Mineral Properties**

The company defers the cost of acquiring mineral properties until such time as the properties are placed into production or it is determined that there is no reasonable degree of certainty as to the existence of economically recoverable mineral reserves within a defined area of interest. Costs will be amortized against future production from that area or written off if the property is abandoned or sold.

The company expenses all exploration costs in the period in which they are incurred.

**Deferred Costs**

Deferred costs represent all costs of bringing the mine into production, including mine development costs but excluding fixed assets. Deferred costs are amortized on a unit of production basis.

**DOLLY VARDEN MINERALS INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

AS AT DECEMBER 21, 1979 (audited)

AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)

**2. ACCOUNTING POLICIES (continued)**

**Income Taxes**

The company uses the deferral method of income tax allocation. The income tax charge is based upon earnings for tax purposes which include a "deemed amount" related to natural gas sales revenue. The "deemed amount" is not included as revenue in the financial statements but is subject to federal income taxes.

**3. AMALGAMATION**

Dolly Varden Minerals Inc., is a new company formed at December 21, 1979, as a result of an amalgamation of Yorkshire Resources Limited and its subsidiaries:

|                                |                                |
|--------------------------------|--------------------------------|
| Dolly Varden Resources Limited | Yorkshire Copper Mines Limited |
| Kitsault Silver Mines Ltd.     | Copper Cliff Mines Ltd.        |

The business combination has been treated for accounting purposes as a purchase of additional interests in subsidiaries by Yorkshire Resources Limited. The net purchase discrepancy arising from the transaction has been attributed to the mineral properties of Dolly Varden Resources Limited. Certain intercompany holdings of investments amongst the related companies were cancelled on amalgamation.

Details of the additional net assets acquired in the acquisitions are:

|   | Dolly Varden<br>Resources<br>Limited<br>\$ | Yorkshire<br>Copper<br>Mines<br>Limited<br>\$ | Kitsault<br>Silver<br>Mines<br>Limited<br>\$ | Total<br>\$    |
|---|--|---|--|----------------|
| <b>ASSETS</b>   |  |   |  |                |
| Working capital   | 5,050                                      | 20,983  |  | 26,033         |
| Investments   | 21,118                                     |   |  | 21,118         |
| Property, plant and equipment   | <u>179,810</u>                             | <u>7,089</u>                                  | <u>3,340</u>                                 | <u>190,239</u> |
|   | 205,978                                    | 28,072  | 3,340  | 237,390        |
| <b>LIABILITIES</b>  | <u>66,391</u>                              | <u>914</u>                                    | <u>790</u>                                   | <u>68,095</u>  |
| <b>ADDITIONAL NET ASSETS ACQUIRED</b>   | 139,587                                    | 27,158  | 2,550  | 169,295        |
| <b>CONSIDERATION</b>  | <u>381,599</u>                             | <u>25,860</u>                                 | <u>3,000</u>                                 | <u>410,459</u> |
| <b>Purchase discrepancy (negative)<br/>attributed to mineral<br/>properties</b> | <u>242,012</u>                             | <u>(1,298)</u>                                | <u>450</u>                                   | <u>241,164</u> |

DOLLY VARDEN MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

AS AS DECEMBER 21, 1979 (audited)

AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)

4. INVESTMENTS

|   | March 15,<br>1980<br>\$ | December 21,<br>1979<br>\$ |
|---|-------------------------|----------------------------|
| Chancellor Energy Resources Inc.,<br>(Chancellor) shares, at cost -<br>4700 shares (December 21, 1979 - 21,300)<br>market value - \$30,500 (December 21,<br>1979 - \$133,800)   | 5,876                   | 49,954                     |
| 8% debenture receivable, interest<br>payable annually with principal<br>instalments due, net of the current<br>portion, on December 31 in amounts<br>of \$96,875 in 1982, \$150,000 in 1983<br>and \$27,500 in 1984 secured by a second<br>charge on the working interest in<br>the natural gas properties sold to<br>Chancellor. The debenture has a<br>warrant attached expiring on<br>December 31, 1982, entitling the<br>company to purchase 500,000<br>(December 21, 1979 - 542,500)<br>shares of Chancellor for \$1.25 per share. | 274,375                 | 600,000                    |
| Other Investment  |                         |                            |
| 15% debenture receivable,<br>due April 15, 1980 and secured by<br>a bank letter of credit.  | <u>750,000</u>          | <u>750,000</u>             |
|   | 1,030,251               | 1,399,954                  |
| Less: current portion - debentures receivable   | <u>750,000</u>          | <u>1,022,500</u>           |
|   | <u>280,251</u>          | <u>377,454</u>             |

5. DEMAND NOTE PAYABLE

Yorkshire Resources Limited, a predecessor company was indebted as at December 21, 1979 to the parent company, Yorkshire Securities Limited. This amount was repaid in full during the period subsequent to the date of amalgamation without interest.

**DOLLY VARDEN MINERALS INC.**

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMBER 21, 1979 (audited)

AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)

**6. PROPERTY, PLANT AND EQUIPMENT**

|                           | March 15, 1980 |  |           | December 21,<br>1979 |
|---------------------------|----------------|--|-----------|----------------------|
|                           | Cost           | Accumulated<br>Depreciation<br>and Depletion | Net       | Net                  |
|                           | \$             | \$   | \$        | \$                   |
| Natural gas properties    |                |  |           |                      |
| YoYo                      | 1,957,009      | 305,412                                      | 1,651,597 | 1,677,597            |
| Elmworth                  | 500,000        |  | 500,000   | 500,000              |
| Mineral properties        |                |  |           |                      |
| Maple Bay                 | 762,215        |  | 762,215   | 762,215              |
| Kitsault - properties     | 195,109        |  | 195,109   | 195,109              |
| - development costs       | 109,839        |  | 109,839   | 94,384               |
| Lebel                     | 1              |  | 1         | 1                    |
|                           | 3,524,173      | 305,412                                      | 3,218,761 | 3,212,156            |
| Well production equipment | 80,800         | 60,531                                       | 20,269    | 22,069               |
| Other                     | 33,285         | 10,327                                       | 22,958    | 21,891               |
|                           | 3,638,258      | 376,270                                      | 3,261,988 | 3,256,116            |

The company is a party to the following agreements under which it has obtained an interest in certain mineral claims, leases and rights in the Kitsault Valley Area:

- (a) Mining lease for three claims under which there is a minimum annual royalty of \$500 and a maximum royalty of \$.75 per ton of ore mined or removed from the property. This lease is for a ten-year term to October 12, 1983 and can be renewed for an additional ten years.
- (b) Option to purchase 6 claims for the sum of \$51,200 of which \$1,200 has been paid and the balance is due on or before April 1983. A royalty fee of \$.50 per ton of ore mined is applicable against the outstanding balance. The agreement can be terminated at the company's request by giving 30 days notice.

DOLLY VARDEN MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMBER 21, 1979 (audited)

AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)

7. TERM BANK LOAN

The term bank loan is repayable in monthly instalments of \$14,400 principal with interest at the current prime rate plus 1% per annum.

|                 | March 15, 1980 | December 21, 1979 |
|-----------------|----------------|-------------------|
|                 | \$             | \$                |
| Bank loan       | 793,973        | 837,173           |
| Current portion | <u>173,500</u> | <u>173,500</u>    |
|                 | <u>620,473</u> | <u>663,673</u>    |

8. OTHER LIABILITIES

Class A certificate holders of Yorkshire Resources Limited, a predecessor company, are entitled, on conversion of their certificates to common shares of the Company, to past dividends of the predecessor company. Such dividends are payable, without interest, on conversions at any time up to March 2, 1985. The Company has been unable to locate a significant number of their predecessor company Class A shareholders. Consequently, as at December 21, 1979, a liability of \$330,500 has been recognized in the financial statements for the Company's estimate of past dividends that may be claimed by predecessor Class A shareholders who have been located. A contingent liability of \$395,352 has not been recognized in the financial statements for past dividends that may be claimed by those shareholders not yet located.

DOLLY VARDEN MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMBER 21, 1979 (audited)

AND FOR THE PERIOD DECEMBER 21, 1979 to MARCH 15, 1980 (unaudited)

9. SHARE CAPITAL

|   | March 15,<br>1980<br>Pro-Forma<br>\$ | March 15,<br>1980<br>\$ | December 21,<br>1979<br>\$ |
|---|--------------------------------------|-------------------------|----------------------------|
| Authorized:   |                                      |                         |                            |
| 6,000,000 common shares<br>without par value          |                                      |                         |                            |
| 6,000,000 Class A special shares<br>without par value |                                      |                         |                            |
| Issued and fully paid:                                |                                      |                         |                            |
| common shares   | 2,767,108                            | 1,319,358               |                            |
| convertible Class A<br>special shares                 | <u>279,844</u>                       | <u>279,844</u>          | <u>1,599,202</u>           |
|   | <u>3,046,952</u>                     | <u>1,599,202</u>        | <u>1,599,202</u>           |

An aggregate of 2,999,920.9 common and Class A shares of the Company are currently issued and outstanding.

The holders of Class A shares are entitled at any time to convert any or all of their Class A shares into common shares on the basis of one common share for one Class A share. The holders of Class A shares are not entitled to receive dividends.

At the time of the amalgamation of the Company, 2,999,920.9 Class A shares were allotted and issued to be exchanged for all of the outstanding shares of the predecessor companies. According to the terms of the amalgamation agreement, a holder of shares in a predecessor company is entitled at any time to exchange those shares for Class A shares of the Company in accordance with an exchange ratio applicable to the particular predecessor company. A shareholder is then entitled to elect to convert some or all of his Class A shares into common shares of the Company on a 1 for 1 basis. Until a shareholder makes an election to receive common shares of the Company, he is deemed to be a Class A shareholder in accordance with the exchange ratio of the predecessor company.

**DOLLY VARDEN MINERALS INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**AS AT DECEMBER 21, 1979 (audited)**

**AND FOR THE PERIOD DECEMBER 21, 1979 TO MARCH 15, 1980 (unaudited)**

**9. SHARE CAPITAL (continued)**

Share options outstanding as at March 15, 1980 are:

|                        |  |
|------------------------|--|
| Officers and directors | 55,000 shares at \$4.50 per share to March 15, 1981, thereafter at \$4.75 per share with expiry on September 15, 1981. |
| Mining Consultant      | 10,000 shares at \$4.50 per share to March 15, 1981, thereafter at \$4.75 per share with expiry on September 15, 1981. |
|                        | <u>65,000</u>  |

In addition, as a subsequent event (note 11) the Company proposes to issue an additional 350,000 shares, the terms of which are set out under note 1: Pro-Forma Statements.

**10. COMMITMENTS AND CONTINGENT LIABILITY**

The Company has annual lease commitments of \$51,500 for the five years commencing February, 1980. Further, the Company has commitments for capital expenditures of \$147,000 as at December 21, 1979.

The Company is contingently liable in the amount of a \$23,000 lien for repair work performed on certain of its mineral properties. The Company is of the opinion that this lien is without merit.

**11. SUBSEQUENT EVENT**

On April 10, 1980 the Company entered into an agency agreement with an Underwriter under the terms of which it will offer to the public 100,000 common shares at a price of \$4.30 per share to net the Company \$397,750 before issue expenses estimated at \$30,000. In addition the Underwriter has agreed to a firm underwriting of 150,000 common shares to net the Company a minimum of \$600,000 or \$4.00 per share. The Company has granted the Underwriter an option for 100,000 common shares at a price of \$4.50 per share, such option to expire 90 days after acceptance of a Statement of Material Facts by the appropriate regulatory authorities.



20. STATUTORY RIGHTS OF RESCISSION

Sections 61 and 62 of the Securities Act (British Columbia) provides in effect, that where a security is offered to the public in the course of primary distribution:

- (a) A purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last Statement of Material Facts, together with financial statements and a summary of engineering reports as filed with the Vancouver Stock Exchange, was not delivered to him or his agent prior to delivery to either of them or the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.
- (b) A purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the Statement of Material Facts or any amended Statement of Material Facts offering such security contains an untrue statement of material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after expiration of 90 days from the later of the date of such contract or the date on which such Statement of Material Facts or amended Statement of Material Facts is received or is deemed to be received by him or his agent.

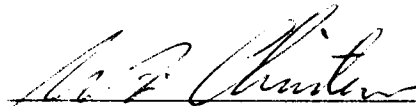
Reference is made to the said Act for the complete text of the provisions under which the foregoing rights are conferred.


21. CERTIFICATE OF THE DIRECTORS AND PROMOTERS OF THE ISSUER:

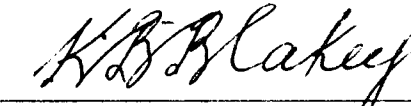
The foregoing constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this Statement of Material Facts.


April 10, 1980

(Date)

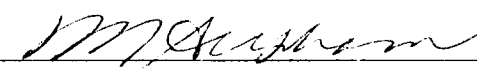
  
 \_\_\_\_\_  
 William Frederick Christensen  
 Director, Promoter & President

  
 \_\_\_\_\_  
 Daniel George Kelly  
 Director & Secretary

  
 \_\_\_\_\_  
 Kenneth Bertram Blakey - Director

  
 \_\_\_\_\_  
 David George Child Menzel - Director

  
 \_\_\_\_\_  
 Charles Edward Michener - Director

  
 \_\_\_\_\_  
 Mervyn Arthur Upham - Director

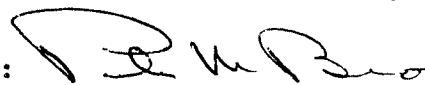
CERTIFICATE OF THE UNDERWRITER(S):

To the best of our knowledge, information, and belief, the foregoing constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this Statement of Material Facts.

April 10, 1980

(Date)

CANARIM INVESTMENT CORP. LTD.

Per: 

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_