

75' of 0.12  
 120' of 0.075  
 140' of 0.056  
 192' of 0.032  
 185' of 0.068

840499



THE GOVERNMENT OF  
 THE PROVINCE OF BRITISH COLUMBIA

Form 12

Securities Act

Date Accepted  
 For Filing May 24, 1977

SUPERINTENDENT OF BROKERS  
 AND  
 VANCOUVER STOCK EXCHANGE  
 VANCOUVER CURB EXCHANGE

STATEMENT OF MATERIAL FACTS

VANCOUVER CURB EXCHANGE

Name of Exchange

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

Name of Issuer

3510 - Kingsway, Vancouver, British Columbia

Address of Head Office of Issuer

1650 - 777 Hornby Street, Vancouver, British Columbia

Address of Registered Office of Issuer

3510 - Kingsway, Vancouver, British Columbia

Address of Records Office (Section 38 - Companies Act)

CROWN TRUST COMPANY, 455 Howe Street, Vancouver, B. C.

Name & address of Registrar & Transfer Agent  
 for Issuer's shares in 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.

840498



Handwritten notes and scribbles in the top right corner.

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

By an Agreement dated the 18th day of May, 1977, Consolidated Cinola Mines Ltd. (N.P.L.) ("the Issuer"), appointed Continental Carlisle Douglas Ltd. of 600, 789 West Pender Street, Vancouver, British Columbia, ("the Agent") to use its best endeavours in selling to the public 300,000 shares of the Issuer, at not less than 35¢ per share.

Since the Agency Agreement provides that the shares will be sold at a price to the Issuer of 35¢ per share or at such greater price as may be effected, the Issuer cannot provide an estimate of the net proceeds to be derived from the Offering. However, if all the shares offered hereunder are sold at a price of 35¢ per share, the Company will receive \$105,000.00 less commissions. Other than as hereinbefore disclosed, there are no underwriting discounts or commissions.

The shares will be offered to the public through the facilities of the Vancouver Curb Exchange at the market price prevailing from time to time for a period of thirty business days from the effective date. The effective date shall be that date on which this Statement of Material Facts is accepted for filing by the Vancouver Curb Exchange. The Agent shall receive an aggregate fee of \$500.00 on the effective date and 6% of gross sales at the time the shares are sold. In the event that all shares are sold, the Agent will receive an additional 1 1/2% of gross sales less the fee of \$500.00 at the completion of the Offering.

Directors and Insiders of the Issuer may purchase shares from this Offering.

The Agent, subject to the by-laws of the said Exchange, may buy and sell shares for the purpose of maintaining an orderly market during the period that the shares to be sold hereunder are being distributed to the public and may be considered the market maker during that period. The Agent does not beneficially own any shares of the Issuer.

The number and percentage of the issued and outstanding securities of each class of the Issuer beneficially owned, directly or indirectly, by promoters, directors, senior officers, and persons holding 10% or more of the issued shares, as a group, are as follows:

<u>Number of Shares</u>	<u>Percentage</u>
473,000	23.2%

The beneficial shareholders of the Agent holding directly or indirectly more than 5% of the issued shares are:

Continental Carlisle Douglas Ltd.

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percentage</u>
Angus I. MacPhail 600 - 789 West Pender St., Vancouver, B. C.	256	25.50%
G. Robert Fay, 600, 789 West Pender St., Vancouver, B. C.	256	25.50%
Douglas A. Scammell 600 - 789 West Pender St., Vancouver, B. C.	122	12.25%
John N. Carlisle 600 - 789 West Pender St., Vancouver, B. C.	61	6.125%
David J. Douglas 600, 789 West Pender St., Vancouver, B. C.	61	6.125%
Thomas L. Taylor 600, 789 West Pender St., Vancouver, B. C.	61	6.125%
Dean Duggan 600 - 789 West Pender St., Vancouver, B. C.	61	6.125%
J. Arthur Charpentier 600, 789 West Pender St., Vancouver, B. C.	61	6.125%
Richard J. Broad 600, 789 West Pender St., Vancouver, B. C.	61	6.125%

The range of the market price of the shares of the Issuer and the volume of shares for each of the four weeks immediately preceding the date of the certificates to this Statement of Material Facts on the Vancouver Curb Exchange (the only Exchange on which shares of the Company are traded) is as follows:

<u>Week</u>	<u>Market Range</u>			<u>Volume</u>
	<u>High</u>	<u>Low</u>	<u>Close</u>	
April 18 - April 22nd	19½	18	19	41,700
April 25 - April 29th	17½	16	17	3,200
May 2 - May 6th	26	16½	26	535,800
May 9 - May 13th	37	27	36	99,500

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

The property of the Issuer on which part of the proceeds from the sale of the securities offered by this Statement of Material Facts are to be spent, are without a known body of commercial ore and the proposed programme is an exploratory search for ore.

The shares of the Issuer must be considered speculative securities as the Issuer's mining properties are in the exploration and development stage.

No surveys have been made of the Mineral Claims acquired in the Queen Charlotte Islands ("the Queen Charlotte Properties") to which reference is made later in this Statement of Material Facts and, therefore, in accordance with the Mining Laws of the jurisdiction in which such Claims are situate, their existence and area could be in doubt.

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

The Issuer sent Donald W. Tulley, P.Eng. to examine the Company's Queen Charlotte Island properties earlier this month and he has submitted an Engineering Report dated May 16th, 1977, which recommends an exploration budget of \$87,000.00, a copy of which Report appears in this Statement of Material Facts.

4. THE ESTIMATED NET PROCEEDS OF THE ISSUER ARE TO BE SPENT:

Although it is not possible to determine the actual proceeds of the Offering of the shares pursuant to this Statement of Material Facts, in the event that all of the 300,000 shares are sold at a minimum price of 35¢ per share, the proceeds would be \$105,000.00 less commission of \$7,875. for a net of \$97,125.00. The principal purpose for which the estimated net proceeds of the sale of the securities offered by this Statement of Material Facts are to be spent in order of priority as follows:

(a)	Engineering Report Budget	-	\$87,000.00
(b)	General Corporate purposes	-	\$10,125.00
			<u>\$97,125.00</u>

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

Name and Address	Chief Occupation	Number of Shares of Issuer Beneficially Owned
Kenneth George Sanders 1940 Limerick Place, North Vancouver, B.C. President & Director	Geologist, Self employed	25,000
William Thompson 3510 Kingsway, Vancouver, B. C. Secretary & Director	Director and Past President	25,000
Ivon Shearing 1160 West 10th, Vancouver, B. C. Director	President and Administrator - Kabalarian Philosophy	130,125

Name and Address	Chief Occupation	Number of Shares of Issuer Beneficially owner
Ross Bailey, 908 - W7th Ave., Vancouver, B.C. Director	Businessman	82,626
Robert Steiner 371 - 56th Street, Delta, B. C. Director	Self employed, Consulting Geologist	Nil

6. PARTICULARS OF THE CORPORATE STANDING OF THE ISSUER:

The Company was incorporated on February 7th, 1962, under Certificate #52,623, as Cinola Mines Ltd. (N.P.L.) and consolidated its capital one for two on the 10th of January, 1973, at which time its name was changed to Consolidated Cinola Mines Ltd. (N.P.L.).

The last Annual Report of the Company was filed with the Registrar of Companies on February 11, 1977, and all filings required to be made under the Securities Act and Companies Act of the Province of British Columbia are up-to-date.

The Company's last prepared audited financial statements are as of the year ended December 31st, 1976, and on the 7th day of March, 1977, the Company's audited financial statements were mailed to all shareholders and the 1977 Annual General Meeting was held on the 29th of March, 1977.

The Issuer is primarily engaged in the business of exploring and developing natural resource properties.

7. THE AUTHORIZED AND ISSUED SHARE CAPITAL OF THE ISSUER.

The authorized capital of the Issuer consists of 5,000,000 shares without par value, of which there are issued on the date hereof 2,035,225 shares as fully paid.

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

During the past thirty days, 400,000 Treasury shares have been issued at a price of 16½¢ per share

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

No bonds, debentures, notes, mortgages, charges, liens or hypothecations have been made or issued by the Issuer.

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

Rossland Property

The Company owns outright the Midnight Crown Granted Mineral Claim, Lot 1186, one mile west of the City of Rossland. This property was under development by Sand Mines Ltd. over two years and is currently shut down. The Claim was being developed by Sand Mines Ltd. pursuant to an Agreement in writing dated November 6th, 1974, providing for the payment by Sand Mines Ltd. to the Issuer of 20% net smelter returns. It is anticipated by the Issuer that this Agreement will be surrendered to the Issuer for cancellation, and it is intended to leave the Midnight Claim dormant for the present time and with no expenditure being made in connection with the said Claim other than for current taxes without prior approval being sought from the Vancouver Curb Exchange.

Queen Charlotte Properties

By Agreement dated April 7th, 1977, Kenneth G. Sanders, Professional Engineer, of 1940 Limerick Place, North Vancouver, B. C., obtained from Efrem Specogna of 161 Centenary Drive, Nanaimo, B. C. option to acquire the following Mineral Claims:

BABE 1 - 8	#34966/973
BABE 9 - 17	#35222/35230
BABE 18 - 23	#36578/36583
BABE 24 - 29	#36601/606
BABE 30 - 31	#36746/47

BABE	32	#36748
RIC	1 - 12	#36589/600
RIC	20 - 26 Fr.	#36739/745

all of which mineral claims are situate in the Skeena Mining Division in the Province of British Columbia.

11. PARTICULARS OF THE COST OF 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.

The full price for the Queen Charlotte Properties is \$1,000,000.00 with a down payment of \$7,500.00 and \$7,500.00 quarterly until January 15, 1979, then \$10,000.00 quarterly until January 15, 1980, then \$25,000.00 quarterly until January 15, 1981, then \$50,000.00 quarterly until the balance of the \$1,000,000.00 be paid (Mr. Sanders has made the \$15,000.00 first two payments). There is further provision for the purchase price being reduced to the sum of \$350,000.00 if paid fully by April 7th, 1978, or \$450,000.00 by April 7th, 1979.

Efrem Specogna staked this property seven years ago and there has been approximately \$500,000.00 spent on exploration of the property to date.

Mr. Sanders has agreed to assign this Option Agreement to the Issuer for \$15,000.00 cash and 300,000 shares in the capital stock of the Issuer.

The 300,000 shares would be allotted as follows:

- a) 75,000 on the effective date
- b) 75,000 90 days after the effective date
- c) 75,000 180 days after the effective date
- d) 75,000 270 days after the effective date

The 300,000 shares being allotted on the effective date will not be sold until the approval of the Vancouver Curb Exchange and Superintendent of Brokers is obtained and the shares are qualified for sale.

All allotments and issue of shares in the aforesaid schedule will require the prior approval of the Vancouver Curb Exchange.



THE OWNERS OF MORE THAN 10% EQUITY SHARES OF SAND MINES LTD. ARE

- 12. THE NAME AND ADDRESS OF ANY PERSON OR COMPANY 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 present Board of Directors are the only persons that may be considered the promoters of the Company. Nothing of value has been received as a promoter.

- 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 AGREEMENTS.

Certificates representing 276,874 shares are held in escrow and 221,334 shares are held in pool by Crown Trust Company of 455 - Burrard Street, Vancouver, B.C., all subject to the release with the written consent of the Superintendent of Brokers and the Vancouver Curb Exchange. These shares cannot be traded or dealt with in any manner without the consent of the Vancouver Curb Exchange.

- 14. THE NUMBER OF EQUITY SHARES OF THE ISSUER OWNED BENEFICIALLY, DIRECTLY OR INDIRECTLY, BY EACH PERSON OR COMPANY 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.

Name and Address

Number of Shares

Sand Mines Ltd.  
2200 Royal Trust Tower,  
Edmonton Centre,  
Edmonton, Alberta

210,249

Vancouver Stock Exchange  
Service Corporation  
536 Howe Street,  
Vancouver, British Columbia

726,850

14. (continued) ...

THE OWNERS OF MORE THAN 10% EQUITY SHARES OF SAND  
MINES LTD. ARE

Name and Address Number of Shares

Kabalarian Philosophy 3,200  
908 West 7th Avenue,  
Vancouver, B. C.

Rock B. Rycroft, 5,100  
Box 377,  
Rossland, B. C.

This information is provided as of May 16, 1977.

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.

Federated Mining Corporation Ltd. (N.P.L.) ("Federated") has  
commenced an action against the Company, which is disputed on the basis  
that Federated has defaulted under an earlier participation agreement  
in connection with the Rossland property. There has been no step  
taken by the Plaintiff in this connection for more than four years.

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.

There has been no remuneration, directly or indirectly, paid or  
payable by the Issuer or any subsidiary to any Insider.

DON TULLY ENGINEERING LTD  
SUITE 103 - 2222 BELLEVUE AVENUE  
WEST VANCOUVER BRITISH COLUMBIA  
V7V 1C3

REPORT

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

There is no option to purchase securities of the Issuer out-  
standing.

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 HEREIN.

By Agreement in writing dated November 6th, 1974, as amended by  
Agreement dated December 13th, 1974, with Sand Mines Ltd., the Company  
gave to Sand Mines Ltd. the right to operate the Company's mine at  
Rossland under terms inter alia that the Company pay a 20% net smelter  
return on all ore produced. Sand Mines Ltd. has for several months  
ceased to operate under the said Agreement and it is anticipated that this  
Agreement will be surrendered to the Company for cancellation.

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

None.

DONALD W. TULLY, P. ENG.

West Vancouver, B.C.

May 26, 1977

DON TULLY ENGINEERING LTD.  
SUITE 102 - 2222 BELLEVUE AVENUE  
WEST VANCOUVER, BRITISH COLUMBIA  
V7V 1C7

REPORT

ON THE

SECURITIES OF THE ISSUER BEING DISCLOSED HEREIN  
BRIEF PARTICULARS OF ALL OPTIONS TO PURCHASE

SPECOGNA GOLD PROSPECT

There is no option to purchase securities of the issuer outstanding.

BABE #1-32 incl.; RIC #1-12 incl.

AND RIC #20-26 FRACTIONAL MINERAL CLAIMS

THE DATES OF AND PARTIES OF ANY CONTRACT ENTERED INTO BY THE ISSUER OR ANY SUBSIDIARY WITHIN THE LAST TWO YEARS WHICH IS STILL IN EFFECT AND NOT PREVIOUSLY DISCLOSED HEREIN

GRAHAM ISLAND  
QUEEN CHARLOTTE ISLANDS  
SKEENA MINING DIVISION

BRITISH COLUMBIA

N. LAT.  $53^{\circ}32'$

W. LONG.  $132^{\circ}13'$

FOR

PARTICULARS OF ANY OTHER SECURITIES BEING OFFERED UNDER ANY OTHER ITEM.

CONSOLIDATED CINOLA MINES LTD. [NPL]  
1600-777 Hornby Street  
Vancouver, B.C.

BY

DONALD W. TULLY, P.ENG.

May 16, 1977

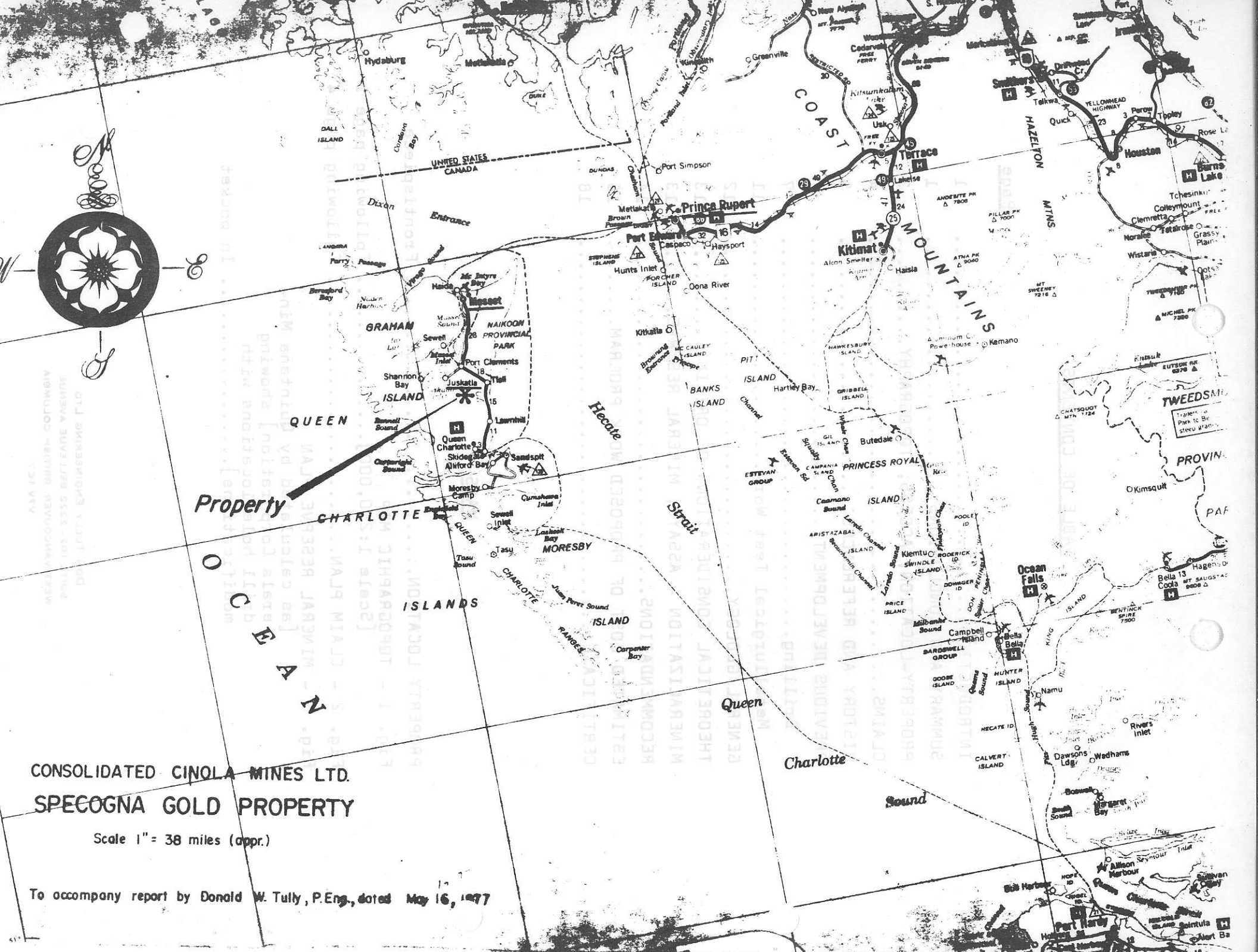
West Vancouver, B.C.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
SUMMARY AND CONCLUSIONS.....	1
PROPERTY-LOCATION, ACCESS, TOPOGRAPHY.....	3
CLAIMS.....	4
HISTORY AND REFERENCES.....	5
PREVIOUS DEVELOPMENT.....	7
Drilling.....	7
Metallurgical Test Work.....	11
GENERAL GEOLOGY.....	12
THEORETICAL CONSIDERATIONS OF ORIGIN.....	13
MINERALIZATION - ASSAYS, MINERAL RESERVE.....	13
RECOMMENDATIONS.....	14
ESTIMATED COST OF PROPOSED WORK PROGRAM.....	16
CERTIFICATE.....	18

MAPS

PROPERTY LOCATION,.....	Frontispiece
Fig. 1 - TOPOGRAPHIC MAP [Scale 1:250,000].....	Following page 3
Fig. 2 - CLAIM PLAN.....	Following page 4
Fig. 3 - MINERAL RESERVE PLAN [as calculated by Quintana Min- erals Corporation] showing drill hole locations with modifications].....	In pocket



**CONSOLIDATED CINOLA MINES LTD.  
SPECOGNA GOLD PROPERTY**

Scale 1" = 38 miles (appr.)

To accompany report by Donald W. Tully, P.Eng., dated May 16, 1977

L.A. 152  
 M.E. WICKSTEADT  
 P.O. BOX 555  
 VICTORIA B.C.

## INTRODUCTION

This report was prepared at the request of CONSOLIDATED MINES LTD. [NPL]. It is based upon a personal examination of the property in the field on May 10, 11 and 12, 1977 accompanied by Mr. R. Thomas and a study of the available engineering data.

The SPECOGNA GOLD PROSPECT is located in the Skeena Mining Division about 12 miles due south of Port Clements, Graham Island, Queen Charlotte Islands, British Columbia. The road distance is 26 miles on MacMillan-Bloedel haulage routes [Figure 1].

## SUMMARY AND CONCLUSIONS

The SPECOGNA GOLD PROSPECT consists of 41 full claims and 7 fractions.

To date six major companies have completed some 4,366 feet of diamond drilling and 1,977 feet of percussion test hole drilling as well as surface trenching, geological mapping, geochemical soil sampling and limited metallurgical research.

A study of the available data indicates that gold mineralization occurs in a brecciated and silicified zone of rhyolitic volcanics and sediments trending northwest-southeastward over an oval-shaped area some 2,800 feet in length and 1,000 feet in width. The depth is probably somewhat irregular. The dip is flat [between 5 - 15

degrees] to the northeast.

There is evidence the area of gold mineralization may be open to the north and west and also to the east and south.

It is concluded that the SPECOGNA GOLD PROSPECT warrants further exploration because:

- 1] Gold mineralization is widespread. There is evidence that zones of better than the average grade so far encountered may be present.
- 2] Drilling to date has been widely spaced and exploratory only.
- 3] Grade, tonnage and recoverable gold values are not known from the drilling and limited metallurgical research done so far. The evidence suggests care in assaying procedure is important. Since the recovery is the important feature of any ore especially low grade ores the loss in the tailings is pertinent to the ultimate success of this operation.

Any concentration of better than average gold values, should such exist in substantial tonnages, would make this prospect attractive as an open pit proposition.

A two-phase program of testing is proposed. Initially a program of 4,000 feet of BQ diamond drilling is recommended costing an estimated \$86,277.00. During the first phase metallurgical testing of cores is suggested and should be supplemented with interim engineering



evaluation progress reports on the obtained results. Any follow-up phase would therefore be dependent upon results of the initial program.

PROPERTY - LOCATION, ACCESS, TOPOGRAPHY

The property consists of 41 full and 7 fractional claims named the BABE and RIC mineral claims. These claims are situated about 26 road miles south of Port Clements, Graham Island, the Skeena Mining Division, British Columbia. The property lies in a MacMillan Bloedel forest management area and is subject to company forestry regulations.

Access is convenient via a good gravel road along the MacMillan Bloedel haulage routes from Juskatla to Branch Road No. 42.

The valley of the YAKOUN River lies a few kilometres south of the property and accumulates drainage from this area. At the time of the examination the area was relatively dry. Creeks were reduced to a trickle of water. Planning may be necessary for an adequate water supply to support a drill program.

The ground is marked by generally low topographic relief varying between 600 and 1,200 feet above sea-level. The southern part of the claim has been timbered. Heavy timber stands occupy that portion of the claim area northward from the BABE 5 and 7 mineral claims.

Overburden depth over the area of drilling from previous operations averaged 10 feet. The exceptions are



INLET

**SPECOGNA  
GOLD  
PROPERTY**

A N D

CHARLOTTE

FOREST

**PROPERTY LOCATION  
MAP**

MOUNT  
STAPLETON

SKIDEGATE

**ISLAND  
FIGURE I  
1"=250,000**

MORESBY

MORESBY  
PROVINCIAL  
ISLAND



*David A. ...*

Gray Bay

Quintana percussion drill holes 14, 15 and 16 which did not reach bedrock at over 100 feet in depth.

CLAIMS

Information pertaining to the BABE and RIC mineral claims from the Mining Recorder at Prince Rupert on May 16, 1977 is as follows [Figure 2];

<u>Claim Name</u>	<u>Record No.</u>	<u>Recording Date</u>	<u>Expiry Date</u>	<u>Recorded Holder</u>
BABE 1 - 8 incl.	34966-73	March 5, 1970	) All claims ) are in good ) standing at ) least to 1978 ) for both work ) and rental	E. Specogna
BABE 9 -17 incl.	35222-30	March 26, 1970		"
BABE 18 -23 incl.	36578-83	April 3, 1971		"
BABE 24 -29 incl.	36601-06	April 28, 1971		"
BABE 30 -32 incl.	36746-48	June 14, 1971		"
RIC 1 - 9 incl.	36589-36600	April 28, 1971		"
RIC 20-26 frac- tions incl.	36739-45	June 14, 1971	)	"

There are 41 full claims and seven fractional claims for a total of 48 mineral claims in the group.

The BABE and RIC mineral claims are shown on British Columbia Ministry of Mines and Petroleum Resources Claim Map [M] 103F/9E in the Skeena Mining Division, Graham Island, Queen Charlotte Islands.

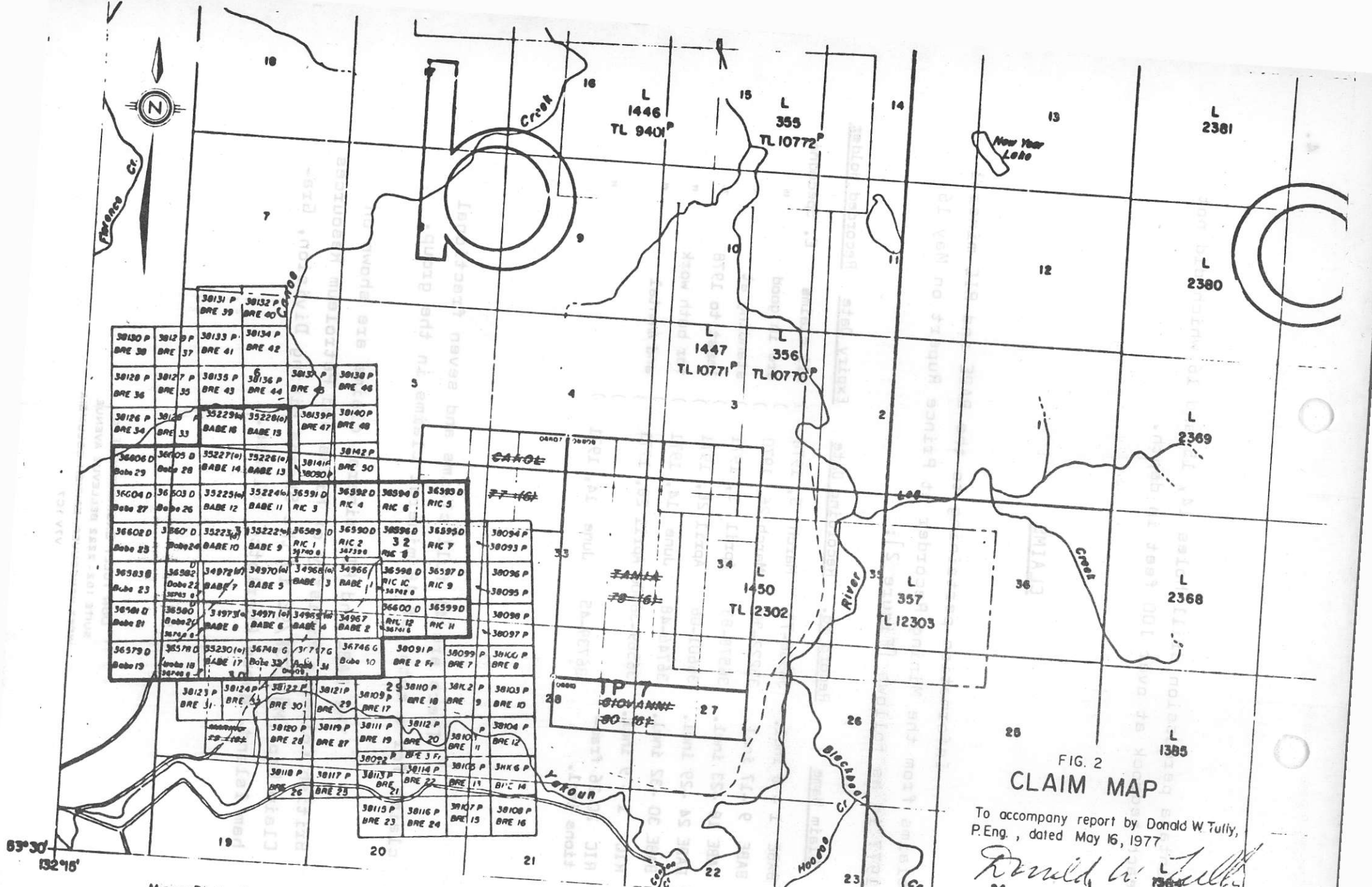


FIG. 2  
CLAIM MAP

To accompany report by Donald W Tully,  
P.Eng., dated May 16, 1977

*Donald W. Tully*  
1364

- Mining Division Boundary
- Indian Reservation
- Mineral and Placer Reserve
- Ecological Reserve
- Park Boundary
- Recreation Area Boundary
- Surveyed Line
- Railway
- Railway (abandoned)
- Highway
- Crown Granted
- Reverted CG Mineral Claim
- Forfeited Mineral Claim
- Verified Legal Corner Post
- Power Transmission Line
- Pip
- St. perennial
- indefinite
- intermittent/dry
- Boundary swamp flat snow

TO SOUTH SEE MAP 103F/8E  
**MINERAL TITLES REFERENCE MAP**  
DEPARTMENT OF MINES AND PETROLEUM RESOURCES  
This map is prepared as a guide only to the location of mineral claims that the geographic position of a legal corner post has been verified it is indicated on the map. Information with respect to the claims may be obtained at the Mining Division.

Scale 1:31,680

103 F/9E  
M30 (revised)

## HISTORY AND REFERENCES

Mr. Efrem Specogna and a partner, Johnny Trico, are believed to be the discoverers of this gold property circa 1970 having spent many years prospecting in this area of Graham Island.

Surface trenching followed the discovery in 1970. In 1971 the property was optioned to Kennco Explorations [Western] who conducted geological and soil-silt geochemical surveys as well as two packsack diamond drill holes totalling 55.2 metres. In 1972 Cominco Ltd. optioned the claim group and drilled nine diamond drill holes for a total of 500 metres. They took colored photographs of the core and the descriptive logs. The same year Canex Aerial Exploration also did geological and chemical surveys before relinquishing their option. Silver Standard agreed to explore the property in 1973 and performed exploration work until Quintana Minerals optioned this ground in 1974. Quintana did geological and geochemical surveys and drilled four packsack drill holes and sixteen percussion holes totalling 623 metres. In 1975 Quintana continued the program of exploration which included five BX size diamond drill holes totalling 718 metres and metallurgical testing. An area of gold mineralization measuring about 1,000 metres x 350 metres was outlined from this work. Indications are the gold mineralization extends beyond the present area to the southeast and northwest.

M.R. Wolfhard suggested the possibility of this deposit containing some 50 million tons grading in the order of 0.06 ounces gold/ton from a paper he delivered to a Canadian Institute of Mining and Metallurgy Convention in Vancouver, B.C. [October 1976]. Detailed diamond drill would

need to be done to substantiate this figure since the drilling to date has been scattered and exploratory only.

Reports on which this study is based are as follows:

- 1971 - Kennco - Geochemical maps of soil and silt results for Gold, Silver, Mercury, Molybdenum, copper, lead, zinc and nickel.
- 1972 - Kennco - Final report by K.A. Grace dated Feb. 4.
- 1972 - Canex - Geochemical soil sample maps of results for gold and silver.
- 1972 - Cominco - Maps and diamond drill logs.
- 1973 - Report by Dr. R.H. Seraphim dated May 19, for Silver Standard Mines.
- 1973 - Report by P.R. Delancey dated September for Texasgulf.
- 1974 - Quintana - Maps of geology and ore reserves.  
- Summary report of 1974 exploration work by G.G. Richards dated December 1974.
- 1975 - Quintana - Report of 1975 diamond drilling results and mineral calculations by M.R. Wolfhard dated September.  
- Metallurgical test report by Fred Lightner dated October 1975.
- 1975 - Tacoma Smelter - Statement of Settlement of August 19, 1975.
- 1975 - Trail Smelter - Lead Settlement Statement of November 16, 1975.
- 1975 - - B.C. Department of Mines - Geological Field Work 1975, Report by A. Sutherland Brown and T.G. Schroeder.
- 1976 - CIM Paper - No. 7-3 presented on October 14 at Vancouver by M.R. Wolfhard.
- 1968 - - B.C. Department of Mines & Petroleum Resources - Geology of the Queen Charlotte Islands, A. Sutherland Brown.  
- B.C. Assessment Reports 2890, 3517, 5284

PREVIOUS DEVELOPMENT

Drilling [See Figure 3]

Following surface trenching by Mr. Specogna the property was optioned to Kennco Exploration. Kennco's exploration program in 1971 comprised geological mapping and rock outcrop sampling, followed by geochemical soil sampling and drilling. A residual mercury anomaly was found coincident with the gold mineralization. Mercury anomalies were reported elsewhere on the claim group. This writer did not find the Kennco drill cores but the results of two AX diamond drill holes totalling 181 feet are reported as follows:

D.D. Hole #1 - Depth 81 feet

Average 0.023 oz Au/ton

D.D. Hole #2 - Depth 100 feet

Average grade 0.045 oz Au/ton

Cominco drilled nine BQ core size diamond drill holes in 1972 totalling 1,642 feet. The results are summarized as follows from the Cominco drill logs:

Hole BABE 72-1 - Depth 177 feet; dip  $-90^{\circ}$

Intersection 10' - 85' = 75' @ 0.12 oz Au/ton

Intersection 40' - 60' = 20' @ 0.30 oz Au/ton

Hole BABE 72-2 - Depth 200 feet; dip  $-90^{\circ}$

Intersection 12' - 200' = 188' @ 0.027 oz Au/ton

Intersection 64' - 65' = 1' @ 0.17 oz Au/ton

Intersection 88' - 110' = 22' @ 0.027 oz Au/ton

Hole BABE 72-3 - Depth 210 feet; dip  $-90^{\circ}$

Intersection 10' - 210' = 200' @ 0.018 oz Au/ton

Hole BABE 72-4 - Depth 211 feet; dip  $-90^{\circ}$   
 Intersection 4' - 202.5' = 198.5' @ 0.025 oz Au/ton

Hole BABE 72-5 - Depth 162 feet, dip  $-90^{\circ}$   
 Intersection 4' - 162.5' = 158.5' @ 0.012 oz Au/ton

Hole BABE 72-6 - Depth 80 feet; dip  $-90^{\circ}$   
 Intersection 16' - 78' = 62' @ 0.049 oz Au/ton

Hole BABE 72-7 - Depth 200 feet; dip  $-90^{\circ}$   
 Intersection 4' - 200' = 196' @ .034 oz Au/ton  
 Intersection 4' - 60' = 58' @ .059 oz Au/ton

Hole BABE 72-8 - Depth 200 feet; dip  $-90^{\circ}$   
 Intersection 8' - 200' = 192' @ 0.021 oz Au/ton

Hole BABE 72-9 - Depth 202 feet; dip  $-90^{\circ}$   
 Intersection 95' - 125' = 30' @ 0.18 oz Au/ton

Quintana Minerals Corporation drilled four packsack holes in 1974 totalling 186 feet. The results are summarized as follows:

PS-1 - Depth 50 feet; dip  $-30^{\circ}$   
 Intersection 0' - 50' = 50' @ 0.058 oz Au/ton

PS-2 - Depth 54 feet; dip  $-30^{\circ}$   
 Intersection 0' - 30' = 30' @ 0.058 oz Au/ton  
 Intersection 30' - 54' = 24' @ 0.023 oz Au/ton

PS-3 - Depth 35 feet; dip  $-30^{\circ}$   
 Intersection 0' - 35' = 35' @ 0.009 oz Au/ton

PS-4 - Depth 47 feet; dip  $-30^{\circ}$   
 Intersection 0' - 47' = 47' @ 0.084 oz Au/ton



Quintana drilled 17 percussion holes in 1974 total-  
ling 1,977 feet and obtained the following summarized results:

PQ #1 - Depth 150 feet  
Intersection 3' - 10' = 47' @ 0.042 oz Au/ton  
Intersection 50' - 150' = 100' @ 0.014 oz Au/ton

PQ #2 - Depth 90 feet  
Intersection 6' - 30' = 22' @ 0.005 oz Au/ton

PQ #3 - Depth 90 feet  
Intersection 20' - 90' = 70' @ 0.006 oz Au/ton

PQ #4 - Depth 70 feet  
Intersection 3' - 70' = 67' @ 0.017 oz Au/ton

PQ #4A - Depth 135 feet  
Intersection 10' - 135' = 125' @ 0.042 oz Au/ton

PQ #5 - Depth 140 feet  
Intersection 20' - 140' = 120' @ 0.065 oz Au/ton

PQ #6 - Depth 60 feet  
Intersection 10' - 60' = 50' @ 0.023 oz Au/ton

PQ #7 - Depth 150 feet  
Intersection 15' - 150' = 135' @ 0.041 oz Au/ton

PQ #8 - Depth 80 feet  
Intersection 10' - 80' = 70' @ 0.036 oz Au/ton

PQ #9 - Depth 110 feet  
Intersection 9' - 110' = 101' @ 0.006 oz Au/ton

- PQ #10A - Depth 90 feet  
Intersection 60' - 90' = 30' @ 0.001 oz Au/ton
- PQ #11 - Depth 150 feet  
Intersection 10' - 50' = 40' @ 0.002 oz Au/ton
- PQ #12 - Depth 150 feet  
Intersection 30' - 150' = 120' @ 0.004 oz Au/ton
- PQ #13 - Depth 112 feet  
Intersection 20' - 112' = 92' @ 0.032 oz Au/ton
- PQ #14 - Depth 100 feet  
All overburden reported.
- PQ #15 - Depth 150 feet  
All overburden reported.
- PQ #16 - Depth 150 feet  
All overburden reported.

Quintana drilled five BQ core size diamond drill holes in 1975 totalling 2,357 feet. The results are summarized as follows:

- Q-75-1 - Depth 567 feet; dip  $-45^{\circ}$   
Intersection 0' - 143' = 143' @ 0.081 oz Au/ton  
Intersection 143' - 293' = 150' @ 0.019 oz Au/ton  
Intersection 293' - 433' = 140' @ 0.032 oz Au/ton  
Intersection 433' - 500' = 167' @ 0.036 oz Au/ton
- Q-75-2 - Depth 603 feet; dip  $-45^{\circ}$   
Intersection 82' - 122' = 40' @ 0.023 oz Au/ton  
Intersection 122' - 262' = 140' @ 0.048 oz Au/ton

- Q-75-2 - Intersection 262' - 407' = 145' @ 0.044 oz Au/ton  
 [Cont'd] Intersection 407' - 557' = 150' @ 0.090 oz Au/ton  
 Intersection 557' - 567' = 10' @ 0.033 oz Au/ton
- Q-75-3 - Depth 245 feet; dip  $-45^{\circ}$   
 Intersection 16' - 46' = 30' @ 0.046 oz Au/ton  
 Intersection 46' - 172' = 126' @ 0.040 oz Au/ton  
 Intersection 172' - 245' = 73' @ 0.025 oz Au/ton
- Q-75-4 - Depth 713 feet; dip  $-90^{\circ}$   
 Intersection - mostly trace values in gold.
- Q-75-5 - Depth 229 feet; dip  $-45^{\circ}$   
 Intersection 14' - 114' = 100' @ 0.006 oz Au/ton  
 Intersection 114' - 229' = 115' @ 0.036 oz Au/ton

#### Metallurgical Test Work

Quintana had metallurgical test work done on the composite core samples by Fred Lightner, Southwestern Laboratories, Tucson, Arizona. Both cyanidation and roasting tests were done. Roasting the test samples at higher than normal [850 - 1,500 degrees Centigrade] temperatures gave better than 90 percent recovery results. Cyanidation leach tests indicated a value of 0.080 oz gold per ton against a calculated value of 0.049 oz gold per ton. In general, the results showed a low percentage recovery for the latter method.

## GENERAL GEOLOGY

The SPECOGNA gold prospect is situated astride the Sandspit fault zone. A pronounced west facing slope [or scarp] trends northwest through the claim group and may mark the locus of the Sandspit fault. Rock outcrops exposed east of this scarp on the property are mainly volcanic breccias of the rhyolitic composition.

Three lithological units are represented over the claim area as follows:

<u>Formation</u>	<u>Age</u>
Unconsolidated alluvium, till and sand.....	Quaternary
SKONUN - poorly consolidated sands and pebble conglomerates.....	Mio-pliocene
Gold-Mineralization [?].....	[Sandspit Fault ?] [Unconformity ?]
Masset - Volcanics.....	Tertiary [Paleocene] [Unconformity ?]
Queen Charlotte Group - argillites and siltstones.....	CRETACEOUS

Structurally the contact between SKONUN sediments and the Masset volcanics is marked by the Sandspit fault zone.

Examination of the drill cores suggests minor folding and faulting occurs in the mineralized rhyolitic volcanics.

Siliceous rhyolite breccias show incipient brecciation and carry fragments of chalcedonic silica, quartz, volcanic ash and silicified or silicated carbonaceous fragments. Some fragments show a porphyritic texture. Much of the rock is veined with fine quartz veinlets in a lace filigree pattern carrying numerous vugs and crystals.

Argillic and kaolin-like alteration occur in outcrops having a jarositic or limonitic surface stain.

#### THEORETICAL CONSIDERATIONS CONCERNING ORIGIN

The pervasive hydrothermal alteration of silicification, silication and pyritization in the host rocks is probably related to fumarolic activity associated with volcanism along the Sandspit fault. Fossil fragments in the mineralized area suggest a new-surface depositional environment possibly not unlike a strand locale and juxtaposition of the Sandspit fault could provide channelways for meteoric waters.

Free gold has been observed in surface exposures but as yet the affinity of the auriferous mineralization for quartz, iron sulphide or sericitic alteration is inferred but has not been demonstrated.

#### MINERALIZATION - ASSAYS, MINERAL RESERVE

Mineralization observed was pyrite and the pale variety marcasite. Fine spherules of pyrite called melnikovite were reported in the Cominco results as a possible

indicator for gold. Apparently the gold occurs in very fine form in varying amounts in most of the rock types that have undergone silicification.

The average assay results from drilling operations are itemized with each drill hole and shown above under the heading PREVIOUS DEVELOPMENT. Those drill holes showing the best values were Cominco diamond drill hole BABE 72-1 wherein 75 feet of core from a depth of 10 feet below the collar of the hole assayed an average of 0.12 oz gold/ton. Of this intersection the average of 20 feet of core between 20 - 60 feet assayed 0.30 oz gold/ton. Quintana Hole Q-75-1 assayed 0.081 oz gold/ton for a 143' length of inclined [-45°] hole. Quintana packsack drill hole PS-4 assayed 0.084 oz Au/ton over the length of the hole which was 47 feet.

At the present time there is insufficient information to accurately compute any mineral or ore reserve estimate.

### RECOMMENDATIONS

- 1] Obtain the necessary permits covering property exploration operations.
- 2] Drill approximately 4,000 feet of BQ core size diamond drill core in vertical or nearly vertical holes to depths of 150 - 200 feet depending upon results.
- 3] It is recommended the drill holes be spaced on a grid pattern of 100-foot centres trending northwest commencing in the area of Cominco diamond drill hole

72-1 and spreading outwards to the northwest and southeast and also eastwards towards Quintana percussion drill hole PQ-5. It is also proposed that a similar grid pattern be developed in the southeast area of Quintana diamond drill hole Q-75-1.

More reliable estimates of grades and tonnages of gold mineralization should flow from such a drill hole pattern.

- 4] Conduct the drill program on a day-shift basis during the early stages in order to closely assess the geological and assay value features of the mineralized zone.
- 5] Split the cores for sampling and pulverize the total sample for assay. At this stage it is proposed to separate the total sample for assay into two parts, examine both portions under microscope for free gold particles and send the second portion to an independent assayer for check assay results. Save all rejects and pulps for further testing.
- 6] Metallurgical tests are proposed on composite drill core samples to determine a preliminary flowsheet for recovery of gold values. Since the recovery is the important feature of any ore, especially low grade ones, the determination of the loss of gold in the tailings is pertinent to the ultimate success of this operation.

ESTIMATED COST OF PROPOSED WORK PROGRAM

Barge approximately 11 tons of equipment and supplies to Masset from Vancouver. Riptow rates average about \$6.00/cwt.....	\$ 1,320.00
Return 9 ton equipment to Vancouver.....	1,080.00
Road repair and preparation diamond drill-sites.....	3,500.00
Masset to property - transportation cost.....	1,000.00
Return cost.....	1,000.00
Rental on John Deere #450 crawler-mount tractor for 2 months.....	3,000.00
Rental on BBS #1 diamond drill with rods and 2 water supply pumps for 2 months.....	4,000.00
Rental on pickup truck for 2 months.....	800.00
2,500 feet 1 inch plastic hose with clamps and connectors.....	400.00
Camp supplies [tents, stoves, cookery, etc.].....	1,250.00
Camp food - 3 men [2 months @ \$30.00/day].....	1,800.00
Gasoline, oil, rod grease and sundry.....	900.00
Small equipment [chain-saws, wrenches, core boxes, etc.].....	1,500.00
Diamond Bits, shells and shoe bits rated at \$5.00 per foot of drilling for 4,000 feet of diamond drilling.....	20,000.00
Wages for 3 men on 12-hour shift [steady for 2 mos.]	16,800.00
Workers Compensation, UIC, Insurance.....	2,000.00
Assaying 1,000 samples at \$10.00/sample [Gold assay and free gold microscopic examination].....	10,000.00
Air Travel - mobilization, samples, engineering, core-splitting - Vancouver-Sandspit-return, 12 trips x \$132.00 each.....	1,584.00
Engineering and metallurgical testing.....	<u>6,500.00</u>
Sub-total Carried Forward.....	\$78,434.00



Brought Forward..... \$78,434.00

Contingency allowance at 10%..... 7,843.00

Estimated total cost to drill 4,000 feet  
of BQ diamond drill core..... \$86,277.00

[Estimated average cost per foot = \$21.55]

I am a Consulting Geologist with an office at Suite 102,  
2222 Bellevue Avenue, West Vancouver, British Columbia.

Respectfully submitted,

*Donald W. Tully*

Donald W. Tully, P. Eng.

I have practiced my profession for thirty-one years.

I have no direct, indirect or contingent interest in the  
BABB and RIL claims located in the Skeena Mining Division,  
Queen Charlotte Islands, British Columbia, nor in the se-  
curities of Consolidated Llama Mines Ltd. [NPL], nor do  
I intend to receive any interest.

May 16, 1977

This report dated May 14, 1977, is based on a personal  
study of the available reports and maps. I examined  
this property in the field on May 10, 11, 12, 1977.

DATED at West Vancouver, British Columbia, this  
16th day of May, 1977.

*Donald W. Tully*

Donald W. Tully, P. Eng.  
Consulting Geologist

CERTIFICATE

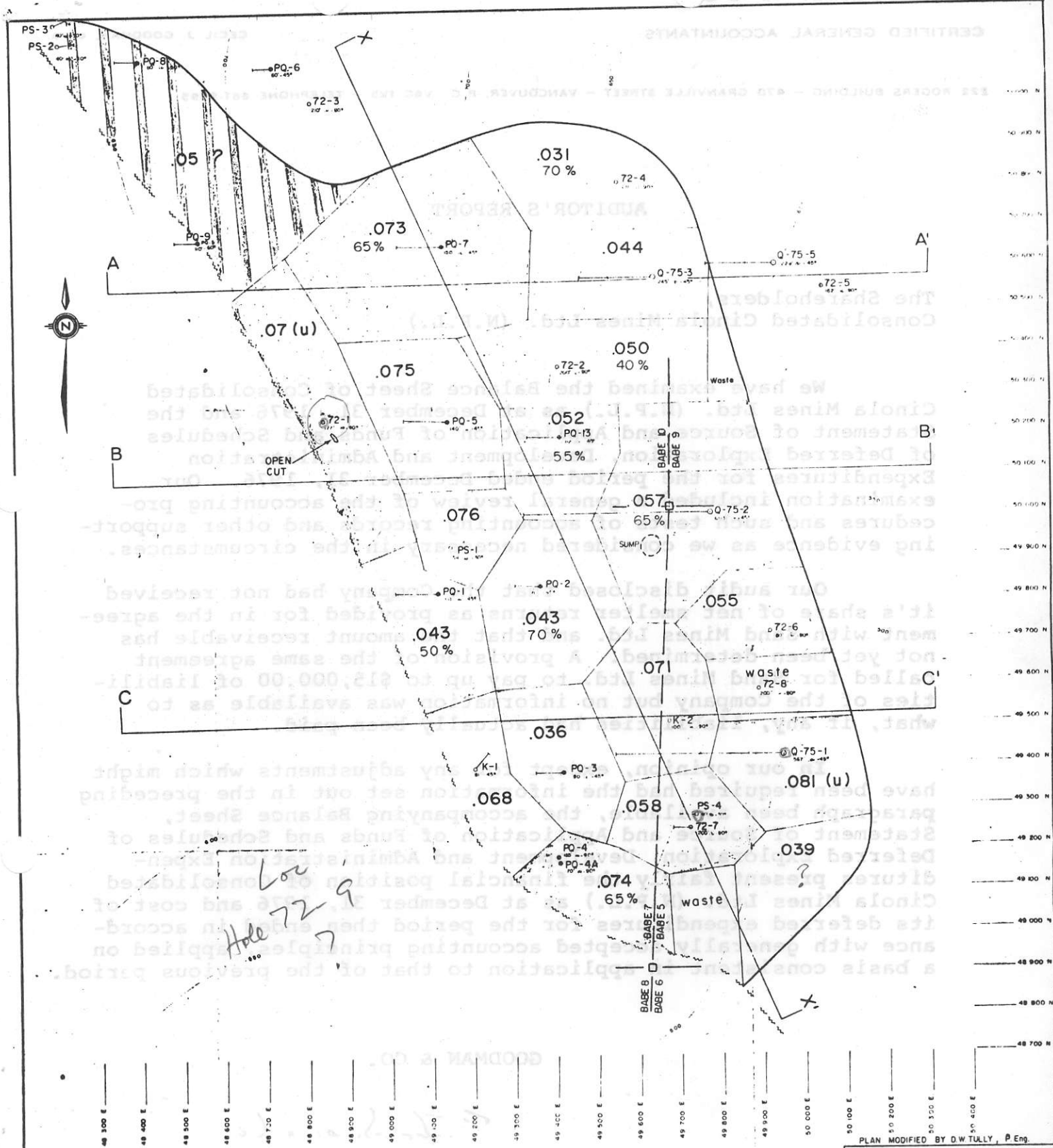
I, DONALD WILLIAM TULLY, of the Municipality of West Vancouver, in the Province of British Columbia, hereby certify as follows:

- 1] I am a Consulting Geologist with an office at Suite 102, 2222 Bellevue Avenue, West Vancouver, British Columbia.
- 2] I am a registered Professional Engineer in the Provinces of British Columbia and Ontario.
- 3] I graduated with a degree of Bachelor of Science, Honours Geology, from McGill University in 1943.
- 4] I have practiced my profession for thirty-one years.
- 5] I have no direct, indirect or contingent interest in the BABE and RIC claims located in the Skeena Mining Division, Queen Charlotte Islands, British Columbia, nor in the securities of Consolidated Cinola Mines Ltd. [NPL], nor do I intend to receive any interest.
- 6] This report dated May 16, 1977, is based on a personal study of the available reports and maps. I examined this property in the field on May 10, 11, 12, 1977.

DATED at West Vancouver, British Columbia, this 16th day of May, 1977.

*Donald W. Tully*

Donald W. Tully, P.Eng.  
Consulting Geologist



*Handwritten:* Hole 72-9

- - Claim post, Line (approx.)
- \* - Kennecott drill holes
- C - Cominco - -
- O - Quintana - -
- PO - Quintana - -
- PS - Quintana - -

**LEGEND**

0070 to 0079	0030 to 0039
0080 to 0089	Less than 0030
0090 to 0099	0.36 oz / Gold ton
0040 to 0049	70% Percentage of a block greater than 0.36 oz
	(u) Uncut

**FIGURE 3**  
**PLAN SHOWING**  
**DRILL HOLE LOCATIONS**  
**& CALCULATED AVERAGE**  
**GOLD VALUES**

To accompany Report dated May 16, 1977 by Donald W. Tully, P. Eng.

PLAN MODIFIED BY D.W. TULLY, P. Eng.

QUINTANA MINERALS CORPORATION  
 SPECOGNA PROJECT

**MINERAL RESERVE**

100' 0 100' 200'  
 SCALE

DATE: 05/16/77  
 DRAWN BY: DWT  
 CHECKED BY: [Signature]

AUDITOR'S REPORT

The Shareholders,  
Consolidated Cinola Mines Ltd. (N.P.L.)

We have examined the Balance Sheet of Consolidated Cinola Mines Ltd. (N.P.L.) as at December 31, 1976 and the Statement of Source and Application of Funds and Schedules of Deferred Exploration, Development and Administration Expenditures for the period ended December 31, 1976. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Our audit disclosed that the Company had not received it's share of net smelter returns as provided for in the agreement with Sand Mines Ltd. and that the amount receivable has not yet been determined. A provision of the same agreement called for Sand Mines Ltd. to pay up to \$15,000.00 of liabilities of the Company but no information was available as to what, if any, liabilities had actually been paid.

In our opinion, except for any adjustments which might have been required had the information set out in the preceding paragraph been available, the accompanying Balance Sheet, Statement of Source and Application of Funds and Schedules of Deferred Exploration, Development and Administration Expenditures present fairly the financial position of Consolidated Cinola Mines Ltd. (N.P.L.) as at December 31, 1976 and cost of its deferred expenditures for the period then ended in accordance with generally accepted accounting principles, applied on a basis consistent in application to that of the previous period.

GOODMAN & CO.



Certified General Accountants.

Vancouver, B.C.  
March 1, 1977

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

Balance Sheet as at December 31, 1976

(with comparative figures as at July 31, 1975)

	<u>December 31, 1976</u>	<u>July 31, 1975</u>
<b>ASSETS</b>		
<u>Current Assets:</u>		
Cash	\$ 10.89	\$ 697.32
Accounts Receivable	1,000.00	1,000.00
	<u>\$ 1,010.89</u>	<u>\$ 1,697.32</u>
<u>Mining Properties: (Note 1)</u>		
Mineral claims, at cost	\$ 100,000.00	\$ 100,000.00
<u>Buildings and Equipment, at cost</u>	\$ 50,083.03	\$ 50,083.03
<u>Deferred Expenses:</u>		
Exploration, Development and Administration - Schedule 1 Incorporation	\$ 492,931.52	\$ 490,635.09
	2,000.00	2,000.00
	<u>\$ 494,931.52</u>	<u>\$ 492,635.09</u>
 <u>Total</u>	 <u>\$ 646,025.44</u>	 <u>\$ 644,415.44</u>
<b>LIABILITIES</b>		
<u>Current Liabilities:</u>		
Salaries & Wages	\$ 13,754.40	\$ 13,754.40
Accounts payable	28,052.04	27,352.04
Loans	2,410.00	1,500.00
	<u>\$ 44,216.44</u>	<u>\$ 42,606.44</u>
<u>Loan from shareholder</u>	\$ 3,800.00	\$ 3,800.00
<u>Capital:</u>		
<u>Authorized:</u> 5,000,000 shares, no par value		
<u>Issued:</u> 1,284,787 shares, for cash	\$ 629,877.00	\$ 629,877.00
350,438 shares, for properties	155,175.00	155,175.00
	<u>\$ 785,052.00</u>	<u>\$ 785,052.00</u>
<u>Less: Commissions</u>	59,270.00	59,270.00
	<u>\$ 725,782.00</u>	<u>\$ 725,782.00</u>
<u>Deficit</u>	\$ (127,773.00)	\$ (127,773.00)
 <u>Total</u>	 <u>\$ 646,025.44</u>	 <u>\$ 644,415.44</u>

Signed on behalf of the Board of Directors.

[Signature] Director

[Signature] Director

This is the Balance Sheet referred to in our report dated March 1, 1977.

GOODMAN & CO.

[Signature]  
Certified General Accountants.

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

Notes to Financial Statements of December 31, 1976

1. Mining Properties

The Company owns outright the "Midnight" crown granted mineral claims.

2. Legal Action

A writ has been issued against the Company by Federated Mining Corporation Ltd. (N.P.L.) on an agreement dated October 15, 1969. It is the opinion of the directors that Federated has defaulted under the terms of the agreement and, therefore, they believe no liability exists to either Federated Mining Corporation Ltd. (N.P.L.) or Tull Mines Ltd. (N.P.L.). No further action has been taken by Federated.

3. Operation Agreement

Under date of November 6, 1974, the Company entered into an operating agreement with Sand Mines Ltd. permitting Sand to enter and work the claims and use the mill and equipment in consideration for which Sand shall pay to Cinola 30% of the net smelter returns on a quarterly basis. Sand, also, agreed to discharge liabilities of Cinola to a maximum of \$ 15,000.00.

Full accounting of smelter returns received and liabilities paid has not been received from Sand and, consequently, no share of the net smelter returns has been recorded by Cinola nor have any liabilities been adjusted. In the opinion of the Company, Sand would appear to be in default of the agreement.

Federated and Tull (Note 2 above), having been party to a prior agreement with Cinola, have confirmed the Sand agreement, without prejudice, to their rights or claim and in consideration of such confirmation became entitled to one-third (1/3) of the net smelter returns payable to Cinola under the provisions of the Sand Agreement.

4. Remuneration of Officers and Directors

No remuneration was paid or credited during the period ended December 31, 1976.

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

Deferred Exploration, Development and Administration Expense

for the period ended December 31, 1976

(with comparative figures for the year ended July 31, 1975)

	<u>December 31, 1976</u>	<u>July 31, 1975</u>
<u>Exploration and Development Expense:</u>		
Surface and underground expenses	\$ 996.51	\$ 3,321.78
<u>Administration Expense:</u>		
Accounting and Audit	\$ 500.00	\$ 1,259.28
Advertising	55.00	418.00
Legal	200.00	799.13
Miscellaneous	119.92	127.17
Office Supplies and Printing		279.10
Stock Exchange Fees and Listing	400.00	640.00
Transfer Agent	25.00	100.00
Auto and Travel	-	60.97
Telephone	-	185.05
	<u>\$ 1,299.92</u>	<u>\$ 3,868.70</u>
<u>Total Expense for the period</u>	<u>\$ 2,296.43</u>	<u>\$ 7,190.48</u>
<u>Less: Reduction in accounts payable</u>	<u>-</u>	<u>3,889.43</u>
<u>Net Expense for the period</u>	<u>\$ 2,296.43</u>	<u>\$ 3,301.05</u>
<u>Total Expense to end of the previous period</u>	<u>490,635.09</u>	<u>487,334.04</u>
<u>Total Expense to end of current period</u>	<u>\$ 492,931.52</u>	<u>\$ 490,635.09</u>

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

Statement of Source and Application of Funds

for the period ended December 31, 1976

(with comparative figures for the year ended July 31, 1975)

	<u>December 31, 1976</u>	<u>July 31, 1975</u>
<u>Funds were derived from:</u>		
Reduction in accounts payable	\$ -	\$ 3,889.43
	\$ -	\$ 3,889.43
<u>Funds were applied to:</u>		
Exploration, development and administration expense	\$ 2,296.43	\$ 7,190.48
	\$ 2,296.43	\$ 7,190.48
<u>(Decrease) in Working Capital</u>	\$ (2,296.43)	\$ (3,301.05)
<u>Add Working Capital deficiency at beginning of period</u>	40,909.12	(37,608.07)
<u>Working Capital (Deficiency) at end of period</u>	<u>\$ 43,205.55</u>	<u>\$ (40,909.12)</u>
<u>Represented by:</u>		
Current Assets	\$ 1,010.89	\$ 1,697.32
Current Liabilities	44,216.44	42,606.44
<u>Deficiency of Working Capital</u>	<u>\$ 43,205.55</u>	<u>\$ (40,909.12)</u>



CONSOLIDATED CINOLA MINES LTD. [N.P.L.]

STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
FOR THE PERIOD MARCH 31, 1977 TO MAY 18, 1977

SOURCE OF FUNDS

Net proceeds from Agency Offering dated May 2, 1977 of  
400,000 treasury shares received May 10, 1977 \$60,800.00

APPLICATION OF FUNDS

Crown Trust Co.	\$ 4,863.85
Legal fees outstanding and current	10,750.97
Accounting fees outstanding	8,810.99
Repay shareholders loans	3,500.00
Printing Statement of Material Facts and typing	403.90
Vancouver Curb Exchange filing fees	600.00
Vancouver Curb Exchange annual sustaining fee	400.00
Grizzly Mine Equipment outstanding	465.15
Engineering fees and advances re Specogna property [2 reports, trip to property, and cost estimate for diamond drilling]	1,850.00
Payment to watchman at Midnight Mine and mill	300.00
Travel to Rossland, B.C. to inspect current condition of Midnight Mine and mill	133.40
Downpayment on Specogna property option	15,000.00
<b>Total</b>	<u><u>\$47,078.26</u></u>

Source of Funds

\$60,800.00

Application of Funds

\$47,078.26

Current Bank Balance

13,721.74

\$60,800.00

Prepared without audit

K.G. Sanders  
K.G. Sanders, President

Wm. Thompson  
Wm. Thompson, Secretary

May 18, 1977

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 of 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.

CONSOLIDATED CINOLA MINES LTD. (N.P.L.)

May 18th, 1977

(Date)

*K. G. Sanders*

Kenneth George Sanders  
President & Director

*Wm. Thompson*

William Thompson  
Secretary & Director

*Ivon Shearing by his Power of Attorney Justice Rayner*  
Ivon Shearing - Director

*Ross Bailey by his Power of Attorney Justice Rayner*  
Ross Bailey - Director

*Robert Steiner*

Robert Steiner-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.

May 15<sup>th</sup> 1977

(Date)

CONTINENTAL CARLISLE DOUGLAS LTD.

PER: *[Signature]*

PER: \_\_\_\_\_