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MISTY MOUNTAIN GOLD LTD ROMULUS RESOURCES LTD.

PLEASE NOTE: These companies are reviewed jointly due to a planned merger; other than historic share prices, the following figures are based on the merged company after a 1 for 10 share consolidation. Assuming no changes in the merger agreement, it will take 10 Misty Mountain shares or 2.353 Romulus shares to equal 1 "New Misty" share. Readers buying or selling these stocks prior to the amalgamation should keep these numbers in mind if they want to avoid holding odd lots later.

LISTING: Toronto, Vancouver, Symbol - MGL

SHARES OUTSTANDING - PRO FORMA:
7,600,000 (9,200,000, fully diluted.)

APPROXIMATE FLOAT - PRO- FORMA:
5.8 MILLION

52 WEEK HIGH - LOW: Misty Mountain (MGL-T)
\$0.97 - 0.25; Romulus (RRU-V) \$2.40- 1.35

CURRENT PRICE: MGL - \$0.39; RRU - \$1.70

OVERVIEW

Misty Mountain Gold Ltd. (MGL-T) and Romulus Resources Ltd. (RRU-V) are covered in a single article because the companies have put forward a plan of amalgamation which should see them become a single entity before the end of October. We feel that this amalgamation, unlike many you will read about, actually provides some true synergy. Misty shareholders get backing from a very strong

promotional and financing group with a \$2 million bank account to start exploration. Romulus shareholders are effectively relieved of their option commitment and receive the benefits of a TSE listing. Both companies will benefit from reduced overhead and streamlined management.

The amalgamating companies currently have a combined market capitalization of about \$32 million. They/it will be working hard to upgrade a deposit with significant, proven potential. Given the potential of the property and the ability of the Hunter Dickinson group to draw a crowd, this market cap could double with a string of good drill results from the Bonanza zone or significant new results outside of the deposit area. A combination of the two should further increase the companies value. Drilling will begin in September.

CORPORATE SUMMARY

Romulus Resources Ltd. listed in 1990 and worked on several B.C. properties in the succeeding years, usually testing bulk tonnage copper-gold targets which have become the hallmark of the Hunter Dickinson group. Romulus had dropped its earlier option commitments by mid-1994 and was in search of new projects. In November of 1994 Romulus entered into an agreement to earn a 50% interest in the Cinola (since re-named Harmony) project. Romulus brings good technical skills, strong regional experience and one of most respected financing groups in the business to the table. Most importantly in the short term, the Hunter Dickinson group carries a very loyal investor following. The recent agreement in principle with Royal Oak Mines (RYO-T) to acquire El Condor Resources Ltd. (ECN-V) for its South Kemess deposit will reassure investors that the group has not lost its ability to develop and market mineral reserves at a profit to their shareholders. It should also allow the Hunter Dickinson group to focus on Misty.

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Misty Mountain Gold Ltd. has a much longer and more chequered past. The company was incorporated in 1969 as Cinola Gold Mines Ltd. and has gone through three name changes since while remaining focused on the Cinola (now Specogna) deposit. The company was originally run by Ephrem Specogna, who discovered the deposit 25 years ago. Since 1977 the company has been through three major financing and exploration phases by, in turn, the Energy Reserves Group, City Services Ltd, and Barrack Mine Management. Nearly \$50 million was spent by these companies proving up the deposit and undertaking feasibility and mine permitting work. The greatest activity in the property and the market occurred in the late 1980's when, as City Resources (Canada) Inc., the company undertook extensive drill campaigns, underground bulk sampling and feasibility work. The stock reached its all-time high of over \$9.00 during this period. After both City Services and Barrack failed to bring the property to production the shares languished for several years. In late 1993 the company was taken over by interests associated with Robin Slaughter and Ray Soper (the "Misty Group"). The Misty Group purchased the control block of shares from Barrack's Receiver, bought most of the outstanding debts and settled the remainder for warrants. The Misty Group has undertaken an extensive re-evaluation of the deposit, but probably deserves the most credit for initiating ongoing discussions with local native and community groups and involving them in early stage planning. This was not done by previous operators. The past opposition of the Haida people would probably have doomed an attempt to open the mine, even if they had used a favourable economic approach at the time.

PROPERTY SUMMARY

The **Specogna deposit** is located on Graham Island, the largest of the Queen Charlotte Islands which are located about 900 Km northwest of Vancouver, and 160 Km southwest of the regional supply centre of Prince Rupert. The Queen Charlottes are also known by their aboriginal name of Haida Gwaii. The high grade Marino gold showing was found in 1970 by local prospector Ephrem Specogna. The bulk tonnage resource, hidden under overburden, was located during follow-up of the high grade find. Since then the bulk tonnage deposit has twice been brought close to mine development. Past work has included 450 drill holes, and 730 metres (2,400 ft) of underground development along and near the main Specogna Fault trend.

During 1979-82 Energy Reserves Group spent about \$18 million testing grade and processing potential of the open pitable, low grade resource. Although failing to develop this model to production the work did indicate a resource of

90,000 Kg (3 million oz) gold @ a grade of 1.83 g/t (0.053 oz/ton). Also recognized were two separate trends of likely higher grade material. During 1986-90 City Services and in turn Barrack Mine Management completed very detailed drilling of the deposit and drove the underground workings. A test plant was then established (and since dismantled) to bulk sample a portion of the deposit. The City/Barrack group spent about \$30 million, and remained focused on the bulk tonnage potential of the deposit. While the model they developed was not economically feasible, the project's failure related as much to environmental concerns. The mining proposal required long term storage of acid generating waste rock. The deposit is located in the Yakoun River basin which is a major salmon spawning grounds, and part of an active aboriginal lands claim negotiation between the Haida people and the governments of Canada and British Columbia. City/Barrack did not begin dealing with the local aspects of these concerns until well into the permitting process which alienated both environmental activists and, more importantly, the Haida. The project was left heavily in debt and unable to re-jig and develop or deal with alternative models.

In late 1993 the new Australian group (the Misty Group) put together its buy-out package, which dealt with the debt and allowed for a fresh start under the company's new name. The Misty Group began by talking to the Haida and reviewing the large base of information with an eye to possible environmental concerns, resulting in a process with which the Haida seem comfortable. A technical review (the group's background is metallurgy) indicated considerable scope for developing underground reserves. Exploration targets recognized in earlier work were re-acquired. In late 1994 Romulus Resources Ltd came in as operating partner to earn 50% of the project for expenditures of \$15 million. Romulus has since concentrated on the broader potential of Graham Island. It begins testing the Specogna underground deposit in late September.

Deposit type and potential

Epithermal deposits are a major source of gold and silver in the Pacific Basin and other areas of recent volcanic activity. Both high grade and bulk tonnage deposits are expected from this deposit type. The deposits form along the upper part of deep seated faults, within the 1.5 Km (1 mile) of rock below the surface. Most can be broken into several components based on type and concentration of metals each contains.

The Specogna is a 17 million year old fossil hot springs deposit, related to a splay of the regional Sandspit Fault which has been named the Specogna Fault.

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A *fault* is a fracture along which *blocks of rock move*. When the Specogna Fault was active a sequence of volcanically derived gravel beds and related units were forming in a beach front and river estuary system adjacent to it. This sequence moved down with the dropping northeast side of the Specogna Fault and began compacting under the weight of fresh material at surface. A heat source developed at depth and propelled hot fluids containing gold bearing *silica* (which crystallises as *quartz*) and other material, that will not be detailed in this review, up the Specogna Fault. When the fluids reached the gravel beds these porous units were flooded and, due to the resulting sharp drop in pressure, began to cool and deposit the siliceous material in the voids. Repeated fluid pulses eventually caused a complete alteration of existing rock along the Fault to silica, and caused partial alteration for up to 300 metres away from the Fault. Continued movements along the Fault caused the now brittle rock to shatter in 2 patterns of economic importance. The first was the development of *breccia* zones (rock composed of *angular fragments*) and other open spaces along the still active Fault. The second pattern was several sets of fractures at a *cross-cutting* angle to the Fault, similar to splinters that form along a piece of wood when an end is snapped off, but 100's of metres deep and resulting from multiple "snaps".

Some of the deposit's gold was brought in during the early, alteration phase of the system. This gold is broadly disseminated throughout the silicification in fine grained particles which are costly to extract. Most of the gold, however, was brought up with later pulses of fluid (which is typical) and was largely deposited in any spaces open at that time. The highest grade portion of these systems, the *Bonanza zone*, forms in the main feeder trend (Specogna Fault in this case) where the flooding, or dispersion of the fluids into surface fractures, causes the fluid pressure to sharply drop off. The relative size of a Bonanza zone varies with conditions in each deposit and it is sometimes absent. Usually, however, the entire length of the feeder fault will have higher than average grades and will contain Bonanza ore at one (usually) or several pressure breaks. The second pattern of *cross-cutting* fractures, trending northeast in this case, is found in brittle host rocks such as at Specogna; a pattern of fractures roughly parallel to the main trend is more commonly found, in less brittle rocks. At Specogna the fracture systems filled with later phase gold bearing quartz veins of higher grade than the enclosing disseminated gold mineralization. Any system of multiple veins within a trend is called a *stockworks* systems. The Specogna deposit has several zones of cross-cutting quartz stockworks, one of which is at least 150 metres (500 ft) thick. Work to date at Specogna has treated these various components as a single body. The current operators will focus on defining the higher grade Bonanza and stockworks zones.

In order to accurately determine the grade of a deposit, drilling should be done so as to intercept the deposit at right angles to the trend of the mineralization. Drilling by past operators at Specogna was either done with the drill pointing vertically downward, or with the drill pointed at the Specogna Fault. The basis for this was the assumption that the Fault is the major influence on the deposit and that concerns about higher grades in the cross-cutting veins could be dealt with by statistical manipulation.

Past drilling cut the **Bonanza zone** in some deeper holes, but these results were not segregated from the rest since the testing was being done for a bulk tonnage target. Individual results from the Bonanza area included three separate 2 metre intervals @ 156 g/t, 138 g/t and 82.3 g/t (6.6 ft @ 4.55, 4.03 and 2.40 oz/ton) gold, 22 m@23.6 g/t (72 ft@0.69 oz/ton) gold, 2 separate 6 m intervals @ 36.3 g/t and 37.4 g/t (19.7 ft @ 1.06 and 1.09 oz/ton) gold, and two separate 8 m intervals @ 28.8 and 23 g/t (26.32 ft @ 0.84 and 0.67 oz/ton) gold within longer intersections. Since past testing cut the Bonanza zone only intermittently there has been no attempt to define a separate reserve. These results are an impressive indication of Bonanza zone potential, with the length of the intersections indicating the zone is exceptionally thick in places and represents a substantial target without reference to other areas of the deposit.

The case for the **cross-cutting 'stockworks** zone is more difficult. We do not trust the older resource estimates in these zones, believing statistical output can never be better than the sampling from which it derives. Since no drilling cut these zones at right angles there is no gauge on how such drilling will affect results. Usually grade will increase in this situation since drilling parallel to stockworks will usually cut a smaller than representative amount of vein material. This is not an absolute and vein material can be over represented by such drilling. As new testing of the stockworks proceeds, comparisons can be made with the existing assays and detailing focused on areas where past grade estimates are below the new results. Since drilling of the stockworks will be added to tonnage located in the Bonanza zone, it is fair to assume that some mineable blocks will be produced from this work. With a little luck, which this project is overdue for, sizable blocks at underground bulk tonnage grades will be located within these fairly thick stockworks zones.

Within the existing resource of 90,000 Kg, is about 17,000 Kg (500,000 oz) at a minimum grade of 3 g/t and average grade of 6 g/t. This grade is well within bulk underground grades, which can be as low as 4-5 g/t for free milling gold grains if located in sufficiently large blocks. The odds (yet more stats) are that at least this amount of mineable underground reserve will be blocked out. The grade-thickness of some Bonanza interceptions indicates a doubling or

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tripling of this figure, to 50,000 Kg or about 1.5 million oz is also possible (which does not include untested anomalies). The true potential of the Bonanza zone will be determined when its down dip extent is known. Judging the potential of the stockworks zones releases will best be done with comparisons of past core drill intersections in the same areas. Assessment against past reverse circulation results will have to be done with greater caution.

The balance of the **Harmony project**, that is of similar exploration potential on Graham Island, has very little new basis yet available for assessment. We had an extensive look at the project files soon after the Misty Group came into the picture. In addition to several points noted above, the most surprising aspect

of the files was how little work had been done on other targets, including several close to the existing resource. These targets, and a number of others, have now been re-acquired by the joint venture. Romulus has been doing reconnaissance on the outside targets since March of this year. We expect further targets of substance to be produced from this work, although it may be some time (as opposed to no time?) before work is done to substantiate them. Since they would be "news" in the strict sense of the word, these targets may offer an unexpected boost to stock prices.

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