

JOINT MANAGEMENT INFORMATION CIRCULAR

ANNUAL AND SPECIAL MEETINGS OF SHAREHOLDERS

PROPOSED AMALGAMATION AND RELATED TRANSACTIONS

CONCERNING

ROYEX STURGEX MINING LIMITED

AND

CULLATON LAKE GOLD MINES LTD.

April 27, 1984



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The information contained herein relating to Royex Sturgex Mining Limited, Cullaton Lake Gold Mines Ltd. and the assets of Campbell Resources Inc. to be purchased by Royex, was supplied for inclusion herein by such corporations, respectively. Royex Sturgex Mining Limited and Cullaton Lake Gold Mines Ltd. and their respective directors and officers have relied on such information and take no responsibility for any errors in such information or omissions therefrom.

SUMMARY

The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere herein.

Royex Sturgex Mining Limited

The principal business of Royex Sturgex Mining Limited ("Royex") is the ownership, through Roysub Inc. ("Roysub"), a wholly-owned subsidiary, of approximately 39.3% of the issued and outstanding common shares of Cullaton Lake Gold Mines Ltd. Royex also has a 51% interest in Cobra Emerald Mines Limited, which owns the Gravelotte emerald mine located in South Africa, a 7.9% interest in International Corona Resources Ltd. (plus a convertible debenture and warrants which, if the debenture were converted and the warrants were exercised in full, would increase such interest on a fully diluted basis to approximately 17.5%) and a 30% interest in the Shear Lake Claims which are adjacent to the Cullaton Lake gold mine.

The registered office of Royex is at Suite 800, 65 Queen Street West, Toronto, Ontario M5H 2H6. The common shares of Royex ("Royex Common Shares") are listed on The Toronto Stock Exchange.

The following table sets forth certain financial information with respect to Royex for the three fiscal years ended September 30, 1983 and the three month periods ended December 31, 1983 and 1982:

	Three months ended December 31,		Year ended September 30		
	1983	1982	1983	1982	1981 ⁽¹⁾
	(unaudited)				
	(thousands of dollars, except per share amounts)				
Revenue		\$ 113	\$ 2,164	\$ 304	\$ 229
Net income (loss)	\$ (253)	48	358	(31)	110
Total assets	43,798	5,893	40,988	5,791	6,536
Shareholders' equity	37,518	4,781	34,522	4,733	3,734
Earnings (loss) per share					
— before extraordinary items	(0.31)	0.02	0.02	(.01)	(.02)
— before dividend on Cullaton					
Preferred Shares	(0.03)	0.02	0.09	(.01)	(.02)
— after dividend on Cullaton					
Preferred Shares	(0.03)	0.02	(0.29)	(.01)	(.02)

(1) For the eleven month period ended September 30, 1981 (giving effect to a change in fiscal year end from October 31 to September 30).

Cullaton Lake Gold Mines Ltd.

The principal business of Cullaton Lake Gold Mines Ltd. ("Cullaton") is the ownership of the Cullaton Lake gold mine located at Cullaton Lake, Northwest Territories and a 70% interest in the adjacent Shear Lake Claims. Cullaton also has a 50% interest in Renabie Mines (1981) Limited ("Renabie") which owns the Renabie gold mine located near Missanabie, Ontario.

The registered office of Cullaton is at Suite 400, 111 Richmond Street West, Toronto, Ontario M5H 2G4. The common shares ("Cullaton Common Shares") and Series A Preferred Shares ("Cullaton Preferred Shares") of Cullaton are listed on The Toronto Stock Exchange.

The following table sets forth certain financial information with respect to Cullaton for the three fiscal years ended September 30, 1983 and the three months ended December 31, 1983:

	Three months ended December 31,	Year ended September 30		
	1983 ^{1,2}	1983 ³	1982	1981
	(unaudited)	(thousands of dollars, except per share amounts)		
Revenue	\$ 6,660	\$14,479		
Net income	31	1,639		
Total assets	64,995	49,021	\$36,984	\$39,673
Long term debt	2,450	2,714	7,708	11,854
Shareholders' equity	44,948	33,292	17,382	16,269
Earnings per common share				
— before extraordinary item	0.001	0.04		
— Cullaton Preferred Shares	0.001	0.07		
— after dividend on				
— Cullaton Preferred Shares		(0.08)		

1. Commercial production commenced on January 1, 1983 and, accordingly, figures for the three months ended December 31, 1982 are not comparable.

2. Includes 50% interest in Renabie.

3. Revenue and net income figures are for the nine month period from the commencement of commercial production.

Proposed Amalgamation and Related Transactions

Purpose

Royex is the largest shareholder in Cullaton, owning indirectly approximately 39.3% of the issued Cullaton Common Shares and such Cullaton Common Shares constitute its largest asset. The largest shareholder of Royex is Campbell Resources Inc. ("Campbell") which owns approximately 44.3% of the issued Royex Common Shares. Campbell also has management agreements under which it is responsible for the management of Cullaton and Renabie; it has also assisted in the financing of Royex and Cullaton.

The purpose of the amalgamation of Cullaton and Roysub is effectively to combine the businesses and undertakings of Royex and Cullaton into one public company and to rationalize certain of the gold-related interests of Campbell by transferring them to Royex. After giving effect to the amalgamation, Campbell will own, directly and indirectly, approximately 27.2% of the then issued Royex Common Shares. After giving effect to the amalgamation and related transactions, Campbell will own, directly and indirectly, approximately 50.2% of the then issued Royex Common Shares.

The Amalgamation

Royex, Cullaton and Campbell have entered into an agreement (the "Master Agreement") dated as of April 27, 1984 under which, subject to the terms and conditions contained therein, Cullaton, Royex and Roysub will enter into an amalgamation agreement (the "Amalgamation Agreement") providing for the amalgamation of Cullaton and Roysub; prior to the amalgamation (but subject to all requisite shareholder approvals in connection with the amalgamation being obtained) Cullaton will pay a special dividend on the Cullaton Preferred Shares of \$0.50 per share; and, following the amalgamation, Royex will purchase certain assets from Campbell. Under the Amalgamation Agreement, Cullaton and Roysub will amalgamate on a basis whereby each holder of Cullaton Common Shares (other than Roysub) will receive 3 Royex Common Shares and 1 Convertible First Preference Share Series A ("Royex Preferred Shares") of Royex in exchange for each 11 Cullaton Common Shares held, each holder of Cullaton Preferred Shares (other than Roysub) will receive 1 Royex Preferred Share in exchange for each 2 Cullaton Preferred Shares held, all of the

Cullaton Common Shares and Cullaton Preferred Shares held by Roysub will be cancelled and Royex will receive 1 common share of the amalgamated corporation in exchange for each share of Roysub held. In addition, in consideration of the issue of its Royex Common Shares and Royex Preferred Shares to effect the amalgamation, the amalgamated corporation will issue to Royex 7,100,000 non-voting special shares in lieu of and replacement for the Cullaton Preferred Shares and 1 common share in respect of the Cullaton Common Shares. As a result of the foregoing the amalgamated corporation will be wholly-owned by Royex.

A shareholder of Cullaton whose holdings of Cullaton Common Shares are not evenly divisible by 11 will receive a bearer scrip certificate representing a fractional Royex Common Share equal to the fraction obtained by multiplying the number of his remnant Cullaton Common Shares (i.e. 1 to 10) by $\frac{3}{11}$, plus a share certificate for any whole number of Royex Common Shares, and a bearer scrip certificate representing a fractional Royex Preferred Share equal to the fraction obtained by multiplying such remnant Cullaton Common Shares by $\frac{1}{11}$. A shareholder of Cullaton whose holdings of Cullaton Preferred Shares are not evenly divisible by 2 will receive a bearer scrip certificate for $\frac{1}{2}$ of a Royex Preferred Share. Bearer scrip certificates representing such Royex Common Shares and Royex Preferred Shares will not entitle the holders thereof to any rights as shareholders of Royex but will entitle such holders to receive a certificate for a full Royex Common Share or full Royex Preferred Share, as the case may be, by exchanging scrip certificates aggregating a full share.

Approval of the amalgamation will require the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Cullaton Common Shares voted in respect thereof at the annual and special meeting of shareholders of Cullaton and the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Cullaton Preferred Shares voted separately as a class in respect thereof at such meeting. Approval of the increase in the authorized capital of Royex necessary to enable the amalgamation and related transactions to be completed will require the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Royex Common Shares voted in respect thereof at the annual and special meeting of shareholders of Royex.

The Amalgamated Corporation

The name of the amalgamated corporation will be Cullaton Lake Gold Mines Ltd. ("New Cullaton") and its registered office will be located at Suite 400, 111 Richmond Street West, Toronto, Ontario M5H 2G4. The authorized capital of New Cullaton will consist of an unlimited number of common shares and 7,100,000 non-voting special shares.

Purchase of Interests from Campbell

Following the amalgamation Royex will purchase certain assets from Campbell in exchange for the issue by Royex to Campbell of an aggregate of 5,222,235 Royex Common Shares. The interests to be acquired by Royex from Campbell are collectively referred to herein as the "Purchased Assets". The Purchased Assets consist of the following:

- (a) 8,669,214 shares of Mascot Gold Mines Limited ("Mascot"), representing approximately 64% of the total number to be issued and outstanding following the amalgamation of Mascot and Ebex Resources Ltd. ("Ebex Resources");
- (b) 5,000,000 shares of Goldlund Mines Limited ("Goldlund"), representing approximately 32% of the total number currently issued and outstanding, and the right to purchase an additional 2,345,300 shares at a price of \$0.94 per share exercisable at any time on or before December 21, 1988;
- (c) Campbell's interest in a joint venture agreement with Inca Resources Inc. ("Inca") under which Campbell will be entitled to a 51% interest in Inca's Rich Gulch property; and

- (d) Campbell's interest in its management agreements with Cullaton, Renabie and Goldlund including, in respect of the management agreement with Renabie, an option exercisable by Campbell until January 1, 1989 to purchase a 10% interest in Renabie for \$2,320,000.

Campbell, Mascot and certain other parties have entered into an agreement in principle whereby, in consideration of 250,000 of its common shares and certain other assets, Campbell will acquire 4,400,001 shares, representing 55%, of Ebex Resources and, following such acquisition, Mascot and Ebex Resources will amalgamate on the basis of one share of the amalgamated corporation for each share of Mascot and Ebex Resources held. If such amalgamation has not occurred at the time of the purchase by Royex of the Purchased Assets, but Campbell has acquired its interest in Ebex Resources, Campbell will sell to Royex 4,269,213 shares of Mascot and 4,400,001 shares of Ebex Resources. In the event that Campbell has not acquired such shares of Ebex Resources at the time of the purchase by Royex of the Purchased Assets, Campbell will sell to Royex 4,269,213 shares of Mascot and will receive for the Purchased Assets an aggregate of 4,445,765 Royex Common Shares. In this event, Royex will have the right to purchase 4,400,001 shares of Ebex Resources, when acquired by Campbell, in consideration of 776,470 Royex Common Shares.

Campbell has also been granted an option, subject to approval by a majority of the votes cast thereon (excluding Royex Common Shares owned by Campbell and its associates and affiliates) at the annual and special meeting of shareholders of Royex, to purchase from and after the date of closing of the Purchased Assets to and including March 31, 1985 up to 935,750 Royex Common Shares at a price of \$8.50 per share.

Fairness Opinion

Brown, Baldwin, Nisker Limited ("BBN") has provided a letter dated April 27, 1984 to Cullaton and Royex stating that, in its opinion, based on the financial and other information and material which it reviewed and relied upon, the share exchange ratios in connection with the proposed amalgamation of Cullaton and Roysub are fair from a financial point of view to the public shareholders of Cullaton and Royex and the consideration to be paid by Royex for the Purchased Assets is fair from a financial point of view to the public shareholders of Royex.

Canadian Federal Income Tax Considerations

Generally, shareholders of Cullaton and Royex resident in Canada, who hold their shares as capital property, will qualify for a tax free rollover on receiving shares of Royex on the amalgamation.

Dissenting Shareholders' Rights

Any shareholder of Cullaton who dissents with respect to the special resolution of Cullaton approving the amalgamation and any shareholder of Royex who dissents with respect to the special resolution of Royex increasing its authorized capital to enable the amalgamation and related transactions to be effected, as the case may be, will be entitled to be paid the fair value of his shares subject to the provisions of Section 184 of the Business Corporations Act, 1982 (Ontario), as described herein under "Dissenting Shareholders' Rights".

GENERAL PROXY INFORMATION

Solicitation of Proxies

THIS JOINT MANAGEMENT INFORMATION CIRCULAR IS FURNISHED BY THE RESPECTIVE MANagements OF CULLATON AND ROYEX IN CONNECTION WITH THE SOLICITATION OF PROXIES TO BE VOTED AT THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF ROYEX (THE "ROYEX MEETING") AND THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF CULLATON (THE "CULLATON MEETING"), RESPECTIVELY, BOTH TO BE HELD ON MAY 25, 1984.

Each of Royex and Cullaton will bear its own costs of soliciting proxies. Proxies may be solicited by mail and the directors, officers or regular employees of each company may solicit proxies personally, by telephone or by telegraph. None of these individuals will receive any extra compensation for such efforts. Each company will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for the reasonable expenses incurred in sending proxy material to beneficial owners of shares and requesting authority to execute proxies.

Appointment and Revocation of Proxies

The persons named in the Royex form of proxy are directors and senior officers of Royex and those named in the Cullaton forms of proxy are directors and senior officers of Cullaton. A shareholder of either Royex or Cullaton has the right to appoint any person, other than the persons specified in such forms of proxy and who need not be a shareholder of either company, to attend and act for him and on his behalf at the Royex Meeting or the Cullaton Meeting, as the case may be. Such right may be exercised by striking out the names of the persons specified in the form of proxy, inserting the name of the person to be appointed in the blank space so provided, signing the form of proxy and returning it in the reply envelope.

Any shareholder who executes and returns a form of proxy may revoke it:

- (i) by depositing an instrument in writing executed by him or by his attorney authorized in writing at the registered office of Royex or Cullaton, as the case may be, at any time up to and including the last business day preceding the Royex Meeting or the Cullaton Meeting, as the case may be, or any adjournment thereof;
- (ii) by depositing such instrument in writing with the chairman of the Royex Meeting or the Cullaton Meeting, as the case may be, on the day of such meeting or any adjournment thereof; or
- (iii) in any other manner permitted by law.

In order to be voted, proxies must be received by Royex or Cullaton, as the case may be, not later than 48 hours, excluding Saturdays and holidays, prior to the Royex Meeting or the Cullaton Meeting, respectively.

Exercise of Discretion by Proxies

All properly executed forms of proxy, not previously revoked, will be voted at the respective meetings in accordance with the instructions contained therein. Forms of proxy containing no instructions regarding the matters specified therein will be voted in favour of such matters. In the event, not presently anticipated, that any other matter is brought before either meeting and is submitted to a vote, all forms of proxy may be voted in accordance with the judgment of the persons named therein. The forms of proxy also confer discretionary authority in respect of amendments to or variations in all matters which may properly come before the meetings.

THE ROYEX MEETING

Appointment of Auditors

Unless such authority is withheld, the persons named in the accompanying form of proxy intend to vote for the reappointment of Thorne Riddell, Chartered Accountants, as auditors of Royex and to authorize the directors to fix their remuneration. Thorne Riddell have been the auditors of Royex for the past three years.

Approval of Master Agreement

Shareholders of Royex at the Royex Meeting will be asked to pass a resolution approving the Master Agreement relating to the amalgamation of Cullaton and Roysub and the purchase by Royex from Campbell of the Purchased Assets, all as described in detail under "Proposed Amalgamation and Related Transactions". The text of the Master Agreement will be available for inspection, on request, at the registered office of Royex.

Approval of the resolution approving the Master Agreement will require a majority of the votes cast thereon at the Royex Meeting.

Change of Corporate Name and Number of Directors

It is proposed that shareholders pass a special resolution authorizing Royex to obtain articles of amendment amending its articles as follows:

- (a) deleting the objects of Royex;
- (b) changing the number of directors of Royex to a minimum of three and a maximum of 15 fixing the number of directors at eight in the event By-law No. 15 and the increase in authorized capital described below are approved or at six in the event such matters are not approved and, in either such event, authorizing the directors, by resolution, to change such number within the range; and
- (c) changing the name of Royex to "Royex Gold Mining Corporation".

Since the last annual meeting of shareholders of Royex, the Province of Ontario has enacted the Business Corporations Act, 1982 (the "BCA") which replaced the previous Business Corporations Act. Under the BCA the articles of a corporation no longer need set out the objects for which such corporation was incorporated. Accordingly, it is proposed that the objects for which Royex was incorporated be deleted from its articles.

In addition, the BCA provides that corporations may provide in their articles for a variable rather than fixed number of directors. Since such a provision would normally obviate the need to amend its articles each time the size of the Board of Directors is changed, it is proposed that the articles of Royex be amended to permit the number of directors to vary between three and 15. The special resolution will also fix the number of directors at eight in the event that the increase in authorized capital is approved by shareholders and at six if such increase is not approved and, in either such event, authorize the Board of Directors, by resolution, to change the number of directors within the range.

Finally, it is proposed to change the corporate name of Royex to more accurately reflect the nature of the principal business it will be carrying on following the amalgamation of Cullaton and Roysub.

Approval of the special resolution will require the favourable votes of the holders of not less than 66²/₃% of the Royex Common Shares voted in respect thereof at the Royex Meeting.

By-law No. 15

In order to bring the existing general corporate by-law of Royex into conformity with the BCA the Board of Directors of Royex has adopted a new general by-law, being By-law No. 15, which shareholders will be asked to confirm at the Royex Meeting. The text of By-law No. 15 will be available for inspection, on request, at the registered office of Royex.

Approval of the resolution confirming By-law No. 15 will require a majority of the votes cast thereon at the Royex Meeting.

Increase in Authorized Capital

The authorized capital of Royex consists of 10,000,000 Royex Common Shares, of which 8,292,721 are currently issued and outstanding. The amalgamation of Cullaton and Roysub and related transactions will require the issue of more than 11,000,000 Royex Common Shares and 4,000,000 Royex Preferred Shares.

Accordingly, shareholders at the Royex Meeting will be asked to pass a special resolution authorizing Royex to apply for a certificate of amendment deleting the maximum number of Royex Common Shares which Royex is authorized to issue, creating an unlimited number of First Preference Shares issuable in series and creating a maximum of 5,000,000 Royex Preferred Shares.

The proposed amalgamation of Cullaton and Roysub and related transactions are described in detail under "Proposed Amalgamation and Related Transactions".

Election of Directors

In the event that the special resolutions referred to under "Change of Corporate Name and Number of Directors" and "Increase in Authorized Capital" and the resolution confirming By-law No. 15 are approved, the following individuals will be nominated for election as directors of Royex at the Royex Meeting: John M. Arnold, Harold N. Borts, John H. Davies, Ned Goodman, Myron I. Gottlieb, Timothy J.D. Hoare, Richard L. Lister and Thomas Skimming. In the event such resolutions are not approved, Mr. Borts and Mr. Gottlieb will not be nominated for election as directors. Details of the principal occupation, holdings of Royex Common Shares and other information concerning the foregoing individuals are contained under "Directors and Officers of Royex".

Unless such authority is withheld, the persons named in the enclosed form of proxy intend to vote in favour of such of the foregoing individuals as are nominated for election as directors at the Royex Meeting. If any such individual should be unable or unwilling to serve, an event not presently anticipated, persons named in the form of proxy will have the right to vote for another nominee in their discretion, unless a proxy specifies that the Royex Common Shares represented thereby are to be withheld from voting on the election of directors.

Reduction in Stated Capital

Subject to approval of the increase in the authorized capital of Royex described above, Royex proposes to reduce the stated capital attributable to the Royex Common Shares by an amount sufficient to eliminate the deficit on the balance sheet of Royex as of June 30, 1984. As at December 30, 1983 Royex's deficit was \$2,119,327 and such amount will change to reflect operating results for the six month period to June 30, 1984.

Approval of the special resolution will require the favourable votes of the holders of not less than 66²/₃% of the Royex Common Shares voted in respect thereof at the Royex Meeting.

Share Incentive Plan

On April 27, 1984 the Board of Directors of Royex passed a resolution adopting a Share Incentive Plan which is intended to replace the existing Incentive Stock Option Plan. The Share Incentive Plan establishes a share purchase plan, a share option plan and a share bonus plan for certain employees and directors of Royex and its designated affiliates. If the Share Incentive Plan is approved at the Royex Meeting, options currently outstanding under the Incentive Stock Option Plan will become options under and subject to the Share Incentive Plan. Further information concerning the Share Incentive Plan is contained under "Share Incentive Plan" and the text of the Share Incentive Plan will be available for inspection, on request, at the registered office of Royex.

Approval of the resolution creating the Share Incentive Plan will require a majority of the votes cast thereon at the Royex Meeting.

Campbell Option

In connection with the acquisition of the Purchased Assets, Royex has granted to Campbell an option to purchase from and after the date of closing of the Purchased Assets to and including March 31, 1985 up to 935,750 Royex Common Shares at a price of \$8.50 per share. Approval of the granting of this option will require a majority of the votes cast thereon at the Royex Meeting, excluding all Royex Common Shares owned by Campbell and its associates and affiliates.

THE CULLATON MEETING

Election of Directors

The following individuals will be nominated for election as directors of Cullaton at the Cullaton Meeting: John M. Arnold, Ned Goodman, Timothy J.D. Hoare, Richard L. Lister, Thomas Skimming and J. Gordon Strasser. Details of the principal occupation, shareholdings in Cullaton and other information concerning the foregoing nominees, all of whom are presently directors of Cullaton, are contained under "Directors and Officers of Cullaton".

Unless such authority is withheld, the persons named in the enclosed form of proxy intend to vote in favour of each of the foregoing nominees. If any such nominee should be unable or unwilling to serve, an event not presently anticipated, persons named in the form of proxy will have the right to vote for another nominee in their discretion, unless a proxy specifies that the Cullaton Common Shares represented thereby are to be withheld from voting on the election of directors. In the event that the amalgamation of Cullaton and Roysub is consummated, all of such nominees, except Mr. Strasser, will become directors of New Cullaton.

Appointment of Auditors

Unless such authority is withheld, the persons named in the accompanying form of proxy intend to vote for the reappointment of Thorne Riddell, Chartered Accountants, as auditors of Cullaton and to authorize the directors to fix their remuneration. Thorne Riddell have been the auditors of Cullaton since its incorporation. In the event that the amalgamation is completed, Thorne Riddell will be appointed auditors of New Cullaton.

Amalgamation with Roysub

The proposed amalgamation of Cullaton and Roysub and related transactions are described in detail under "Proposed Amalgamation and Related Transactions".

Reduction in Stated Capital

Subject to approval of the amalgamation of Cullaton and Roysub, Cullaton proposes to reduce the stated capital attributable to the Cullaton Common Shares by an amount sufficient to eliminate the deficit on the balance sheet of Cullaton as of the date such amalgamation is effected. As at December 31, 1983 the deficit of Cullaton was \$36,105,969 and such amount will change to reflect the payment of the special dividend of \$0.50 on the Cullaton Preferred Shares and operating results for the period from January 1, 1984 to the date of the amalgamation.

Approval of the special resolution will require the favourable votes of the holders of not less than 66²/₃% of the Cullaton Common Shares voted in respect thereof at the Cullaton Meeting.

PROPOSED AMALGAMATION AND RELATED TRANSACTIONS

Purpose

Royex is the largest shareholder in Cullaton, owning indirectly approximately 39.3% of the issued Cullaton Common Shares and such Cullaton Common Shares constitute its largest asset. The largest shareholder of Royex is Campbell which owns approximately 44.3% of the issued Royex Common Shares. Campbell also has management agreements under which it is responsible for the management of Cullaton and Renabie; it has also assisted in the financing of Royex and Cullaton.

The purpose of the amalgamation of Cullaton and Roysub is effectively to combine the businesses and undertakings of Royex and Cullaton into one public company and to rationalize certain of the gold-related interests of Campbell by transferring them to Royex. After giving effect to the amalgamation, Campbell will own, directly and indirectly, approximately 27.2% of the then issued Royex Common Shares. After giving effect to the amalgamation and related transactions, Campbell will own, directly and indirectly, approximately 50.2% of the then issued Royex Common Shares.

The Amalgamation

Prior to the amalgamation of Cullaton and Roysub, and provided that all of the requisite shareholder approvals have been obtained at the Royex Meeting and the Cullaton Meeting, Cullaton will pay a special dividend on the Cullaton Preferred Shares of \$0.50 per share. Under the Amalgamation Agreement, Cullaton and Roysub will amalgamate on the following basis:

- (a) each holder of Cullaton Common Shares (other than Roysub) will receive 3 Royex Common Shares and 1 Royex Preferred Share in exchange for each 11 Cullaton Common Shares held;
- (b) each holder of Cullaton Preferred Shares (other than Roysub) will receive 1 Royex Preferred Share in exchange for each 2 Cullaton Preferred Shares held;
- (c) all of the Cullaton Common Shares and Cullaton Preferred Shares held by Roysub will be cancelled;
- (d) Royex will receive 1 share of New Cullaton in exchange for each share of Roysub held; and
- (e) in consideration of the issue of its Royex Common Shares and Royex Preferred Shares to effect the amalgamation, New Cullaton will issue to Royex 7,100,000 non-voting special shares in lieu of and replacement for the Cullaton Preferred Shares and 1 common share in respect of the Cullaton Common Shares.

Following the amalgamation, certificates for Royex Common Shares and Royex Preferred Shares will be issued to former shareholders of Cullaton against deposit of their certificates representing Cullaton Common Shares or Cullaton Preferred Shares with The Canada Trust Company at its principal office in the City of Toronto.

A shareholder of Cullaton whose holdings of Cullaton Common Shares are not evenly divisible by 11 will receive a bearer scrip certificate representing a fractional Royex Common Share equal to the fraction obtained by multiplying the number of his remnant Cullaton Common Shares (i.e. 1 to 10) by $\frac{3}{11}$, plus a share certificate for any whole number of Royex Common Shares, and a bearer scrip certificate representing a fractional Royex Preferred Share equal to the fraction obtained by multiplying such remnant Cullaton Common Shares by $\frac{1}{11}$. A shareholder of Cullaton whose holdings of Cullaton Preferred Shares are not evenly divisible by 2 will receive a bearer scrip certificate for $\frac{1}{2}$ of a Royex Preferred Share. Bearer scrip certificates representing such Royex Common Shares and Royex Preferred Shares will not entitle the holders thereof to any rights as shareholders of Royex but will entitle such holders to receive a certificate for a full Royex Common Share or full Royex Preferred Share, as the case may be, by exchanging scrip certificates aggregating a full share.

Approval of the amalgamation of Cullaton and Roysub will require the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Cullaton Common Shares voted in respect thereof at the Cullaton Meeting and the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Cullaton Preferred Shares voted separately as a class in respect thereof at the Cullaton Meeting. Approval of the increase in the authorized capital of Royex necessary to enable the amalgamation and related transactions to be effected will require the favourable votes of the holders of not less than $66\frac{2}{3}\%$ of the Royex Common Shares voted in respect thereof at the Royex Meeting.

Terms and Conditions of the Amalgamation

The Master Agreement contains various covenants, representations and warranties by each of Cullaton, Royex and Campbell to each of the other parties, all of which covenants, representations and warranties are typical in agreements of this type except for the covenant by Cullaton to pay a special dividend on the Cullaton Preferred Shares. The Master Agreement also contains certain conditions precedent to effecting the amalgamation and related transactions, the only significant condition precedent being that neither Cullaton nor

Royex will be obligated to enter into the Amalgamation Agreement if the holders of more than 2% of any of the Cullaton Common Shares, Cullaton Preferred Shares or Royex Common Shares exercise their right to dissent as described under "Dissenting Shareholders' Rights".

Royex, Cullaton and Campbell may mutually agree to terminate the Master Agreement at any time. If the amalgamation is not consummated on or before June 29, 1984 any party may thereafter terminate the Master Agreement, provided that the failure to amalgamate before such date was not the result, directly or indirectly, of a breach of the Master Agreement by such party. If the amalgamation does not occur for any reason, all costs and expenses incurred in connection therewith will be borne by Royex as to 30%, by Cullaton as to 50% and by Campbell as to 20%.

The text of the Amalgamation Agreement is set forth as Schedule "C" to this Joint Management Proxy Circular.

The Amalgamated Corporation

The registered office of New Cullaton will be located at Suite 400, 111 Richmond Street West, Toronto, Ontario M5H 2G4.

The authorized capital of New Cullaton will consist of an unlimited number of common shares and 7,100,000 non-voting special shares.

The Board of Directors of New Cullaton will consist of a minimum of three and a maximum of ten directors. The members of the Board of Directors immediately following the amalgamation will be the same individuals as those nominated for election as directors of Royex at the Royex Meeting.

The by-laws of New Cullaton will be those of Cullaton.

The auditors of New Cullaton will be Thorne, Riddell, Chartered Accountants, who are currently auditors for both Cullaton and Royex and are proposed to be reappointed as such at the Cullaton Meeting and the Royex Meeting.

Attributes of First Preference Shares

The First Preference Shares may be issued from time to time in one or more series with such preferred, deferred or other special rights, privileges, restrictions, conditions and designations attached thereto including, without limitation, any redemption or conversion rights, the rate of non-cumulative or cumulative preferential dividends and the amount payable thereon in the event of liquidation, dissolution or winding-up, as are fixed by resolution of the Board of Directors of Royex (except in respect of the first series of First Preference Shares described below) and confirmed by articles of amendment. Subject to the foregoing, any of the First Preference Shares may be authorized for issue as part of any series previously authorized (including the first series of First Preference Shares), in which case they shall bear the same designation as has been applied to such similar prior series. Each series of First Preference Shares will rank on a parity with the First Preference Shares of every other series provided that in the case of fixed cumulative dividends or amounts payable on a return of capital not being paid in full, the First Preference Shares of all series shall participate rateably in respect of such dividends in accordance with the sums which would be payable if all such dividends were declared and paid in full in accordance with their respective terms and on a return of capital in accordance with the sums which would be payable on such return of capital if all such sums as payable were paid in full in accordance with their respective terms. The First Preference Shares will be entitled to such preferences over the Royex Common Shares and any other shares of Royex ranking junior to the First Preference Shares with respect to payment of dividends, return of capital and otherwise as may be fixed for each series. Subject to the provisions relating to any particular series, Royex may, at any time, redeem the whole or any part of the First Preference Shares at the then applicable redemption price or purchase for cancellation the whole or any part of the First Preference Shares at a price not exceeding any then applicable redemption price plus costs of purchase and unpaid accumulated dividends. The holders of First Preference Shares shall not be entitled to receive notice of any meeting of shareholders of Royex (except a meeting called for the purpose of authorizing the dissolution of Royex or the sale of all or a substantial part of its undertaking) or to attend or vote thereat. The approval of holders of First Preference Shares as to matters which, by law, require such approval, may be given by the affirmative votes of holders of not less than two-thirds of such shares represented and voted at a meeting called for such purpose.

The first series of First Preference Shares will be designated Convertible First Preference Shares Series A and will be limited in number to 5,000,000. The following is a summary of certain significant attributes of the Royex Preferred Shares:

The stated capital attributable to each Royex Preferred Share will be \$10.00. Holders of Royex Preferred Shares shall be entitled to receive, when and as declared by the Board of Directors of Royex, fixed, cumulative, preferential cash dividends thereon at the annual rate of \$0.75 per share, payable semi-annually on June 30th and December 31st in each year, commencing on December 31, 1984. Royex shall not declare or pay any dividends on any shares ranking junior to the Royex Preferred Shares unless all dividends payable on the Royex Preferred Shares and any shares ranking on a parity therewith have been declared and paid.

At any time up to June 30, 1994, the holders of Royex Preferred Shares may convert all or any of such Royex Preferred Shares into Royex Common Shares on the basis of 1 Royex Common Share for each Royex Preferred Share so converted. In the event that 90% or more of the Royex Preferred Shares are converted into Royex Common Shares then, at the option of Royex, all of the remaining Royex Preferred Shares may be converted into Royex Common Shares. In the event either the Royex Preferred Shares or the Royex Common Shares are subdivided, consolidated, converted or exchanged for a different number of shares of the same or another class, the foregoing conversion basis will be adjusted accordingly.

After June 30, 1986 and up to and including June 30, 1989, Royex may redeem the whole or, from time to time, any part of the then outstanding Royex Preferred Shares on payment of \$10.00 per share plus accrued and unpaid dividends to the date of redemption if the Royex Common Shares have traded on The Toronto Stock Exchange at a weighted average price of at least \$12.50 per share for at least 30 days prior to redemption. Following June 30, 1989 Royex may redeem the whole or, from time to time, any part of the then outstanding Royex Preferred Shares on payment of \$10.00 per share plus accrued and unpaid dividends to the date of redemption.

At the end of each calendar quarter, commencing with the calendar quarter ending on June 30, 1994, Royex will be obligated to make all reasonable efforts to purchase for cancellation in the open market 0.5% of the Royex Preferred Shares outstanding at a price not exceeding \$10.00 per share plus accrued and unpaid dividends to the date of purchase and costs of purchase. Such obligation will carry over to succeeding calendar quarters in the same calendar year but shall not carry over to the succeeding calendar year. All purchases or redemptions of Royex Preferred Shares in any calendar year, other than pursuant to the foregoing purchase obligation, may be applied to satisfy the purchase obligation for such calendar year.

Holders of Royex Preferred Shares will be entitled on the liquidation, dissolution or winding-up of Royex, if the same is voluntary, to be paid the then current redemption price of such shares and, if the same is involuntary, to be paid the amount paid up thereon plus, in either case, accrued and unpaid dividends whether or not declared.

The full text of the attributes of the First Preference Shares and Royex Preferred Shares is set forth in Exhibit 1 to Schedule "A".

Retraction Rights of Cullaton Preferred Shares

Pursuant to an agreement dated July 19, 1982 Cullaton deposited \$10.2 million (subsequently increased to \$14.2 million) in a Canadian chartered bank to finance the retraction right, exercisable on June 30, 1984, attaching to the Cullaton Preferred Shares. Under the retraction right, holders of Cullaton Preferred Shares may retract a maximum of 40% of the Cullaton Preferred Shares on June 30, 1984 and a maximum of 1/3 of the Cullaton Preferred Shares annually thereafter. The retraction right is described under "Preferred Shares". The agreement provides that to the extent that the retraction right is not exercised, Cullaton is entitled to payment of the deposit plus accrued interest, which payment will be made to Cullaton in the event that the amalgamation of Cullaton and Roysub is completed as contemplated in the Master Agreement.

Other Cullaton Securities Affected by the Amalgamation

- (a) There are currently outstanding stock options under Cullaton's Employee Share Incentive Plan exercisable for the purchase of an aggregate of 225,868 Cullaton Common Shares. In the event the amalgamation of Cullaton and Roysub is completed, Royex has agreed to grant new options to the holders of such Cullaton options, which new options will be exercisable to purchase Royex Common Shares and Royex Preferred Shares on the same basis as if such holders had exercised their existing Cullaton options prior to the amalgamation.

- (b) An option is currently outstanding which is exercisable by the holder to purchase 286,000 Cullaton Common Shares at any time on or before February 28, 1986. In the event that the amalgamation of Cullaton and Roysub is completed, Royex will grant such holder a new option exercisable to purchase Royex Common Shares and Royex Preferred Shares on the same basis as if such holder had exercised the existing option prior to the amalgamation.
- (c) Cullaton is obligated to issue an aggregate of 480,000 Cullaton Common Shares on or before January 15, 1985 in consideration of having received an aggregate of \$1,776,000 from investors, which amount has been spent by Cullaton on exploration and development. These Cullaton Common Shares will be issued to such investors prior to the amalgamation of Cullaton and Roysub.
- (d) Cullaton has agreed to issue an aggregate of 275,000 Cullaton Common Shares on or before July 15, 1985 in consideration of having received, in April 1984, an aggregate of \$1,100,000 from investors, which amount is to be spent on exploration and development. In the event these Cullaton Common Shares have not been issued prior to the amalgamation of Cullaton and Roysub, such investors will become entitled to receive, in lieu thereof, an aggregate of 100,000 Royex Common Shares.

Purchase of Assets from Campbell

Following the amalgamation, Royex will acquire the Purchased Assets in exchange for the issue by Royex to Campbell of an aggregate of 5,222,235 Royex Common Shares or, in the event that Campbell has not acquired a 55% interest in Ebex Resources, an aggregate of 4,445,765 Royex Common Shares together with the right to acquire such interest, when acquired by Campbell, in consideration for 776,470 Royex Common Shares. A description of the Purchased Assets is contained herein under "The Purchased Assets". Campbell has also been granted an option, subject to approval by the shareholders of Royex (other than Campbell and its associates and affiliates) at the Royex Meeting, to purchase from and after the date of closing of the Purchased Assets to and including March 31, 1985 up to 935,750 Royex Common Shares at a price of \$8.50 per share.

Fairness Opinion

Cullaton and Royex engaged Brown, Baldwin, Nisker Limited to render a fairness opinion in respect of the proposed amalgamation and related transactions. By a letter dated April 27, 1984 addressed to Cullaton and Royex, BBN expressed the opinion that, based on the financial and other information and material which it reviewed and relied upon, the share exchange ratios in connection with the proposed amalgamation of Cullaton and Roysub are fair from a financial point of view to the public shareholders of Cullaton and Royex and the consideration to be paid by Royex for the Purchased Assets is fair from a financial point of view to the public shareholders of Royex. The letter is reproduced herein as Schedule "D".

Stock Exchange Listings

The Toronto Stock Exchange has conditionally approved the listing of the Royex Common Shares and Royex Preferred Shares to be issued in connection with the amalgamation and related transactions, subject to the filing of required documents.

Canadian Federal Income Tax Considerations

The following is a summary of the income tax considerations pursuant to the Income Tax Act (Canada) (the "Act") applicable to the amalgamation of Cullaton and Roysub and the subsequent conversion of Royex Preferred Shares. The summary relates only the Canadian federal income tax considerations pursuant to the Act and the regulations thereunder and not to the income tax considerations pursuant to any provincial income tax legislation or any income tax legislation of a country other than Canada. The comments are of a general nature and do not constitute tax advice to any particular person. Accordingly, each shareholder of Cullaton is advised to consult with his own tax advisers for guidance regarding his personal income tax position. Where appropriate, reference is made to the current administrative practices of Revenue Canada, Taxation, although advance income tax rulings have not been obtained from Revenue Canada, Taxation.

The following comments are confined to shareholders of Cullaton resident in Canada to whom the Cullaton Common Shares and Cullaton Preferred Shares, respectively, represent capital property for the purposes of the Act. Generally, such shares will represent capital property to a shareholder unless a disposition of the shares by the shareholder would give rise to income from the carrying on of a business of trading or dealing in shares or from an adventure in the nature of trade. Certain shareholders of Cullaton whose shares might not otherwise qualify as capital property to them may be entitled to obtain such qualification by making the election permitted by subsection 39(4) of the Act.

Amalgamation

The amalgamation will have the following Canadian income tax consequences for a person who is a shareholder of Cullaton:

- (a) A holder of Cullaton Common Shares who receives Royex Common Shares and Royex Preferred Shares on the amalgamation will qualify for a tax-free "rollover" and will be deemed:
 - (i) to have disposed of the Cullaton Common Shares for proceeds of disposition equal to the adjusted cost base to him of such shares immediately before the amalgamation; and
 - (ii) to have acquired the Royex Common Shares and Royex Preferred Shares at a cost equal to the adjusted cost base to him of the Cullaton Common Shares immediately before the amalgamation, such cost to be allocated between the Royex Common Shares and the Royex Preferred Shares in the proportions that the fair market value immediately after the amalgamation of all of the shares of each class so acquired by him bears to the fair market value immediately after the amalgamation of all the shares so acquired by him.
- (b) A holder of Cullaton Preferred Shares who receives Royex Preferred Shares on the amalgamation will qualify for a tax-free "rollover" and will be deemed:
 - (i) to have disposed of the Cullaton Preferred Shares for proceeds of disposition equal to the adjusted cost base to him of such shares immediately before the amalgamation; and
 - (ii) to have acquired the Royex Preferred Shares at a cost equal to the adjusted cost base to him of the Cullaton Preferred Shares immediately before the amalgamation.
- (c) Where a shareholder of Cullaton receives a scrip certificate in lieu of a fractional interest on the amalgamation, the amount of the gain or loss on the partial disposition represented by the value of the scrip certificate may be ignored if the adjusted cost base of the shares of Royex received on the amalgamation is reduced by the amount of the value of the scrip certificate. Alternatively, such shareholder may recognize a gain or loss in respect of the scrip certificate received in lieu of the fractional interest.
- (d) A shareholder of Cullaton who exercises his right to dissent pursuant to Section 184 of the BCA and who receives payment of the fair value of his shares will realize a capital gain equal to the amount paid (excluding interest allowed under the BCA) less the adjusted cost base of such shares.

Conversion of Royex Preferred Shares

A holder of Royex Preferred Shares will realize neither a capital gain nor a capital loss as a result of the exchange by him of such shares into Royex Common Shares. The cost and the adjusted cost base to such shareholder of the Royex Common Shares received on the conversion will be equal to the adjusted cost base to him of his Royex Preferred Shares immediately before the conversion.

Dissenting Shareholders' Rights

A holder of Cullaton Common Shares, Cullaton Preferred Shares or Royex Common Shares (collectively, in this section, referred to as "Shares") who dissents from the special resolution relating, in the case of Cullaton, to approval of the amalgamation and, in the case of Royex, to approval of the increase in authorized capital and who complies with the dissent procedure in Section 184 of the BCA will become entitled, if such special resolution becomes effective, to be paid the fair value (which may ultimately be determined after court proceedings) of all the Shares of such class held by him. Such fair value will be determined as of the close of business on the day before such special resolution is passed but will be paid only after compliance with the provisions of the BCA.

A holder of Shares who wishes to dissent from the special resolution must send a written objection to the attention of the Secretary of Cullaton or Royex, as the case may be, prior to the Cullaton Meeting or the Royex Meeting, as the case may be, or deliver such objection to the Chairman at such meeting. The filing of a written objection does not deprive a shareholder of the right to vote on the special resolution and a vote against the special resolution does not constitute notice of dissent. If a sufficient number of Cullaton Common Shares, Cullaton Preferred Shares or Royex Common Shares dissent, neither Cullaton nor Royex will be obliged to enter into the Amalgamation Agreement. See "Terms and Conditions of the Amalgamation".

Within 20 days after receiving notice from Cullaton or Royex, as the case may be, that the special resolution has been passed, the dissenting shareholder must forward to the Secretary of Cullaton or Royex, as the

case may be, a written notice containing his name and address, the number and class of Shares in respect of which he dissents and a demand for payment of the fair value of such Shares. His rights as a holder of such Shares are then terminated, other than the right to be paid the fair value of his Shares, as determined in accordance with Section 184. Within 30 days after sending such written notice the shareholder must forward the certificate(s) representing such Shares to the Secretary of Cullaton or Royex, as the case may be, or to their respective transfer agents for endorsement of a notice respecting the dissent procedure. Such endorsed certificates will not evidence an ownership interest in Cullaton or Royex, as the case may be, and as such will not be marketable.

Within seven days after the later of the day on which the special resolution giving rise to the right to dissent becomes effective and the day on which the written notice from a dissenting shareholder is received, Cullaton or Royex, as the case may be, is required to send to such dissenting shareholder a written offer to pay for his Shares in an amount considered by the directors of Cullaton or Royex, as the case may be, to be the fair value thereof, accompanied by a statement showing how the fair value was determined. On the making of the offer the dissenting shareholder may no longer withdraw his notice of dissent and, if such offer is not accepted by the dissenting shareholder, Cullaton or Royex, as the case may be, or the dissenting shareholder (who has ceased to have any rights as a shareholder other than the right to receive fair value), may apply to the court to fix the fair value for such Shares. Court determination of fair value would be subject to normal litigation proceedings, including preparation and exchange of pleadings, oral and documentary discoveries, pre-trial conferences and trial. Determination of fair value may require expert witnesses and preparation of costly appraisals of all relevant assets.

The provisions of Section 184 of the BCA are complex and the foregoing is only a summary. Any holder of Shares wishing to exercise the right to dissent should seek professional advice, as failure to comply strictly with such provisions may prejudice such right.

ROYEX STURGEX MINING LIMITED

Royex Sturgex Mining Limited is the continuing corporation resulting from articles of amalgamation effective December 30, 1980 amalgamating 461506 Ontario Limited and the predecessor Royex Sturgex Mining Limited. The predecessor Royex Sturgex Mining Limited was the continuing corporation resulting from the amalgamation effective July 31, 1974 of Royex Mining Limited and Sturgex Mines Limited. By articles of amendment dated March 28, 1983 the authorized capital of Royex was increased from 4,900,000 to 10,000,000 Royex Common Shares. The registered office of Royex is located at Suite 800, 65 Queen Street West, Toronto, Ontario M5H 2H6.

Business of Royex

Cullaton Lake Gold Mines Ltd.

Royex, through Roysub, currently owns 11,860,000 Cullaton Common Shares, representing approximately 39.3% of the total number issued and outstanding, and 650,000 Cullaton Preferred Shares. A detailed description of the business and other information concerning Cullaton is contained under "Cullaton Lake Gold Mines Ltd."

The Shear Lake Claims

As part of the reorganization and refinancing of Cullaton in 1982, Royex and Cullaton entered into a joint venture agreement relating to the Shear Lake Claims, which are adjacent to the Cullaton Lake gold mine. For a summary of the joint venture agreement reference is made to "Reorganization and Change of Management".

Cobra Emerald Mines Limited

Cobra Emerald Mines Limited ("Cobra") was incorporated under the Canada Business Corporations Act to acquire all of the issued capital of Gravelotte Emeralds (Proprietary) Limited ("Gravelotte"), a South African corporation. Gravelotte owns and operates an emerald mine in the northeastern portion of the Republic of South Africa. The mine, one of the world's largest producing emerald mines, has been in continuous production for over 20 years and currently produces at the rate of approximately 200,000 carats per month. The shares of Cobra are traded on the unlisted securities market of The Stock Exchange, London, England.

By an agreement dated December 1, 1982, as amended, Altina Holdings Limited ("Altina") agreed to sell all of the issued shares of Gravelotte to Envov Limited ("Envov") in consideration of R789,178 in cash and the undertaking of Envov to discharge certain shareholders' advances and loans aggregating R5,210,822 plus interest. On January 31, 1983 Royex paid R3,300,000 on behalf of Envov to Altina, being R300,000 in respect of the Gravelotte shares and R3,000,000 in respect of the shareholders' advances and loans.

By an agreement dated May 19, 1983 between Royex, Envov and Cobra, Envov sold all of the issued shares of Gravelotte to Cobra in consideration for 976,000 shares of Cobra and the amount of R3,300,000 due from Cobra to Envov. In addition, Royex issued 50,000 Royex Common Shares to Envov and Envov assigned to Royex its debt of R3,300,000 due from Cobra in cancellation of the debt in the same amount due from Envov to Royex. On the same day, Cobra issued an aggregate of 5,100,000 shares to Royex, 3,905,325 shares in settlement of the R3,300,000 debt, 1,147,243 shares in settlement of R942,931 due for a short-term working capital loan, expenses and advances and for all of the issued shares of Cobra Marketing, S.A. ("Cobra Marketing") and 47,432 shares at a price of 50p per share. Cobra Marketing, a Swiss corporation, is responsible for marketing the emeralds produced at the Gravelotte mine.

Pursuant to an agreement dated May 24, 1983, between Cobra and Laing & Cruickshank ("Laing"), a member of The Stock Exchange, London, England, 2,924,000 shares of Cobra were sold at a price of 63p per share. The net proceeds were used to retire the outstanding balance of the purchase price of the Gravelotte shares and the balance to repay short-term loans.

As a result of these transactions, Royex holds 5,100,000 shares, representing 51% of the issued capital of Cobra. Cobra owns 100% of the issued capital of Gravelotte and 100% of the issued capital of Cobra Marketing.

The total cost to Royex of the Gravelotte acquisition was approximately \$4.6 million which was financed, in part, by a line of credit from a Swiss merchant bank and three private placements totalling 577,777 Royex Common Shares at a price of \$4.50 per share.

International Corona Resources Ltd.

Pursuant to an agreement dated December 7, 1983, on January 31, 1984 Royex purchased a \$6.5 million three year debenture from International Corona Resources Ltd. ("Corona"). The debenture is convertible between December 31, 1986 and January 31, 1987 into one Corona common share for each \$9.25 of principal amount. Interest on the debenture at 9% per annum was prepaid by the issuance to Royex of 200,000 Corona common shares at a deemed value of \$8.77 per share. Royex also received a warrant exercisable for the purchase of 150,000 Corona common shares at a price of \$8.75 per share during the first year and \$9.00 per share during the second year after which it expires.

In a related private placement, Royex purchased an additional 700,000 Corona common shares at \$7.75 per share and a warrant exercisable for the purchase of a further 700,000 common shares at a price of \$8.75 per share during the first year and at \$9.00 per share during the second year after which the warrant expires. If the debentures were converted and all warrants were exercised, Royex would hold a 17.5% interest, on a fully diluted basis, in Corona.

Royex has entered into a voting trust agreement dated January 31, 1984 with Corona, Pezamerica Resources Corporation and Messrs. Arthur Clemiss, Murry Pezim and Ned Goodman, directors of Corona. The agreement provides the parties thereto with a right of first refusal with respect to the common shares of Corona held by the parties to the agreement. As well, the agreement provides for the voting of the Corona common shares held by the parties thereto in certain circumstances, including the election of directors.

Corona is a Vancouver based corporation which is active in the Hemlo gold prospecting area of northern Ontario. Pursuant to a joint venture agreement between Corona and Teck Corporation ("Teck"), Teck has the right to earn a 55% interest in Corona's property, subject to a 3% net smelter royalty, by financing the property to the production stage. Teck has publicly announced plans to place Corona's Hemlo property in production by 1985 at a daily rate of 1,100 tons of ore per day from the east zone of the main orebody and to add 275 tons per day from an adjoining quarter claim. From published reports, it is estimated that the orebody contains over 9.5 million tons grading 0.36 ounces of gold per ton. At full annual production, Teck has reported that it expects to produce about 125,000 ounces of gold from the main orebody and a further 60,000 ounces of gold from the adjoining quarter claim.

A further agreement between Corona, Teck and Noranda Exploration Limited ("Norex"), a wholly-owned subsidiary of Noranda Mines Limited, provides for the development of additional property to the west of Corona's main Hemlo orebody. Under this agreement Norex has the right to sink a shaft on a quarter claim section of the Corona property and will be entitled to a 50% interest in any ore bearing material found thereon.

Corona is also party to an agreement between Teck, Norex, Golden Sceptre Resources Limited ("Golden Sceptre") and Goliath Gold Mines Limited ("Goliath"), relating to the development of the eastern portion of Corona's Hemlo property and a portion of the Golden Sceptre/Goliath property contiguous thereto. Corona/Teck have acquired the right to develop any extension of Corona's Hemlo property into the Golden Sceptre/Goliath property within two years and to bring such property into production. Corona/Teck will be entitled to a 50% net profits royalty in up to 250,000 ounces of gold produced from the Golden Sceptre/Goliath property under the agreement and Norex, Golden Sceptre and Goliath will be entitled to advance royalty payments until production commences. If Corona/Teck do not make a production commitment, Norex may do so and would have the exclusive right to explore, develop and mine an eastern portion of Corona's Hemlo property, subject to the payment of a 50% net profits royalty to Corona/Teck.

Noranda and Teck have optioned a 31 claim property held by Interlake Development Corporation under which Corona would have a 25% interest in the property.

Corona holds a 100% interest in 60 claims near Rous Lake, Ontario, six miles west of Hemlo. Corona has entered into an agreement with Gold Fields Canadian Mining Limited ("Gold Fields") regarding exploration and development of the claims whereby Gold Fields will have the right to acquire the property in consideration of the expenditure of \$1 million over five years. If the property is put into production, Corona will be entitled to receive the first \$1 million of net profits after Gold Fields recoups all expenses incurred in exploration and development on the property and bringing it into production. Thereafter, Corona will be entitled to a 30% net profits royalty.

Other Interests

Pursuant to a joint venture agreement dated December 1, 1981 between Royex and Medina Energy Resources Corporation ("Medina"), Royex participated in certain oil and gas wells in Ohio. Two of such wells are producing on an intermittent basis; a third well remains to be completed.

Pursuant to an agreement dated October 6, 1982 between Royex and Legion Energy Corporation, Royex participated in certain oil and gas wells in Illinois. One well is presently in commercial production.

Pursuant to an option agreement dated June 15, 1982 with Robert Fairservice relating to a gold prospect located near Wabigoon Lake in northwestern Ontario, Royex carried out a geophysical survey during 1983 and intends to assess the results thereof during the current fiscal year.

Management's Discussion of Operations and Financial Position

Results of Operations

As the principal shareholder of Cullaton, Royex has a direct interest in the results of operations of Cullaton. For a summary of such results, reference is made to "Cullaton Lake Gold Mines Ltd. — Management's Discussion of Results of Operations and Financial Position".

Royex is the owner of 51% of the issued shares of Cobra, which in turn owns the Gravelotte emerald mine. The acquisition of the Gravelotte mine by Cobra was completed in June 1983, although Royex had been responsible for the management and operation of the Gravelotte mine since February 1983. During the seven month period ended September 30, 1983, emerald sales were \$1,965,782 and the cost of emeralds sold, including administrative expenses, were \$1,261,284. To date, no dividends have been declared on the Cobra shares.

For the fiscal year ended September 30, 1983, Royex spent \$8,490 on geological and geophysical work on a gold prospect near Wabigoon Lake in northwestern Ontario.

During the fiscal year ended September 30, 1983, Royex spent \$142,287 in connection with certain oil and gas properties in Ohio and Illinois. Revenue from Royex's working interest in such fiscal year was \$18,086.

Financial Position

In February 1983, Royex issued 577,777 Royex Common Shares for net proceeds of \$2.6 million. Such proceeds were used to finance, in part, the purchase of the Gravelotte emerald mine through the acquisition of 51% of the issued capital of Cobra. Royex also obtained temporary loans amounting to \$1 million from Rahn & Bodmer, a Swiss merchant bank, to assist in the Gravelotte acquisition, which loans were repaid in December 1983. In connection with the loan Rahn & Bodmer was granted two options to purchase on or before July 28, 1985 an aggregate of 75,000 Royex Common Shares at a price of \$4.25 per share.

In September 1983, Royex gave a guarantee in favour of a Canadian chartered bank in the amount of \$500,000 to secure the guarantee of Cullaton given to the same bank in respect of the obligations of Renabie. Royex gave a further guarantee to the same bank in the amount of \$2.5 million to secure Cullaton's direct obligations to such bank. These guarantees are secured by the pledge of 2,500,000 common shares of Cobra and are subject to an agreement whereby the bank may require Campbell to purchase such shares at a price of \$1.20 per share.

In January 1984, a Canadian chartered bank provided a \$14 million line of credit to Royex to enable it to complete the acquisition of securities of Corona, repay the loan from Rahn & Bodmer and for general corporate purposes. Royex pledged 2,000,000 Cullaton Common Shares and 650,000 Cullaton Preferred Shares as security for such line of credit. In addition, 900,000 Corona common shares and the \$6.5 million Corona debenture (the "Corona Securities") are pledged to such bank to secure \$12 million of the line of credit. In the event that Royex fails to repay the loan on demand then, between June 30, 1984 and September 30, 1984, Merit Investment Corporation ("Merit") and Hees International Corporation have agreed to underwrite 75% and 25% respectively, of the Corona Securities, Laing has agreed to place sufficient Royex Common Shares to raise \$6 million and Campbell has guaranteed the obligations of Merit up to \$6 million.

Directors and Officers of Royex

The following table sets forth certain information concerning the directors and officers of Royex and the individuals to be nominated by management for election as directors at the Royex Meeting:

<u>Name and municipality of residence</u>	<u>Positions and period as director</u>	<u>Principal occupation during past five years</u>	<u>Number of Royex Common Shares</u>
D. Richard Clews ⁽¹⁾ Toronto, Ontario	Chairman and director since 1974	Geologist and geochemist	20,000
Thomas Skimming ⁽²⁾ Toronto, Ontario	President and director since 1974	Consulting geologist and Professional Engineer; Self-employed consultant	144,846
John M. Arnold ⁽³⁾ Guelph, Ontario	Vice-President and director since January 28, 1981	Chartered Accountant; President, Cobra Emerald Mines Limited; prior to February 1984, President, Medina Energy Resources Corporation; prior to October 1981, Partner, Arnold Lugowy Robshaw, Chartered Accountants	100
Harold N. Borts ⁽⁴⁾ Montreal, Quebec	—	Vice-President, Resource Investments, Cemp Investments Ltd., diversified holding company; prior to June 1982, Treasurer, Cemp Investments Ltd.	Nil
John H. Davies ⁽³⁾ Mississauga, Ontario	Director since September 9, 1982	Business Executive; Senior Vice-President, Barringer Resources Inc.	Nil
Ned Goodman ⁽³⁾ Toronto, Ontario	Director since March 24, 1983	Vice-President, Beutel, Goodman & Company Ltd., investment counsel	Nil
Myron I. Gottlieb ⁽⁴⁾ Toronto, Ontario	—	President, Merit Investment Corporation, investment dealer	25,000
Timothy J.D. Hoare London, England	Director since March 24, 1983	Director, Laing & Cruikshank, stockbrokers	Nil
Richard L. Lister Toronto, Ontario	—	President and Chief Executive Officer, Campbell Resources Inc. and Camchib Mines Inc. (previously Camchib Resources Inc.); prior to June 1981, General Manager, Pigments Division, Sun Chemical Corporation, chemical company	100
Robert J. Armstrong Toronto, Ontario	Secretary	Partner, Blackwell, Law, Spratt, Armstrong & Grass, law firm	2,000

1. Mr. Clews will not be nominated for re-election as a director.

2. Thomas Skimming & Associates Limited, a private Ontario corporation 50% owned by Thomas Skimming, also owns 109,848 Royex Common Shares

3. Member of Audit Committee.

4. Messrs. Borts and Gottlieb will not be nominated for election as directors unless the matters referred to under "Change of Corporate Name and Number of Directors", "By-Law No. 15" and "Increase in Authorized Capital" are approved by shareholders at the Royex Meeting.

Remuneration of Directors and Officers

During the fiscal year ended September 30, 1983, Royex did not pay any remuneration to its directors in their capacities as such. Aggregate remuneration of \$56,355 was paid in respect of such fiscal year to two senior officers of Royex in their capacities as officers or employees. In addition, during such fiscal year, \$22,140 was paid to Thomas Skimming & Associates Limited in payment for administrative services.

Consolidated Capitalization

<u>Designation of security</u>	<u>Amount authorized</u>	<u>Amount outstanding as at December 31, 1983</u>	<u>Amount outstanding as at March 31, 1984</u>
Bank indebtedness ⁽¹⁾			\$13,361,000
Minority interest ⁽²⁾		\$ 4,850,924	4,850,924
Common shares ⁽³⁾⁽⁴⁾		39,637,648	39,637,648
	10,000,000	(8,292,721 shs)	(8,292,721 shs)

Notes:

1. Reference is made to Note 17 to Consolidated Financial Statements of Royex for further particulars concerning this indebtedness.
2. As at December 31, 1983.
3. Options exercisable for the purchase of 225,000 Royex Common Shares are outstanding. Reference is made to "Share Incentive Plan" and "Other Options".
4. Royex may be required to issue an aggregate of 100,000 Royex Common Shares as described in Note 3 to the consolidated capitalization of Cullaton.
5. As at December 31, 1983 Royex had a deficit of \$2,119,327.

Description of Securities

The authorized capital of Royex consists of 10,000,000 common shares without par value. Each common share carries one vote at all meetings of shareholders, is entitled to dividends as and when declared by the Board of Directors and is entitled upon liquidation to a pro rata share of the assets of Royex distributable to the holders of common shares.

Share Incentive Plan

On April 27, 1984 the Board of Directors of Royex passed a resolution adopting a Share Incentive Plan (the "New Royex Plan"), consisting of a share purchase plan, a share option plan and a share bonus plan, to replace the existing Incentive Stock Option Plan (the "Old Plan"). Management believes that the New Royex Plan will provide greater flexibility to reward employees and directors of Royex and a better opportunity for employees and directors to participate in its continued success. The following is a summary of certain of the significant provisions of the New Royex Plan.

Share Purchase Plan: The Share Purchase Plan is intended to encourage and assist employees of Royex and designated affiliates in a regular program of saving and to provide each participant with the opportunity to acquire Royex Common Shares. An employee may contribute up to 10% of his annual basic salary to the Share Purchase Plan. Royex will match the participant's contribution on a quarterly basis and each participant will then be issued Royex Common Shares having a value equal to the amount contributed by the participant and Royex to the Share Purchase Plan. Royex Common Shares issued to a participant will be held in safekeeping and delivered to the participant 12 months after issue. If the participant's employment is terminated, other than due to death, disability or normal retirement, prior to the delivery of such shares, such shares will be purchased for cancellation or sold at market and the participant will receive, without interest, an amount equal in value to the lesser of his contribution and one-half of the proceeds of any sale of such shares.

Share Option Plan: Under the Share Option Plan options for the purchase of Royex Common Shares can be granted to employees and directors of Royex and designated affiliates. In determining the number of shares subject to each option, consideration is given to the individual's present and potential contribution to the success of Royex. The exercise price per share is determined by the Board of Directors or the Executive Committee at the time the option is granted, but such price cannot be less than the maximum discount, if any, permitted by The Toronto Stock Exchange from the closing price of the Royex Common Shares on such Exchange on the day prior to the grant of the option. Each option is for a term of five years and becomes exercisable as to 33⅓% of the shares subject to it, on a cumulative basis, at the end of each year following the date of grant.

The Share Option Plan also provides for the grant of share appreciation rights to optionees. An optionee to whom such rights have been granted may elect to terminate his options, in whole or in part, and, in lieu of receiving the Royex Common Shares ("Option Shares") to which the terminated options relate, to receive that number of shares, disregarding fractions, which, when multiplied by the fair value of the Option Shares, has a total value equal to the product of the number of Option Shares times the difference between the fair value and the option price per share of the Option Shares, less any amount payable on account of income taxes.

There are currently options outstanding under the Old Plan which are exercisable for the purchase of 100,000 Royex Common Shares. In the event that the New Royex Plan is approved by shareholders at the Royex Meeting, these options will become options to purchase the same number of Royex Common Shares at the same exercise prices under the Share Option Plan and will, in all other respects, become subject to the Share Option Plan. The following table sets forth certain information concerning options currently outstanding under the Old Plan:

<u>Optionee</u>	<u>Expiry Date</u>	<u>Number of Royex Common Shares</u>	<u>Exercise price</u>
Senior officer	September 24, 1985	50,000	2.10
Senior officer	June 21, 1987	50,000	2.10

Share Bonus Plan: The Share Bonus Plan permits the Board of Directors to issue Royex Common Shares as a discretionary bonus to employees. The maximum number of Royex Common Shares that may be issued under the Share Bonus Plan, in any calendar year, may not exceed 0.5% of the total number of Royex Common Shares issued and outstanding on December 31 of the immediately preceding calendar year unless otherwise approved by regulatory authorities.

Other Options

On December 9, 1980 Royex granted to a company owned by John M. Arnold an option, exercisable from December 8, 1981 to December 8, 1985, to purchase 50,000 Royex Common Shares at a price of \$4.50 per share. On January 27, 1983 Royex granted to Rahn & Bodmer two options, exercisable on or before July 28, 1985, to purchase an aggregate of 75,000 Royex Common Shares at a price of \$4.25 per share.

Trading in Royex Shares

The following table sets forth the high and low sale prices and trading volumes for Royex Common Shares on The Toronto Stock Exchange during the periods indicated:

<u>1982</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2nd Quarter	\$4.00	\$1.61	30,573
3rd Quarter	3.50	2.00	33,720
4th Quarter	5.50	3.80	37,267
<u>1983</u>			
1st Quarter	9.00	5.125	68,771
2nd Quarter	9.00	6.50	136,021
3rd Quarter	9.25	8.00	442,602
4th Quarter	9.00	5.00	104,600
<u>1984</u>			
January	8.00	7.00	210,790
February	8.50	7.00	25,200
March	9.00	8.00	130,800
April (to April 27)	8.75	7.75	44,200

On January 11, 1984, the last trading day prior to the announcement of a proposed business combination of Royex and Cullaton, the closing sale price of the Royex Common Shares on The Toronto Stock Exchange was \$7.50.

Prior Sales

During the past year Royex has issued Royex Common Shares as follows:

- On September 8, 1983, Royex issued 294,643 Royex Common Shares to Consolidated Durham Mines & Resources Limited and 255,357 Royex Common Shares to 556626 Ontario Limited, at the direction of O'Brien Energy & Resources Limited, in consideration for 1,400,000 Cullaton Common Shares.
- On September 8, 1983, Royex issued 3,200,000 Royex Common Shares to Campbell in consideration for 5,650,000 Cullaton Common Shares.
- On December 15, 1983, Royex issued 475,000 Royex Common Shares to Campbell in consideration for 650,000 Cullaton Preferred Shares.

Voting Securities and Principal Holders Thereof

8,292,721 Royex Common Shares are currently issued and outstanding. Each Royex Common Share carries the right to one vote on all matters coming before the Royex Meeting.

To the knowledge of the directors and officers of Royex, the only shareholder of Royex who beneficially owns directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Royex Common Shares is Campbell, Suite 400, 111 Richmond Street West, Toronto, Ontario M5H 2G4, which beneficially owns 3,675,000 Royex Common Shares, representing approximately 44.3% of the total number outstanding.

Interests of Management and Others in Material Transactions

1. On September 8, 1983, 5,650,000 Cullaton Common Shares held by Campbell and Camchib Mines Inc., a wholly-owned subsidiary of Campbell, were sold to Royex in exchange for 3,200,000 Royex Common Shares. Under an agreement dated July 5, 1983, Campbell is the voting trustee of these Cullaton Common Shares and any additional Cullaton Common Shares acquired by Royex during the term of the agreement. The Cullaton Lake gold mine is managed by Campbell pursuant to a management agreement dated as of May 12, 1982, as amended.
2. During the fiscal year ended September 30, 1983, \$116,085 was received or accrued by Royex for loan interest due from Cullaton.
3. During the fiscal year ended September 30, 1983, Royex paid interest of \$72,500 to Camchib Mines Inc.
4. Mr. Gottlieb, a nominee for election as a director of Royex, is President of Merit and Mr. Hoare, a director of Royex, is a director of Laing. See "Financial Position".
5. John M. Arnold, the Vice-President and a director of Royex, directly and through a wholly-owned corporation, holds options to purchase 100,000 Royex Common Shares and Thomas Skimming, the President and a director of Royex, holds options to purchase 50,000 Royex Common Shares.

Material Contracts

The following is a list of the presently material contracts entered into by Royex during the past two years:

- (a) Management agreement dated as of May 12, 1982 relating to the management of Cullaton described under "Reorganization and Change of Management".
- (b) Joint venture agreement dated as of July 16, 1982 relating to the Shear Lake Claims described under "Reorganization and Change of Management".
- (c) Agreement dated December 1, 1982 between Royex and Envov described under "Cobra Emerald Mines Limited".
- (d) Agreement dated May 19, 1983 between Royex, Envov and Cobra described under "Cobra Emerald Mines Limited".
- (e) Agreement dated June 14, 1983 between O'Brien Energy & Resources Limited, Consolidated Durham Mines & Resources Limited, Campbell and Royex described under Cullaton Lake Gold Mines Ltd. — Voting Securities and Principal Holders Thereof".
- (f) Agreement dated November 24, 1983 between Royex and Campbell described under "Prior Sales".
- (g) Agreement dated December 7, 1983 between Royex and Corona described under "International Corona Resources Ltd".
- (h) Voting trust agreement dated January 31, 1984 between Royex, Pezamerica Resources Corporation and Messrs. Clemiss, Pezim and Goodman described under "International Corona Resources Ltd".
- (i) Master Agreement dated as of April 27, 1984 described under "Proposed Amalgamation and Related Transactions".

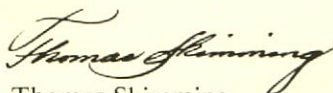
Auditors, Registrar and Transfer Agent

Thorne Riddell, Chartered Accountants, Commercial Union Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1J9, are the auditors of Royex.

National Trust Company, Limited is the registrar and transfer agent of the Royex Common Shares.

The Board of Directors of Royex has approved the contents of this Joint Management Proxy Circular and has approved its being sent to shareholders.

By Order of the Board


Thomas Skimming
President

April 27, 1984

CULLATON LAKE GOLD MINES LTD.

Cullaton Lake Gold Mines Ltd. was incorporated under the laws of the Province of Ontario on May 2, 1980 for the purpose of owning and bringing into commercial production the B-Zone gold deposit located at the Cullaton Lake gold mine (the "Cullaton Lake Mine"). By articles of amendment dated October 4, 1983 the number of authorized Cullaton Common Shares became unlimited. The registered office of Cullaton is located at Suite 400, 111 Richmond Street West, Toronto, Ontario M5H 2G4.

The Cullaton Lake Mine

Description, Location and Access

The Cullaton Lake Mine is located at Cullaton Lake, District of Keewatin, Northwest Territories, approximately 400 miles north of Thompson, Manitoba. The property underlying the Cullaton Lake Mine consists of Mining Lease No. 3019, which includes the B-Zone gold deposit, Mining Lease Nos. 3125-3129 and the Outside Claims (collectively, the "Cullaton Property") covering, in the aggregate, approximately 24,000 acres in an area of approximately 16 miles by 28 miles. The claims comprising the various mining leases are all in good standing until at least 2002. The Outside Claims comprise 24 mining claims and are all in good standing, subject to the fulfillment of ongoing assessment work. Cullaton holds a 100% interest in 15 of the Outside Claims aggregating approximately 8,200 acres and a 90% interest in nine Outside Claims totalling approximately 11,500 acres. Thomas Skimming & Associates Limited holds all of the remaining 10% interests. Cullaton is currently negotiating the acquisition of such 10% interests.

Cullaton also holds a 70% interest (a 30% interest being held by Royex) in Mining Lease 3120, comprising the Shear Lake Claims located approximately three miles from the mill at the Cullaton Lake Mine.

Production

The B-Zone gold deposit commenced commercial production effective as of January 1, 1983 and the mill's design capacity of 330 tons per day was reached during August 1983. As at December 31, 1983 approximately 19,400 feet of underground development had been completed on the Cullaton Property, consisting of a spiral ramp, drifts, cross-cuts and raises. Also, as at December 31, 1983 approximately 193,100 feet of surface and underground drilling had been completed. Stope preparation for production has been completed to the 525 foot level and a decline to the 650 foot level is underway. A total of 11 stopes are currently in various stages of production and development.

During the period from 1980 to date, surface construction included the expansion of the main camp, the erection of the mill building and road upgrading.

As at December 31, 1983 approximately \$15.6 million had been incurred by Cullaton for preproduction and development of the Cullaton Lake Mine and approximately \$16.7 million had been incurred for equipment and buildings.

The following table summarizes the production of the Cullaton Lake Mine for the two fiscal years ended September 30, 1983 and the three months ended December 31, 1983:

	Three months ended December 31, 1983	Year ended September 30 1983	1982
Tons milled	30,988	99,627	60,450
Average tons milled per day	337	273	166
Average mill head ton	0.37	0.38	0.42
Average mill recovery	93.4%	93.5%	80%
Ounces of gold refined	10,391	34,998	15,749

Reserves

The following table sets forth the reserves of the B-Zone gold deposit as at December 31, 1983:

	Short tons	Ounces of gold per ton
Proven — in situ	56,272	0.51
Probable — in situ	22,162	0.32
Broken — underground	5,709	0.39
Stockpile	9,314	0.25
Dilution (proven and probable — 25% @ 0.04)	19,608	0.04
Total	<u>113,065</u>	<u>0.36</u>

Exploration and Development

Cullaton's 1984 exploration program, both on the Cullaton Property and in the surrounding area is intended to increase reserves in order to increase annual gold production to 65,000 ounces.

On the "B" Zone gold deposit, underground drifting and diamond drilling is developing known gold zones and probing for additional zones along strike and at depth.

On the Shear Lake Claims exploration drifting along the ore has opened up parts of five gold zones at the first (200 foot) level. Systematic face sampling at ten foot intervals over a combined strike length of 2,083 feet appears to confirm excellent continuity and grade of the explored zones. The zones are open along strike and at depth. Three other known zones remain unexplored by drifting. The main decline is now being extended to provide access to the gold zones at about the 350 foot level.

In the surrounding area, Cullaton holds a number of gold showings and anomalies in a geologically favourable belt strategically situated within 12 miles of the mill. Geological mapping, trenching, boulder sampling, geophysics and diamond drilling were conducted on 19 project areas in 1983. Significant concentrations of gold mineralization were intersected in drill cores in six project areas, excluding the Shear Lake Claims. An aggressive follow-up exploration program is planned for 1984 and 1985.

History of the Cullaton Lake Mine

The B-Zone gold deposit was discovered in 1961 but, primarily because of the fixed price for gold at that time, development of the deposit was not continued and title to certain claims forming part of the Cullaton Property was allowed to lapse. These and certain other mining claims which subsequently lapsed were restaked by a joint venture (the "Hewbet Joint Venture") consisting of Hewbet Mines Limited ("Hewbet") and the predecessors of Royex, each as to a 50% undivided interest. Pursuant to an agreement dated as of May 7, 1973 (the "Working Option Agreement"), Hewbet was granted a working option under which Hewbet could acquire an additional 30% undivided interest in the B-Zone gold deposit by spending \$1 million on exploration and development work thereon. The Working Option Agreement further provided that once a production proposal for the B-Zone gold deposit was made, the predecessors of Royex had a reversionary right to reacquire a 20% undivided interest by paying 10% of all expenditures in excess of \$1 million at the date of exercise of such right and agreeing to pay 10% of all subsequent expenditures.

By an agreement dated as of June 4, 1973 (the "O'Brien-Hewbet Agreement") Hewbet sold to O'Brien Energy & Resources Limited ("O'Brien") all its interest in the B-Zone gold deposit, the Hewbet Joint Venture and the Working Option Agreement. O'Brien carried out limited exploration and development of the B-Zone gold deposit in 1973 and 1974, following which O'Brien entered into an agreement dated as of May 1, 1975, as amended, (the "O'Brien-Durham Joint Venture Agreement") with Consolidated Durham Mines & Resources Limited ("Durham"). The O'Brien-Durham Joint Venture Agreement entitled Durham to earn a 50% working interest in O'Brien's undivided working interest in the B-Zone gold deposit by spending \$2 million on exploration and development on the B-Zone gold deposit and further provided that any funds spent by Durham would be recoupable with interest at the applicable prevailing prime bank rate compounded yearly from the proceeds of production from the B-Zone gold deposit, prior to O'Brien participating in such profits.

As a result of the dramatic rise in the price of gold in late 1979 and early 1980, O'Brien and Durham entered into an amendment to the O'Brien-Durham Joint Venture Agreement dated as of May 2, 1980. Under the amendment each of O'Brien and Durham transferred to a new company, Cullaton, all its interest in the mining claims comprising the Cullaton Property, the O'Brien-Durham Joint Venture, all capital property and all agreements relating thereto (except for Durham's right to recoup \$2 million and the accrued interest thereon of \$902,439 to April 30, 1980 from the first proceeds of production from the Cullaton Property, prior to Cullaton paying dividends).

In September 1980 the then Board of Directors of Cullaton decided to proceed with bringing the Cullaton Property into production. By an agreement dated January 22, 1981 (the "Cullaton-Royex Joint Venture Agreement") Cullaton and Royex fixed at 80% and 20%, respectively, their undivided interests in the B-Zone gold deposit, fixed at 90% and 10%, respectively, the proportions of costs to be borne by Cullaton and Royex (until commencement of commercial production at which time the share of Royex increased to 20%), established a joint venture for the construction and operation of a mining plant on the Cullaton Property and designated Cullaton as the operator of such joint venture.

In June 1981, \$25 million of the funds necessary to enable Cullaton to pay its proportionate share of the costs of bringing the Cullaton Property into commercial production was provided by Nunasi Corporation ("Nunasi") (formerly the Inuit Development Corporation). The loan was to be repaid in five equal annual instalments commencing not later than May 31, 1982. In part consideration of Nunasi providing this financing to Cullaton, Nunasi was granted an option (the "Nunasi Option") to purchase up to 400,000 Cullaton Common Shares at a price of \$10 per share exercisable on or before February 28, 1986.

Additional financing was provided by means of a \$10 million private placement, of which \$5 million was used to reduce the Nunasi loan.

Reorganization and Change of Management

The Cullaton Lake Mine commenced operation in October 1981 and the first bullion was poured in December of that year. However, by early 1982 it was evident that Cullaton would not be in a position to make the initial principal repayment due on May 31, 1982. On March 31, 1982, Nunasi waived all defaults by Cullaton under the loan, subject to a reorganization and refinancing of Cullaton. The framework for such reorganization and refinancing was proposed by Camchib Resources Inc. ("Camchib Resources"), (now Camchib Mines Inc. ("Camchib Mines"), a wholly-owned subsidiary of Campbell) and is contained in an agreement dated April 20, 1982, as amended (the "Reorganization and Refinancing Agreement") between Cullaton, Durham, O'Brien, Royex, V. Noble Harbinson, Brown Baldwin Nisker Limited, Laing & Cruickshank ("Laing") and Camchib Resources. Pending the implementation of the Reorganization and Refinancing Agreement, by an agreement dated May 6, 1982, as amended (the "Temporary Loan Agreement"), Royex advanced \$1.8 million to Cullaton. Also, O'Brien and Durham guaranteed a \$2.5 million line of credit to Cullaton from a Canadian chartered bank.

In connection with the Reorganization and Refinancing Agreement, Cullaton subsequently entered into the following transactions:

Camchib Option Agreement: By an agreement dated as of May 12, 1982, Cullaton granted to Camchib Resources an option (the "Camchib Option") which was exercised on June 27, 1983 by the purchase of 2,000,000 units, each unit consisting of one Cullaton Preferred Share and two Cullaton Common Shares, at an exercise price of \$5.00 per unit.

Cullaton Management Agreement: By an agreement dated as of May 12, 1982 (the "Cullaton Management Agreement"), Cullaton agreed that Camchib Resources would be responsible for the management of Cullaton and the Cullaton Lake Mine until December 31, 1984 unless terminated earlier for cause. Under the Cullaton Management Agreement, Camchib Resources was to provide such management on a full cost recovery basis, including a reasonable allocation of its executive time and overhead cost, and was entitled to receive 10% of the operating profit (as defined therein) derived by Cullaton from the Cullaton Lake Mine. During the term of the Cullaton Management Agreement, Cullaton is not permitted to engage in any business activity other than the development and operation of the Cullaton Lake Mine and surrounding mineral properties (which prohibition was waived in respect of the acquisition of Renabie). In addition, Camchib Resources had the right to designate certain officers of Cullaton (all of which officers were appointed on the completion of the refinancing).

In connection with the exercise of the Camchib Option, the Cullaton Management Agreement was amended by extending its term to December 31, 1988 and Campbell became the manager. During the fiscal year ended September 30, 1983 and the three months ended December 31, 1983, \$1,102,520 and \$261,792, respectively, was paid or is payable by Cullaton to Campbell under the Cullaton Management Agreement.

Royex Sale Agreement: By an agreement dated as of May 12, 1982 (the "Royex Sale Agreement"), Royex transferred to Cullaton all its interest in the Cullaton Property and in the Cullaton-Royex Joint Venture Agreement in consideration of the issuance to Royex of 4,000,000 Cullaton Common Shares and the assumption by Cullaton of the obligations of Royex to Nunasi totalling \$2.83 million plus interest to the date of payment (which obligation was discharged). By an agreement dated as of July 16, 1982, the Cullaton-Royex Joint Venture Agreement was terminated except for the right of Royex to repayment of the \$1.8 million advanced to Cullaton under the Temporary Loan Agreement together with interest thereon (which amount, less the share of expenses of Royex to the date of termination, was repaid).

Camchib Voting Trust Agreement: Camchib Resources, Royex, Durham and O'Brien entered into an agreement dated as of June 28, 1982 (the "Camchib Voting Trust Agreement"), whereby all voting of Cullaton Common Shares held by such parties (except for votes regarding matters requiring a special resolution) was to be directed by Camchib Resources. Under the Camchib Voting Trust Agreement, the parties agreed to vote in favour of up to five nominees of Camchib Resources for the Board of Directors of Cullaton (three of whom, Messrs. Goodman, Lister and Strasser, became directors in June 1982) and for one nominee each of Durham and O'Brien, Laing and Royex. The Camchib Voting Trust Agreement terminated by its terms on the exercise of the Camchib Option.

Banking Agreement: By an agreement dated as of June 22, 1982 (the "Banking Agreement"), a Canadian chartered bank agreed to provide Cullaton with a term loan in the principal amount of \$10.2 million to enable Cullaton to repurchase 40% of the outstanding Cullaton Preferred Shares on June 30, 1984, as well as an operating line of credit of up to \$5 million (later increased to \$7.5 million). See paragraph 7 under "Interest of Insiders and Others in Material Transactions." The Banking Agreement is secured by, among other things, a fixed and floating charge debenture in the principal amount of \$15.2 million and a sinking fund commitment to cover the repurchase of Cullaton Preferred Shares, which sinking fund commitment will terminate on the amalgamation of Cullaton and Roysub. In addition, Camchib Resources and The Fleming Mercantile Investment Trust Public Limited Company ("Fleming") each provided a \$2.5 million performance guarantee, since terminated, to cover cash flow deficiencies and Durham and Royex each provided a \$2.5 million guarantee to cover possible sinking fund shortfalls. The guarantee of Durham has been released and the guarantee of Royex will be released in the event of the amalgamation of Cullaton and Roysub. As consideration for the giving of such guarantees, Camchib Resources received 250,000 Cullaton Common Shares and Fleming and Royex received an aggregate of 250,000 Cullaton Common Shares.

Shear Lake Joint Venture Agreement: Pursuant to an agreement dated as of July 16, 1982 (the "Shear Lake Joint Venture Agreement") between Cullaton and Royex, a joint venture relating to the Shear Lake Claims was established. Under the Shear Lake Joint Venture Agreement, Cullaton carried out exploration on the Shear Lake Claims and currently has 18 months from December 6, 1983 to commence development for production. Otherwise the Shear Lake Claims will revert to Royex and Cullaton will have earned a 5% interest for each \$100,000 spent, up to a maximum of 50%, provided that Royex will have the option to purchase such interest from Cullaton at Cullaton's cost. If the Shear Lake Claims commence commercial production, Cullaton will be the operator, Royex will be deemed to have invested \$1 million and their respective actual and deemed investments will be repaid pro rata out of profits from production before any other division of profits. Thereafter, products from production will be owned in specie and operating expenses will be shared by Cullaton as to 70% and by Royex as to 30%. The amalgamation of Cullaton and Royex will not affect the Shear Lake Joint Venture Agreement.

In conjunction with the Reorganization and Refinancing Agreement, in June 1982 Cullaton also made a rights offering. The gross proceeds of the rights offering were \$25.5 million and were used to repay Cullaton's indebtedness to Nunasi and the \$2.5 million line of credit which had been obtained pending the reorganization and refinancing. In July 1983 the exercise price of the Nunasi Option was reduced to \$1.28 per share and it was assigned to a third party. In the event of the amalgamation of Cullaton and Roysub, Royex has agreed to grant to the holder of the Nunasi Option an option exercisable to purchase Royex Common Shares and Royex Preferred Shares on the same basis as if such holder had exercised the Nunasi Option prior to such amalgamation.

Finally, by an amendment to the O'Brien-Durham Joint Venture Agreement dated May 12, 1982, O'Brien agreed to postpone its right to recoup \$2,902,439 prior to Cullaton paying dividends on the Cullaton Preferred Shares until the earlier of June 30, 1990 and the date on which all of the Cullaton Preferred Shares (or any shares issued in lieu or substitution thereof, including the special shares of New Cullaton) were repurchased or redeemed.

The Renabie Mine

On October 14, 1983 Cullaton acquired a 50% interest in Renabie Mines (1981) Limited in consideration for 3,141,886 Cullaton Common Shares. Barrick Resources Corporation ("Barrick"), a publicly traded, diversified natural resource company, is the owner of the other 50% interest in Renabie. The sole asset of Renabie is the Renabie gold mine (the "Renabie Mine") consisting of 29 patented and 14 unpatented mining claims (comprising approximately 1,300 acres) located approximately ten miles from Missanabie, Ontario.

Background

The Renabie Mine commenced production in 1947, producing initially at 300 tons per day and, from 1959 to 1970, at 550 tons per day. Total production was approximately 780,000 ounces of gold and approximately 246,000 ounces of silver from approximately 3,686,000 tons of ore, indicating an average grade of 0.21 ounces of gold per ton. Mill head grade was reported to be 0.23 ounces of gold per ton and mill recovery averaged 94% during the last seven operating years. The mine was closed in 1970 when rising labour costs, labour recruitment problems and a static gold price rendered it unprofitable.

Sungate Resources Ltd. ("Sungate"), a predecessor of Barrick, acquired Renabie in 1979. Under the terms of the acquisition, Sungate paid \$4,050,000 to a Canadian chartered bank and Renabie granted a royalty to such bank (under which the balance outstanding as at December 31, 1983 was \$342,727) payable at the rate of the greater of \$10 per ounce and 5% of net smelter returns from gold production. In addition, Renabie agreed to pay up to approximately \$2,140,000 to certain of its creditors by way of royalty payments of 5% of its net profits from certain of the mining claims, calculated after deduction of its capital and development costs, in consideration for the release of such creditors claims against Renabie. Under the terms of the agreement certain of Renabie's mining claims are charged with payment of these royalties to such bank and creditors.

After renovative work, production resumed in January 1982. To September 30, 1983 a total of approximately \$15 million had been spent by Sungate on the Renabie Mine. Production statistics for 1982, the nine months ended September 30, 1983 and the three months ended December 31, 1983 are as follows:

	Three months ended December 31, 1983	Nine months ended September 30, 1983	Year ended December 31, 1982
Tons milled	45,380	138,070	157,200
Mill head grade (ounces per ton)	0.1412	0.1468	0.1721
Ounces produced — gold	5,924	19,215	22,698
Ounces produced — silver	1,576	5,949	7,691
Recovery (calculated)	92.5%	92.3%	83.9%

Renabie Management Agreement

In connection with Cullaton's acquisition of 50% of Renabie, Renabie, Barrick, Cullaton and Campbell entered into a management agreement dated as of October 14, 1983 (the "Renabie Management Agreement") under which Campbell agreed to manage and operate the Renabie Mine. In consideration for performing such services Campbell is entitled to a fee representing a reasonable allocation of Campbell's executive time and overhead cost, an amount in respect of its employees engaged at the Renabie Mine and out-of-pocket expenses. The Renabie Management Agreement expires on December 31, 1988, unless terminated earlier for cause, and is subject to automatic one year renewals unless Campbell or Renabie gives notice of its desire not to renew.

Pursuant to the Renabie Management Agreement, Cullaton and Barrick have jointly granted to Campbell an option, exercisable until January 1, 1989, to purchase 10% of their interest in Renabie for an aggregate consideration of \$2,320,000. This option is one of the Purchased Assets.

Renabie Shareholders' Agreement

By an agreement dated as of October 14, 1983 (the "Renabie Shareholders' Agreement") among Cullaton, Barrick, Renabie and Campbell, Cullaton and Renabie agreed to vote their shares of Renabie so that the Board of Directors of Renabie would consist of six members, of which three would be nominees of Cullaton and three would be nominees of Barrick. The Renabie Shareholders' Agreement also contains a number of provisions relating to the management and administration of Renabie. The more significant of these provisions are as follows: decisions of the Board of Directors require a majority vote provided that such majority must include at least one Cullaton nominee and at least one Barrick nominee; each of Cullaton and Barrick are entitled to appoint specified officers of Renabie; no remuneration is to be paid to directors and officers of Renabie; decisions by shareholders require approval by 76% of the shares of Renabie; certain corporate changes and business transactions require unanimous shareholder consent; each of Cullaton and Barrick agreed to finance the amount of Renabie's annual budget; and the business of Renabie is to be conducted so as to maximize the amount of income available for distribution (defined as net income plus non-cash expenses less actual capital expenditures, deferred development and exploration expenses and \$1 million), all of which income available for

distribution, to the extent permitted by law and Renabie's banking arrangements, is to be dividended to Cullaton and Barrick after each fiscal year. The Renabie Shareholders' Agreement also contains a right of first refusal if either Cullaton or Barrick wishes to sell its Renabie shares and a buy-sell agreement between Cullaton and Renabie.

Reserves

The following table sets forth the reserves at the Renabie Mine as at July 31, 1983:

	Proven		Probable and drill indicated		Total proven, probable and drill indicated	
	Tons	Grade	Tons	Grade	Tons	Grade
Broken ore	47,700	0.182	25,500	0.206	73,200	0.190
Upper level remnants	—	—	63,400	0.177	63,400	0.177
2475L-2625L	—	—	101,080	0.199	101,080	0.199
2625L-2955L	184,600	0.170	—	—	184,600	0.170
2955L-3105L	44,600	0.170	51,660	0.245	96,260	0.210
Total above 3105	276,900	0.172	241,640	0.204	518,540	0.186
3105L-3600 feet	—	—	973,180	0.196	973,180	0.196
Total	<u>276,900</u>	<u>0.172</u>	<u>1,214,820</u>	<u>0.198</u>	<u>1,491,720</u>	<u>0.192</u>

Notes:

1. Broken reserves were derived from records of the mine engineering department of Renabie.
2. Most of the blocks of ore above the 3105 foot level have had sufficient tonnages removed by mining that grades have been established by muck sampling. Where this is not the case tons and grade of material in situ have been amended for reserve purposes by a dilution factor of 10% at a grade of 0.05 ounces of gold per ton. Below the 3105 foot level, where ore outlines have been derived entirely by diamond drilling, reserve tons and grade in situ have been amended by a dilution factor of 12% at a grade of 0.03 ounces of gold per ton.

Expansion Plan

An \$18.4 million expansion plan designed to increase production capacity of the Renabie Mine to about 60,000 ounces of gold per year is currently underway. The expansion plan contemplates the sinking of an internal shaft to provide access to the main ore body below the 3105 foot level; the expansion of the treatment plant capacity to 850 tons per day; and changing to a cut-and-fill mining method, which change will require the installation of a fill preparation plant and distribution system. The increased production is expected to be achieved gradually during 1984 and 1985.

The expansion plan has been financed as to approximately \$14.9 million, plus accrued interest from time to time, from the net proceeds of a public offering of 17 million gold production units in The Barrick-Cullaton Gold Trust (the "Gold Trust"). The Gold Trust will be entitled to receive a percentage, varying from 3% when the price of gold is under \$400 (U.S.) per ounce to 10% when the price of gold equals or exceeds \$1,000 (U.S.) per ounce, of the gold produced at the Renabie Mine, subject to a minimum of 1,350 ounces during the six month period ending June 30, 1984 and for each six month period thereafter ending December 31, 1984, June 30, 1985 and December 31, 1985 and a maximum based on 70,000 ounces of gold production per year. Holders of gold production units on April 30, 1984 will receive one gold value warrant of Renabie for each 10 units held, which warrants will be exercisable, on eleven specified dates in the period commencing on June 13, 1984 and ending on December 10, 1986, to receive from Renabie, an amount equal to the amount by which the current market value of 0.003 ounces of gold on any such date exceeds the exercise price then in force for such amount of gold (calculated with reference to the exercise price per ounce of gold being \$400 (U.S.) in 1984, \$450 (U.S.) per ounce in 1985 and \$500 (U.S.) per ounce in 1986.

The balance of the expansion plan will be financed from bank indebtedness and internal cash flow. An agreement between Renabie and the Gold Trust restricts cash flow distributions by Renabie to its shareholders in an effort to ensure that adequate cash flow is retained to finance ongoing capital plant replacement and ore reserve development. However, under the Renabie Shareholders' Agreement, Cullaton and Barrick are obligated to cause Renabie to distribute the maximum amount of cash flow permitted under this restriction.

Management's Discussion of Results of Operations and Financial Position

Results of Operations

Operation of the mill at the Cullaton Lake Mine commenced on October 18, 1981 and the first bullion was poured on December 17, 1981. A number of technical problems associated with the breaking in of the mill were

encountered. In addition, the costs of operation were higher than expected and the tonnage and grade of ore milled, as well as the rate of gold recovery were lower than expected. The Cullaton Lake Mine attained commercial production effective on January 1, 1983.

In the nine months from commencement of commercial production to September 30, 1983, Cullaton had operating income, before taxes and non-cash items, of \$4,179,629. Mine site costs at the Cullaton Lake Mine averaged approximately \$1,008,000 per month, of which approximately 35% resulted from the remote location of the Cullaton Lake Mine, and revenue averaged approximately \$1,609,000 per month. Revenue included the liquidation of 15,500 ounces of forward gold sales; 10,000 ounces in the second fiscal quarter and 5,500 ounces in the third fiscal quarter. During the nine months of commercial production the average price received for gold was \$423 (U.S.) per ounce.

The results of operations for the three months ended December 31, 1983 include Cullaton and its 50% interest in Renabie. During this period operating income, before taxes and non-cash items, was \$1,526,714 and net income was \$31,240. The average price received for gold was \$385 (U.S.) and no forward gold sales were liquidated.

Financial Position

In June 1982 Cullaton made a rights offering of 5,100,000 Cullaton Preferred Shares and 10,200,000 Cullaton Common Shares which raised \$25.5 million. Additional funds were raised through a private placement, in March 1983, of 2,500,000 Cullaton Common Shares which produced net proceeds of \$7.4 million and through the exercise by Camchib Mines, in June 1983, of the Camchib Option for \$10 million.

In September 1982 Cullaton wrote down its mining properties and preproduction and deferred development costs in the amounts of \$9.7 million and \$24.2 million, respectively. As a result, the amounts now on Cullaton's balance sheet reflect a more appropriate asset value relative to the size of operations.

In June 1983 Cullaton paid a dividend of \$0.50 per share on the Cullaton Preferred Shares, which payment aggregated \$3.55 million. Also, in fiscal 1983 four instalments, totalling \$5.1 million, were made on Cullaton's term bank loan. This term loan originally totalled \$10.2 million and represented Cullaton's commitment to retract 40% of the Cullaton Preferred Shares in June 1984. Cullaton currently has \$14.2 million on deposit to meet this commitment.

In October 1983 Cullaton acquired a 50% interest in Renabie in consideration for 3,141,886 Cullaton Common Shares.

In fiscal 1983 working capital increased by \$84,436 compared to a decrease of \$835,471 in fiscal 1982. Working capital decreased by \$3,451,263 during the first three months of fiscal 1984 compared to a \$2,346,546 decrease in the corresponding period of fiscal 1983. Deferred development and exploration expenditures were \$1,964,763 during the first three months of fiscal 1984 compared to \$4,472,655 in the corresponding period of fiscal 1983. However, the 1983 amount included all costs net of revenue for the fiscal quarter as the Cullaton Lake Mine was still in the pre-production stage.

Directors and Officers of Cullaton

The following table sets forth certain information concerning the directors and officers of Cullaton:

Name and municipality of residence	Positions with Cullaton	Principal occupation during past five years	Number of Cullaton Common Shares
John M. Arnold ¹ Guelph, Ontario	Director	Chartered Accountant; President, Cobra Emerald Mines Limited; prior to February 1984, President, Medina Energy Resources Corporation; prior to October 1981, Partner, Arnold Lugowy Robshaw, Chartered Accountants	7,208
Ned Goodman ¹ Toronto, Ontario	Director	Vice-President, Beutel, Goodman & Company Ltd., investment counsel	20,000
Timothy J. D. Hoare London, England	Director	Director, Laing & Cruickshank, stockbrokers	Nil

Name and municipality of residence	Positions with Cullaton	Principal occupation during past five years	Number of Cullaton Common Shares
Richard L. Lister ² Toronto, Ontario	Director, President and Chief Executive Officer	President and Chief Executive Officer, Campbell Resources Inc. and Camchib Mines Inc. (previously Camchib Resources Inc.); prior to June 1981, General Manager, Pigments Division, Sun Chemical Corporation, chemical company	17,524
Thomas Skimming ^{1,2} Toronto, Ontario	Director	Consulting geologist and Professional Engineer; Self-employed consultant	200
J. Gordon Strasser ² Mississauga, Ontario	Director and Chief Operating Officer	Executive Vice-President and Chief Operating Officer, Camchib Mines Inc. (previously Camchib Resources Inc.)	10,284
R. Paul Middleton Pickering, Ontario	Chief Financial Officer	Vice-President Finance, Camchib Mines Inc. (previously Camchib Resources Inc.); prior to June 1981, Vice-President, Finance, Dayco (Canada) Ltd., automobile accessory manufacturer	8,235
Kasi Sethuraman Scarborough, Ontario	Vice-President, Geology	Vice-President, Geology, Camchib Mines Inc. (previously Camchib Resources Inc.)	Nil
Marion J. Stendon Toronto, Ontario	Secretary	Vice-President Corporate and Legal Services and Assistant Secretary, Campbell Resources Inc. and Camchib Mines Inc. (previously Camchib Resources Inc.); prior to April 1982 a partner and previously an associate of Melnik & Saunders, law firm	Nil

1. Member Audit Committee

2. Member Executive Committee

3. This information, not being within the knowledge of Cullaton, was furnished by the respective individuals.

4. To the knowledge of Cullaton, none of such individuals beneficially owns, directly or indirectly, or exercises control or direction over any Cullaton Preferred Shares.

All of the directors of Cullaton first became directors in June 1982. Directors of Cullaton hold office until the next annual meeting of shareholders or until their successors are duly elected.

Remuneration of Directors and Officers

Cullaton paid aggregate remuneration of \$4,200 in respect of the fiscal year ended September 30, 1983 to its directors in their capacities as such. No remuneration was paid in respect of such fiscal year to the officers of Cullaton in their capacities as officers or employees. Since the beginning of Cullaton's 1983 fiscal year, directors and senior officers have surrendered stock appreciation rights in respect of an aggregate of 55,016 Cullaton Common Shares and, as a result thereof, have been issued 22,043 Cullaton Common Shares under its Employee Share Incentive Plan.

Consolidated Capitalization

	Authorized	Outstanding as at December 31, 1983	Outstanding as at March 31, 1984
Long term debt: ¹			
Term bank loan		\$ 1,200,000	\$ 1,200,000
Other loans		1,250,140	729,340
Preferred shares \$5 par value issuable in series			
Series A	15,000,000	35,500,000 (7,100,000 shs)	35,500,000 (7,100,000 shs)
Common shares without par value ^{2,3}	unlimited	45,554,144 (29,797,589 shs)	46,509,614 (30,173,029 shs)

Notes:

1. Reference is made to Note 6 to Consolidated Financial Statements of Cullaton for further particulars concerning long term debt.

2. An aggregate of 1,434,368 Cullaton Common Shares are reserved for issue as follows:
 - (a) 668,368 Cullaton Common Shares under the Employee Share Incentive Plan;
 - (b) 286,000 Cullaton Common Shares under the Nunasi Option; and
 - (c) 480,000 Cullaton Common shares issuable on or before January 15, 1985 to purchasers of a \$1,776,000 private placement, the proceeds of which are to be expended by Cullaton as agent for the investors, on exploration and development of the Shear Lake Claims.
3. In April 1984 Cullaton completed a \$1,100,000 private placement, the proceeds of which will be expended, as agent for the investors, on exploration and development of the Shear Lake Claims. The purchasers are entitled to receive, on or before July 15, 1985, an aggregate of 275,000 Cullaton Common Shares (or, in the event the amalgamation of Cullaton and Roysub occurs before such Cullaton Common Shares are issued, an aggregate of 100,000 Royex Common Shares).
4. As at December 31, 1983, Cullaton had a deficit of \$36,105,969.

Description of Securities

The authorized capital of Cullaton consists of 15,000,000 preferred shares \$5 par value, issuable in series, and an unlimited number of common shares without par value.

Preferred Shares

The preferred shares may be issued in one or more series and the Board of Directors of Cullaton is required, by resolution, to fix the number of shares to comprise each series and the designations, preferences, rights, conditions, restrictions, limitations and prohibitions to be attached to each series. The holders of preferred shares are not entitled as such to receive notice of or to attend or vote at any meeting of the shareholders of Cullaton except that the holders of the preferred shares are entitled to receive notice of meetings called for the purpose of authorizing the dissolution of Cullaton or the sale of its undertaking or a substantial part thereof. The provisions attaching to the preferred shares cannot be amended and shares ranking prior to or on a parity with the preferred shares cannot be created without such approval as may be required by law, subject to a minimum requirement of approval by the affirmative votes of at least two-thirds of the votes cast at a meeting of holders of the preferred shares duly called and held for that purpose.

The following is a summary of the material attributes attaching to the Series A preferred shares of Cullaton:

The holders of the Series A preferred shares are entitled to receive fixed, cumulative, preferential cash dividends, as and when declared by the Board of Directors, at the rate \$0.50 per share per annum payable on each June 30.

In the event of the liquidation, dissolution or winding-up of Cullaton, its property and assets shall be distributed, firstly, to the holders of Series A preferred shares in the amount of \$5 per share together with all accrued and unpaid dividends thereon; secondly, to the holders of common shares in the amount of \$10 per share together with all declared and unpaid dividends; thirdly, to the holders of Series A preferred shares in the amount of \$5 per share; and fourthly, to the holders of common shares and Series A preferred shares, pro rata.

The holders of Series A preferred shares may retract a maximum of 40% of the total number of Series A preferred shares issued and outstanding on June 30, 1984 and to retract any Series A preferred shares outstanding thereafter annually in equal amounts for a period of six years as to a maximum of one-sixth of the total number of such shares issued and outstanding on December 31, 1984 calculated on the basis that 40% of the Series A preferred shares issued and outstanding on June 30, 1984 were retracted on that date. The shares to be so retracted will be retracted pro rata according to the number of Series A preferred shares deposited for retraction on each such retraction date at a price per share equal to the greater of \$5 and the amount which would be distributed to the holders of such Series A preferred shares if Cullaton liquidated its property and assets and distributed the proceeds, net of all liabilities, on the dissolution of Cullaton at that time on the basis of the realizable value of the property and assets of Cullaton determined by its Board of Directors.

If the retraction of the Series A preferred shares tendered for retraction would be contrary to applicable law, Cullaton will be required to retract, on a pro rata basis, the maximum number of shares it is then permitted to retract. Thereafter, Cullaton will be required to retract on each succeeding retraction date, on a pro rata basis, out of the Series A preferred shares deposited by the holders thereof, the number of shares which it is then permitted to retract up to the total number of shares it is then obliged to have retracted.

The Series A preferred shares are redeemable at the option of Cullaton, in whole at any time or in part

from time to time, at a price per share determined in the same manner as described above with respect to retraction.

Cullaton may at any time or times purchase for cancellation, in the market or by invitation for tenders to all holders, the whole or any part of the Series A preferred shares then outstanding at a price not exceeding \$5 per share plus accrued and unpaid dividends and costs of purchase.

Common Shares

Each common share carries one vote at all meetings of shareholders, is entitled to dividends as and when declared by the Board of Directors and is entitled upon liquidation to a pro rata share of the assets of Cullaton distributable to the holders of common shares, subject to the rights of the holders of preferred shares.

Dividend Record

The initial \$0.50 per share dividend on the Cullaton Preferred Shares was paid on June 30, 1983. Under the Banking Agreement and the O'Brien-Durham Joint Venture Agreement, as amended, Cullaton is not permitted to pay dividends on the Cullaton Common Shares.

Cullaton Employee Share Incentive Plan

Cullaton has an Employee Share Incentive Plan (the "Cullaton Plan") authorizing the issuance of stock options and accompanying stock appreciation rights. Options exercisable to purchase an aggregate of 750,000 Cullaton Common Shares may be granted under the Cullaton Plan. The Cullaton Plan permits the Board of Directors to designate, for participation in the Cullaton Plan, those employees responsible for the management and growth of Cullaton. The Board of Directors may grant options to acquire Cullaton Common Shares at a price not less than 90% of the closing price of such shares on The Toronto Stock Exchange on the day prior to the date the option is granted (or such lesser price as may be permitted by such Exchange). Each option is granted for a term of three years, 33 1/3% being exercisable on each anniversary date from the date of grant, on a cumulative basis.

Options exercisable for the purchase of 225,868 Cullaton Common Shares are currently outstanding, details of which are set forth in the table below:

<u>Optionees</u>	<u>Date of grant</u>	<u>Number of Cullaton Common Shares</u>	<u>Exercise price</u>
Senior officers	August 31, 1982	137,484	\$1.66
Employees	August 31, 1982	53,384	1.66
Employees	May 31, 1983	35,000	3.78
		<u>225,868</u>	

In the event the amalgamation of Cullaton and Roysub is completed, Royex has agreed to grant new options to the holders of options under the Cullaton Plan, which new options will be exercisable to purchase Royex Common Shares and Royex Preferred Shares on the same basis as if such holders had exercised their existing options under the Cullaton Plan prior to such amalgamation.

Trading in Cullaton Shares

The following table sets forth the high and low sales prices and trading volumes for the Cullaton Common Shares and Cullaton Preferred Shares on The Toronto Stock Exchange during the periods indicated:

	<u>Cullaton Common Shares</u>			<u>Cullaton Preferred Shares</u>		
	<u>High</u>	<u>Low</u>	<u>Volume</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
1982						
2nd Quarter	\$6.75	\$1.30	1,088,800			
3rd Quarter	2.70	1.30	4,189,400	\$3.00	\$2.50	1,646,500
4th Quarter	3.95	2.20	5,073,100	3.85	3.00	2,576,600

	Cullaton Common Shares			Cullaton Preferred Shares		
	High	Low	Volume	High	Low	Volume
1983						
1st Quarter	\$5.00	\$2.90	5,944,500	\$4.30	\$3.40	1,400,700
2nd Quarter	4.60	2.91	3,270,900	4.60	3.75	1,073,700
3rd Quarter	3.90	2.65	1,557,500	4.15	3.80	1,569,000
4th Quarter	2.92	1.90	4,762,000	4.50	3.90	464,800

1984

January	2.60	2.26	505,100	4.55	4.40	128,200
February	3.50	2.40	2,184,800	4.60	4.40	161,900
March	3.65	3.10	1,412,200	4.85	4.55	227,400
April (to April 24)	3.10	2.66	401,500	4.90	4.50	1,123,700

On January 11, 1984, the last trading day prior to the announcement of a proposed business combination of Cullaton and Roysub, the closing sale prices of the Cullaton Common Shares and the Cullaton Preferred Shares on The Toronto Stock Exchange were \$2.40 and \$4.50 per share, respectively.

Prior Sales

During the past year Cullaton has issued Cullaton Common Shares and Cullaton Preferred Shares as follows:

- (a) On June 27, 1983 Cullaton issued 2,000,000 Cullaton Preferred Shares and 4,000,000 Cullaton Common Shares to Camchib Mines for \$10 million pursuant to the exercise of the Camchib Option.
- (b) On October 14, 1983 Cullaton issued 3,141,886 Cullaton Common Shares to Barrick in consideration for a 50% interest in Renabie.
- (c) In December 1983 Cullaton issued 110,000 Cullaton Common Shares to Royex as part consideration for certain guarantees given by Royex to a Canadian chartered bank, as described under "Interests of Insiders and Others in Material Transactions".
- (d) In March 1984 Cullaton issued an aggregate of 38,875 Cullaton Common Shares to its employees for no cash consideration.
- (e) In March 1984 Cullaton issued 84,776 Cullaton Common Shares to an affiliate of Campbell in consideration for the purchase of equipment valued at \$217,875.
- (f) In March 1984 Cullaton issued 210,000 Cullaton Common Shares in consideration of \$630,000 received from investors and expended by Cullaton, as agent for the investors, on exploration and development of the Shear Lake Claims.
- (g) During the period from July 1983 to date an aggregate of 114,000 Cullaton Common Shares have been issued pursuant to the exercise of the Nunasi Option.
- (h) During the period from July 1983 to date, senior officers who are optionees under the Cullaton Plan exercised stock options on 6,633 Cullaton Common Shares and surrendered stock appreciation rights on 74,999 Cullaton Common Shares as a result of which 27,015 Cullaton Common Shares were issued.

Voting Securities and Principal Holders Thereof

As of April 27, 1984, 30,173,029 Cullaton Common Shares and 7,100,000 Cullaton Preferred Shares were issued and outstanding. Each Cullaton Common Share carries the right to one vote on all matters coming before the Cullaton Meeting. The Cullaton Preferred Shares are entitled to one vote, voting separately as a class, with respect to the proposed amalgamation.

To the knowledge of Cullaton and its directors and officers, as of April 27, 1984 the only shareholder of Cullaton who beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the outstanding Cullaton Common Shares or Cullaton Preferred Shares was Royex which beneficially owned 11,860,000 Cullaton Common Shares, representing approximately 39.3% of the total number outstanding on such date.

By an agreement dated June 14, 1983, on September 8, 1983 Campbell sold 5,650,000 Cullaton Common Shares held by Campbell and Camchib Mines to Royex in exchange for 3,200,000 Royex Common Shares, representing approximately 40% of the then issued Royex Common Shares. In connection with this transaction, Cullaton, Royex, Campbell and Camchib entered into an agreement dated as of July 5, 1983 (the "Campbell Voting Trust Agreement") pursuant to which Campbell was appointed the voting trustee of the 5,650,000 Cullaton Common Shares and any additional Cullaton Common Shares acquired by Royex during the term of the Agreement. As voting trustee, Campbell is entitled to vote these Cullaton Common Shares in respect of all matters coming before the shareholders of Cullaton (except those requiring a special resolution), including the right to vote them for a majority (but in any event not less than five) of the nominees for directors to the Board of Directors of Cullaton. Campbell is also granted a right of first refusal in the event of a proposed sale of such Cullaton Common Shares. The Campbell Voting Trust Agreement terminates on the earlier of June 30, 1988 and the date of termination of the Cullaton Management Agreement. The Campbell Voting Trust Agreement will also terminate on the amalgamation of Cullaton and Roysub.

Interests of Insiders and Others in Material Transactions

1. Messrs. Arnold, Goodman, Hoare and Skimming, directors of Cullaton, are also directors and/or officers of Royex.
2. Messrs. Goodman, Lister and Strasser, directors of Cullaton, are also directors and/or officers of Campbell and Camchib Mines.
3. On December 14, 1982 the Board of Directors granted to John M. Arnold, Laing and Thomas Skimming & Associates Ltd., 15,208, 13,196 and 15,714 Cullaton Common Shares, respectively, in settlement of their accounts with Cullaton. Mr. Arnold is a director of Cullaton, Mr. Hoare, a director of Cullaton, is a director of Laing and Mr. Skimming, a director of Cullaton, owns 50% of Thomas Skimming & Associates Limited.
4. On March 30, 1983 Cullaton sold to Laing and Royex, 2,200,000 and 300,000 Cullaton Common Shares, respectively, at a price of \$3.10 per share.
5. On June 27, 1983 Camchib Mines exercised the Camchib Option for aggregate consideration of \$10 million. On September 8, 1983 5,650,000 Cullaton Common Shares held by Campbell and Camchib Mines were sold to Royex in exchange for 3,200,000 Royex Common Shares as described above under "Voting Securities and Principal Holders Thereof". Reference is also made to "Reorganization and Change of Management" in connection with the Cullaton Management Agreement.
6. Cullaton and Campbell are parties to the Renabie Management Agreement described under "Renabie Management Agreement".
7. Pursuant to an agreement dated November 4, 1983 Royex gave a guarantee to a Canadian chartered bank in the amount of \$500,000 to secure the guarantee of Cullaton given to such bank in respect of the obligations of Renabie and gave a guarantee to such bank in the amount of \$2,500,000 to secure the obligations of Cullaton to such bank. As security for its guarantee, Royex pledged 2,500,000 shares of Cobra Emerald Mines Limited to the bank under an agreement whereby the bank may require Campbell to purchase such shares at a price of \$1.20 per share. In consideration for such guarantees Cullaton issued 110,000 Cullaton Common Shares to Royex and paid Royex a fee of \$30,000.
8. In March 1984 Cullaton issued 84,776 Cullaton Common Shares to an affiliate of Campbell in consideration for the purchase of certain equipment valued at \$217,875.
9. \$116,085 to December 31, 1983 has been paid or accrued by Cullaton in respect of loan interest to Royex.
10. Mr. Lister, President and Chief Executive Officer and a director of Cullaton, J. Gordon Strasser, Chief Operating Officer and a director of Cullaton, R. Paul Middleton, Vice-President, Finance and Dr. K. Sethuraman, Vice-President, Geology, hold options to purchase 66,667, 26,667, 16,650 and 20,000 Cullaton Common Shares, respectively, under Cullaton's Employee Share Incentive Plan.

Material Contracts

The following is a list of the presently material contracts entered into by Cullaton during the past two years:

- (a) Cullaton Management Agreement dated as of May 12, 1982, as amended, described under "Reorganization and Change of Management";
- (b) Amendment to the O'Brien-Durham Joint Venture Agreement dated May 12, 1982, described under "Reorganization and Change of Management";
- (c) Banking Agreement dated as of June 22, 1982, described under "Reorganization and Change of Management";
- (d) Shear Lake Joint Venture Agreement dated as of July 16, 1982, described under "Reorganization and Change of Management";
- (e) Agreement dated July 19, 1982 between Cullaton and Guaranty Trust Company of Canada, as trustee, described under "Retraction Rights of Cullaton Preferred Shares";
- (f) Campbell Voting Trust Agreement dated as of July 5, 1983 described under "Voting Securities and Principal Holders Thereof";
- (g) Agreement dated as of July 11, 1983, as amended, pursuant to which Cullaton acquired a 50% interest in Renabie;
- (h) Renabie Management Agreement dated as of October 14, 1983, 1983 described under "Renabie Management Agreement";
- (i) Renabie Shareholders' Agreement dated as of October 14, 1983 described under "Renabie Shareholders' Agreement"; and
- (j) Master Agreement dated as of April 27, 1984 described under "Proposed Amalgamation and Related Transactions".

Auditors, Registrar and Transfer Agent

Thorne Riddell, Chartered Accountants, Commercial Union Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1J9 are the auditors of Cullaton.

Guaranty Trust Company of Canada is the registrar and transfer agent of the Cullaton Common Shares and Cullaton Preferred shares.

The Board of Directors of Cullaton has approved the contents of this Joint Management Information Circular and has approved its being sent to shareholders.

By Order of the Board



Marion J. Stendon
Secretary

April 27, 1984

THE PURCHASED ASSETS

The following is a brief description of each of the Purchased Assets.

Mascot Gold Mines Limited Shares

Mascot Gold Mines Limited ("Mascot") is a British Columbia corporation having its registered office at Suite 1600, 1030 West Georgia Street, Vancouver, British Columbia V6E 3G4 and its head office at Suite 900, 837 West Hastings Street, Vancouver, British Columbia V6C 1B6. The shares of Mascot are listed on the Toronto and Vancouver stock exchanges.

Campbell currently owns, directly and indirectly, 4,369,113 shares of Mascot, representing approximately 78.6% of the total number issued and outstanding. Campbell, Mascot, E&B Explorations Limited Partnership and E&B Explorations Inc. (collectively "E&B"), NuNorth Resources Limited, L.P. ("NuNorth") and certain principals of E&B and NuNorth have entered into an agreement in principle whereby, in consideration of 250,000 of its common shares and certain other assets (the "Campbell Properties"), Campbell will acquire 4,400,001 shares, representing a 55% interest in Ebex Resources and, following such acquisition, Mascot and Ebex Resources will amalgamate. It is expected that the amalgamation will be completed in June 1984. On the amalgamation each shareholder of Mascot and Ebex Resources will receive one share of the amalgamated company for each share of Mascot and Ebex Resources held. On the amalgamation of Mascot and Ebex Resources, Campbell will own, directly and indirectly, 8,769,114 shares of the amalgamated company representing approximately 64% of the total number to be issued and outstanding. Following the amalgamation of Cullaton and Roysub, 8,669,214 shares of the amalgamated company owned by Campbell will be transferred to Royex. In the event that the amalgamation of Mascot and Ebex Resources is not completed on or before the time of the purchase by Royex of the Purchased Assets, but Campbell has acquired its interest in Ebex Resources, Campbell will sell to Royex, 4,269,213 shares of Mascot and 4,400,001 shares of Ebex Resources. In the event that Campbell has not acquired such interest prior to the time of purchase by Royex of the Purchased Assets, Campbell will sell to Royex, 4,269,213 shares of Mascot and will receive from Royex for the Purchased Assets 776,470 fewer Royex Common Shares. In this event, Royex will have the right to purchase 4,400,001 shares of Ebex Resources, when acquired by Campbell, in consideration of 776,470 Royex Common Shares.

The principal asset of Mascot is a 100% interest in the Nickel Plate Property acquired in 1971 and situated approximately 210 miles east of Vancouver near Hedley, British Columbia. From 1904 to 1930 and from 1934 to 1955 the Nickel Plate Property was a producing gold mine, producing an aggregate of approximately 1,450,000 ounces of gold from approximately 3,274,000 tons of ore grading 0.44 ounces of gold per ton. Production ceased as a result of increased costs coupled with the then fixed gold price.

Between 1967 and 1979 only minor work was carried out on the Nickel Plate Property. In the latter year, with the significant increase in the price of gold, Mascot commenced the rehabilitation of the mine above the 450 foot level (elevation 5,450 feet). Mascot also began an ongoing exploration program which, to date, has consisted of approximately 47,000 feet of diamond drilling, 272 feet of exploration development, geological mapping, geochemical surveys, sampling and surface trenching. As of December 31, 1983 Mascot had incurred aggregate exploration and development expenditures of approximately \$4.6 million. On the basis of the exploration program, management of Mascot estimated as at December 31, 1983 that the Nickel Plate Property contains 499,000 tons of drill indicated reserves above the 450 foot level having an average grade of 0.29 ounces of gold per ton before applying mining and dilution factors. No exploration work has been carried out below the 450 foot level.

Business of Ebex Resources

The principal assets of Ebex Resources will be a 100% interest in E&B Explorations Limited Partnership, a Colorado limited partnership, a 100% interest in E&B Explorations Inc., the general partner of the partnership, the Campbell Properties and 150,000 common shares of Campbell. E&B currently has interests in 43 mineral properties in North America, the most significant of which are a 20.1% interest in the Bralorne Property in British Columbia, a 10.4% interest in the Sterling Mine in Nevada and a 6% interest in the El Plomo Property in Colorado as well as interests in the Cariboo-Bell and Iron Mask properties. The following is a brief description of each of these interests:

The Bralorne Property: The Bralorne Property is located about 100 miles north of Vancouver and 40 miles west of Lillooet, British Columbia. Gold was first discovered in this area of British Columbia in 1863 and, between 1928 and 1971, approximately 5.4 million tons of ore were mined from the Bralorne Property, yielding 2.6 million

ounces of gold with an average grade of 0.53 ounces of gold per ton. Production ceased in 1971 as a result of increasing costs and a fixed gold price. Limited exploration was carried out during the next several years and in 1975 the mine was abandoned.

In July 1980 E&B, among others, entered into an agreement with Bralorne Resources Limited ("Bralorne"), then the owner of the Bralorne Property, pursuant to which a program of basic exploration, diamond drilling, shaft dewatering, underground examinations, installation of an underground hoist and engineering design and feasibility studies were carried out. As a result of its contribution to these expenditures, E&B has a 20.1% interest in the Bralorne Property. As at September 30, 1983, E&B estimated that the Bralorne Property contained 167,250 tons of proven reserves and 629,935 tons of probable reserves, both averaging 0.24 ounces of gold per ton after applying 15% dilution and using a four foot minimum mining width.

E&B proposes to conduct a \$3 million exploration program designed to increase the near surface reserves on the Bralorne Property before making a production decision. Under the terms of the agreements governing the construction, development and operation of the Bralorne Property, E&B is required to contribute \$12 million in equity financing and to provide its covenant as security for project financing of up to \$10 million at which time E&B will have earned a 60% interest in the Bralorne Property. All net proceeds of production will be used initially to repay the principal amount of the project financing. Thereafter, (assuming the sale price of gold remains below \$600 (U.S.) per ounce) E&B will be entitled to repayment of its equity contribution out of approximately 72% of the net proceeds of production until it has received \$15 million less the principal amount borrowed under the project financing and thereafter out of approximately 68% of such net proceeds. E&B will be entitled to 60% of the net proceeds of production of gold sold at prices exceeding \$600 (U.S.) per ounce.

The Sterling Mine: E&B holds a 10.4% interest (subject to a 2% net smelter return royalty on production) in the Sterling Mine located approximately 90 miles northwest of Las Vegas, Nevada. E&B earned its interest by financing the mine to production in 1980.

The current production rate at the Sterling Mine is 200 tons per day with plans to increase this to 320 tons per day in 1985. To December 31, 1983, 32,000 ounces of gold had been produced from 165,000 mined tons. Proven and probable reserves at December 1983 were 274,000 tons grading 0.28 ounces of gold per ton, of which 55,000 tons are minable by open pit methods. Gold is recovered by a low cost heap leach process with recoveries of approximately 84%.

Continued exploration is expected to increase reserves as only 5% of the property underlying the Sterling Mine has been drill tested.

El Plomo Property: The El Plomo Property, in which E&B's interest is 6%, is located about 31 miles southeast of Alamosa in south central Colorado. It contains 1,400,000 tons of open pit reserves grading 0.05 ounces of gold per ton which are amenable to heap leaching with an expected recovery of 75% when crushed to a diameter of $\frac{3}{8}$ inches. These are sufficient for five to seven years of production at an expected rate of 800-1,000 tons per day.

E&B became a joint venture partner and manager of the property in 1981. Since then, 109 rotary holes have been drilled and a pilot scale heap leach test using 3,000 tons of mined material has been completed. Further metallurgy has been recommended concentrating on screening tests to see if the quantities to be leached can be reduced. It is anticipated that the results of this further work will lead to a production decision.

Cariboo - Bell Property: The Cariboo-Bell Property, in which E&B acquired a 30% interest in 1982, is located approximately 40 miles northeast of Williams Lake in the Cariboo Mining Division of east central British Columbia. The mineral deposit on the property is classified as a porphyry deposit and consists of four mineralized zones in and around two adjacent breccia zones located near the top of a subvolcanic intrusive complex. Drill indicated reserves total 155,000,000 tons grading 0.64% copper equivalent. Additional work is required to obtain sufficient data to complete feasibility studies.

Iron Mask Property: E&B acquired a 6% interest in the Iron Mask Property by an expenditure of \$1,000,000 during 1980 and 1981. The property is located 5 miles southwest of Kamloops, British Columbia and contains a typical porphyry copper deposit. The drill indicated reserves developed to date total 105,000,000 tons grading 0.32% copper and 0.008 ounces of gold per ton.

The property was mined intermittently between 1903 and 1928 and produced approximately 190,000 tons grading 1.37% copper, 0.02 ounces of gold per ton and 0.22 ounces of silver per ton. When metal prices improve,

additional work, including drilling, metallurgical testing and engineering cost studies, will be required in order to complete a feasibility study.

The Campbell Properties

Campbell has a 100% interest in the Campbell Properties. The following is a brief description of each of the Campbell Properties.

Misty Property: The Misty Property is located in a mountainous area 20 miles northeast of Terrace, British Columbia. The property is a gold prospect on which soil geochemical surveys in 1980 and 1981 established a prominent and persistent V-shaped gold anomaly with coincident anomalous silver. Continuous anomalous gold values in excess of 500 parts per billion have been traced for 1,000 feet on both limbs of the V with individual soil sample analyses running as high as 7,700 parts per billion.

Additional work on the Misty Property has demonstrated the presence of free gold in quartz veins. A general correlation between gold quartz veins, dykes, anomalous soil geochemistry and bedrock linears suggest these veins are concentrated in an area two miles long by 0.6 miles wide. Only 20% of this area has been exposed to any detailed work. Reconnaissance geochemical surveys outside the detailed area has indicated numerous gold anomalies.

Bobtail Gold Property: The Bobtail Gold Property is located approximately 40 miles southwest of Prince George, British Columbia. Gold in stream sediments was first visually detected in a pan concentrate sample taken during 1979. Follow-up sampling confirmed the presence of gold in the stream sediments, but gave no indication of a source area within the stream valley.

Mika Property: The Mika Property is located approximately five miles northeast of Clinton, British Columbia. Geological mapping, trenching and geochemistry have been carried out since 1979. An alpine-type ultramafic body containing two and possibly three chromite horizons is indicated having dimensions of approximately 0.5 to three miles. Seven chromite showings have been located in an area 450 feet by 1,500 feet containing grades from 32% to 42.4% chromium trioxide and chromium/iron ratios from approximately 2:1 to 2.5:1.

Motherload-Greyhound Property: This property, a former copper-gold-silver producing property, is located in the Greenwood Mining Camp about 350 miles east of Vancouver, British Columbia. Proven and probable reserves aggregate approximately 449,000 tons grading 0.65% copper, 0.015 ounces of gold per ton and 0.13 ounces of silver per ton.

Giant Nickel Mine: The Giant Nickel Mine, a former nickel-copper producer, is situated about 130 miles east of Vancouver, British Columbia. The mine last operated during the period from 1958 to 1974 and total production was 4,750,000 tons with an average grade above the 2,600 foot level of 0.78% nickel and 0.34% copper.

Goldlund Mines Limited Shares

Royex will acquire 5,000,000 common shares of Goldlund Mines Limited ("Goldlund"), representing approximately 32% of the total number issued and outstanding. Under a share purchase option agreement dated December 21, 1983 Campbell will also assign to Royex its option to purchase an additional 2,345,300 common shares of Goldlund at a price of \$0.94 per share exercisable in whole or in part at any time on or before December 21, 1988. The common shares of Goldlund are listed on The Toronto Stock Exchange. The principal business of Goldlund is the ownership of a producing gold mine located in the District of Kenora, Ontario.

Inca Resources Inc. Joint Venture Agreement

Inca Resources Inc. ("Inca"), a publicly-traded corporation, owns the Rich Gulch gold property in California. Inca has reported that the Rich Gulch property contains three separate mineralized zones amenable to open pit mining and conventional milling. The total proven and probable reported reserves are approximately 8,908,000 tons grading 0.08 ounces of gold per ton.

The Rich Gulch property is subject to a joint venture agreement dated May 11, 1982 (the "Inca Joint Venture Agreement") under which Inca is responsible for payment of all exploration and development expenses in respect of the Rich Gulch property. Within four months of receipt by Campbell from Inca of a feasibility study, stating that the property can be put into profitable commercial production, Campbell may elect to accept a 51% beneficial interest in the property. If such election is made, a partnership will be formed between Campbell and Inca under which Inca will contribute the property to the partnership and Campbell will become the operator of

the property and will be responsible for the capital costs of putting the property into production. Campbell and Inca will be entitled to share 51% and 49%, respectively, in the partnership's profits and losses after repayment, on a pro rata basis, of all funds actually expended by Inca in respect of exploration and by Campbell in respect of putting the property into production.

Management Agreements

Royex will acquire Campbell's interest in its management agreements with Cullaton, Renabie and Goldlund. The management agreements with Cullaton and Renabie are described under "Reorganization and Change of Management" and "Renabie Management Agreement", respectively. The Renabie Management Agreement also grants to Campbell an option, exercisable until January 1, 1989, to purchase a 10% interest in Renabie for \$2,320,000.

The management agreement dated as of December 21, 1983 (the "Goldlund Management Agreement") between Campbell and Goldlund appoints Campbell as the manager of Goldlund's gold mine and grants Campbell the authority to manage the daily operations on the property, to design and conduct development programs, to arrange feasibility studies and to enter into construction and transportation contracts. As compensation for its services under the Goldlund Management Agreement, Campbell is entitled to the full cost of providing such services plus 10% of the operating profit derived from the property. Campbell is also entitled to nominate one-third (but in any event not less than three) of the directors to Goldlund's Board of Directors. The Goldlund Management Agreement is for a term expiring on December 31, 1993, subject to renewal at Campbell's option until December 31, 2003, but may be terminated earlier either for cause or by Campbell on 60 days' prior notice.

ROYEX GOLD MINING CORPORATION
PRO FORMA CONSOLIDATED BALANCE SHEETS

As At December 31, 1983
(unaudited)

	Including Ebex (Note 3)	Excluding Ebex (Note 3)
ASSETS		
Current Assets		
Cash and short-term deposits	\$ 561,061	
Special term deposits	14,200,000	\$ 14,200,000
Accounts receivable — bullion	1,187,652	846,186
Accounts receivable — trade	1,570,225	1,419,861
Accounts receivable — other	376,347	—
Due from Barrick/Cullaton Gold Trust	455,000	455,000
Supplies inventory	1,884,905	1,884,905
Prepaid expenses	473,613	441,199
	<u>20,708,803</u>	<u>19,247,151</u>
Resource Assets		
Mining claims	7,472,230	7,472,230
Equipment and buildings	20,930,649	20,732,460
Preproduction and development expenditures	40,466,439	32,111,466
Shear Lake interests	5,714,645	5,714,645
Emerald assets	8,170,693	8,170,693
Petroleum assets	299,161	299,161
Other	18,287	18,287
	<u>83,072,104</u>	<u>74,518,942</u>
Accumulated depreciation and amortization	6,431,321	6,431,321
	<u>76,640,783</u>	<u>68,087,621</u>
Investments	39,808	—
Investment in Affiliated Companies	6,537,138	5,037,138
Other Assets	26,339,000	26,339,000
	<u>\$130,265,532</u>	<u>\$118,710,910</u>
LIABILITIES		
Bank overdraft		\$ 77,100
Accounts payable and accrued liabilities	\$ 5,735,533	4,951,558
Dividends payable (Note 2(h))	3,225,000	3,225,000
Due to Campbell Resources Inc.	815,322	815,322
Deferred income taxes	49,490	—
Current portion of long-term debt	5,205,847	5,205,847
	<u>15,031,192</u>	<u>14,274,827</u>
Deferred income taxes	253,729	—
Long-term debt	2,450,140	2,450,140
Minority interests in subsidiaries	10,817,168	6,769,640
SHAREHOLDERS' EQUITY		
Capital stock (Notes 2 and 3)		
Issued 19,629,078 Common shares	69,463,303	—
18,852,608 Common shares	—	62,966,303
4,951,124 Preferred shares	32,250,000	32,250,000
	<u>101,713,303</u>	<u>95,216,303</u>
	<u>\$130,265,532</u>	<u>\$118,710,910</u>

ROYEX GOLD MINING CORPORATION

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEETS

As At December 31, 1983
(unaudited)

1) **Basis of Presentation**

The pro forma consolidated balance sheets reflect the proposed triangular amalgamation of Royex Gold Mining Corporation (Royex Gold) (formerly Royex Sturgex Mining Limited (Royex)), Cullaton Lake Gold Mines Ltd. (Cullaton), and Roysub Inc. (Roysub), a newly incorporated wholly-owned subsidiary of Royex, based upon the unaudited consolidated balance sheets of Royex and Cullaton as of December 31, 1983, included elsewhere in this document.

The business combination of Royex and Cullaton has been accounted for as a pooling of interests.

2) **Pro Forma Assumptions**

The pro forma consolidated balance sheets have been prepared giving effect to the following, as if they occurred on December 31, 1983:

- a) 11,860,000 common shares and 650,000 series A preferred shares of Cullaton held by Roysub are cancelled upon amalgamation.
- b) 965,000 common shares of Cullaton are issued in connection with private placements by Cullaton on a flow-through share basis for \$3,506,000.
- c) 84,776 common shares of Cullaton are issued in connection with the acquisition of mining equipment at an assigned value of \$217,875.
- d) 5,178,372 common shares and 1,726,124 preferred shares of Royex Gold are exchanged for 18,987,365 common shares of Cullaton (3 common shares and 1 preferred share of Royex Gold for 11 Cullaton common shares).
- e) 3,225,000 preferred shares of Royex Gold are exchanged for 6,450,000 preferred shares of Cullaton (1 for 2).
- f) 5,222,235 common shares of Royex Gold with an assigned value of \$8.50 per share are issued for the assets transferred to the company by Campbell Resources Inc. (Campbell). In the event that certain specified assets are not transferred to Royex Gold, only 4,445,765 shares are issued (Note 3).
- g) Campbell exercises its option on 935,750 common shares of Royex Gold for \$7,953,875 in cash.
- h) A dividend of 50¢ per Cullaton preferred share is declared and payable prior to the amalgamation.
- i) The reduction in stated capital of Royex Gold common shares of \$41,452,466 and the allocation of this amount to eliminate the deficit.

3) **Ebex Resources Ltd.**

Two pro forma consolidated balance sheets are presented to distinguish (a) the inclusion and (b) the exclusion of Ebex Resources Ltd. (Ebex) as part of those assets which may be transferred to Royex Gold by Campbell in exchange for common shares. Accordingly, pro forma issued common shares reflect the number of shares outstanding in either event.

AUDITORS' REPORT

To the Directors of
Royex Sturgex Mining Limited

We have examined the consolidated balance sheet of Royex Sturgex Mining Limited as at September 30, 1983 and 1982 and the consolidated statements of income, deficit and changes in financial position for each of the years in the two year period ended September 30, 1983. 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, these consolidated financial statements present fairly the financial position of the Corporation as at September 30, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the years in the two year period ended September 30, 1983 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
February 7, 1984

THORNE RIDDELL
Chartered Accountants

AUDITORS' REPORT

To the Directors of
Royex Sturgex Mining Limited

We have examined the statements of income, deficit and changes in financial position of Royex Sturgex Mining Limited for the eleven months ended September 30, 1981 and the year ended October 31, 1980. 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, these financial statements present fairly the results of operations and the changes in financial position of the Company for the eleven months ended September 30, 1981 and the year ended October 31, 1980 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
October 31, 1981

COOPERS & LYBRAND
Chartered Accountants

ROYEX STURGEX MINING LIMITED
CONSOLIDATED BALANCE SHEET

	December 31 1983 (unaudited)	September 30 1983	1982
ASSETS			
Current			
Cash and term deposits	\$ 49,191	\$ 279,864	\$1,397,426
Receivables	1,163,989	1,598,047	19,480
Due from affiliated company	72,169	109,370	1,399,148
Emerald and bullion inventories (Note 3)	513,255	126,160	214,294
Mine supplies and prepaid expenses (Note 3)	160,077	180,933	—
	<u>1,958,681</u>	<u>2,294,374</u>	<u>3,303,348</u>
Resource Assets (Notes 6 to 9):			
Cullaton Lake Gold Mines Ltd.	33,592,773	30,330,338	2,434,015
Emerald assets	7,774,362	7,906,238	—
Shear Lake mineral interests	154,577	154,577	156,786
Petroleum interests	299,161	299,161	156,874
Other	18,287	3,612	12,730
	<u>41,839,160</u>	<u>38,693,926</u>	<u>2,760,405</u>
	<u>\$43,797,841</u>	<u>\$40,988,300</u>	<u>\$5,790,753</u>
LIABILITIES			
Current Liabilities			
Payables and accrued liabilities	\$ 61,549	\$ 529,127	\$ 157,399
Loans payable	1,367,047	1,000,000	900,000
	<u>1,428,596</u>	<u>1,529,127</u>	<u>1,057,399</u>
Minority Interest in Subsidiary	<u>4,850,924</u>	<u>4,937,367</u>	<u>—</u>
SHAREHOLDERS' EQUITY			
Capital stock (Notes 10 and 11)	39,637,648	36,387,648	5,384,480
Deficit	(2,119,327)	(1,865,842)	(651,126)
	<u>37,518,321</u>	<u>34,521,806</u>	<u>4,733,354</u>
	<u>\$43,797,841</u>	<u>\$40,988,300</u>	<u>\$5,790,753</u>
Guarantees (Note 16)			
Subsequent events (Note 17)			

Approved by the Board

Thomas Skimming, Director

John M. Arnold, Director

ROYEX STURGEX MINING LIMITED
CONSOLIDATED STATEMENT OF INCOME

	Three Months to December 31		1983	Year Ended September 30	1982	Eleven Months to September 30 1981	Year Ended October 30 1980
	(unaudited)	(unaudited)					
REVENUE							
Sales of raw emeralds	—	—	\$1,965,782	—	—	—	—
Interest income	—	\$ 81,317	179,729	\$303,182	\$228,691	\$ 374	—
Gas and oil income	—	5,900	18,086	1,262	—	—	—
Sale of mining interests	—	—	—	—	—	4,000	—
Other	—	26,695	—	—	—	—	—
	—	113,912	2,163,597	304,444	228,691	4,374	—
EXPENSES							
Cost of emeralds sold	—	—	1,054,837	—	—	—	—
General and administration	\$ 294,688	30,943	582,618	268,598	119,075	36,112	—
Loan interest	35,547	34,965	154,186	66,777	—	—	—
	330,235	65,908	1,791,641	335,375	119,075	36,112	—
Income (loss) before following items	(330,235)	48,004	371,956	(30,931)	109,616	(31,738)	—
Depreciation and amortization	(35,100)	—	(361,231)	—	—	—	—
Equity in earnings of Cullaton Lake Gold Mines Ltd.	7,660	—	326,323	—	—	—	—
	(357,675)	48,004	337,048	(30,931)	109,616	(31,738)	—
Income taxes (recovery)	(90,000)	24,002	160,000	—	54,808	—	—
	(267,675)	24,002	177,048	(30,931)	54,808	(31,738)	—
	(55,315)	—	90,243	—	—	—	—
Minority interest	(212,360)	24,002	86,805	(30,931)	54,808	(31,738)	—
Income (loss) before extraordinary items	(41,125)	24,002	271,129	—	54,808	—	—
Extraordinary items (note 12)	—	—	—	—	—	—	—
Net income (loss)	\$(253,485)	\$ 48,004	\$ 357,934	\$ (30,931)	\$109,616	\$(31,738)	—

ROYEX STURGEX MINING LIMITED
CONSOLIDATED STATEMENT OF DEFICIT

	Three Months to December 31		Year Ended September 30		Eleven Months to September 30		Year Ended October 30	
	1983	1982	1983	1982	1981	1980	1980	1980
	(unaudited)	(unaudited)						
Deficit at beginning of period								
Net income (loss)	\$ (1,865,842)	\$ (651,126)	\$ (651,126)	\$ (620,195)	\$ (638,262)	\$ (606,524)		
Preferred share dividend of Cullaton Lake (accounted on an equity basis)	(253,485)	48,004	357,934	(30,931)	109,616	(31,738)		
Share issue expenses	—	—	(1,572,650)	—	—	—		
Excess of acquisition cost over assigned value of shares repurchased for cancellation	—	—	—	—	(70,313)	—		
Less amount written off against contributed surplus	—	—	—	—	(100,000)	—		
Deficit at end of period	<u>\$ (2,119,327)</u>	<u>\$ (603,122)</u>	<u>\$ (1,865,842)</u>	<u>\$ (651,126)</u>	<u>\$ (620,195)</u>	<u>\$ (638,262)</u>		

ROYEX STURGEX MINING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Three Months to December 31		Year Ended September 30		Eleven Months to September 30		Year Ended October 30
	1983	1982	1983	1982	1981	1980	
Working Capital Derived From:							
Operations	(unaudited)						
Income (loss) before extraordinary items	\$ (212,360)	\$ 24,002	\$ 86,805	\$ (30,931)	\$ 54,808	\$ (31,738)	
Add (deduct) non-cash items:							
Benefit of prior years' income tax losses and exploration expenditures	(90,000)	24,002	271,129	—	54,808	—	
Depreciation and depletion	132,931	—	361,231	—	—	—	
Minority interest in subsidiary's earnings (loss)	(55,315)	—	90,243	—	—	—	
Income taxes	—	—	78,400	—	—	—	
Equity in earnings of Cullaton Lake	(7,660)	—	(515,852)	—	—	—	
Other	321	—	12,730	—	—	—	
Net derived from (applied to) operations	(232,083)	48,004	384,686	(30,931)	109,616	(31,738)	
Issue of treasury shares	3,250,000	—	31,003,168	1,030,000	3,812,497	100,000	
Recovery of share issue costs	26,475	—	—	—	—	—	
Sale of mining and joint venture interests	—	—	—	4,207,021	—	—	
Reduction in deferred charges	—	—	—	16,000	—	—	
Long-term debt	—	—	—	—	1,289,027	—	
Funds input by minority interest of Cobra Emerald Mines Limited	—	—	4,768,724	—	—	—	
	3,044,392	48,004	36,156,578	5,222,090	5,211,140	68,262	
Working Capital Applied To:							
Investment in Cullaton Lake Gold Mines Ltd.	3,250,000	—	28,953,121	2,434,015	—	—	
Investment in Cobra Emerald Mines Limited	14,558	—	7,891,407	—	—	—	
Additions to plant equipment and buildings	—	—	273,919	—	—	—	
Additions to mining claims	—	—	101,240	9,832	1,152,185	9,794	
Joint venture interests	—	—	—	—	3,189,938	—	
Petroleum interests	—	143,799	142,287	156,874	—	—	
Repayment of long-term debt	—	—	—	1,289,027	—	—	
Deferred financing charges	—	—	—	—	16,000	—	
Share issue expenses	—	—	—	—	70,313	—	
Repurchase of shares for cancellation	—	—	—	—	200,000	—	
Other	14,996	—	2,306	—	—	—	
	3,279,554	143,799	37,364,280	3,889,748	4,628,436	9,794	
Increase (Decrease) in Working Capital	(235,162)	(95,795)	(1,207,702)	1,332,342	582,704	58,468	
Working Capital (Deficiency) at Beginning of Period	765,247	1,972,949	1,972,949	640,607	57,903	(565)	
Working Capital (Deficiency) at End of Period	\$ 530,085	\$1,877,154	\$ 765,247	\$1,972,949	\$ 640,607	\$ 57,903	

ROYEX STURGEX MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to the three months ended December 31, 1983 is unaudited)

1. Basis of presentation

These consolidated statements conform with generally accepted accounting principles in Canada, consistently applied, and include the accounts of the Company and its subsidiaries, 51% owned Cobra Emerald Mines Limited and 100% owned Shear Lake Gold Explorations Limited.

The investment in Cullaton Lake Gold Mines Ltd., (Cullaton Lake), is carried at cost plus the equity in its earnings from the commencement of commercial production on January 1, 1983.

Financial statements of foreign subsidiaries of Cobra Emerald Mines Limited are restated for consolidation purposes to conform with Canadian accounting policies. Emerald assets and related operations are included in the financial statements from their effective acquisition on March 1, 1983.

2. Foreign currencies

Currencies other than Canadian dollars are translated as follows: working capital items at exchange rates prevailing at the end of each period; fixed assets at historic rates; revenues and expenses at average rates prevailing during each period, except that provisions for depreciation and depletion are calculated at historic rates related to fixed assets. Exchange gains or losses are included in income.

3. Inventories

Bullion inventories, consisting of gold and silver, are valued at net realizable value. Emeralds on hand are valued at the lower of cost or net realizable value. Mine supplies are carried at average cost.

4. Depreciation and depletion

Depreciation of plant, equipment and buildings and depletion provisions to amortize the cost of mineral claims in South Africa are based on estimated service lives of assets, for the most part on a straight-line basis.

Shear Lake mineral interests remain unamortized until such time as production from the claims commences. (See note 8).

5. Earnings (loss) per common share

Earnings (loss) per common share are computed using the weighted average number of shares outstanding during the year (1983, 4,203,980 shares; 1982, 2,722,647 shares).

	Three Months Ended December 31	Fiscal Year Ended September 30			
	1983	1983	1982	1981	1980
Earnings (loss) Per Common Share					
Earnings (loss) before extraordinary items	(2.6¢)	2.1¢	(1.0¢)	2.0¢	(1.9¢)
Extraordinary items	(0.4¢)	6.4¢		2.0¢	
Earnings (loss) before dividend payment by equity accounted for company	(3.0¢)	8.5¢	(1.0¢)	4.0¢	(1.9¢)
Earnings (loss) after dividend payment by equity accounted for company	(3.0¢)	(28.9¢)	(1.0¢)	4.0¢	(1.9¢)

In conformity with the recommendations of The Canadian Institute of Chartered Accountants, the Company has deducted its proportionate share of Cullaton Lake preferred share dividends paid during the year from current year's earnings in computing its earnings (loss) per common share.

6. Cullaton Lake Gold Mines Ltd.

The Cullaton Lake investment comprises 11,860,000 common shares and 650,000 Series A preferred shares at December 31, 1983 (11,750,000 common shares at September 30, 1983 which include 7,050,000 common shares acquired during fiscal 1983).

Quoted market value of the shares at December 31, 1983 totalled \$33,728,000 (\$31,725,000 at September 30, 1983 and \$9,315,000 at September 30, 1982). Because of the substantial number of shares involved their quoted market value may not necessarily be indicative of their realizable value or of their underlying assets.

7. Emerald assets

The 51% owned subsidiary, Cobra Emerald Mines Limited, acquired all the shares of Gravelotte Emeralds (Proprietary) Limited, a South African corporation, and full control of its mining assets and emerald operations effective March 1, 1983. The acquisition has been treated as a purchase for reporting purposes, details of which follow:

Assigned value of assets acquired:	
Current assets	\$ 335,510
Fixed assets	2,548,628
Mineral claims	5,342,779
Current liabilities	(309,566)
Total cash consideration	<u>\$7,917,351</u>

The excess cost of shares has been assigned to emerald mineral claims and is being amortized against income on a straight-line basis.

Emerald assets comprise:

	Cost	Accumulated depreciation and amortization	Net
Plant, equipment and buildings	\$2,822,547	\$243,328	\$2,579,219
Mineral claims	5,444,019	117,000	5,327,019
Total September 30, 1983	<u>\$8,266,566</u>	<u>\$360,328</u>	<u>\$7,906,238</u>
Total December 31, 1983	<u>\$8,267,621</u>	<u>\$493,259</u>	<u>\$7,774,362</u>

8. Shear Lake mineral interests

Under terms of an agreement dated July 16, 1982, and pursuant to production plans announced for the Shear Lake property by Cullaton Lake on December 6, 1983, Royex will hold a direct 30% production interest in The Shear Lake Joint Venture. Cullaton Lake will hold a direct 70% production interest.

Cullaton Lake has a further eighteen months from December 6, 1983 to commence development of the property and it will be responsible for total capital and development costs. Operating costs are to be borne 70% by Cullaton Lake and 30% by Royex and each will own metals produced in the same proportion after actual and deemed investments have been recovered.

9. Petroleum interests

Minority interests are held in gas and oil prospects in northeastern sections of the United States.

Petroleum interests are carried at cost which includes acquisition costs, geological, geophysical, drilling and related expenses that are capitalized until projects reach commercial levels of production. As soon as projects reach productive levels, they will be amortized by charges against income on a unit of production basis.

10. Share capital

Authorized share capital was increased in 1983 by statutory approval to 10,000,000 shares from the previously authorized capital of 4,900,000 shares.

During the year ended September 30, 1982, 500,000 shares of the capital of the Corporation were issued at \$2.06 per share, by way of a private placement, for a total consideration of \$1,030,000.

During fiscal 1983, an aggregate of 4,686,741 treasury shares were issued. A further 475,000 shares were issued in December 1983, as follows:

	Shares	Amount
For cash	602,777	\$ 2,699,997
Partial consideration for acquisition of subsidiary	50,000	250,000
In exchange for Cullaton Lake shares	4,033,964	28,053,171
Issued during year fiscal 1983	4,686,741	31,003,168
Issued, beginning of year	3,130,980	5,384,480
Issued, September 30, 1983	7,817,721	36,387,648
Issued in exchange for Cullaton Lake preferred shares	475,000	3,250,000
Issued, December 31, 1983	8,292,721	\$39,637,648

11. Stock options

Of the total 250,000 treasury shares reserved under the Company's Incentive Stock Option Plan, 100,000 shares are allocated as options to two senior officers, as follows:

- (a) 50,000 shares exercisable at \$2.10 per share by September 24, 1985, and
- (b) 50,000 shares exercisable at \$2.10 per share from June 21, 1984 to June 21, 1987.

Additionally, the following treasury shares are reserved against options granted in connection with a prior underwriting and in respect of 1983 bank financing:

- (a) 50,000 shares exercisable at \$4.25 per share by July 28, 1985,
- (b) 50,000 shares exercisable at \$4.50 per share by December 8, 1985, and
- (c) 25,000 shares exercisable at \$4.25 per share by July 28, 1985.

12. Extraordinary items

	Three Months Ended December 31 1983	Fiscal Year Ended September 30	
		1983	1982
Reduction of (adjustment to) income taxes due to the application of losses carried forward for income tax purposes	\$ (45,900)	\$ 81,600	\$ 54,808
Reduction of Cullaton Lake income taxes due to the application of prior years' exploration expenditures	4,775	189,529	
	<u>\$ (41,125)</u>	<u>\$271,129</u>	<u>\$ 54,808</u>

13. Income taxes

The Company has unclaimed exploration and development expenditures of approximately \$3,100,000 which may be utilized to reduce income taxes in future years under certain circumstances.

In addition, the Company has non-capital losses which may be carried forward and applied against future years income amounting to approximately \$340,000 expiring in 1988. Under recently proposed amendments to the Income Tax Act, these losses expiring in 1988 would be available for a carry forward period of seven years and thus may be available in 1990.

14. Segmented information

	Year ended September 30	
	1983	1982
(a) Geographic segments		
Revenue from emerald sales		
Switzerland	\$ 1,965,782	
South African sales to Switzerland, eliminated upon consolidation	\$ 2,633,960	
Interest income		
Canada	\$ 179,729	\$ 303,182
Gas and oil income		
United States	\$ 18,086	\$ 1,262
Segmented income (loss)		
Canada	\$ (408,367)	\$ (30,931)
United States	13,992	
South Africa	405,820	
Switzerland	(720)	
	10,725	(30,931)
Equity in Cullaton Lake earnings	326,323	
Income (loss) before undernoted items	337,048	(30,931)
Income taxes	160,000	
	177,048	(30,931)
Minority interest	90,243	
Income before extraordinary items	86,805	(30,931)
Extraordinary items	271,129	
Net income (loss)	\$ 357,934	\$ (30,931)
(b) Identifiable assets		
Canada	\$30,782,362	\$5,621,149
United States	306,173	169,604
South Africa	8,144,856	
Switzerland	1,754,909	
	\$40,988,300	\$5,790,753

15. Related party transactions

- The Company issued 475,000 treasury shares to Campbell Resources Inc. during the quarter ended December 31, 1983 in exchange for 650,000 Series A preferred shares of Cullaton Lake.
- During the year ended September 30, 1983 the Company issued 3,200,000 treasury shares at \$7 per share to Campbell Resources Inc. as consideration for 5,650,000 Cullaton Lake common shares.
- \$116,085 has been received or accrued for loan interest due from Cullaton Lake Gold Mines Ltd. during the year ended September 30, 1983.
- The Company has guaranteed loans on behalf of Cullaton Lake Gold Mines Ltd. as set out in note 16.
- During fiscal 1983 the Company paid \$22,140 for administrative services to a corporation controlled by a director.
- Interest of \$72,500 was paid by the company on a loan from Camchib Resources Inc., a subsidiary of Campbell Resources Inc., which was discharged during fiscal 1983.

16. Guarantees

The Company is contingently liable in respect of guarantees given to a Canadian chartered bank to secure \$3 million advanced to Cullaton Lake: \$2,500,000 for Cullaton Lake's direct obligations; \$500,000 for

Cullaton Lake's guarantee in respect of Renabie Mines (1981) Limited. The Company's investment in shares of Cobra Emerald Mines Limited are pledged as collateral to secure its guarantees.

17. Subsequent events

(a) International Corona Resources Ltd. (Corona)

The Company was granted the right under a December, 1983 agreement in principle with Corona of Vancouver to acquire an equity interest in Corona through the purchase of a convertible, three-year, \$6.5 million debenture and through a series of treasury share acquisitions.

The debenture is to be convertible at the end of its term to one Corona common share for each \$9.25 principal. Debenture interest at an annual rate of 9% is to be satisfied by the issuance of 200,000 common shares. Royex will also become entitled to purchase a further 150,000 common shares within two years under a warrant (at a price of \$8.75 per share during the first year, or at \$9 per share during the second year). The agreement also provides for a private placement under which the Company will acquire 700,000 common shares at \$7.75 per share and a two-year warrant for the purchase of a further 700,000 common shares (at \$8.75 per share in the first year, or at \$9 per share in the second year).

The Company purchased the \$6.5 million debenture and 700,000 common shares of Corona on January 31, 1984 and received 200,000 common shares of Corona as interest to be earned on this debenture for its entire term.

(b) Bank financing

(i) Bank financing of \$14 million for the Corona acquisition and general corporate purposes was arranged with a Canadian chartered bank in December, 1983, with interest 1% above prime rate. A total of \$11.925 million of this financing was utilized on January 31, 1984 for the Corona acquisitions described in 17(a) above. Securities pledged as collateral for the financing comprise 900,000 common Corona shares, the \$6.5 million Corona debenture, 2,000,000 common and 650,000 preferred shares of Cullaton.

(ii) An aggregate of 250,000 common shares of Cullaton are pledged to secure short-term bank financing of \$250,000 advanced to emerald operations.

(c) The Company is currently proposing a business combination with Cullaton.

AUDITORS' REPORT

To the Directors of
Cullaton Lake Gold Mines Ltd.

We have examined the balance sheet of Cullaton Lake Gold Mines Ltd. as at September 30, 1983 and 1982, the statement of income for the year ended September 30, 1983, and the statements of deficit and changes in financial position for each of the years in the three year period ended September 30, 1983 and for the period from incorporation on May 2, 1980 to September 30, 1980. 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, these financial statements present fairly the financial position of the Corporation as at September 30, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the years in the three year period ended September 30, 1983 and for the period from incorporation on May 2, 1980 to September 30, 1980 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
November 29, 1983

THORNE RIDDELL
Chartered Accountants

CULLATON LAKE GOLD MINES LTD.
CONSOLIDATED BALANCE SHEET

	December 31, 1983 (unaudited) (Note 1(b)(iii))	September 30 1983 (Note 1(b)(i))	1982
ASSETS			
Current			
Bullion settlements receivable	\$ 332,931	\$ 609,573	\$ 752,127
Accounts receivable	255,867	220,845	97,133
Mine and mill supplies (Note 1(e))	1,724,828	1,175,721	
Prepaid expenses	434,666	67,105	18,774
Due from Barrick/Cullaton Gold Trust	455,000		
	<u>3,203,292</u>	<u>2,073,244</u>	<u>868,034</u>
Term deposit (Note 3)	14,200,000	14,200,000	10,200,000
Investment in Affiliated Companies	37,139		
Mining properties	6,871,191	1,151,634	1,240,985
Equipment and buildings (less accumulated depreciation of \$2,646,942 and \$1,217,298 at December 31 and September 30, 1983 respectively)	17,200,328	15,689,617	12,721,928
Preproduction and development expenditures	21,626,065	14,712,841	11,953,199
Shear Lake Area claims (Note 4(a))	1,856,693	1,193,837	
	<u>61,791,416</u>	<u>46,947,929</u>	<u>36,116,112</u>
	<u>\$64,994,708</u>	<u>\$49,021,173</u>	<u>\$36,984,146</u>
LIABILITIES			
Current			
Bank advances (Note 5)	\$ 8,101,758	\$ 4,508,711	\$ 3,617,738
Accounts payable and accrued liabilities	3,259,759	3,716,999	2,880,174
Due to Campbell Resources Inc.	745,322	730,169	248,077
Due to Royex Sturgex Mining Limited	70,000	109,370	1,359,648
Current portion of long-term debt	5,205,847	3,949,833	3,788,671
Royalties payable	213,707		
	<u>17,596,393</u>	<u>13,015,082</u>	<u>11,894,308</u>
Long-term debt (Notes 5 and 6)	2,450,140	2,714,134	7,708,006
	<u>20,046,533</u>	<u>15,729,216</u>	<u>19,602,314</u>
Shareholders' Equity			
Capital stock (Note 7)			
Issued			
7,100,000 Preferred shares (1982 — 5,100,000 shares)	35,500,000	35,500,000	25,500,000
29,797,589 Common shares (26,544,234 at September 30, 1983 — 19,800,000 at September 30, 1982)	45,554,144	33,929,166	26,035,952
	<u>81,054,144</u>	<u>69,429,166</u>	<u>51,535,952</u>
Deficit (Note 9)	36,105,969	36,137,209	34,154,120
	<u>44,948,175</u>	<u>33,291,957</u>	<u>17,381,832</u>
	<u>\$64,994,708</u>	<u>\$49,021,173</u>	<u>\$36,984,146</u>
Contingent liabilities (Note 14)			
Subsequent events (Note 15)			

Approved by the Board

Richard L. Lister, Director

John M. Arnold, Director

CULLATON LAKE GOLD MINES LTD.
CONSOLIDATED STATEMENT OF INCOME

	Three Months ended December 31 1983 (unaudited) (Note 1(b)(iii))	Year Ended September 30 1983 (Note 1(b)(i))
Revenue	\$ 6,660,359	\$14,478,830
Operating expenses	4,831,794	9,077,137
Income from mining operations	1,828,565	5,401,693
Administration expenses	426,854	935,259
Interest expense	49,150	286,805
Equipment rental	(174,153)	
Operating income before undernoted items	1,526,714	4,179,629
Amortization and depreciation	1,495,474	2,540,787
Income before income taxes and extraordinary item	31,240	1,638,842
Income taxes	12,000	620,000
Income before extraordinary item	19,240	1,018,842
Reduction of income taxes due to the application of exploration expenditures available for tax purposes	12,000	620,000
Net Income	<u>\$ 31,240</u>	<u>\$ 1,638,842</u>
Earnings (loss) per common share:		
Earnings before extraordinary item	\$ 0.001	\$ 0.044
Earnings before dividend payment on preferred shares	\$ 0.001	\$ 0.070
Loss after dividend payment on preferred shares		\$ (0.082)

**CULLATON LAKE GOLD MINES LTD.
CONSOLIDATED STATEMENT OF DEFICIT**

	Three Months ended December 31			September 30	
	1983 (unaudited) (Note 1(b)(iii))	1982 (unaudited)	1983 (Note 1(b)(i))	1982	1981
Deficit at Beginning of Period					
Net Income	\$36,137,209	\$34,154,120	\$34,154,120	\$ 175,500	\$ 117,835
Administration expenditures written off (net)	31,240		1,638,842		
Preferred share dividends		71,931	71,931	78,620	57,665
Write-down of mining properties			3,550,000	9,700,000	
Write-down of preproduction and development expenditures				24,200,000	
Deficit at End of Period	<u>\$36,105,969</u>	<u>34,226,051</u>	<u>\$36,137,209</u>	<u>\$34,154,120</u>	<u>\$ 175,500</u>
					<u>\$ 117,835</u>

From
Incorporation
on May 2 to
September 30
1980

CULLATON LAKE GOLD MINES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Three Months ended December 31			September 30		From Incorporation on May 2 to September 30 1980
	1983 (unaudited) (Note 1(b)(iii))	1982 (unaudited)	1983 (Note 1(b)(i))	1982	1981	
Working Capital Derived From:						
Operating income	\$ 1,526,714		\$ 4,179,629	\$ 9,591,592	\$ 1,000,000	\$15,444,360
Issue of common shares	11,624,978		7,893,214	25,500,000		
Issue of preferred shares			10,000,000	11,496,677	19,756,650	
Increase of long-term debt	1,000,000		353,655			
Proceeds from sale of equipment and building			136,366			
Decrease in current portion of long-term debt				4,113,989		
Revenue from production and interest earned		\$ 3,758,776		7,090,159	88,787	
Recovery of mining property costs						
Forgiveness of debt by former parent of Renabie ..	291,263					
	14,442,955	3,758,776	22,562,864	57,792,417	20,845,437	15,444,360
Working Capital Applied To:						
Non-current term deposit				10,200,000		
Dividends on preferred shares			4,000,000			
Repayment of long-term debt			3,550,000	19,756,650		
Mining properties						11,029,772
Preproduction and development expenditures	1,197,157	4,472,655	3,830,990	22,711,796	14,331,147	3,298,329
Expenditures on Shear Lake claims	767,606		1,286,462			
Equipment and buildings	876,039	310,736	4,391,518	2,978,736	7,636,248	2,106,944
Purchase of Royex Sturgex Mining Limited interest in joint venture				2,902,086		
Administration expenditures (net)		71,931	71,931	78,620	57,665	117,835
Reduction of long-term debt	1,270,807	1,250,000	5,347,527		7,902,660	
Current portion of long-term debt						
Reduction of debt to former parent of Renabie ..	8,954,729					
Investment in shares of affiliated company	37,139					
Investment in Renabie less working capital acquired .	4,790,741					
	17,894,218	6,105,322	22,478,428	58,627,888	29,927,720	16,552,880
Increase (decrease) in working capital position	(3,451,263)	2,346,546	84,436	(835,471)	(9,082,283)	(1,108,520)
Working capital deficiency at beginning of period ..	10,941,838	11,026,274	11,026,274	10,190,803	1,108,520	
Working capital deficiency at end of period	\$14,393,101	\$13,372,820	\$10,941,838	\$11,026,274	\$10,190,803	\$ 1,108,520

CULLATON LAKE GOLD MINES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1983 and December 31, 1983

(information with respect to the three months ended December 31, 1983 is unaudited)

1. Accounting Policies

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied.

(a) Property plant and equipment

- (i) Mining properties, equipment and buildings and preproduction and development expenditures are recorded at cost less amounts written down and amortized.
- (ii) Amortization of the cost of property, plant and equipment is provided for on the unit of production method on estimated ore reserves commencing January 1, 1983, in the case of Cullaton.
- (iii) Vehicles and mobile equipment are depreciated on a straight-line method over 3 years in the case of Renabie.

(b) Operations

- (i) The Cullaton Lake Mine was declared to be in commercial production on January 1, 1983.
- (ii) Revenue from bullion sales during the period October 1, 1982 to December 31, 1982 was applied against preproduction and development expenditures which were incurred during this period.
- (iii) Effective October 3, 1983 Cullaton acquired a 50% interest in Renabie Mines (1981) Limited. The three months ended December 31, 1983 include the accounts of Renabie Mines (1981) Limited on a proportionate consolidation basis.

(c) Bullion settlements receivable

Bullion settlements are valued at net realizable value.

(d) Segmented information

Reporting of segmented information is not required since operations relate solely to the development of gold mines located in Canada.

(e) Inventories

1982 supplies inventory is classified as preproduction and development expenditures on the balance sheet. Supplies are carried at the lower cost or net realizable value.

(f) Earnings (loss) per common share

Earnings (loss) per common share is computed using the fully diluted weighted average number of common shares outstanding during the nine month and three month periods ended September 30, 1983 and December 31, 1983, respectively.

2. Due from Barrick Cullaton Gold Trust

This amount represents the portion of financing costs which is payable by the Trust Fund as set out in the Trust Fund's prospectus dated January 25, 1984 (note 15(b)).

3. Deposits held for Retraction of Preferred Shares

\$10,200,000 is held on short-term deposit with the Royal Bank of Canada in the name of Guaranty Trust Company of Canada, and its use is restricted to the Corporation's obligation to retract 40% of Series "A" preferred shares on June 30, 1984 as outlined in note 7(a). A further \$4,000,000 has also been placed on deposit for purposes of retraction of the preferred shares on June 30, 1984.

4. Mining Interests

(a) Shear Lake Claims

Under a joint venture agreement dated July 16, 1982 the Corporation and Royex Sturgex Mining Limited (Royex) agreed to explore, develop and, if warranted, to bring into production the Shear Lake claims of Royex located in Keewatin District Northwest Territories. The Corporation shall have possession and exploration rights until December 31, 1985 as extended, and has earned a 50% interest in the Shear Lake claims by the expenditure in excess of \$1,000,000 on these claims. Royex shall have the option to repurchase such an interest at cost if a decision to produce is not made.

If the decision to bring the Shear Lake claims into production is made, the Corporation shall have a further eighteen months to commence development and shall be responsible for all capital required to bring the claims to the production stage. The Corporation shall be the operator and shall bear 70% and Royex 30% of the operating expenses and each shall own metals produced on a pro rata basis after actual and deemed investments have been repaid pro rata out of production profits.

(b) Mining Claims and Deferred Mine Development Expenditures

The mining properties consist of 29 patented and 14 unpatented mining claims in the Leeson, Rennie and Brackin Townships in the Sault Ste. Marie Mining District. The claims are pledged to secure payment of royalties to a Canadian chartered bank as described in note 13. Royalties due to the bank are payable at the rate of 5% of net proceeds from gold production. The amount provided in the accounts includes \$427,413 which relates to future gold production.

5. Bank Financing and Indebtedness

(a) Cullaton

The Corporation has entered into an agreement with The Royal Bank of Canada to provide a \$10,200,000 term loan (of which \$5,100,000 has been repaid) to purchase 40% of the outstanding Series "A" preferred shares on June 30, 1984 as well as a \$7,500,000 operating line of credit. The term loan bears interest at the bank's term deposit rate plus 2½% unless such calculated rate is below bank prime rate. Funds drawn under the operating line of credit bear interest at prime plus 1%.

The bank loan is secured by a first fixed and floating charge debenture for \$15,200,000 and has a sinking fund commitment to cover the retraction of the preferred shares on June 30, 1984.

In 1982, the Corporation borrowed \$1,200,000 secured by a demand debenture, from the Canadian Imperial Bank of Commerce under terms requiring interest calculated only from July 16, 1984 onward at prime plus 1%.

(b) Renabie

The bank advances include a bank loan in the amount of \$600,000 with interest at bank prime rate plus 1% under a \$2,000,000 loan facility. This bank loan is repayable by February 29, 1984. Under certain circumstances, repayment terms may be extended to fluctuate with cash flow. On completion of the Barrick-Cullaton Gold Trust Fund, (note 15) the terms of repayment of the company's bank loan will be extended.

The bank loan is secured by:

- (a) general assignment of book debts
- (b) demand debenture of \$5,000,000 providing fixed charges over major assets of the company including mining claims and a floating charge over all other assets
- (c) assignment under Section 177 of the Bank Act
- (d) assignment of fire insurance
- (e) commitment by Campbell Resources Inc. to assume management of the mine until December 31, 1988
- (f) letters of undertaking from Cullaton Lake Gold Mines Ltd. and Barrick Resources Corporation to arrange financing for any further requirements which exceed cash flow from operations.

The shareholders of the company, Barrick Resources Corporation and Cullaton Lake Gold Mines Ltd., have guaranteed \$1,000,000 each of this loan facility.

6. Long-Term Debt

(a) Cullaton

Principal repayment dates are as follows:

	December 31 1983	September 30 1983
(i) The Royal Bank of Canada		
March 31, 1984	\$1,250,000	\$1,250,000
June 30, 1984	1,250,000	1,250,000
September 30, 1984	1,350,000	1,350,000
December 31, 1984	1,250,000	1,250,000
	<u>5,100,000</u>	<u>5,100,000</u>
(ii) Canadian Imperial Bank of Commerce		
July 16, 1985	60,000	60,000
January 16, 1986	120,000	120,000
July 16, 1986	180,000	180,000
January 16, 1987	240,000	240,000
July 16, 1987	600,000	600,000
	<u>1,200,000</u>	<u>1,200,000</u>
(iii) Supplier of heavy equipment		
Principal and interest payable in 18 monthly instalments of \$6,934 to March 30, 1985, thereafter \$5,204 a month to April 30, 1986	176,859	197,661
(iv) Grant payable to N.W.T. Government		
Principal payments of \$16,631 due in each of the next 10 years	166,306	166,306
	<u>6,643,165</u>	<u>6,663,967</u>
(b) Renabie		
(i) Notes payable — \$2,000,000 (Cullaton interest 50%)	1,000,000	
	<u>7,643,165</u>	<u>6,663,967</u>
These notes payable are represented by two non-interest bearing notes of \$1,000,000 each, due April 28, 1986 which are repayable as follows:		
(a) on one note no principal payments are required up to October 28, 1984 and thereafter monthly payments are required of between \$50,000 to \$200,000 if the monthly average of afternoon fixing prices of gold in London, England during each month exceeds \$649.99 and payable on or before the 10th day of the following month (note 14(d)) and		
(b) on the other note the payee has the option to request a payment of \$700,000 on or before January 28, 1984 in full payment of its rights under one note. Subsequent to December 31, 1983 the payee exercised its option and the company paid the \$700,000 option price.		
(ii) Capitalized leases — \$25,642 (Cullaton interest 50%)	12,822	
	<u>7,655,987</u>	<u>6,663,967</u>
(Equipment leases of which \$12,016 is current portion and reflected in current liabilities)		
Less portion included in current liabilities	5,205,847	3,949,833
	<u>\$2,450,140</u>	<u>\$2,714,134</u>

7. Capital Stock

(a) Authorized

15,000,000 Series "A" preferred shares \$5, non-voting, redeemable, retractable, fixed cumulative preferential cash dividend at \$0.50 per annum payable annually in arrears commencing June 30, 1983. Series "A" preferred shares are redeemable at any time and have a retraction

right giving holders the option of requiring the Corporation to redeem up to 40% of their Series "A" preferred shares on June 30, 1984 and the balance, thereafter, annually on a proportionate basis to June 30, 1990.

Unlimited number of common shares (1982, 30,000,000 common shares)

(b) Issued

During the years and quarter ended September 30, 1982 and 1983 and December 31, 1983 respectively, the Corporation issued shares of its capital stock as follows:

Year ended September 30, 1982

Common shares	
1,000,000 Shares issued under a private placement for a net cash consideration .	\$ 9,591,590
10,200,000 Shares issued in conjunction with preferred shares under the Reorganization and Refinancing Agreement (note 2)	
4,000,000 Shares issued as part consideration for remaining interest in Cullaton Lake Joint Venture	1
500,000 Shares issued for performance guarantees (note 2)	1
<u>15,700,000 Shares</u>	<u>\$ 9,591,592</u>
Series "A" Preferred shares	
<u>5,100,000 Shares under the Rights Offering for cash</u>	<u>\$25,500,000</u>

Year ended September 30, 1983

Common shares	
2,500,000 Shares for cash	\$ 7,440,651
139,844 Shares for services rendered in connection with the refinancing	314,503
102,000 Shares under the Nunasi (note 7(c))	130,560
4,000,000 Shares issued under Campbell option	
2,390 Shares issued under Employees' Share Incentive Plan	7,500
<u>6,744,234 Shares</u>	<u>\$ 7,893,214</u>
Series "A" Preferred shares	
<u>2,000,000 Shares under the Campbell option</u>	<u>\$10,000,000</u>

Three months ended December 31, 1983

Common shares	
3,141,886 Shares for Renabie acquisition	\$11,624,978
110,000 Shares issued in connection with Royex Guarantee	
1,469 Shares issued under employees' Share Incentive Plan	
<u>3,253,355 Shares</u>	<u>\$11,624,978</u>

(c) Options

Options granted on capital stock are as follows:

Common shares

Under the Employee Share Incentive Plan for key employees 750,000 common shares have been reserved and set aside. Options on 272,500 common shares have been granted exercisable at \$1.66 per share expiring on August 31, 1985 of which options on 16,650 shares have been exercised. Options on 35,000 common shares have also been granted, exercisable at \$3.78 per share, expiring on May 31, 1986.

In 1982, options to purchase 400,000 common shares exercisable by February 28, 1986 were granted, of which, options to purchase 102,000 common shares at \$1.28 per share were exercised during 1983.

(d) Dividend restriction

Durham postponed its right to recoup \$2,902,439 for prior property expenditures and interest from first proceeds of production to permit payment of dividends on the Series "A" preferred shares.

8. Management contracts

- (a) In 1982, the Corporation entered into a management contract with Camchib Resources Inc., subsequently transferred to a successor Corporation, Campbell Resources Inc. (Campbell), to take over the management of the Corporation and its mine located at Cullaton Lake, N.W.T. until December 31, 1984 (extended to December 31, 1988). Under the contract, Campbell provides its services at cost and is entitled to receive 10% of the mining income as defined.
- (b) Renabie has entered into a management contract with Campbell whereby Campbell will manage the Renabie mine, the principal asset of Renabie, until December 31, 1988 at a rate of not less than \$13,000 nor more than \$18,000 per month to be agreed upon from time to time.

9. Amounts Written Down in 1982

- (a) Mining properties
On September 30, 1982, mining properties were written down by \$9,700,000 to reflect a more appropriate carrying value of \$1,240,985 which approximates the agreed tax amount of the mining properties at the time they were acquired by the Corporation.
- (b) Preproduction and development expenditure
On September 30, 1982 these expenditures were written down by \$24,200,000 being the excess cost encountered to bring the mine property to production due in part to technical problems at the start-up stage.

10. Income Taxes

- (a) **Cullaton**
At December 31, 1983 and September 30, 1983 approximately \$52,000,000 and \$49,000,000 respectively, (September 30, 1982 — \$49,600,000) of exploration expenditures and capital property may be claimed for tax purposes from time to time at rates and conditions prescribed by the Income Tax Act, the tax effect of which has not been recorded in the accounts.
- (b) **Renabie**
At December 31, 1983 approximately \$25,000,000 of exploration expenditures and capital property may be claimed for tax purposes from time to time at rates and conditions prescribed by the Income Tax Act, the tax effect of which has not been recorded in the accounts.

In addition the company has non-capital losses of approximately \$1,500,000 available to reduce future income taxes up to 1988.

11. Related Party Transactions

- (a) During the quarter and year ended December 31, 1983 and September 30, 1983, the Corporation accrued \$261,792 and \$1,102,520 respectively for services under its management agreement with Campbell of which an amount of \$745,332 remains payable at December 31, 1983 (\$730,169 at September 30, 1983).
- (b) \$116,085 has been paid or accrued for loan interest in the year ended September 30, 1983 to Royex Sturgex Mining Limited.

12. Forward Sales

The Corporation has sold forward 11,000 ounces of future gold production at various dates to May 1984 at an average price of U.S. \$350 per ounce.

13. Commitments

As part of the consideration for the acquisition of the Renabie mining claims, Renabie is required to pay up to \$719,321 and U.S.\$1,152,157 plus trustee's costs, as royalty payments at 5% of net income after recovery of mine development and other costs. The requirement to make these royalty payments is a charge against the mining claims.

14. Contingent Liabilities — Renabie

- (a) Great Lakes Power Ltd.
The company has received a request for payment of \$363,142 from Great Lakes Power Ltd.

Management considers that the company has no liability in respect of the amount claimed. The company's solicitors have advised that at this early stage, they are unable to assess the likelihood of loss or to make a reasonable estimate of the ultimate amount thereof. The company feels it has an arguable defense in respect of this claim.

(b) Equipment rentals by predecessor company

The company has received a formal demand for return of equipment, or its replacement value in cash, and accrued rentals to October 31, 1983, totalling \$400,000, in respect of mining equipment rented to the predecessor company in 1976. Management is of the opinion that there is no valid claim in respect of rentals and the liability of the company in respect of the return of the equipment is not material. The company's solicitors for this matter have advised that they are unable to express any opinion as to the effect upon the total liability, if any, of the company in respect of the formal demand.

(c) Claim for wrongful dismissal

The company has received a writ from a former mine manager for wrongful dismissal for an amount of approximately \$500,000 which the company's solicitors are currently reviewing.

(d) During the period ended December 31, 1983 the company entered into indemnity agreements with a former shareholder of Sungate Resources Limited (former parent company of Renabie), the indemnifier having certain rights of participation in defense or settlement of these claims. In addition to the indemnities, the company has the right to offset any amounts paid against the loan made by such shareholder (note 6(b)) to the extent of the unpaid amount of such loan at the date of payment of any such amounts by the company. Accordingly at December 31, 1983 no provision has been made in accounts for these items.

15. Subsequent Events

(a) Cullaton

(i) Subsequent to December 31, 1983 the Corporation has issued 210,000 common shares for \$630,000 pursuant to the terms of a private placement memorandum of November 1983. In addition, the Company has commitments to issue 480,000 and 275,000 common shares for \$1,776,000 and \$1,100,000 respectively, pursuant to the terms of private placement memorandums of January and April 1984.

(ii) The Corporation is currently proposing a business combination with Royex Sturgex Mining Limited.

(b) Renabie

Barrick-Cullaton Gold Trust

On February 13, 1984, the Barrick-Cullaton Gold Trust Fund raised \$17,000,000, the maximum allowed under its prospectus dated January 25, 1984. As a result Renabie is entitled to receive \$14,900,000. These funds are to be utilized for expansion of the mill, development of the mine and establishment of additional ore reserves. For this refinancing, the Trust is entitled to receive a percentage of gold produced by the company ranging from 3% to 10% depending on the current market value of gold. A minimum of 1,350 ounces of gold is to be credited to the Trust for the period from October 3, 1983 to June 30, 1984, and each of the next three six month periods ending on December 31, 1984, June 30, 1985 and December 31, 1985. Thereafter no minimum is applicable.

Under this agreement, the company issued 1,700,000 Gold Value Warrants (Warrant) to the unitholders of the Trust on the basis of 1 warrant for each 10 units held in the Trust. The holder of these warrants is, on any one of eleven specified dates commencing on June 13, 1984 to December 10, 1986, entitled to receive in cash the amount which the current market value of 0.003 ounces of gold on the exercise date exceeds the exercise price of gold. The exercise price of gold is as follows:

1984	U.S.\$400
1985	U.S. 450
1986	U.S. 500

SCHEDULE "A"

ROYEX STURGEX MINING LIMITED

SPECIAL RESOLUTION

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Corporation make application for a certificate of amendment amending the articles of the Corporation as follows:
 - (i) the objects of the Corporation be and are hereby deleted such that there shall be no restrictions on the business the Corporation may carry on or on the powers the Corporation may exercise;
 - (ii) (a) the number of directors be and is hereby amended such that there shall be a minimum number of 3 and a maximum number of 15 directors;
(b) subject to the foregoing paragraph 1(ii)(a), the number of directors of the Corporation be and is hereby fixed at 8; and
(c) notwithstanding the foregoing paragraph 1(ii)(b), the directors of the Corporation be and are hereby authorized to determine by resolution from time to time the number of directors of the Corporation within the range provided for in the Articles of the Corporation;
 - (iii) the name of the Corporation be and is hereby changed to Royex Gold Mining Corporation;
2. Any one or more of the President, Vice-President, and the Secretary of the Corporation be and each is hereby authorized and directed to do all things and execute all instruments or documents necessary or desirable to give effect to these resolutions, including the execution and delivery of articles of amendment in accordance with the terms of these resolutions, such authorization to be in addition to any authority already specifically granted by these resolutions to such officers; and
3. Notwithstanding the foregoing provisions hereof, the directors of the Corporation may, in their absolute discretion and without further approval of the shareholders of the Corporation, revoke the foregoing special resolutions at any time prior to the endorsement by the Director pursuant to the Business Corporations Act, 1982 (Ontario), of a certificate of articles of amendment giving effect thereto.

Note: In the event that either By-law 15 of the Corporation is not approved by shareholders' resolution, or that the special resolution amending the authorized capital of the Corporation is not approved, the number of directors provided for in paragraph 1(ii)(b) above shall be fixed at six.

SPECIAL RESOLUTION

WHEREAS the authorized capital of the Corporation consists of 10,000,000 common shares without par value;

AND WHEREAS it is desirable to reduce the stated capital of the common shares of the Corporation;

AND WHEREAS in connection with the amalgamation of Roysub Inc., a wholly-owned subsidiary of the Corporation, and Cullaton Lake Gold Mines Ltd., it is desirable to amend the authorized capital of the Corporation;

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Corporation make application for a certificate of amendment amending the articles of the Corporation as follows:
 - (i) the maximum number and designation of the existing shares of the Corporation be and is hereby changed to an unlimited number of Common Shares;
 - (ii) a new class of an unlimited number of First Preference Shares, issuable in series, be and is hereby created; and
 - (iii) a maximum number of 5,000,000 Convertible First Preference Shares Series A, be and is hereby created as the first series of First Preference Shares.

The designations, rights, privileges, restrictions and conditions attaching to the First Preference Shares and the Convertible First Preference Shares Series A are set forth in Exhibit 1 attached hereto;
2. Subject to the issuance of a certificate of amalgamation pursuant to the Business Corporations Act, 1982 (Ontario) amalgamating Roysub Inc. and Cullaton Lake Gold Mines Ltd., the stated capital of the common shares of the Corporation be reduced by an amount equal to the deficit account of the Corporation on June 30, 1984, as determined by the Corporation's directors, and that such sum be transferred in its entirety from the stated capital account of the common shares of the Corporation to the retained earnings (deficit) account of the Corporation to increase such retained earnings (deficit) account to nil;
3. Any one or more of the President, Vice-President and the Secretary of the Corporation be and each is hereby authorized and directed to do all things and execute all instruments necessary or desirable to give effect to these resolutions, including the execution and delivery of articles of amendment in accordance with the terms of these resolutions, such authorization to be in addition to any authority already specifically granted by these resolutions to such officers; and
4. Notwithstanding the foregoing provisions hereof, the directors of the Corporation may, in their absolute discretion and without further approval of the shareholders of the Corporation, revoke the foregoing special resolutions at any time prior to the endorsement by the Director pursuant to the Business Corporations Act, 1982 (Ontario) of a certificate of articles of amalgamation giving effect thereto.

Exhibit 1 to SCHEDULE "A"

First Preference Shares

The special shares without par value shall be designated, as a class, First Preference Shares and shall have attached thereto, as a class, the following preferences, rights, conditions, restrictions, limitations and prohibitions:

1. *Directors' Rights to Issue in One or More Series:* Except for the Convertible First Preference Shares Series A (the attributes of which are established herein), the First Preference Shares may be issued from time to time in one or more series with such preferred, deferred or other special rights, privileges, restrictions, conditions and designations attached thereto, including without limitation, conversion rights, and in particular such rate or rates of non-cumulative dividends or cumulative preferential annual dividend, redemption price or prices and amount or amounts to be paid thereon on distribution of assets in the event of liquidation, dissolution or winding up of the Corporation whether voluntary or involuntary, as shall be fixed hereby or from time to time before issuance by any resolution or resolutions providing for the issue of the shares of any series which may be passed by the board of directors of the Corporation and confirmed and declared by articles of amendment. Subject to the foregoing provisions, any of the First Preference Shares may be authorized for issue as part of any series previously authorized, including the Convertible First Preference Shares Series A, in which case they shall bear the same designations as has been applied to such similar prior series.
2. *Ranking of First Preference Shares of Each Series:* The First Preference Shares of each series shall rank on a parity with the First Preference Shares of every other series, provided, however, that when in the case of any of such shares any fixed cumulative dividends or amounts payable on a return of capital are not paid in full in accordance with their respective terms, the First Preference Shares of all series shall participate rateably in respect of such dividends (including all unpaid accumulated dividends which for such purpose shall be calculated as if the same were accruing up to the date of payment) in accordance with the sums which would be payable on said shares if all such dividends were declared and paid in full in accordance with their respective terms, and on any return of capital in accordance with the sums which would be payable on such return of capital if all sums so payable were paid in full in accordance with their respective terms, and provided further that in the event of there being insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the said shares with respect to return of capital shall first be paid and satisfied and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends as aforesaid.
3. *Ranking Over Other Shares:* The First Preference Shares shall be entitled to preference over the common shares of the Corporation and any other shares of the Corporation ranking junior to the said First Preference Shares with respect to payment of dividends and distribution of assets in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, to the extent fixed in the case of each respective series, and may also be given such other preferences over the common shares of the Corporation and any other shares of the Corporation ranking junior to the said First Preference Shares as may be fixed in the case of each such series.
4. *Purchase for Cancellation:* Subject to the provisions of the Business Corporations Act, 1982 (Ontario), as the same may from time to time be in force or any successor corporations statute of the Province of Ontario (the "Act") and subject to the provisions relating to any particular series, the Corporation may at any time or times purchase (if obtainable) for cancellation the whole or any part of the First Preference Shares outstanding from time to time in the market upon some recognized stock exchange if listed or dealt in by the members thereof, or by invitation for tenders addressed to all the holders of record of the said series of First Preference Shares outstanding at the lowest price or prices at which in the opinion of the board of directors such shares are then obtainable but such price or prices shall not in any case exceed the redemption price current at the time of purchase for the shares of the particular series purchased plus costs of purchase together with an amount equivalent to all unpaid accumulated dividends which for such purpose shall be calculated as if the preferential dividends were accruing up to the date of purchase. If upon any invitation for tenders under the provisions of this paragraph First Preference Shares are tendered to the Corporation in excess of the number of First Preference Shares which the Corporation is prepared to purchase, then the First Preference Shares to be purchased by the Corporation shall be purchased as nearly as may be pro rata to the number of shares tendered by each shareholder who submits a tender to the Corporation, provided that when shares are tendered at different prices, the pro rating shall be effected with respect to the shares in each price range successively commencing with the shares offered at the lowest price.

5. *Redemption:* Except in the case of shares purchased on the market or by invitation for tenders as aforesaid, and subject to the provisions relating to any particular series, the Corporation may redeem the whole or any part of the First Preference Shares by giving to each person who at the date of giving such notice is the holder of First Preference Shares to be redeemed at least 30 days' notice in writing of the intention of the Corporation to redeem such First Preference Shares. Such notice shall be given by posting the same in a postage paid registered letter addressed to each holder of such First Preference Shares to be redeemed at the last address of such shareholder last known to the Corporation; provided, however, that accidental failure to give such notice to one or more of such holders shall not affect the validity of such redemption as to the other holders, but upon such failure being discovered, notice shall be given forthwith and shall have the same force and effect as if given in due time. Such notice shall set out the number of such First Preference Shares held by the person to whom it is addressed which are to be redeemed and the redemption price. Such notice shall also set out the date on which redemption is to take place, and on and after the date so specified for redemption, the Corporation shall pay or cause to be paid to the holders of such First Preference Shares to be redeemed the redemption price of such shares on such redemption date on presentation and surrender, at the head office of the Corporation or at any other place or places within Canada designated by such notice, of the certificate or certificates for such First Preference Shares so called for redemption. From and after the date specified in any such notice, the First Preference Shares called for redemption shall cease to be entitled to exercise any of the rights of shareholders in respect thereof unless payment of such redemption price shall not be duly made by the Corporation upon presentation and surrender of the certificates in accordance with the foregoing provisions. The Corporation may include in such notice a statement that the money required for the payment of the redemption price has been deposited or will be deposited at the opening of business on the date of redemption or on a specified date prior to such date with a specified chartered bank or banks or a specified trust company or trust companies in Canada in trust for the respective holders of such shares to be paid to them respectively upon surrender to such bank or banks or trust company or trust companies of the certificate or certificates representing the same, and upon such deposit or deposits being made such shares shall be deemed to be redeemed and all rights of the holders of such shares as against the Corporation shall be limited to receiving the amount so deposited without interest, and such holders shall cease to be entitled to dividends and shall not be entitled to any further participation in the assets of the Corporation or to exercise any rights as holders of such First Preference Shares so redeemed. In case a part only of any particular series is at any time to be redeemed, the shares so to be redeemed shall be selected by lot, in single shares or in units of 10 shares or less, in such manner as the board of directors in its sole discretion shall by resolution determine. If a part only of such First Preference Shares represented by any certificate shall be redeemed, a new certificate for the balance shall be issued.

6. *Amendment of Articles to Create Other Shares:* The Corporation shall not, without the consent as hereinbefore defined of the holders of First Preference Shares, authorize an amendment of its articles for the creation or issue of any shares ranking in priority to the First Preference Shares; provided, however, that for the purpose of this provision, the voting power of common shares shall not be considered as ranking in priority.

7. *Voting Rights:* The holders of the First Preference Shares shall not be entitled as such (except as hereinafter specifically provided) to receive notice of or to attend at any meeting of the shareholders of the Corporation and shall not be entitled to vote at any such meeting; the holders of the First Preference Shares shall, however, be entitled to notice of meetings of the shareholders of the Corporation called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof.

8. *Amendment of Articles to Vary Rights:* Any amendment to the articles of Corporation to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the First Preference Shares or to create shares ranking in priority to or on a parity with the First Preference Shares, in addition to the authorization by a special resolution, must be authorized by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for the purpose in accordance with the by-laws of the Corporation, and each holder of a First Preference Share shall be entitled to 1 vote at such meeting in respect of each First Preference Share then held.

9. *Shares Issued in Series with Identical Rights:* Where First Preference Shares are issued in more than one series with identical preferred, deferred or other special rights, privileges, restrictions, conditions and designations attached thereto, all such series of First Preference Shares shall rank *pari passu* and participate equally and proportionately without discrimination or preference as if all such series of First Preference Shares had been issued simultaneously and all such series First Preference Shares may be designated as one series.

Convertible First Preference Shares Series A

The first series of First Preference Shares are designated as Convertible First Preference Shares Series A, shall consist of 5,000,000 Convertible First Preference Shares and, in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attached to the First Preference Shares as a class, shall have attached thereto preferences, rights, conditions, restrictions, limitations and prohibitions substantially as hereinafter set forth, that is to say:

1. *Consideration for Issue:* The consideration for the issue of each Convertible First Preference Share Series A shall be \$10.00.
2. *Dividends:* Holders of the Convertible First Preference Shares Series A shall be entitled to receive when and as declared by the board of directors of the Corporation out of the moneys of the Corporation properly applicable to the payment of dividends, fixed, cumulative, preferential cash dividends thereon at the rate of but not to exceed \$.75 per share per annum, payable in lawful money of Canada, at par, in semi-annual instalments by warrant or cheque at any branch of the Corporation's bankers in Canada on June 30th and December 31st ("Dividend Payment Dates") commencing December 31, 1984 with a dividend of \$.375 per share and the dividends on any further issue of initial series preferred shares shall be deemed to accrue from the date fixed by the board of directors in connection with each such issue. The holders of Convertible First Preference Shares Series A shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided.

The amount of the dividend for any period which is less than a full half year with respect to any Convertible First Preference Share Series A which is issued, redeemed or purchased during the relevant six month period, shall be equal to the amount calculated by multiplying \$.375 by a fraction of which the numerator is the number of days in such half year that such share has been outstanding (including the date of issue or the Dividend Payment Date at the beginning of such half year if such share was outstanding on that date and excluding the date of redemption or purchase or the Dividend Payment Date at the end of such half if such share was outstanding on that date) and the denominator is the number of days in such half year (including the Dividend Payment Date at the beginning thereof and excluding the Dividend Payment Date at the end thereof). Notwithstanding the foregoing, the initial dividend in the full amount of \$.375 per Convertible First Preference Share Series A shall be payable, when and as declared by the board of directors of the Corporation, on December 31, 1984.

3. *Method of Payment:* Cheques payable in lawful money of Canada at par at any branch in Canada of the Corporation's bankers for the time being shall be issued in respect of the dividends on the Convertible First Preference Shares Series A (less any tax required to be withheld by the Corporation). The mailing from the Corporation's registered office, or the principal office in Toronto of the registrar for the Convertible First Preference Shares Series A, on or before any Dividend Payment Date of such a cheque to a holder of Convertible First Preference Shares Series A shall be deemed to be payment of the dividends represented thereby and payable on such Dividend Payment Date unless the cheque is not paid upon presentation. Dividends which are represented by a cheque which has not been presented to the Corporation's bankers for payment or that otherwise remain unclaimed for a period of 6 years from the date on which they were declared to be payable shall be forfeited to the Corporation.

4. *Cumulative Payment of Dividends:* If on any Dividend Payment Date the dividends accrued to such date are not paid in full on all of the Convertible First Preference Shares Series A then outstanding, such dividends, or the unpaid part thereof, shall be paid on a subsequent date or dates determined by the directors of the Corporation on which the Corporation shall have sufficient moneys properly applicable to the payment of such dividends.

5. *Liquidation, Dissolution or Winding Up:* Holders of Convertible First Preference Shares Series A shall be entitled on the liquidation, dissolution, winding-up or other distribution of assets of the Corporation among shareholders, other than by way of dividends out of the surplus or net profits of the Corporation, if the same be voluntary, to be paid the then current redemption price as hereinafter provided in respect of each of their said shares, or if the same be involuntary to be paid the amount paid up upon their shares, plus in each such case unpaid accumulated dividends whether or not earned or declared and whether or not there shall be a surplus to provide for the payment thereof and which for such purpose shall be deemed to be accruing up to the date of such distribution; but the holders of such Convertible First Preference Shares Series A shall not have the right to any further participation in the assets of the Corporation.

6. *Redemption:* The Convertible First Preference Shares Series A shall not be redeemable prior to June 30, 1986. Thereafter and up to and including June 30, 1989, subject to the provisions of the Act, the Corporation may redeem, upon compliance with the provisions relating to the Class, the whole or from time to time any part of the then outstanding Convertible First Preference Shares Series A on payment of \$10.00 per share, plus in each case an amount equivalent to all unpaid accumulated dividends, which for such purpose shall be calculated as if the preferential dividends were accruing up to the date fixed for redemption, the redemption price and unpaid accumulated dividends to be payable in lawful money of Canada if the common shares of the Corporation have traded on the Toronto Stock Exchange at a weighted average price of not less than \$12.50 per share for at least 30 days prior to redemption. Thereafter subject to the provisions of the Act, the Corporation may redeem, upon compliance with the provisions relating to the Class, the whole or from time to time any part of the then outstanding Convertible First Preference Shares Series A on payment of \$10.00 per share, plus in each case an amount equivalent to all unpaid accumulated dividends, which for such purpose shall be calculated as if the preferential dividends were accruing up to the date fixed for redemption, the redemption price and unpaid accumulated dividends to be payable in lawful money of Canada.

7. *Conversion:* At any time up to June 30, 1994, the holder of Convertible First Preference Shares Series A shall be entitled to have any or all of the Convertible First Preference Shares Series A held by him converted into an equal number of Common Shares of the Corporation's capital on the basis of one Common Share for each Convertible First Preference Share Series A which such holder may desire to convert. In order to exercise such right of conversion such holder shall deliver to the secretary of the Corporation or to the Corporation's transfer agent and surrender the certificate respecting the Convertible First Preference Shares A which he desires to convert, together with a written notice exercising such right of conversion, which notice shall state the name or names in which he wishes the certificates for Common Shares to be issued and the address to which he wishes such certificates for Common Shares to be sent. He shall also pay any governmental or other tax imposed in respect of such transaction. In the event that 90% of the Convertible First Preference Shares Series A are converted into Common Shares, then all the remaining Convertible First Preference Shares Series A may, at any time and from time to time, at the Corporation's option, be converted into and become Common Shares. In order to exercise such option, the Corporation shall cause its transfer agent to give each holder of Convertible First Preference Shares Series A, by prepaid registered mail addressed to his address appearing on the books of the Corporation, notice in writing of the exercise of such options, which notice shall require such holder to surrender the certificate or certificates representing the Convertible First Preference Shares Series A to be converted at the office of such transfer agent stating the name or names in which he wishes the certificates for Common Shares to be sent. The Corporation shall, after receipt of the certificate or certificates representing the Convertible First Preference Shares Series A so surrendered, forthwith on the expiry of the said 30 days issue the appropriate number of Common Shares to each holder of the Convertible First Preference Shares Series A so surrendered. After the date so fixed for surrender, the said Convertible First Preference Shares Series A shall be deemed to be converted into Common Shares and the holders thereof shall cease to have any rights in respect thereof except the right to receive certificates for Common Shares and the right to receive any arrears of dividends unpaid on such Convertible First Preference Shares Series A and a pro rata proportion of the current half-yearly dividend calculated to the date so fixed for such surrender as though such dividend were accruing from day to day.

In the event of shares of either class being at any time subdivided, consolidated, converted or exchanged for a greater or lesser number of shares of the same or another class, appropriate adjustment shall be made in the rights and conditions attaching to the Convertible First Preference Shares Series A and the Common Shares respectively so as to preserve in all respects the benefits hereby conferred on the holders of each class.

8. *No Other Dividends:* The Corporation shall not declare or pay any dividends (other than stock dividends in shares of the Corporation ranking junior to the Convertible First Preference Shares Series A) on any shares of the Corporation ranking junior to the Convertible First Preference Shares Series A unless all dividends up to and including the dividends payable for the last completed period for which such dividends shall be payable on all of the Convertible First Preference Shares Series A or any other preferred shares ranking on a parity with the Convertible First Preference Shares Series A then issued and outstanding, shall have been declared and paid and set apart for payment at the date of such action.

9. *Purchase Obligations:* Commencing at the end of any calendar quarter year during the period from June 30, 1994 subject to the provisions of the Act, and the provisions hereof, the Corporation shall make all reasonable efforts to purchase for cancellation in the open market 0.5% of the Convertible First Preference Shares Series A

outstanding to the extent that such shares are available for purchase at a price or prices not exceeding \$10.00 per share plus an amount equal to all accrued and unpaid dividends thereon up to the date of purchase and costs of purchase. Such obligation shall carry over to the succeeding calendar quarters in the same calendar year. If, having used all reasonable efforts as the Corporation in its sole discretion shall determine, the Corporation is unable to purchase in the four calendar quarters in any calendar year the aggregate number of Convertible First Preference Shares Series A the Corporation is obligated to purchase during the four calendar quarters of that calendar year pursuant to this Section 9, the Corporation's obligation to purchase Convertible First Preference Shares Series A with respect to the calendar quarters in such calendar year will not carry over to the succeeding calendar year but will be extinguished. All purchases or redemptions of Convertible First Preference Shares in any calendar year otherwise than pursuant to this Section 9 may be applied to satisfy the purchase obligation hereunder in such calendar year.

SCHEDULE "B"

CULLATON LAKE GOLD MINES LTD.

SPECIAL RESOLUTION

WHEREAS the Corporation proposes to amalgamate with Roysub Inc.;

AND WHEREAS it is desirable to reduce the stated capital of the common shares of the Corporation;

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The amalgamation of the Corporation with Roysub Inc., a wholly-owned subsidiary of Royex Sturgex Mining Limited, on the terms and conditions set forth in the Amalgamation Agreement dated as of April 27, 1984, be and is hereby approved and confirmed;
2. The Corporation be and is hereby authorized to enter into and adopt the Amalgamation Agreement dated as of April 27, 1984, between the Corporation, Roysub Inc. and Royex Sturgex Mining Limited (the "Amalgamation Agreement"), providing for the amalgamation of the Corporation and Roysub Inc.;
3. Subject to the issuance of a certificate of amalgamation pursuant to the Business Corporations Act, 1982, (Ontario) amalgamating the Corporation and Roysub Inc., the stated capital of the common shares of the Corporation be reduced by an amount equal to the deficit account of the Corporation, as determined by the Corporation's directors, on the effective date of the amalgamation of the Corporation and Roysub Inc., and that such sum be transferred in its entirety from the stated capital account of the common shares of the Corporation to the retained earnings (deficit) account of the Corporation to increase such retained earnings (deficit) account to nil;
4. Any one or more of the President, Chief Financial Officer and the Secretary of the Corporation be and each is hereby authorized and directed to do all things and execute all instruments and documents necessary or desirable to give effect to these resolutions, including the execution and delivery of the Amalgamation Agreement in accordance with the terms of these resolutions, such authorization to be in addition to any authority already specifically granted by these resolutions to such officers; and
5. Notwithstanding the foregoing provisions hereof, the directors of the Corporation may, in their absolute discretion and without further approval of the shareholders of the Corporation, revoke the foregoing special resolutions at any time prior to the endorsement by the Director pursuant to the Business Corporations Act, 1982 (Ontario) of a certificate of articles of amalgamation giving effect thereto.

SCHEDULE "C"

THIS AMALGAMATION AGREEMENT dated as of the 27th day of April, 1984.

B E T W E E N:

ROYEX STURGEX MINING LIMITED,
a corporation incorporated under the laws of Ontario
(hereinafter called "Royex")

OF THE FIRST PART

— and —

CULLATON LAKE GOLD MINES LTD.,
a corporation incorporated under the laws of Ontario
(hereinafter called "Cullaton")

OF THE SECOND PART

— and —

ROYSUB INC.,
a corporation incorporated under the laws of Ontario
(hereinafter called "Roysub")

OF THE THIRD PART

WITNESSES THAT:

ARTICLE ONE DEFINITIONS

Section 1.01 *In this Agreement:*

- (a) "Act" means the Business Corporations Act, 1982 (Ontario);
- (b) "Agreement" means this Amalgamation Agreement;
- (c) "Amalgamated Corporation" means the corporation continuing from the amalgamation of the Amalgamating Corporations;
- (d) "Amalgamating Corporations" means Roysub and Cullaton;
- (e) "Amalgamation" means the amalgamation of the Amalgamating Corporations as contemplated in the Agreement;
- (f) "Amalgamation Circular" means the joint management information circular of Cullaton and Royex providing material disclosure with respect to the proposed amalgamation and dated the 27th day of April, 1984;
- (g) "Cullaton Common Shares" means the common shares of Cullaton as the same are constituted on the date hereof and on the Effective Date;
- (h) "Cullaton Preference Shares" means the Series A Preferred Shares of Cullaton as the same as are constituted on the date hereof and on the Effective Date;
- (i) "Effective Date" means the date of the Amalgamation as set forth in the Certificate of Amalgamation to be issued to the Amalgamated Corporation;
- (j) "Royex Common Shares" means the common shares of Royex as the same are constituted on the date hereof and on the Effective Date; and
- (k) "Royex Preference Shares" means the preference shares of Royex to be created by Royex on or before the Effective Date, such shares having the attributes as set forth in Exhibit 1 hereto;

Words and phrases used herein and defined in the Act shall have the same meaning herein as in the Act unless the context otherwise requires.

ARTICLE TWO AMALGAMATION

Section 2.01 Agreement: The Amalgamating Corporations agree to amalgamate pursuant to the provisions of Section 173 of the Act as of the Effective Date and to continue as one corporation on the terms and conditions herein described.

Section 2.02 Effective Date of Amalgamation: On the Effective Date the Amalgamation becomes effective and the Amalgamating Corporations are amalgamated and continued as one corporation under the terms and conditions of this Agreement and the Amalgamated Corporation shall possess all of the property, rights, privileges and franchises and shall be subject to all of the liabilities, contracts, disabilities and debts of each of the Amalgamating Corporations.

ARTICLE THREE AMALGAMATED CORPORATION

Section 3.01 Name: The name of the Amalgamated Corporation shall be Cullaton Lake Gold Mines Ltd.

Section 3.02 Registered Office: The registered office of the Amalgamated Corporation shall be in the Municipality of Metropolitan Toronto in the Province of Ontario. The address of the registered office of the Amalgamated Corporation in the Municipality of Metropolitan Toronto shall be Suite 400, 111 Richmond Street West, Toronto, Ontario, M5H 2G4.

Section 3.03 Authorized Capital:

- (a) The authorized share capital of the Amalgamated Corporation shall consist of:
 - (i) common shares (the "New Cullaton Common Shares"); and
 - (ii) non voting special shares designated as First Preference Shares ("New Cullaton Preference Shares");
- (b) The preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the New Cullaton Common Shares and the New Cullaton Preference Shares are:
 - (i) the holders of the New Cullaton Preference Shares shall in each year in the discretion of the directors, but always in preference and priority to any payment of dividends on the New Cullaton Common Shares for such year, be entitled, out of any or all profits or surplus available for dividends, to non-cumulative dividends at the rate of 10% per annum; if in any year, after providing for the full dividend on the New Cullaton Preference Shares there shall remain any profits or surplus available for dividends, such profits or surplus or any part thereof may, in the discretion of the directors, be applied to dividends on the New Cullaton Common Shares; the holders of New Cullaton Preference Shares shall not be entitled to any dividend other than or in excess of the non-cumulative dividends at the said rate hereinbefore provided for;
 - (ii) the New Cullaton Preference Shares shall rank, both as regards dividends and return of capital, in priority to all other shares of the Amalgamated Corporation but shall not confer any further right to participate in profits or assets;
 - (iii) the Amalgamated Corporation may redeem the whole or any part of the New Cullaton Preference Shares on payment for each share to be redeemed of the amount paid up thereon, together with all dividends declared thereon and unpaid. In case a part only of the then outstanding New Cullaton Preference Shares is at any time to be redeemed the shares so to be redeemed shall be selected by lot in such manner as the directors in their discretion shall decide, or if the directors so determine, may be redeemed pro rata, disregarding fractions, and the directors may make such adjustments as may be necessary to avoid the redemption of fractional parts of shares;
 - (iv) the Amalgamated Corporation shall have the right at its option at any time and from time to time to purchase for cancellation the whole or any part of the New Cullaton Preference Shares pursuant to tenders or, with the unanimous consent of the holders of all issued New Cullaton Preference Shares, by private contract at the lowest price at which, in the opinion of the directors, such shares are obtainable but not exceeding the redemption price of the New Cullaton Preference Shares hereinbefore specified. If, in response to an invitation for tenders, two or more shareholders submit tenders at the same price and if such tenders are accepted by the Amalgamated Corporation in whole or in part, then unless the Amalgamated Corporation accepts all such tenders in whole, the Amalgamated Corporation shall

accept such tenders in proportion as nearly as may be to the number of shares offered in each such tender;

- (v) in the event of the liquidation, dissolution or winding up of the Amalgamated Corporation, whether voluntary or involuntary, the holders of the New Cullaton Preference Shares shall be entitled to receive, before any distribution of any part of the assets of the Amalgamated Corporation among the holders of any other shares, an amount equal to the amount paid up thereon and any dividends declared thereon and unpaid and no more;
- (vi) subject to the provisions of paragraph (vii), the holders of the New Cullaton Preference Shares shall not, as such, have any voting rights for the election of directors or for any other purpose nor shall they be entitled to attend shareholders' meetings unless and until the Amalgamated Corporation shall fail, for a period of two consecutive years, to pay the dividend at the prescribed rate on the New Cullaton Preference Shares, whereupon and whenever the same shall occur, the holders of the New Cullaton Preference Shares shall, until a full yearly dividend at the prescribed rate has been paid on the New Cullaton Preference Shares, be entitled to attend all shareholders' meetings and shall have one vote thereat for each New Cullaton Preference Share then held by them respectively. Notwithstanding the aforesaid conditions, restrictions, limitations or prohibitions on the right to vote, the holders of the aforesaid shares are entitled to notice of meetings of shareholders called for the purpose of authorizing the dissolution of the Amalgamated Corporation or the sale of its undertaking or a substantial part thereof under subsection 183(3) of the Act as such subsection may be amended from time to time;
- (vii) the foregoing provisions, the provisions of this paragraph and the provisions of paragraph (viii) hereof may be repealed, altered, modified or amended by articles of amendment but only with the approval of the holders of the New Cullaton Preference Shares given as hereinafter specified in addition to any other approval required by the Business Corporations Act, 1982 (Ontario), as the same may from time to time be in force or any successor corporations statute of the Province of Ontario (the "Act");
- (viii) the approval of the holders of the New Cullaton Preference Shares as to any and all matters referred to herein may be given by special resolution sanctioned at a meeting of holders of New Cullaton Preference Shares duly called and held upon at least ten (10) days' notice at which the holders of at least a majority of the outstanding New Cullaton Preference Shares are present or represented by proxy and carried by the affirmative votes of the holders of not less than two-thirds of the New Cullaton Preference Shares represented and voted at such meeting cast on a poll. On every poll taken at every such meeting every holder of New Cullaton Preference Shares shall be entitled to one vote in respect of each New Cullaton Preference Share held; and
- (ix) the holders of the New Cullaton Common Shares are entitled to one vote per share at all meetings of shareholders except meetings at which only holders of a specified class of shares are entitled to vote, and are entitled to receive the remaining property of the Amalgamated Corporation upon a dissolution.

Section 3.04 Directors:

- (a) *Minimum and Maximum:* The minimum number of directors of the Amalgamated Corporation shall be three and the maximum number of directors shall be ten;
- (b) *Determination of Number of Directors:* The directors may by resolution, determine from time to time the number of directors of the Corporation and the number to be elected at each annual meeting of Shareholders within the limits set out in subparagraph (a);
- (c) *First Directors:* The first directors of the Amalgamated Corporation shall be the persons whose names and addresses appear below:

<u>Full Name</u>	<u>Residence Address</u>	<u>Resident Canadian</u>
Ned Goodman	310 Vesta Drive Toronto, Ontario M5P 3A3	Yes
Harold N. Borts	4463 Montrose Avenue Westmount, Quebec H3Y 2B4	Yes

<u>Full Name</u>	<u>Residence Address</u>	<u>Resident Canadian</u>
Myron I. Gottlieb	173 Warren Road Toronto, Ontario M4V 2S4	Yes
Richard L. Lister	44 Charles Street West Suite 4502 Toronto, Ontario M4X 1R8	Yes
John M. Arnold	10 Dean Avenue Guelph, Ontario N1G 1K4	Yes
John H. Davies	2511 Trondheim Crescent Mississauga, Ontario L5N 1P3	Yes
Timothy J.D. Hoare	24 Smith Street London, SW3 England	No
Thomas Skimming	117 Heath Street West Toronto, Ontario M4V 2Y6	Yes

The said first directors shall hold office until their successors are elected or appointed. The election of the subsequent directors shall take place yearly at the annual meeting of shareholders of the Amalgamated Corporation and shall be by a show of hands unless a ballot is demanded by a shareholder.

Section 3.05 *By-laws:* The by-laws of Amalgamated Corporation, until repealed, amended or altered, shall be the by-laws of Cullaton.

Section 3.06 *Auditors:* The auditors of the Corporation, until changed in accordance with the Act, shall be Thorne Riddell, Chartered Accountants.

Section 3.07 *Quebec Charging Power:* Without restricting any of the powers and capacities of the Amalgamated Corporation, whether derived from the Act or otherwise, the Amalgamated Corporation may mortgage, hypothecate, pledge or otherwise create a security interest in all or any present or future, real or personal, movable or immovable property of the Amalgamated Corporation (including without limitation its book debts, rights, powers, franchises and undertaking) for any purpose whatsoever not inconsistent with the Act.

For greater certainty the foregoing powers conferred on the directors shall be deemed to include the power conferred by division (VI) of the Special Corporate Powers Act, being chapter 275 of the Revised Statutes (Quebec), 1964, and every statutory provision that may be substituted therefor or for any provision therein.

ARTICLE FOUR

ISSUE OF SHARES BY THE AMALGAMATED CORPORATION AND ROYEX

Section 4.01 *Issue of Shares:* Subject to section 4.03 hereof the issued and outstanding shares in the capital of the Amalgamating Corporations which are issued and outstanding immediately prior to the Effective Date shall, (to the extent that they are not cancelled pursuant to subparagraph (c) hereof), be converted into issued and outstanding shares in the capital of the Amalgamated Corporation or exchanged for shares of Royex as follows:

- for each 11 issued and outstanding Cullaton Common Shares held by a shareholder of Cullaton (other than those held by Roysub) such shareholder shall receive 3 issued and fully paid Royex Common Shares and 1 issued and fully paid Royex Preference Share;
- for each 2 issued and outstanding Cullaton Preference Shares held by a shareholder of Cullaton (other than those held by Roysub) such shareholder shall receive 1 issued and fully paid Royex Preference Share;

- (c) the Cullaton Common Shares and Cullaton Preference Shares beneficially owned by Roysub shall be cancelled without any repayment of capital in respect thereof, and shall not be converted into shares of the Amalgamated Corporation;
- (d) in consideration of the issue by Royex of the Royex shares issued under this section 4.01, the Amalgamated Corporation shall issue to Royex 7,100,000 New Cullaton Preference Shares in lieu of and in replacement for the Cullaton Preference Shares, and 1 New Cullaton Common Share; and
- (e) Royex shall receive 1 issued and fully paid Common Share of the Amalgamated Corporation in exchange for each issued and outstanding share of Roysub held by Royex;

After the filing of Articles of Amalgamation in respect to this Agreement and the issue of a Certificate of Amalgamation in respect thereof, the shareholders of the Amalgamating Corporations, when requested by the Amalgamated Corporation, shall surrender the certificates representing the shares held by them in the Amalgamating Corporations and, subject to the provisions of the Act, shall be entitled in return to receive certificates for shares of the Amalgamated Corporation on the basis aforesaid.

Section 4.02 Fractional Shares: No fractional shares of Royex will be issued. Any shareholder who would have been entitled to a part of a unit of shares under Section 4.01(a) of this Agreement will receive in lieu thereof from Royex:

- (a) for each remnant Cullaton Common Share (being, in the aggregate, a number not greater than 10), a number of Royex Common Shares equal to the whole number obtained by multiplying the number of such remnant Cullaton Common Shares by 3/11, together with a scrip certificate entitling the bearer thereof to a fractional number of Royex Common Shares equal to the remaining fraction, if any; such scrip certificate, together with any other such scrip certificates, may only be exchanged in return for a whole number of Royex Common Shares; and
- (b) for each remnant Cullaton Common Share (being, in the aggregate, a number not greater than 10) a scrip certificate entitling the bearer thereof to a fractional number of Royex Preference Shares equal to the product obtained by multiplying the number of such remnant Cullaton Common Shares by 1/11; such scrip certificate, together with any other such scrip certificates, may only be exchanged in return for a whole number of Royex Preference Shares.

ARTICLE FIVE

ARTICLES OF AMALGAMATION

Section 5.01 Filing: Upon the directors and shareholders of each of the Amalgamating Corporations approving this Agreement by special resolution in accordance with the Act, the Amalgamating Corporations shall jointly file with the Minister under the Act, Articles of Amalgamation to be effective on or before June 29, 1984 together with such other documents as may be required.

Section 5.02 Termination: This Agreement may, prior to the issuance of the Certificate of Amalgamation, be terminated by the board of directors of either Roysub or Cullaton notwithstanding the approval of the shareholders of Roysub and Cullaton of the terms and conditions hereof.

ARTICLE SIX

GENERAL

Section 6.01 Assets and Liabilities: Each of the Amalgamating Corporations shall contribute to the Amalgamated Corporation all of its assets, subject to its liabilities, as they exist immediately before the Amalgamation. The Amalgamated Corporation shall possess all the property, rights, privileges and franchises, as they exist immediately before the Amalgamation, and shall be subject to all the liabilities, contracts, disabilities and debts of each of the Amalgamating Corporations, as they exist immediately before the Amalgamation.

Section 6.02 Share Certificates: Certificates representing shares in the Amalgamated Corporation and Royex shall be made available to shareholders immediately following the Amalgamation becoming effective upon the tender by them of certificates representing Cullaton Common Shares or Cullaton Preference Shares.

Section 6.03 Modifications: Each of the Amalgamating Corporations may, by special resolution (as defined in the Act) of each of them assent to any alteration or modification of this Agreement.

Section 6.04 Governing Law: This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario.

Section 6.05 Entire Agreement: This Agreement constitutes the entire agreement among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings, oral and written between the parties thereto with respect to the subject matter hereof.

IN WITNESS WHEREOF this Amalgamation Agreement has been executed by the parties hereto.

ROYEX STURGEX MINING LIMITED

Per: _____ c/s

Per: _____

CULLATON LAKE GOLD MINES LTD.

Per: _____ c/s

Per: _____

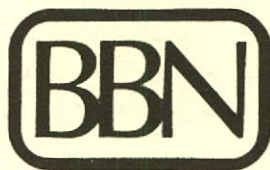
ROYSUB INC.

Per: _____ c/s

Per: _____

Note: Exhibit 1 is the same as set forth on pages 68-70 hereof.

SCHEDULE "D"



BROWN, BALDWIN, NISKER LIMITED

Royex Sturgex Mining Limited
Suite 800
65 Queen Street West
TORONTO, Ontario
M5H 2M5

Cullaton Lake Gold Mines Limited
Suite 400
111 Richmond Street West
TORONTO, Ontario
M5H 2G7

April 27, 1984

Dear Sirs:

You have requested our opinion as to whether the share exchange ratios in connection with the proposed amalgamation of Cullaton Lake Gold Mines Ltd. ("Cullaton") and Roysub Inc. ("Roysub"), a wholly-owned subsidiary of Royex Sturgex Mining Limited ("Royex"), is fair from a financial point of view to the public shareholders of Cullaton and Royex. We understand that (except for intercorporate shareholdings which must, by law, be cancelled on the amalgamation) the Common Shares of Cullaton ("Cullaton Common Shares") and Series A Preferred Shares of Cullaton ("Cullaton Preferred Shares") will be exchanged for Common Shares of Royex ("Royex Common Shares") and Convertible First Preference Shares Series A of Royex ("Royex Preferred Shares") as follows:

- (a) each holder of Cullaton Common Shares will receive 3 Royex Common Shares and 1 Royex Preferred Share for each 11 Cullaton Common Shares held; and
- (b) each holder of Cullaton Preferred Shares will receive 1 Royex Preferred Share for each 2 Cullaton Preferred Share held.

In addition, we understand that prior to the amalgamation (but subject to all requisite shareholder approvals in connection with the amalgamation being obtained), Cullaton intends to declare a dividend of \$0.50 per Cullaton Preferred Share. Following the amalgamation, the amalgamated corporation will be a wholly-owned subsidiary of Royex.

You have also requested our opinion as to whether the proposed purchase by Royex, subsequent to the amalgamation, of certain assets owned by Campbell Resources Inc. and certain of its affiliates (collectively "Campbell") in consideration of the issue by Royex to Campbell of an aggregate of 5,222,235 Royex Common Shares is fair from a financial point of view to the public shareholders of Royex. In this respect, we understand that the assets to be acquired by Royex from Campbell are as follows:

- (a) 8,699,214 shares of Mascot Gold Mines Limited ("Mascot"), representing approximately 64% of the total number to be issued and outstanding following the proposed amalgamation of Mascot and Ebex Resources Ltd. in June 1984;
- (b) 5,000,000 shares of Goldlund Mines Limited ("Goldlund"), representing approximately 32% of the number issued and outstanding, and the right to purchase on or before December 21, 1988 an additional 2,345,300 shares at a price of \$0.94 per share;
- (c) Campbell's interest in a joint venture agreement with Inca Resources Inc; and
- (d) management agreements with Cullaton, Renabie Mines (1981) Limited ("Renabie"), a company 50% owned by Cullaton and Goldlund, including, in respect of the management agreement with Renabie, an option exercisable until January 1, 1989 to purchase a 10% interest in Renabie for \$2.32 million.

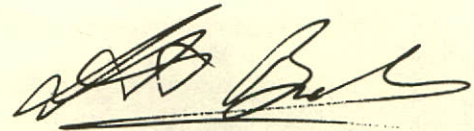
In arriving at our opinions in respect of the foregoing we have reviewed and relied upon, among other things, a draft Joint Management Information Circular dated April 27, 1984, management's basis of determining the share exchange ratios, audited and unaudited financial statements of Cullaton and Royex, certain trading records of The Toronto Stock Exchange relating to the listed shares of Cullaton, Royex, Mascot and Goldlund, the attributes of the Royex Preferred Shares and such other material and information as we considered relevant for this purpose. We have also had discussions concerning the proposed amalgamation and subsequent purchase of assets with the managements of Cullaton and Royex. Although we have no reason to believe that the financial and other material and information on which we relied is not accurate or complete, we have assumed the accuracy and completeness thereof and have not attempted to independently verify such accuracy or completeness.

Based on and subject to the foregoing, we are of the opinion that:

- (a) the share exchange ratios in connection with the proposed amalgamation of Cullaton and Royex are fair from a financial point of view to the public shareholders of Cullaton and Royex; and
- (b) the consideration to be paid by Royex for the assets to be acquired from Campbell is fair from a financial point of view to the public shareholders of Royex.

Yours very truly,

BROWN, BALDWIN, NISKER LIMITED

A handwritten signature in black ink, appearing to read 'R. M. Buchan', written over a horizontal line.

Robert M. Buchan

