

A copy of this preliminary prospectus has been filed with the securities regulatory authority in the Province of Ontario and this amended and restated preliminary prospectus has been filed with the securities regulatory authorities of the Provinces of British Columbia and Alberta but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

**PRELIMINARY PROSPECTUS
and
AMENDED AND RESTATED PRELIMINARY PROSPECTUS**

INITIAL PUBLIC OFFERING

October 29, 2001

ARCTIC STAR DIAMOND CORP.

**3,000,000 UNITS
PRICE: \$0.25 PER UNIT
AND
5,606,000 COMMON SHARES AND 4,106,000 WARRANTS
ISSUABLE UPON THE EXERCISE OF
5,606,000 PREVIOUSLY ISSUED SPECIAL WARRANTS**

This prospectus qualifies the distribution of 3,000,000 units (the “Units”) at a price of \$0.25 per Unit (the “Offering”), comprised of 1,000,000 flow-through Units (the “Flow-Through Units”) and 2,000,000 non flow-through Units (the “Non Flow-Through Units”). Each Unit is comprised of one of our Common shares (a “Share”) and one of our transferable Common share purchase warrants (a “Warrant”). Each Warrant will entitle the holder thereof to purchase one additional Common share in our capital at a price of \$0.25 per share for a period of two years following the date the Warrants commence trading on the Canadian Venture Exchange Inc. (the “Exchange”). The Share comprised in each Flow-Through Unit will be a “flow-through share” for Canadian federal income tax purposes, and the Warrant comprised in each Flow-Through Unit will be a non flow-through warrant. See “Certain Canadian Federal Income Tax Considerations” below. The Units are being offered through Canaccord Capital Corporation (the “Agent”) as our exclusive agent for sale in the Provinces of British Columbia, Alberta and Ontario.

	Price to Public ⁽¹⁾	Commission to Agent ⁽²⁾	Our Net Proceeds ⁽⁴⁾
Per Unit:	\$0.25	\$0.02375	\$0.22625
Total ⁽³⁾ :	\$750,000	\$71,250	\$678,750

- (1) We established the sale price of the Units to the public and the commission to the Agent through negotiation with the Agent. See “Plan of Distribution - The Offering”.
- (2) We have granted the Agent warrants (the “Agent’s Warrants”) to acquire up to 450,000 of our Common shares at the offering price for a period of two years from the date the Shares commence trading on the Exchange as additional compensation. In the event the Over-Allotment Option is exercised in full, the Agent will receive warrants to purchase an additional 67,500 Common shares for a total of 517,500 Common shares. We have also paid the Agent a sponsorship fee of \$25,000 plus GST and agreed to pay an administration fee in an amount not to exceed \$5,000 plus GST. In addition, we have advanced to the Agent \$10,000 as a deposit against expenses. None of the proceeds from the sale of the Flow-Through Units will be used to pay commissions, fees or other expenses of the Offering. See “Plan of Distribution - The Offering”.
- (3) We have also granted the Agent an option (the “Over-Allotment Option”) to solicit subscriptions for and purchase up to an additional 450,000 Non Flow-Through Units at the offering price and to require us to issue and deliver such number of Non Flow-Through Units required to cover such

Over-Allotment for a period of 60 days following the date of closing of the Offering, to cover over-allotments, if any, and for market stabilization purposes. This prospectus qualifies the distribution of the Over-Allotment Option and the Units issuable upon exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the total price to the public, the Agent's commission and our net proceeds will be \$862,500, \$81,937.50 and \$780,562.50, respectively. See "Plan of Distribution - The Offering".

- (4) Before deduction of the balance of our legal, audit and administrative expenses incurred in respect of this Offering and estimated to be \$60,000. See "Use of Proceeds".

SPECIAL WARRANT OFFERING

We also hereby qualify the distribution of 1,500,000 of our Common shares issuable, without payment of any additional consideration, upon the exercise or deemed exercise of 1,500,000 special warrants (the "Special Warrants"), 2,990,000 of our Series "A" units (the "Series "A" Units") issuable, without payment of any additional consideration, upon the exercise of 2,990,000 Series "A" special warrants (the "Series "A" Special Warrants") and 1,116,000 of our Series "B" units (the "Series "B" Units") issuable, without payment of any additional consideration, upon the exercise of 1,116,000 Series "B" special warrants (the "Series "B" Special Warrants"), all of which special warrants were previously issued by us (the "Special Warrant Offering").

	Price to Special Warrant Holder	Agent's Fees or Commissions	Our Net Proceeds
Per Special Warrant (1,500,000) ⁽¹⁾	\$Nil	\$Nil	\$Nil
Per Series "A" Special Warrant (2,990,000) ⁽²⁾	\$0.10	\$Nil	\$299,000
Per Series "B" Special Warrant (1,116,000) ⁽³⁾	\$0.25	\$Nil	\$279,000
Total:	N/A	N/A	\$578,000

- (1) We issued 1,500,000 Special Warrants in January 2001 to Montello Resources Ltd. in respect of a property acquisition. See "Development of Our Business - Significant Acquisitions and Significant Dispositions".
- (2) We issued 2,990,000 Series "A" Special Warrants in February and March 2001 under a non-brokered private placement. See "Plan of Distribution - Special Warrant Offering".
- (3) We issued 1,116,000 Series "B" Special Warrants in February and March 2001 under a non-brokered private placement. See "Plan of Distribution - Special Warrant Offering".

Each Special Warrant is exercisable into one Common share (a "Special Warrant Share") in our capital. The Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia and Alberta for the final prospectus qualifying the issuance of the Special Warrant Shares on exercise of the Special Warrants (the "Special Warrant Expiry Time"). Any Special Warrant not exercised prior to the Special Warrant Expiry Time will be deemed to have been exercised immediately prior to the Special Warrant Expiry Time. We will not receive any additional proceeds or pay any additional fees to the Agent or any other agent with respect to the Special Warrant Shares distributed on exercise of the Special Warrants under the Special Warrant Offering. The Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series "A" Special Warrant is exercisable into one Series "A" Unit. Each Series "A" Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a "Series "A" Warrant") entitling the holder to purchase one additional Common share in our capital at a price of \$0.10 per share until February 28, 2002. Of the 2,990,000 Common shares forming part of the Series "A" Units, 1,990,000 are flow through Common shares. The Series "A" Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia and Alberta for the final prospectus qualifying the issuance of the Series "A"

Units on exercise of the Series “A” Special Warrants” (the “Series “A” Expiry Time”). Any Series “A” Special Warrant not exercised prior to the Series “A” Expiry Time will be deemed to have been exercised immediately prior to the Series “A” Expiry Time. The Series “A” Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series “B” Special Warrant is exercisable into one Series “B” Unit. Each Series “B” Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a “Series “B” Warrant”) entitling the holder to purchase one additional Common share in our capital at a price of \$0.25 per share until February 28, 2002. The Series “B” Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia and Alberta for the final prospectus qualifying the issuance of the Series “B” Units on exercise of the Series “B” Special Warrants” (the “Series “B” Expiry Time”). Any Series “B” Special Warrant not exercised prior to the Series “B” Expiry Time will be deemed to have been exercised immediately prior to the Series “B” Expiry Time. The Series “B” Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under the prospectus.

An investment in the Units is subject to a number of risk factors which should be carefully reviewed by prospective purchasers. See “Risk Factors”.

The offering price of \$0.25 per unit exceeds our net tangible book value per share by \$0.103 after giving effect to this offering, representing a dilution factor of 41.2%. See “Risk Factors”.

In this prospectus, “we”, “us”, “our” and the “Company” refer to Arctic Star Diamond Corp., a corporation incorporated under the *Canada Business Corporations Act*.

The Agent conditionally offers the securities comprised in the Offering to the public, subject to prior sale, if, as and when issued by us in accordance with the conditions contained in the Sponsorship and Agency Agreement referred to under “Plan of Distribution”.

Canaccord Capital Corporation
#2200 – 609 Granville Street
Vancouver, British Columbia
V7Y 1H2

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SUMMARY

The following is a summary of the principal features of this distribution and should be read together with more detailed information and financial data and statements contained elsewhere in this prospectus.

Our Business:

We are currently engaged in the acquisition, exploration and, if warranted, the development of mineral resource properties. Our activities are presently focused in the Province of Manitoba. All of our properties are without a known body of commercial ore or diamonds. See “Development of Our Business” at page 1 and “Our Business” at page 4.

Offering:

The offering (the “Offering”) consists of 3,000,000 of our units (the “Units”) at a price of \$0.25 per Unit to be offered to the public by our agent, Canaccord Capital Corporation (the “Agent”), comprised of 1,000,000 flow-through units (the “Flow-Through Units”) and 2,000,000 non flow-through units (the “Non Flow-Through Units”). Each Unit consists of one of our Common shares (a “Share”) and one of our transferable share purchase warrants (a “Warrant”). Each Warrant will entitle the holder thereof to purchase one additional Common share in our capital at a price of \$0.25 per share for a period of two years following the date the Warrants commence trading on the Canadian Venture Exchange Inc. (the “Exchange”). The Share comprised in each Flow-Through Unit will be a “flow-through share” for Canadian federal income tax purposes, and the Warrant comprised in each Flow-Through Unit will be a non flow-through warrant. See “Plan of Distribution - The Offering” at page 33 and “Certain Canadian Federal Income Tax Considerations” at page 39.

The Agent

By an agreement (the “Sponsorship and Agency Agreement”) dated ♦, 2001, we appointed the Agent as our agent in respect of the Offering. We have granted the Agent an over-allotment option (the “Over-Allotment Option”) which will permit the Agent to solicit and accept subscriptions for up to 450,000 additional Non Flow-Through Units also at a price of \$0.25 per unit and require us to issue and deliver such number of Non Flow-Through Units required to cover such Over-Allotment for a period of 60 days following the date of closing. We will pay the Agent a commission of \$0.02375 per unit for each Unit sold from the Offering or sold pursuant to the exercise of the Over-Allotment Option. We will also grant the Agent the Agent’s warrants (the “Agent’s Warrants”), which will entitle the Agent to acquire 450,000 of our Common shares for a period of two years at a price of \$0.25 per share. If the Over-Allotment Option is exercised in full, we will issue to the Agent an additional 67,500 Agent’s Warrants. We have also agreed to pay the Agent an administration fee (the “Administration Fee”) in an amount not to exceed \$5,000 plus GST. Under the Sponsorship and Agency Agreement, the Agent has also agreed to sponsor us for our listing

on the Canadian Venture Exchange Inc. (the “Exchange”). We have paid the Agent a cash sponsorship fee of \$25,000 (plus applicable taxes). We have also advanced to the Agent \$10,000 as a deposit against expenses. None of the proceeds from the sale of the Flow-Through Units will be used to pay commissions, fees or other expenses of the Offering. See “Plan of Distribution - The Offering” at page 33.

Special Warrant Offering

The special warrant offering (the “Special Warrant Offering”) consists of the issuance of 1,500,000 of our Common shares issuable, without payment of any additional consideration, upon the exercise of 1,500,000 of our special warrants (the “Special Warrants”), 2,990,000 of our Series “A” units (the “Series “A” Units”) issuable, without payment of any additional consideration, upon the exercise of 2,990,000 of our Series “A” special warrants (the “Series “A” Special Warrants”) and 1,116,000 of our Series “B” units (the “Series “B” Units”) issuable, without payment of any additional consideration, upon the exercise of 1,116,000 of our Series “B” special warrants (the “Series “B” Special Warrants”), all of which special warrants were previously issued by us.

Each Special Warrant is exercisable into one Common share (a “Special Warrant Share”). The Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Special Warrant Shares on exercise of the Special Warrants (the “Special Warrant Expiry Time”). Any Special Warrant not exercised prior to the Special Warrant Expiry Time will be deemed to have been exercised immediately prior to the Special Warrant Expiry Time. We will not receive any additional proceeds or pay any additional fees to the Agent or any other agent with respect to the Special Warrant Shares distributed on exercise of the Special Warrants under the Special Warrant Offering. The Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series “A” Special Warrant is exercisable into one Series “A” Unit. Each Series “A” Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a “Series “A” Warrant”) entitling the holder to purchase one additional Common share in our capital at a price of \$0.10 per share until February 28, 2002. Of the 2,990,000 Common shares forming part of the Series “A” Units, 1,990,000 are flow through Common shares. The Series “A” Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Series “A” Units on

exercise of the Series “A” Special Warrants” (the “Series “A” Expiry Time”). Any Series “A” Special Warrant not exercised prior to the Series “A” Expiry Time will be deemed to have been exercised immediately prior to the Series “A” Expiry Time. The Series “A” Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series “B” Special Warrant is exercisable into one Series “B” Unit. Each Series “B” Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a “Series “B” Warrant”) entitling the holder to purchase one additional Common share in our capital at a price of \$0.25 per share until February 28, 2002. The Series “B” Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Series “B” Units on exercise of the Series “B” Special Warrants” (the “Series “B” Expiry Time”). Any Series “B” Special Warrant not exercised prior to the Series “B” Expiry Time will be deemed to have been exercised immediately prior to the Series “B” Expiry Time. The Series “B” Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation. See “Plan of Distribution - The Special Warrant Offering” at page 35.

Use of Proceeds

As at September 30, 2001, we had a working capital surplus of \$4,128 and approximately \$978 cash on hand. Accordingly, we will have \$682,878, being the net proceeds of the Offering of \$678,750 plus our cash on hand and receivables of approximately \$9,628 less accounts payable and accrued liabilities of \$5,500, to expend on our principal properties described below. We must use the proceeds from the Flow-Through Units, \$250,000, less the portion allocated to the Warrants comprised therein in a manner that qualifies as “Canadian exploration expense” (“CEE”) as that phrase is defined in the *Income Tax Act* (Canada) but no such reallocation will be made in a manner that will prevent us from using all of the proceeds from the Flow-Through Unit sales on CEE. We have also advanced to the Agent \$10,000 as a deposit against expenses. If the Agent exercises the Over-Allotment Option, we will receive additional gross proceeds of up to \$112,500 and pay an aggregate commission of up to \$10,687.50 to the Agent (for net proceeds of \$101,812.50, assuming the Over-Allotment Option is fully exercised).

We intend to spend the funds available to us as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary. The principal purposes for which the funds available are intended to be used, in order of priority, are as follows:

	Description	Proceeds
(a)	to pay the balance of the estimated costs of the Offering	\$60,000
(b)	to pay to the Agent the Administration Fee (see “Plan of Distribution - The Offering”)	\$5,350
(c)	to pay the remainder of the Poplar Joint Venture exploration expenses assumed under the Amended Assignment Agreement (see “Development of Our Business – Significant Acquisitions and Significant Dispositions”)	\$125,000
(d)	to fund the Poplar Joint Venture exploration program (see “Our Business - Our Material Properties”)	\$155,000
(e)	working capital to fund ongoing operations	<u>\$337,528</u>
	Total	<u>\$682,878</u>

If the Over-Allotment Option is exercised in full, the net proceeds from the sale of those Units, after deducting the commission payable in respect thereof, will be added to our working capital. If the Over-Allotment Option, Warrants, Series “A” Warrants, Series “B” Warrants and Agent’s Warrants (including the Warrants and Agent’s Warrants issuable upon the exercise of the Over-Allotment Option in full) are exercised, we will receive additional net proceeds of up to \$1,671,687.50 which will also be added to our working capital. See “Use of Proceeds” at page 16 and “Plan of Distribution” at page 33.

Use of Proceeds – Special Warrants

We raised \$299,000 through the issuance of 2,990,000 Series “A” Special Warrants in February and March 2001. We raised a further \$279,000 through the issuance of 1,116,000 Series “B” Special Warrants in February and March 2001. We received total proceeds of \$578,000 from the Series “A” Special Warrant and Series “B” Special Warrant offerings.

All of the funds (\$199,000) from the issuance of the 1,990,000 Series “A” Special Warrants exchangeable for one flow-through Common share and one Warrant were deposited in a segregated bank account to be expended on CEE.

We have advanced \$125,000 of these funds as a portion of the \$302,000 paid to Montello Resources Ltd. (“Montello”) in respect of Poplar Joint Venture exploration expenses. Montello and Kennecott Canada Exploration Inc. (“Kennecott”) have confirmed to us that these funds will be expended on exploration expenses that qualify as CEE under the proposed Poplar Joint Venture exploration program for 2001.

The principal purposes for which the funds from the Series “A” Special Warrant and Series “B” Special Warrant offerings were used are as follows:

	Description	Proceeds
(a)	to pay the cash portion of the purchase price for the Poplar Joint Venture Interest due on signing (see “Development of Our Business – Significant Acquisitions and Significant Dispositions”)	\$75,000
(b)	to advance to Montello for payment to Kennecott in respect of Poplar Joint Venture exploration expenditures (see “Development of Our Business – Significant Acquisitions and Significant Dispositions”)	\$302,000
(c)	to pay Poplar Joint Venture exploration expenditures under the Poplar Joint Venture (see “Selected Consolidated Financial Information and Management’s Discussion and Analysis”)	\$40,197
(d)	to pay a retainer to the Agent	\$10,000
(e)	to pay general and administration expenses	\$120,706
(f)	cash and receivables as at July 31, 2001	<u>\$30,097</u>
	Total	<u>\$578,000</u>

Business Objectives:

Our business objective is to acquire mineral properties, finance their exploration and, if warranted, develop them, and bring them into commercial production either directly or with joint venture partners. See “Our Business - Business Objectives” at page 4.

Risk Factors:

An investment in our Units is subject to a number of risks. These are as follows:

- We operate in a competitive industry and compete with other better established companies who have greater financial resources than us.
- We are in the business of exploring and developing natural resource properties which is a highly speculative endeavour.
- All of our properties are in the exploration stage and without a known body of ore or diamonds. There is no guarantee that ore will be found or that if it is found that it will be found in commercially minable quantities.

- Operations in which we have an interest will be subject to all the hazards and risks normally incidental to exploring and developing natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage.
- Our ability to generate revenue should we discover ore or diamonds or continue to raise funds for the further exploration and development of our properties will be highly dependent on the price of precious metals and diamonds which have a history of wide fluctuations.
- All of our operations are subject to environmental regulation, which can make operations expensive or prohibit them altogether.
- We have options to acquire interests in, or are a party to a joint venture in respect of, certain of our properties. We may require additional financing to meet our obligations under these agreements and there is no guarantee that such funds will be available.
- There may be challenges to the title to our properties which, if successful, could impair our operations.
- We do not currently generate revenues and, as a consequence, if we require additional funds for exploration and development of our properties, which is likely, we will have to seek equity or debt financing which may or may not be available.
- We depend on a number of key employees the loss of any one of whom could have an adverse effect on us.
- There are a number of outstanding securities and agreements pursuant to which our Common shares may be issued in the future. This will result in further dilution to our shareholders.
- The price of the Units will exceed our net tangible book value per share by \$0.103 after giving effect to the Offering, representing a dilution factor of 41.2%.
- We will likely require new capital to continue to grow and there is no assurance that capital will be available when needed, if at all.
- We have not paid dividends in the past and do not expect to pay dividends in the near future.

See “Our Business” at page 4 and “Risk Factors” at page 36.

Selected Financial Information:

The information below was extracted from the financial statements contained in this prospectus. Reference should be made to the financial statements to put the following summary in context.

	Audited for the period from incorporation on January 5, 2001 to July 31, 2001
Revenues:	\$1,088
Gross profit (loss):	\$(139,128)
Net Income (loss):	\$(138,040)
Net Income (loss) per share ⁽¹⁾ :	\$(0.02)
Net Income (loss) per share, on a fully diluted basis: ^{(1) (2)}	\$(0.01)
Total assets:	\$747,363
Long term debt:	Nil
Total liabilities:	\$301,263
Share capital:	\$584,140
Number of Common shares ^{(1) (3)} :	\$5,606,100
Retained earnings (deficit):	\$(138,040)
Cash dividend declared per share	Nil

(1) Includes the 5,606,000 Common shares issuable upon the exercise of outstanding Special Warrants, Series "A" Special Warrants and Series "B" Special Warrants as at July 31, 2001 (See "Capitalization").

(2) Based on 5,106,000 Common shares reserved for issuance as at July 31, 2001 on exercise of Series "A" Warrants, Series "B" Warrants and incentive stock options. See "Capitalization" and "Options".

(3) Upon the successful completion of this Offering and the conversion of the Special Warrants, a total of 11,852,766 Common shares will be issued and outstanding, excluding Common shares issuable upon exercise of the Over-Allotment Option, Warrants, Series "A" Warrants, Series "B" Warrants and Agent's Warrants, of which 4,947,089 Common shares and 675,000 Series "A" Warrants will be held in escrow. See "Escrowed Securities".

See "Selected Consolidated Financial Information and Management's Discussion and Analysis" at page 19.

THE COMPANY

Arctic Star Diamond Corp. is a corporation incorporated under the *Canada Business Corporations Act*. We were incorporated on January 5, 2001 under the name “Arctic Star Diamond Corp.”

Our head and principal office is located at Suite 1473 – Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1C4. Our registered and records office and address for service is located at Suite 2100, 1111 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4M3.

We do not have any subsidiaries.

DEVELOPMENT OF OUR BUSINESS

General Development of the Business

We are currently engaged in the acquisition, exploration and, if warranted, the development of mineral resource properties. Our activities are presently focused in the Province of Manitoba. **All of our properties in which we currently hold interests are without a known body of commercial ore or diamonds.**

Following incorporation, we acquired a 40% interest in the Poplar Joint Venture (as defined below) from Montello (see “- Significant Acquisitions and Significant Dispositions”) and, with our joint venture partner, Kennecott, continued the exploration of the Poplar Joint Venture property (see “Our Business - Material Properties”). We will be focusing our efforts on the exploration and development of the Poplar Joint Venture property through the Poplar Joint Venture.

Since incorporation on January 5, 2001, we have raised \$578,000 in seed capital and flow-through financing. See “Plan of Distribution - Special Warrant Offering.”

Significant Acquisitions and Significant Dispositions

The following is a description of our significant acquisitions and dispositions undertaken since the date of our incorporation to the date of this Prospectus. See also “Selected Consolidated Financial Information and Management’s Discussion and Analysis”.

Poplar Joint Venture Interest

Acquisition of Poplar Joint Venture Interest

On January 5, 2001, we entered into an agreement (the “Assignment Agreement”) with Montello for the acquisition of all of Montello’s rights to and under the Poplar Joint Venture. The purchase price for Montello’s interest in the Poplar Joint Venture (the “Poplar Joint Venture Interest”) was the issuance of 3,000,000 Special Warrants (issued) and the payment of \$125,000 to Montello with \$75,000 due on signing (paid) and the remaining \$50,000 due following the completion of the initial public offering of our Common shares. We have also agreed to assume all of Montello’s obligations under the Poplar Joint Venture and, in this regard, agreed to advance to Montello forthwith on signing the Assignment Agreement \$302,000 (advanced) for payment to Kennecott in respect of Poplar Joint Venture expenditures and pay to Kennecott on behalf of Montello following the completion of the initial public

offering of our Common shares a further \$125,000 in respect of Poplar Joint Venture expenditures. Mr. Patrick Power is a director and President of Montello and is also our Chief Executive Officer and President and one of our directors. Montello is a natural resource exploration and development company whose shares are listed on the Exchange. See “Interest of Management and Others in Material Transactions”.

Under an amended and restated purchase agreement (the “Amended Assignment Agreement”) dated September 30, 2001, we agreed with Montello to amend the purchase price for the Poplar Joint Venture Interest by reducing the number of Special Warrants issued to Montello from 3,000,000 to 1,500,000 and by reducing the cash payable from \$125,000 to \$75,000 (all of which has been paid). Montello has returned the certificate representing 3,000,000 Special Warrants to us in exchange for a certificate representing 1,500,000 Special Warrants.

The following table sets out the total consideration we have agreed to pay Montello for, and the liabilities we have agreed to assume in respect of, the Poplar Joint Venture Interest.

Poplar Joint Venture Acquisition Costs		
	Description	Amount in \$’s
1.	1,500,000 special warrants at a deemed price of \$0.04 each	\$60,000
2.	Cash payment due to Montello and paid on execution of the Assignment Agreement	\$75,000
3.	Cash payment paid to Montello for payment to Kennecott in respect of Poplar Joint Venture expenditures	\$302,000 ⁽¹⁾
4.	Cash payment payable to Kennecott, on behalf of Montello, on completion of initial public offering in respect of Poplar Joint Venture expenditures	\$125,000
	Total	\$562,000

(1) Of the \$302,000 paid to Montello, \$125,000 is in respect of exploration expenses to be incurred in 2001 and are for our benefit. Accordingly, the total purchase price payable to or on behalf of Montello is \$437,000.

Under a consent agreement dated May 16, 2001, among Kennecott, the other participant in the Poplar Joint Venture, Montello and us, Kennecott agreed to the transfer of the Poplar Joint Venture Interest from Montello to us and to the initial public offering our shares in consideration of the issuance to Kennecott of 100,000 Common shares in our capital following the completion of our initial public offering.

Poplar Joint Venture

Under an agreement (the “Poplar Joint Venture Agreement”) dated July 8, 1999, Kennecott and Montello agreed to establish a joint venture (the “Poplar Joint Venture”) to conduct diamond reconnaissance and claim staking and, if warranted, exploration and development in the Superior Province of north-central Manitoba. The main terms of the Poplar Joint Venture Agreement are as follows:

1. Kennecott holds a 60% interest in the Poplar Joint Venture and Montello holds a 40% interest (now owned by us), with each party obligated to fund its proportionate share of all exploration, development and mining program costs.
2. In the event either party elects to contribute less than its proportionate share of any program costs, its interest in the Poplar Joint Venture will be reduced to reflect its overall contributions to the joint venture and the other party's interest will be increased to reflect its overall contributions to the joint venture.
3. In the event we elect to contribute our proportionate share of any program costs and fail to make the agreed contribution, Kennecott may, but is not obligated to, make the payment (a "Cover Payment") on our behalf. Each Cover Payment will be considered a debt due to Kennecott from us payable on demand with accrued interest at a rate of prime plus 5%. In addition, on our failure to make an agreed contribution, we, and Kennecott, will be subject to the following terms:
 - (a) Kennecott will be granted a mortgage and security interest in our interest in the Poplar Joint Venture and, on our failure to pay the debt with accrued interest, will be entitled to exercise all remedies available to it under the mortgage or security interest or otherwise.
 - (b) If a Cover Payment is made, on not less than 30 days' notice to us, Kennecott may elect to have its interest in the joint venture adjusted by subtracting 125% of the Cover Payment from our contributions to the joint venture and adding 125% of the Cover Payment to the Kennecott's contributions to the joint venture.
 - (c) If a Cover Payment remains unpaid, then on not less than 30 days' notice to us, Kennecott may elect to purchase all of our interest in the Poplar Joint Venture for 80% of its fair market value as determined by an independent appraiser, provided that all debts owing to Kennecott by us will be deducted from the purchase price.
 - (d) We may cure our default by paying all amounts due to Kennecott in respect of its having made a Cover Payment, provided that Kennecott has not exercised any of its rights described in subparagraphs 3(a), (b) and (c) above.
 - (e) Our right to take our share of production from operations in kind will cease and Kennecott may sell our share of production and use the proceeds to pay all amounts due to Kennecott from us. Our right to take our share of production in kind will not resume until we have paid all amounts due to Kennecott in full.
4. If either Kennecott's or our interest in the Poplar Joint Venture is reduced to less than 5%, then that party shall be deemed to have relinquished its interest in the Poplar Joint Venture and be entitled to receive a $\frac{3}{4}$ % gross overriding royalty on the appraised value of gem and industrial diamonds recovered, sorted and graded from the Poplar Joint Venture property and a 1% net smelter returns royalty on all ores, minerals, metals and materials mined and removed from the Poplar Joint Venture property and sold or deemed to have been sold, provided that such party will remain responsible for all liabilities arising out of operations conducted prior to the relinquishment of its interest.
5. A management committee will determine all policies, objectives, procedures, methods and actions for the Poplar Joint Venture. We will be entitled to appoint one member to the management

committee, and Kennecott will be entitled to appoint one member to the management committee. Each party will have a vote equal to its proportionate interest in the Poplar Joint Venture in all matters before the management committee, which will be determined by a simple majority vote. Kennecott shall have a second or casting vote on all tie votes.

6. Kennecott shall be the manager of the Poplar Joint Venture and, as such, will, among other things, manage, direct and control all operations, implement the decisions of the management committee, prepare programs and budgets, keep the Poplar Joint Venture properties in good standing and comply with all applicable laws and regulations.
7. Each party will be entitled to take its respective share of production in kind.
8. Either party may terminate the Poplar Joint Venture Agreement if the management committee fails to adopt a program and budget by the beginning of the period for which it would apply.
9. Each party will have a pre-emptive right to acquire the other party's interest in the Poplar Joint Venture if a party wishes to transfer its interest in the joint venture, provided that the pre-emptive right will not apply to, among other things, the transfer of a party's interest in the joint venture to an affiliate.

Under the Poplar Joint Venture, Montello also entered into a diamond marketing agreement with Kennecott on July 8, 1999, which agreement has also been assigned to us. Under the diamond marketing agreement, we appointed Kennecott as our agent for the sale of our share of all diamonds produced from the Poplar Joint Venture property during the term of the Poplar Joint Venture, subject to earlier termination.

OUR BUSINESS

Business Objectives

Our business objective is to acquire mineral properties, finance their exploration and, if warranted, develop them and bring them into commercial production either directly or with joint venture partners.

Our Material Properties

Our principal asset is a 40% interest in the Poplar Joint Venture, which has acquired certain exploration permits in the Superior Province of north-central Manitoba.

The following is a description of the Poplar Joint Venture property. The description of the property is from the Report on the Prospectivity of the Poplar Joint Venture dated August 31, 2001, prepared for us by Dean Pekeski, Senior Project Geologist, Kennecott and reviewed and verified by Buddy Doyle, Exploration Manager, Kennecott. This report is available for review at our office. For a description of our interest in the Poplar Joint Venture, see "Development of Our Business - Significant Acquisitions and Significant Dispositions".

Poplar Joint Venture

Property Description and Location

The Poplar Joint Venture property consists of five (5) exploration permits and two (2) special exploration permits totaling 421,537 hectares, located between 54.7° and 55.9° North Latitude and 94.0° and 96.1° West Longitude (see Figure 1). Application for a sixth permit has been made to the Office of the Recorder under the *Mines and Minerals Act* (Manitoba), but has not been granted as of this date. The permits are held by Kennecott as to a 60% interest and by us as to a 40% interest.

Application for exploration permits and special exploration permits are made to the Office of the Recorder under the *Mines and Minerals Act* (Manitoba), which, when approved, grants exclusive exploration rights to Crown minerals within the permit area, except on any preexisting claims or leases within the permit area, for three years for exploration permits and five years for special exploration permits. The exploration permits are described in terms of geographical coordinates for each corner of the polygonal shaped area and includes a paper map illustrating the location of the permit in reference to geographic locations, such as lakes, towns, roads, rivers, and topography and other permits and claim boundaries. The permits are “paper staked” and are not physically staked on the ground or surveyed.

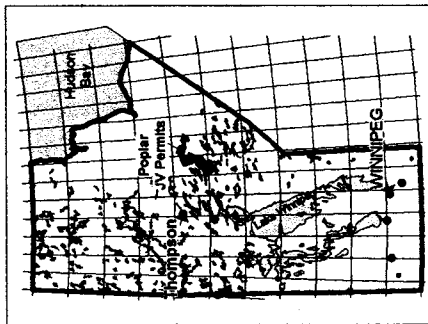
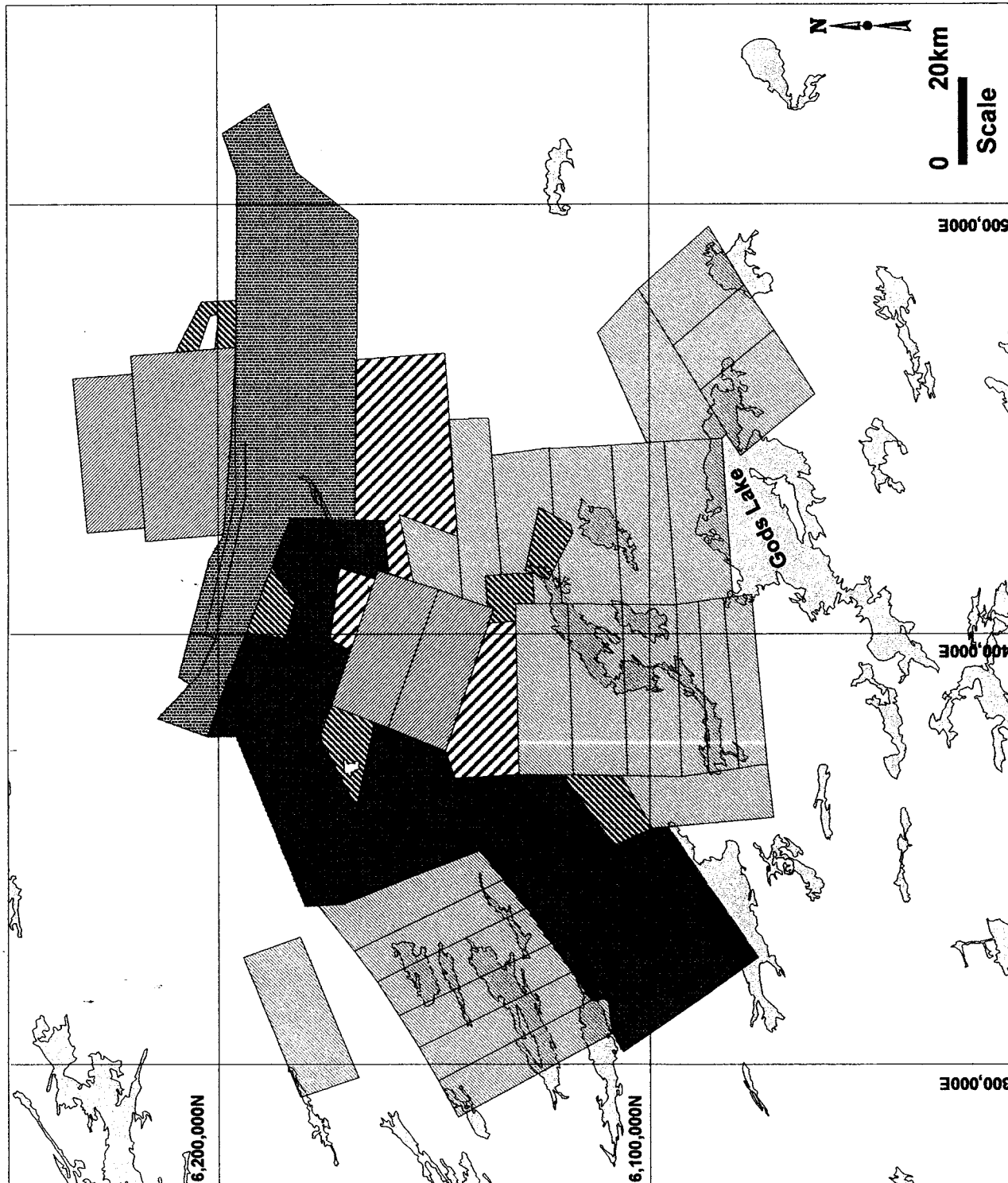
The exploration permits which comprise the Poplar Joint Venture property and their particulars are listed in *Table 1*.

Table 1 Details of exploration permit areas, record and expiry dates, and costs.

Permit Type & Claim Number	Exploration Permit Number 172	Exploration Permit Number 175	Exploration Permit Number 176	Exploration Permit Number 177	Exploration Permit Number 178	Special Exploration Permit 2000-04	Special Exploration Permit 2000-05
Record Date	28Apr2000	31Oct2000	31Oct2000	31Oct2000	31Oct2000	28Apr2000	02May2000
Expiry Date	28Apr2003	31Oct2003	31Oct2003	31Oct2003	31Oct2003	28Apr2005	02May2005
Area (ha)	40,504.00	48,932.00	48,729.00	49,045.00	21,217.00	107,038.00	106,072.00
First Year Assessments	\$50,630.00	\$61,165.00	\$60,911.25	\$61,306.25	\$26,521.25	\$53,519.00	\$53,036.00
Due Date	27July2001	29Jan2002	29Jan2002	29Jan2002	29Jan2002	27July2001	31July2001
Filing Fees	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00
Annual Rent	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,700.00	\$2,650.00
Bond Deposit	\$25,000.00	\$25,000.00	\$25,000.00	\$25,000.00	\$25,000.00	\$50,000.00	\$53,000.00

POPLAR JOINT VENTURE PROPERTY MAP

Kennecott Canada/Arctic Star Diamond Corporation
Knee Lake Area, Northeastern Manitoba



Index Map-Poplar JV
Permit Location

LEGEND

Permit Ownership

- Poplar JV Permits
- De Beers (Monopros)
- BHP
- Falconbridge
- Indicator Exploration
- Others

Note: Poplar JV permit 208 application submitted, but not as yet granted

Source: Manitoba Dept of Industry, Trades and Mines as of February 7, 2001

Map Datum: NAD27, Zone 14

Drawn By: M.A. Waldman

Date: 28Feb01

Signed *[Signature]* 28/2/2001

Figure 1

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Poplar Joint Venture project area is located approximately 160 kilometers east-southeast of the town of Thompson, Manitoba, which is serviced by commercial and private jet, fixed wing and rotary wing aircraft. Thompson is accessible via several all-weather roads and by rail. Several small communities are located within the project area and most have airstrip and/or road (seasonal or all-weather) access. Access to the property area is attainable by all-weather and seasonal roads from Thompson. Fieldwork was conducted, using helicopters, from the communities of Gillam and Knee Lake, Manitoba.

Climate in northeastern Manitoba ranges from average daytime high temperatures of 16°C in July to -25°C in January, with widely varying temperature swings. Precipitation in the area totals approximately 520 millimeters, mostly as rain during the summer months of June through September.

Physiographic characteristics of the Poplar Joint Venture project area is one of low, gentle and irregular relief, from 1 to 8 meters and vary from 215 to 120 meters above average sea level. The major drainage system in the area is the Hayes River system, with its tributaries, aligned in a northeast orientation, flowing into Hudson Bay.

The types of vegetation in the project area are small black spruce and jack pine, on and between wetlands. Stands of white spruce, birch, poplar and jack pine are on better-drained areas. Thick alder commonly clogs most small stream drainages. Bogs of sphagnum peat, black organic mud and dwarf spruce are numerous.

History

We acquired the Poplar Joint Venture Interest from Montello in January 2001. See “Development of Our Business - Significant Acquisitions and Significant Dispositions”. The Poplar Joint Venture property was acquired by the Poplar Joint Venture by staking in the spring and fall of 2000.

No direct evidence of past diamond exploration has been located within the Poplar Joint Venture property.

Geological Setting

General

The geology of the northeastern region of Manitoba is comprised of a series of sub-parallel east-west trending domains of the Archean age Superior and Proterozoic Churchill Provinces. In the northeast sector and capping both Superior and Churchill Province rocks is the Paleozoic Hudson Bay Basin domain, a series of nearly flat laying sedimentary rocks of mostly marine origin. Glacial and post-glacial deposits cover much of the bedrock in the project area.

Bedrock Geology

The Archean-Proterozoic domains are, from south to north, the Archean age Island Lake, Molson Lake, Gods Lake, and Pikwitonei domains, and the Proterozoic Churchill-Superior Boundary and Kiseynew domains. The Churchill-Superior Boundary domain, as the name implies, is a boundary zone separating the Archean Superior Province rocks from the younger Proterozoic Churchill Province rocks. The Island

Lake, Molson Lake and Gods Lake domains are comprised of granite-greenstone belts whereas the Pikwitonei domain is comprised of granulite facies metamorphic rocks derived from metaplutonic rocks (metamorphosed tonalite) and minor supracrustal (amphibolite) rocks. Banded iron formation is present in the supracrustal belts, with both oxide and sulfide facies reported. The Proterozoic Kiseeynew domain, north of the Superior-Churchill Province Boundary Zone, is comprised of a series of sedimentary gneisses and migmatites. Some Proterozoic age diabase diiking (Molson and McKenzie) is present in both the Superior Province and Churchill-Superior Boundary Zone. Figure 2 shows the generalized bedrock geology of northeastern Manitoba.

Quaternary Geology

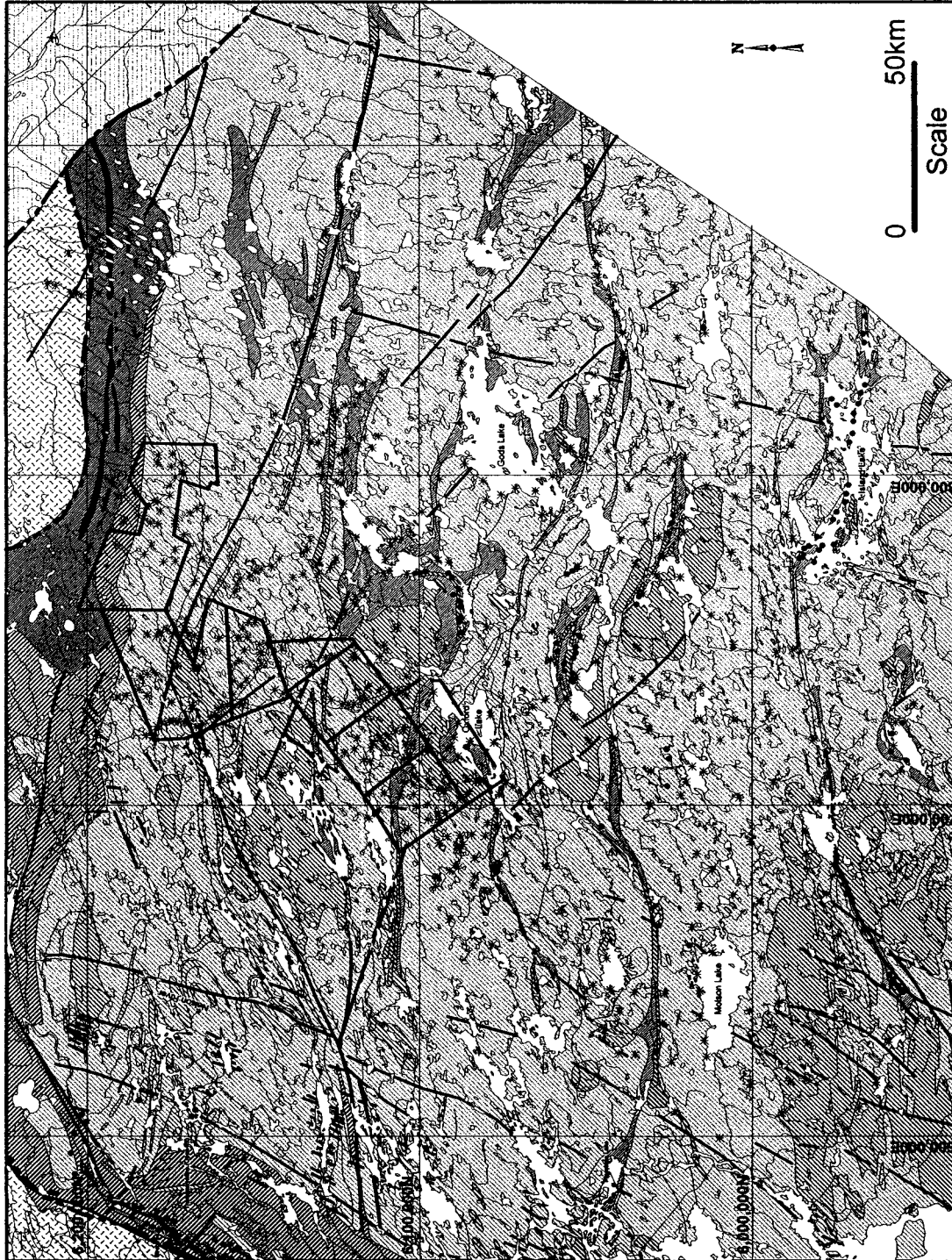
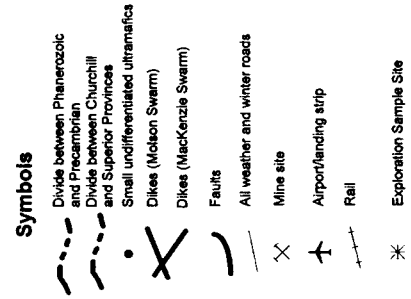
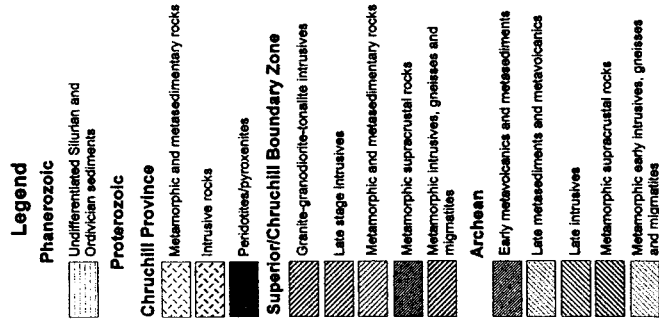
Covering most of the bedrock geology of the Poplar Joint Venture project area is a thin (<1 meter) veneer to thick (~40 meter) blanket of Quaternary glacial till, overlain by glaciolacustrine and non-glacial sediments. A single thin till sheet, seldom exceeding 4 meters in thickness, is reported over the Precambrian shield rocks, although multiple till sheets and at least three episodes of suspected continental magnitude glaciation are reported for the Hudson Bay Lowlands to the east and northeast.

Glaciolacustrine sediments, composed mostly of clay with some silt, sand and gravel, overlay the tills, and are attributed to the inundation of glacial Lake Agassiz. Northeast of the project area, thin sequences of marine sediments comprised of clay, silt, sand and gravel, commonly fossiliferous, are attributed to the inundation of the Tyrell Sea, which occupied the Hudson Bay basin. Eskers occur on bedrock exposures, ground moraines and/or between hills. The eskers in the project area are nearly straight to sinuous ridges with the predominant trend northeast to southwest. The eskers are generally composed mostly of sand with some gravel and the most prominent esker system is located in the Hayes River drainage basin. Shallow meltwater channels are continuous with eskers in some cases. Post glaciation organic deposits accumulated on flat poorly drained glacial lake sediments in swamp, fen, and forested bog.

Glacial Ice Flow

Ice flow directions, based on drumlin orientations, glacial striae, and other ice flow indicators, across north-central to northeastern Manitoba, are from northeast to southwest, stemming from the Labradorean ice sheet, moving across Hudson's Bay and northern Ontario during Late Wisconsinian time (see Figure 3). Compilation of ice flow measurements within the project area and from published surficial geology maps indicate that ice flow directions radiate out from a nearly due south (~185°) direction on the east side of the project area to a west-northwest (~292°) direction on the west side of the project area. Ice flow directions across the joint venture permits are approximately 235-245°.

POPLAR JOINT VENTURE NORTH CENTRAL MANITOBA



Generalized geologic map of northeastern Manitoba showing relation of the joint venture permits to bedrock geology, dike swarms, faults, geography and sample site locations.

For explanation of claim or permit outlines, see Figure 1.

Source: Modified from the Open File Report OF98-12
Geology, Magnetic & Gravity Maps of Manitoba: a Digital Perspective (CD-ROM)
by D. Viljoen, L. Chackowsky, P. Lenton and H.J. Broome
Manitoba Industry, Trade and Mines, 1999

Drawn by: M.A. Waddington 14Feb01
Signed: *[Signature]*
Dated: 22/2/2001

Figure 2

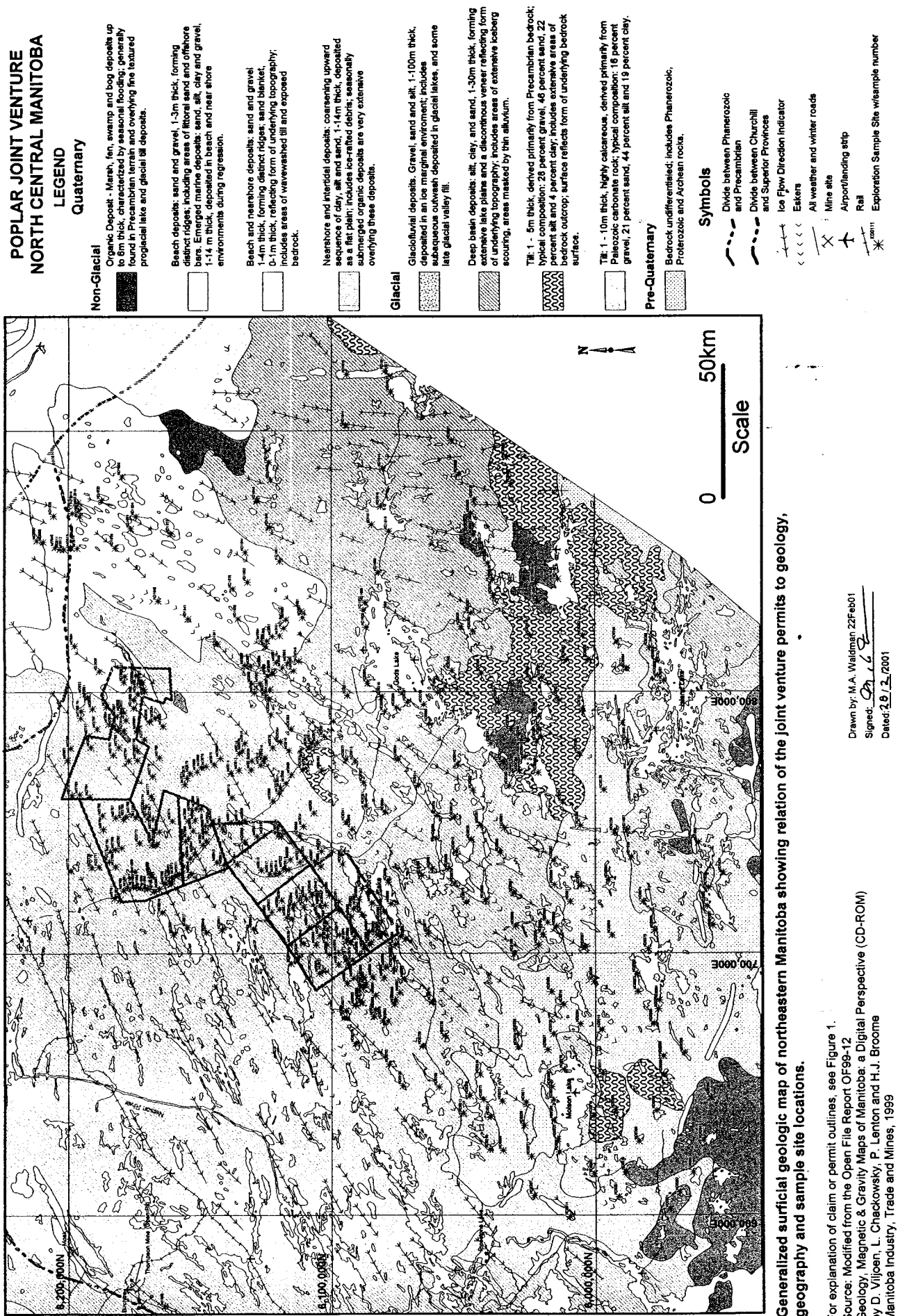


Figure 3

Exploration

Exploration Background

The Poplar Joint Venture is exploring for primary diamond deposits hosted by kimberlite. The exploration model to locate diamondiferous kimberlite fields or clusters in areas where kimberlite has yet to be discovered is to first identify cratonic regions where diamonds would be stable within the mantle and, consequently, could be brought to the surface by a kimberlite emplacement event. Diamonds form, grow and reside or remain stable in high temperature-high pressure regimes at depths greater than 150 kilometers and temperatures in the range of 600°-1300°C, i.e. the “diamond window”. The most likely locality for these temperature and pressure conditions to exist is in the mantle root zones of old (Archean and Proterozoic), stable, cold (low geothermal gradient) cratonic blocks. Prime examples of prospective stable cratons with mantle roots are the Slave Craton in the Northwest Territories, Canada, and the Kaapvaal Craton in South Africa. The Superior Province of the Canadian Shield is the largest Archean cratonic province in North America, having an exposed area of 1.6 million square kilometers and it plays host to recently discovered diamondiferous kimberlites in Ontario. As a result, the Superior Province is considered to be highly prospective for diamonds.

Diamonds are xenocrysts brought to the surface by deep-seated alkali ultramafic and ultrabasic volcanic rocks, such as kimberlite, olivine lamproite and some ultramafic lamprophyre. The diamonds are incorporated in their host rocks through the disaggregation of diamond bearing mantle derived peridotite (harzburgite, less commonly lherzolite, rarely dunite) and eclogite, entrained in the kimberlite during ascent to the surface. Therefore, for kimberlite to be diamondiferous, it must originate at or below the zone or zones of diamond-bearing material residing in the mantle root zone suitable for diamond preservation, i.e., within the stability field for diamond. Kimberlite that fails to entrain diamondiferous mantle material or originates above the diamond stability field will be completely barren of diamond, as is the case for 70% of all known kimberlite occurrences.

Because diamond is extremely rare in kimberlite (<1 ppm), exploration for primary diamond deposits is conducted using remote sensing (geophysics) and/or sampling for the kimberlitic indicator minerals disburied by erosion of the kimberlite by fluvial, glacial, and marine wave action. Typical kimberlitic indicator minerals are pyrope garnet, eclogitic garnet, picroilmenite, picrochromite, chrome diopside (clinopyroxene), orthopyroxene and forsterite (magnesium-rich olivine). These minerals are part of the heavy mineral suite with greater than 2.9 specific gravity and can be recognized visually by their distinctive color, cleavage, luster, fracture pattern and/or grain morphology and by their unique chemistries determined by electron microprobe.

Once a regional area is selected as being prospective for diamonds, a broad-brush regional sampling program to detect the presence of kimberlitic heavy minerals is initiated. The sampling program is designed not so much to locate individual kimberlite occurrences, but to prove the existence of one or more kimberlite clusters that could make up a kimberlite field. Kimberlite clusters commonly occur within a diameter of roughly 40 kilometers and each cluster can contain 1 to 40 or 50 kimberlites. The likelihood of identifying a presence of the kimberlite cluster or field is far higher than locating a single kimberlite occurrence. Consequently, initial exploration sampling can be widely spaced, and cover more territory with fewer samples. The first indications of a potential kimberlite cluster will prompt more detailed sampling and/or geophysical surveying to locate the individual kimberlite bodies and then to establish their diamond content.

Exploration Programs

The Poplar Joint Venture commenced a regional kimberlitic heavy mineral sampling program across northeastern Manitoba, which is underlain by the stable Archean Superior Province of the Canadian Shield. The first stage field sampling program was carried out during late August and early September 1999. Although basal and lodgement tills are the preferred sampling medium, most samples were collected from beaches, due to the variable thickness of glaciolacustrine silt and clay, and organic deposits covering glacial tills. Some till exposed on drumlins, glacial esker material and some stream gravels were sampled. A total of 252 samples (including 11 duplicate samples for check assays) were collected, processed for heavy mineral recovery and hand sorted for kimberlitic indicator minerals. The suspected kimberlitic indicator minerals were checked by a mineralogist and submitted for electron microprobe analysis to determine each grain's mineral chemistry.

A significant number of samples from the 1999 sampling program contained encouraging numbers of minerals with kimberlitic chemistries to justify additional follow-up sampling. Follow-up sampling for year 2000 was conducted during the summer months of July and early August and concentrated on the area along the north edge of the 1999 sampling array. An additional 285 beach, till and stream samples were collected, processed for recovery of heavy minerals and hand picked for kimberlitic indicator minerals. The suspected kimberlitic indicator minerals were submitted for electron microprobe analysis to determine each grain's mineral chemistry. The 2000 survey yielded significant kimberlitic indicator minerals in a more constrained indicator mineral train parallel to the known ice direction in a non-permitted area. The presence of the kimberlitic indicator minerals prompted the joint venture partners to make application for the six (6) exploration permits (5 granted, 1 pending) and two (2) special exploration permits.

In December 2000, the area of higher concentration of anomalous sample sites was selected for surveying using airborne magnetics. Goldak Exploration Technology Limited, based in Saskatoon, Saskatchewan, was contracted to fly a survey area of approximately 30 x 30 kilometers, located 33 kilometers west-northwest of the community of Oxford House. Total field and horizontal gradient magnetic data were collected along the 10,556-line kilometer survey.

Based on the airborne magnetic data collected by Goldak Exploration Technology Limited, Kennecott selected anomalies for further exploration.

Table 2 lists the breakdown of the 101 anomaly selections by rank (A, B, C), priority (high, medium, and low), anomaly type (high, low, dipolar), and geographic location. Most of the anomalies are discrete magnetic highs and on land. Fewer selected anomalies are magnetic lows and some of the lows are in lakes or along shorelines. Several targets representative of each type or style of magnetic anomaly will need to be drilled to confirm the anomaly's source.

Table 2 Compilation of airborne magnetic anomalies by rank, priority, type and geographic location.

Anomaly Rank	Priority			Anomaly Type			Topography		
	High	Med	Low	High	Low	Dipole	Land	Lake	Shore
A	6	2	1	6	2	1	7	2	0
B	11	12	14	33	4	0	19	10	8
C	10	15	30	34	20	1	47	5	3

The distribution of anomalous sample sites relative to the ice flow indications strongly suggest multiple sources for these indicators and that some of the sources should be within the joint venture holdings. The chemistry of the heavy mineral concentrates have kimberlitic affinities and the multiple sources generating these anomalies are, in the opinion of the author of the report, kimberlitic. The occurrence of harzburgitic composition pyrope, diamond stability field composition chrome diopside and orthopyroxene, and diamond inclusion field chromite in the reconnaissance glacial samples suggests that several diamondiferous kimberlites of unknown tenor may be present within the area. Plus, the distribution of diamond indicator minerals also suggest that some of these kimberlites that may occur within the joint venture permits might be also be diamondiferous. The location of sample sites containing indicator minerals with good diamondiferous source characteristics on the very northeastern limit of the current sample area also suggests that there are additional potentially diamondiferous sources in the up ice direction.

Sampling and Analysis

Some common trap sites that concentrate heavy minerals are gravel bars, pot holes and boulder beds in streams and rivers, wave sorted beaches, eskers, and basal and lodgement tills. Sample site location and sample density is highly dependent upon the frequency of adequate sample site availability. Sample sites along eskers can be widely spaced (20-25 kilometers) as transport distances of heavy minerals in eskers can be greater than 150 kilometers to possibly 250 kilometers. Sample site spacing along gravel bearing streams and rivers need to be more dense (5-15 kilometers) as transport distances in fluvial environments can be considerably less than eskers, in the range of 10 to 75 kilometers. Basal and lodgement tills generally have an even shorter transport distance from less than 1 kilometer to 5 kilometers with trace amounts extending to 50 kilometers. Present day lake beaches represent the reworking and concentration of heavy minerals derived from the local sediments, particularly on the windward side of lakes, where wind generated wave action is most prevalent.

Eskers have been proven to be an effective media for transporting kimberlitic heavy minerals long distances in the Northwest Territories. Modern day beaches have been shown to be an effective medium from which kimberlitic heavy minerals can be recovered. The initial Poplar Joint Venture reconnaissance program concentrated on sampling the more easily accessible lake beaches and, where accessible, eskers, due to the heavy vegetative cover and glaciolacustrine overburden.

The 1999 reconnaissance sampling program was designed to quickly follow up reported kimberlitic indicator minerals recovered during multimedia geochemical studies over portions of the Superior Province. A total of 252 beach, esker and till samples, including 11 duplicate check samples, were taken by Kennecott personnel during late August and early September 1999. Two pairs of sampling teams were "leap frogged" over each other by helicopter along traverses. Beach sands were the primary sample material sought during the first phase reconnaissance program, but if helicopter landing sites were available near eskers or obvious till exposures, then esker and/or till samples were collected. Sample site density was highly dependent on availability of sampling media, and, accordingly, sample spacing was very irregular. The 1999 sampling program encompassed approximately 37,000 square kilometers and each sample crudely represents, on average, an area of roughly 150 square kilometers or the equivalent of a 12x12 kilometer grid per exploration sample site.

Beach samples were collected by hand digging approximately 20 kilograms of near surface material, generally from less than 40 centimeters depth. If heavy mineral concentrates due to wave action were visible, the concentrates were collected as part of the sample. In some instances, composite samples were

taken from shallow trenches cut perpendicular to the beach's long axis. All beach samples were wet sieved on site to <4 millimeters and in some cases to <2 millimeters, when more coarse gravel and/or cobble material was present. Sample material was placed into a sturdy container, securely sealed, and made ready for shipment.

Esker samples were collected by hand digging pits to a maximum depth of approximately 1.5 meters, depending on the thickness of soil and/or organic cover, or from naturally exposed sandy or gravelly sites. All esker samples were dry sieved to <4 millimeters. On rare occasions, the esker material was dry enough to allow sieving to <2 millimeters. Sample material was placed into a sturdy container, securely sealed, and made ready for shipment.

Stream samples were collected similarly to beach samples. An accumulation of gravel or sand was located in the stream bed and a 20 kilograms of <2 millimeter material was collected in a secured container and made ready for transport.

Till samples were collected by digging a pit from 0.3 to approximately one meter deep and filling a 15 liter bucket with unscreened material. The till filled container was then securely sealed and made ready for shipping.

The 2000 sampling program was designed to follow up on anomalous samples generated in 1999. A total of 285 beach, till and stream samples were collected. The same techniques and methodology used in 1999 to collect samples was used during the 2000 series sampling. The 2000 sampling encompassed approximately 10,000 square kilometers and each sample represented an average area of roughly 35 square kilometers or the equivalent of a 6x6 kilometer grid per sample site, reflecting the much tighter sample density required for defining one or more kimberlitic indicator mineral trains.

All samples from the Poplar Joint Venture project were processed for heavy mineral recovery by Kennecott's Thunder Bay, Ontario heavy mineral laboratory. Samples received from the field were grouped, color coded and their individual sample numbers cross checked against a separately sent master list from the project field geologist. Prior to the samples entering the lab, a thorough cleaning of all equipment and screens was completed to prevent sample contamination. Sample processing includes desliming (i.e. removal of the clay fraction), size classification via a series of wet and dry screenings, magnetic separation and heavy liquid separation. The procedure, on average, reduces a 20 kilogram sample to a concentrate of about 5 grams.

The till samples, having a high concentration of wet clays, became dry and hard due to dehydration during transport and storage, and required extra pretreatment steps that were not necessary for the beach, esker and stream samples. The hardened till samples were first pre-soaked in water. After soaking, the sample was placed into a ball mill to break down lumps and liberate the clay fraction. Clay liberation was accomplished by continuously adding water during the milling process. After most of the clay is liberated, the till sample was split by wet sieving through U.S.A. Standard Sieve Series 20 mesh and 60 mesh screens. One scoop of -60 mesh material weighing a minimum 50 grams was taken for 32 element ICP analysis. The remaining -60 mesh fines were discarded and the +20 mesh material was stored. The -20+60 mesh material was then oven dried.

The beach and esker samples were also split by wet sieving through U.S.A. Standard Sieve Series 20 mesh and 60 mesh screens. The -60 mesh fines were discarded and the +20 mesh material was stored. The -20+60 mesh material was then oven dried. After drying, the samples required additional cleaning and reclassification, to remove any remaining clays and fines, due to deterioration or breakdown of some

mineral grains. Each sample was passed through a U.S.A. Standard Sieve Series 40 mesh sieve, splitting the sample into coarse (-20+40) and fine (-40+60) fractions. The coarse fraction was stored and may be further processed depending on the observation results of the fine fraction. The -40+60 mesh fine fraction was passed through a magnetic separation process, which split the sample into magnetic and non-magnetic fractions. Kimberlitic indicator minerals have a small magnetic susceptibility (i.e. paramagnetic) and accumulate in the magnetic fraction. The fine non-magnetic fractions are stored. The magnetic fraction was then titrated in non-toxic sodium polytungstate (specific gravity 2.89 g/cc). Minerals lighter than 2.89 g/cc float and those heavier than 2.89 g/cc sink. Kimberlitic heavy minerals are all heavier than 2.89 g/cc and sink in the sodium polytungstate liquid along with any other heavy minerals. The light fraction ("floats") was dried, bagged and stored, and the magnetic, heavy mineral concentrate ("sinks") containing the kimberlitic heavy minerals was dried and sent to the microscopy laboratory for observation and mineral sorting.

Kennecott mineral technicians search through each heavy mineral concentrate using binocular microscopes equipped with fiber-optic lights. The mineral grains from each sample were slowly passed under the microscope's field of view on a miniature conveyor or "Gerryts" belt. Grains suspected of being kimberlitic in origin were set aside. The sorting results from each sample were recorded in a database. The suspected indicator minerals were visually checked by a qualified mineralogist who confirmed or properly identified each mineral grain. The mineralogist described and numbered each grain for database input. Seven types of kimberlite indicator minerals were usually recovered. These were; 1) pyrope garnet, 2) eclogitic garnet, 3) magnesium-rich or picroilmenite, 4) chromite, 5) chrome-diopside, 6) olivine, and 7) orthopyroxene.

A selected number of the picked kimberlitic indicator mineral grains were submitted for electron microprobe analysis to obtain their mineral chemistry. Mineral chemistry analysis confirmed the visual identification of each mineral. Mineral chemistry can be used, in many instances, to approximate the mineral's host rock origin, estimate the diamondiferous possibility of the source, determine the formation or equilibration temperature and/or pressure of certain minerals, and aid in prioritization of target selection. Electron microprobe analysis of all grains for the Poplar Joint Venture project were done by Barnett Geological Consulting, Thunder Bay, Ontario.

The laboratory has received ISO/IEF Guide 25 accreditation for specific registered tests by the Standards Council of Canada, which allows results to be reported in compliance with Canadian Securities Administrators requirements. Blind check samples were randomly submitted into the sample stream to check the accuracy and efficiency of the heavy mineral recovery process and proficiency of the mineral sort personnel and every effort was made to ensure the highest quality control standards were in place.

Security of Samples

All samples collected during the 1999 and 2000 field surveys were placed onto sealed container pallets by Kennecott personnel and shipped by truck from Thompson, Manitoba to the Thunder Bay, Ontario laboratory of Kennecott for heavy mineral recovery.

Exploration and Development

Kennecott, as manager under the Poplar Joint Venture, has proposed, and the management committee of the Poplar Joint Venture has approved, the following program and budget for 2001. Dean Pekeski, the author of the report, participated in the preparation of and has reviewed and approved the proposed work program and budget.

Program Item	Our Costs	Kennecott's Costs	Total Costs
Core drilling (500 metres)	\$62,000	\$93,000	\$155,000
Contractor costs, including, helicopter time and geophysical surveys	\$37,000	\$55,000	\$92,000
Laboratory costs	\$54,000	\$81,000	\$135,000
Title and land costs	\$8,000	\$12,000	\$20,000
Field costs, including field equipment, accommodation and casual labour	\$34,000	\$52,000	\$86,000
Travel costs for program	\$10,000	\$15,000	\$25,000
Manager employee salaries	\$46,000	\$68,000	\$114,000
General and administration	\$29,000	\$44,000	\$73,000
Total:	\$280,000	\$420,000	\$700,000

We have been advised by Kennecott that if there is success during the 2001 program and diamondiferous kimberlite is intersected, the above program will be revised and further expenditures will be required. We have also been advised by Kennecott that the 2001 program has commenced and that it is accruing a cash call in respect of our contribution to the program, which will be payable on completion of the Offering.

In March of this year, the planned drilling on a portion of the property was completed and the crews were demobilized to allow for the spring thaw. A total of 212 meters were drilled testing eight targets. The program was designed to test the most obvious pipe-like targets at the apex of a diamond indicator mineral glacial dispersion anomaly. No kimberlite was intersected. Most of the targets were explained by various magnetic rock types, including gabbro, altered granite and meta-sediments.

Numerous possible kimberlite geophysical targets remain, the completed drill program was designed to determine if the kimberlites were manifest as easy to recognize magnetic anomalies, therefore the most prominent targets were tested. Now only the more numerous and difficult to prioritize targets remain.

USE OF PROCEEDS

Proceeds

We raised \$299,000 through the issuance of 2,990,000 Series "A" Special Warrants in February and March 2001. We raised a further \$279,000 through the issuance of 1,116,000 Series "B" Special Warrants in February and March 2001. We received total proceeds of \$578,000 from the Series "A" Special Warrant and Series "B" Special Warrant offerings.

All of the funds (\$199,000) from the issuance of the 1,990,000 Series "A" Special Warrants exchangeable for one flow-through Common share and one Warrant were deposited in a segregated bank account to be expended on "Canadian Exploration Expense", as that term is defined in the *Income Tax Act* (Canada).

We have advanced approximately \$125,000 of these funds as a portion of the \$302,000 paid to Montello in respect of the Poplar Joint Venture exploration expenses. Montello and Kennecott have confirmed to us that these funds will be expended on exploration expenses that qualify as Canadian Exploration Expense under the proposed Poplar Joint Venture exploration program for 2001. See “Our Material Properties – Poplar Joint Venture”.

We will receive net proceeds from the Offering of \$678,750, after deducting the Agent's Commission of \$71,250. If the Agent exercises the Over-Allotment Option, we will receive aggregate net proceeds of \$862,500 and pay an aggregate commission of \$81,937.50 to the Agent.

Funds Available

As at September 30, 2001, we had a working capital surplus of \$4,128 and approximately \$978 cash on hand. Accordingly, we will have \$682,878, being the net proceeds of the Offering of \$678,750 plus our cash on hand and receivables of approximately \$9,628 less our accounts payable and accrued liabilities of \$5,500, to expend on our principal properties described below. We must use the proceeds from the Flow-Through Units, \$250,000, less the portion allocated to the Warrants comprised therein, in a manner that qualifies as CEE. We have also advanced to the Agent \$10,000 as a deposit against expenses. If the Agent exercises the Over-Allotment Option, we will receive additional gross proceeds of up to \$112,500 and pay an aggregate commission of up to \$10,687.50 to the Agent (for net proceeds of \$101,812.50, assuming the Over-Allotment Option is fully exercised).

Principal Purposes

We intend to spend the funds available to us as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary but no reallocation will be made in a manner that will prevent us from using all of the proceeds from the Flow-Through Unit sales on CEE. The principal purposes for which the funds available are intended to be used, in order of priority, are as follows:

	Description	Proceeds
1.	to pay the balance of the estimated costs of the Offering	\$60,000
2.	to pay the Agent the Administration Fee (see “Plan of Distribution”)	\$5,350
3.	to pay the remainder of the Poplar Joint Venture exploration expenses assumed under the Amended Assignment Agreement (see “Development of Our Business – Significant Acquisitions and Significant Dispositions”)	\$125,000
4.	to fund the Poplar Joint Venture exploration program (see “Our Business – Our Material Properties”)	\$155,000
5.	working capital to fund ongoing operations	<u>\$337,528</u>
	Total	<u>\$682,878</u>

If the Over-Allotment Option is exercised in full, the net proceeds from the sale of those Units, after deducting the commission payable in respect thereof, will be added to our working capital. If the Over-Allotment Option, Warrants, Series “A” Warrants, Series “B” Warrants and Agent’s Warrants (including

the Warrants and Agent's Warrants issuable upon the exercise of the Over-Allotment Option in full) are exercised, we will receive additional net proceeds of up to \$1,671,687.50 which will also be added to our working capital.

Acquisition of Poplar Joint Venture Interest

A portion of the net proceeds of the Offering are to be used to pay to Kennecott, on behalf of Montello, Poplar Joint Venture exploration expenditures. In addition to the funds to be paid from the net proceeds of the Offering in respect of exploration expenditures assumed under the Amended Assignment Agreement, we paid Montello \$75,000 and issued to Montello 1,500,000 Special Warrants at a deemed price of \$0.04 each. Each Special Warrant is exchangeable, without payment of any additional consideration, for one of our Common shares. We also assumed all of Montello's obligations under the Poplar Joint Venture and, in addition to the funds to be paid to Kennecott on behalf of Montello for Poplar Joint Venture exploration expenses from the net proceeds of the Offering, advanced \$302,000 to Montello in respect of Poplar Joint Venture exploration expenditures, which were subsequently paid by Montello to Kennecott. Patrick Power, our President and Chief Executive Officer, is also the President and a director of Montello. The purchase price for the Poplar Joint Venture Interest was \$437,000, with approximately \$60,000 allocated to the amount invested in the property by Montello, approximately \$75,000 allocated to the increase in the value of the property as a result of exploration expenditures and \$302,000 allocated to exploration expenditures. The amount of the purchase price was determined by negotiation between us and Montello, with Mr. Power abstaining from any involvement in the negotiations, including the deemed issue price of the Special Warrants. See "General Development of the Business - Significant Acquisitions and Significant Dispositions", "Prior Sales" and "Interest of Management and Others in Material Transactions".

Special Warrant Financing - Principal Purposes

The principal purposes for which the funds from the Series "A" Special Warrant and Series "B" Special Warrant offerings were used are as follows:

	Description	Proceeds
1.	to pay the cash portion of the purchase price for the Poplar Joint Venture Interest due on signing (see "Development of Our Business – Significant Acquisitions and Significant Dispositions")	\$75,000
2.	to advance to Montello for payment to Kennecott in respect of Poplar Joint Venture exploration expenditures (see "Development of Our Business – Significant Acquisitions and Significant Dispositions")	\$302,000
3.	to pay Poplar Joint Venture exploration expenditures under the Poplar Joint Venture (see "Selected Consolidated Financial Information and Management's Discussion and Analysis")	\$40,197
4.	to pay a retainer to the Agent	\$10,000
5.	to pay general and administration expenses	\$120,706
6.	cash on hand and receivables as at July 31, 2001	\$30,097
	Total	\$578,000

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Information

The following is a summary of certain selected financial information which is qualified by the more detailed information appearing in the financial statements included in this Prospectus.

	Audited for the period from incorporation on January 5, 2001 to July 31, 2001
Revenues:	\$1,088
Gross profit (loss):	\$(139,128)
Net Income (loss):	\$(138,040)
Net Income (loss) per share ⁽¹⁾ :	\$(0.02)
Net Income (loss) per share, on a fully diluted basis: ⁽¹⁾⁽²⁾	\$(0.01)
Total assets:	\$747,363
Long term debt:	Nil
Total liabilities:	\$301,263
Share capital:	\$584,140
Number of Common shares ⁽¹⁾⁽³⁾ :	5,606,100
Retained earnings (deficit):	\$(138,040)
Cash dividend declared per share:	Nil

(1) Includes 5,606,000 Common shares issuable upon the exercise of outstanding Special Warrants, Series "A" Special Warrants and Series "B" Special Warrants as at July 31, 2001. See "Capitalization".

(2) Based on 5,106,000 Common shares reserved for issuance as at July 31, 2001 on exercise of Series "A" Warrants, Series "B" Warrants and incentive stock options. See "Prior Sales" and "Options".

(3) Upon the successful completion of this Offering and the conversion of the Special Warrants, a total of 11,852,766 Common shares will be issued and outstanding, excluding Common shares issuable upon exercise of the Over-Allotment Option, Warrants, Series "A" Warrants, Series "B" Warrants and Agent's Warrant, of which 4,947,089 Common shares and 675,000 Series "A" Warrants will be held in escrow. See "Escrowed Securities".

Dividends

We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain our earnings to finance further growth and, when appropriate, retire debt.

Management Discussion and Analysis

Results of Operations

From incorporation on January 5, 2001 to July 31, 2001

During the period from incorporation on January 5, 2001 to July 31, 2001, we generated revenue of \$1,088 in interest income.

Expenses during the period were \$139,128 and include management fees of \$70,000, legal fees and disbursements of \$26,681 and accounting and audit fees of \$10,393.

During the period ended July 31, 2001, we incurred expenditures of \$135,000 for the acquisition of the Poplar Joint Venture Interest and a further \$270,266 in deferred exploration expenditures. We also advanced \$302,000 to Montello for payment to Kennecott in respect of Poplar Joint Venture exploration expenditures.

Capital Resources and Liquidity

Since inception, our capital resources have been limited. We have had to rely upon the sale of equity securities for cash required for administration, exploration and development and capital acquisitions, among other things.

We will continue to require funds to meet our obligations under the Poplar Joint Venture. As a result, we will have to continue to rely upon equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to us in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to us. Other than as described under "Use of Proceeds", we do not have any commitments for material capital expenditures over either the near or long term and none are presently contemplated over normal operating requirements.

During the period ended July 31, 2001, we completed a private placement of 2,990,000 of our Series "A" Special Warrants for total proceeds of \$299,000. Each Series "A" Special Warrant is exercisable, without payment of any additional consideration, for one of our Common shares and one of our non-transferable share purchase warrants, with each warrant entitling the holder to acquire one additional Common share for a period of one year at a price of \$0.10 per share. Of the 2,990,000 Common shares for issue on exercise or deemed exercise of the Series "A" Special Warrants, 1,990,000 are Flow-Through Common Shares. We also completed a private placement of 1,116,000 of our Series "B" Special Warrants for total proceeds of \$279,000. Each Series "B" Special Warrant is exercisable, without payment of any additional consideration, for one of our Common shares and one of our non-transferable share purchase warrants, with each warrant entitling the holder to acquire one additional Common share for a period of one year at a price of \$0.25 per share.

During the period ended July 31, 2001, we also issued 1,500,000 Special Warrants to Montello for its interest in the Poplar Joint Venture. Each Special Warrant is exercisable, without payment of any additional consideration, for one of our Common shares.

Subsequent to July 31, 2001, we issued an aggregate of 2,800,000 of our Common shares to our directors at a price of \$0.01 per share. We also issued 223,333 Common shares to each of Patrick Power and

Thomas Yingling, two of the directors and officers, at a deemed price of \$0.15 in satisfaction of accrued management fees.

On completion of the Offering and Special Warrant Offering, we will have 3,000,000 Warrants, 2,990,000 Series “A” Warrants, 1,116,000 Series “B” Warrants and 450,000 Agent’s Warrants outstanding. If the Over-Allotment Option is exercised in full, we will have an additional 450,000 Warrants and 67,500 Agent’s Warrants outstanding. If the Over-Allotment Option and all of the warrants are exercised (including the Warrants and Agent’s Warrants issuable upon exercise of the Over-Allotment Option in full), we will receive net proceeds of \$1,671,687.50, which proceeds will be included in our working capital. See “Plan of Distribution”.

DESCRIPTION OF SECURITIES DISTRIBUTED

Shares

Authorized and Issued Share Capital

Our authorized share capital consists of an unlimited number of Common shares (the “Common shares”) without par value. As at the date of this prospectus, we had a total of 3,246,766 Common shares issued and outstanding.

Common Shares

All of our Common shares rank equally. The holders of Common shares are entitled to vote at all meetings of our shareholders, except meetings at which only holders of a specified class of shares are entitled to vote. Each Common share carries with it the right to one vote. The holders of Common shares are entitled, subject to the prior rights and privileges attaching to any other class of our shares, to receive any dividend we declare and, upon dissolution, to receive our remaining property and assets. The Common shares are issued as fully paid and non-assessable. No Common shares have been issued subject to call or assessment. Distributions in the form of dividends, if any, will be set by the board of directors. For particulars of our dividend policy, see “Selected Consolidated Financial Information and Management’s Discussion and Analysis - Dividends”.

Provisions as to the modification, amendment or variation of the rights attached to our Common shares are contained in our articles of incorporation and the *Canada Business Corporations Act*. Generally speaking, substantive changes to the share capital require the approval of the shareholders by special resolution (at least 66 2/3% of the votes cast).

Warrants

Warrants

The Warrants will be transferable, and each warrant will entitle the holder to purchase one additional Common share in our capital at an exercise price of \$0.25 per share for a period of two years following the date the Warrants commence trading on the Exchange. The Warrants will contain provisions for the appropriate adjustment in the class, number and price of shares issuable under such warrants upon the occurrence of certain events, including any subdivision, consolidation, or reclassification of our Common shares, the payment of stock dividends or the amalgamation with another company.

This prospectus qualifies the issuance of the Warrants. The holders of the Warrants may sell any of our Common shares they acquire on the exercise of the Warrants without further qualification, the proceeds of which will accrue to the holders and not to us.

Agent's Warrants

The Agent's Warrants will be non-transferable, and each Agent's Warrant will entitle the Agent to purchase one additional Common share in our capital at an exercise price of \$0.25 per share for a period of two years from the day our Common shares commence trading on the Exchange.

The Agent's Warrants will contain, among other things, anti-dilution provisions and provision for appropriate adjustment for the class, number and price of shares issuable pursuant to any exercise thereof upon the occurrence of certain events, including any subdivision, consolidation or reclassification of our shares or the payment of stock dividends or the amalgamation with another company.

This prospectus qualifies the issuance of the Agent's Warrant to the Agent. The Agent may sell any of our Common shares it acquires on the exercise of the Agent's Warrant without further qualification, the proceeds of which will accrue to it and not to us.

Series "A" Warrants

The Series "A" Warrants will be non-transferable, and each warrant will entitle the holder to purchase one of our Common shares at a price of \$0.10 per share until February 28, 2002. The Series "A" Warrants are issuable, without payment of any additional consideration, on the exercise of 2,990,000 previously issued Series "A" Special Warrants, which special warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

The Series "A" Warrants will contain provisions for the appropriate adjustment in the class, number, and price of shares issuable under such warrants upon the occurrence of certain events, including any subdivision, consolidation, or re-classification of our Common shares, the payment of stock dividends, or the amalgamation with another company.

This prospectus qualifies the issuance of the Series "A" Warrants. The holders of the Series "A" Warrants may sell any of our Common shares they acquire on the exercise of the Series "A" Warrants without further qualification, the proceeds of which will accrue to the holders and not to us.

Series "B" Warrants

The Series "B" Warrants will be non-transferable, and each warrant will entitle the holder to purchase one of our Common shares at a price of \$0.25 per share until February 28, 2002. The Series "B" Warrants are issuable, without payment of any additional consideration, on the exercise of 1,116,000 previously issued Series "B" Special Warrants, which special warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

The Series "B" Warrants will contain provisions for the appropriate adjustment in the class, number and price of shares issuable under such warrants upon the occurrence of certain events, including any subdivision, consolidation, or reclassification of our Common shares, the payment of stock dividends or the amalgamation with another company.

This prospectus qualifies the issuance of the Series “B” Warrants. The holders of the Series “B” Warrants may sell any of our Common shares they acquire on the exercise of the Series “B” Warrants without further qualification, the proceeds of which will accrue to the holders and not to us.

CAPITALIZATION

Capitalization

<u>Designation of Security</u>	<u>Number Authorized</u>	<u>Outstanding as at July 31, 2001 ⁽¹⁾</u>		<u>Outstanding as at September 30, 2001 ⁽¹⁾</u>		<u>Outstanding after giving effect to the Issue ^{(2) (3)}</u>	
		<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>
		(Audited)		(Unaudited)		(Unaudited)	
Common shares	Unlimited	\$100	100	\$95,100	3,246,766	\$1,357,890	11,852,766
Special Warrants	1,500,000	\$60,000	1,500,000	\$60,000	1,500,000	Nil	Nil
Series “A” Special Warrants	2,990,000	\$299,000	2,990,000	\$299,000	2,990,000	Nil	Nil
Series “B” Special Warrants	1,116,000	\$279,000	1,116,000	\$279,000	1,116,000	Nil	Nil
Deficit ⁽⁵⁾		<u>\$(138,040)</u>					
Total Capitalization ..		<u>\$446,100</u>					

(1) See “Prior Sales”.

(2) Net of consideration paid to the Agent.

(3) We have agreed to issue an additional 100,000 Common shares to Kennecott following the completion of the Offering. See “Development of Our Business – Significant Acquisitions and Significant Dispositions”.

(4) Prior to exercise of the Over-Allotment Option, Warrants, Series “A” Warrants, Series “B” Warrants and Agent’s Warrants.

(5) As at July 31, 2001, the date of the most recent balance sheet included in the financial statements scheduled to this prospectus, we had a deficit of \$138,040 (audited) and no contributed surplus. We have no long-term debt.

Pro-Forma Capitalization

<u>Designation of Security</u>	<u>Number Authorized</u>	<u>Outstanding as at July 31, 2001 ⁽¹⁾⁽²⁾</u>		<u>Outstanding as at September 30, 2001 ⁽¹⁾</u>		<u>Outstanding as at September 30, 2001 after giving effect to the Issue ^{(3) (4) (5)}</u>	
		<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>
		(Audited)		(Unaudited)		(Unaudited)	
Common shares	Unlimited	\$584,140	5,606,100	\$679,140	8,852,766	\$1,357,890	11,852,766
Deficit ⁽⁶⁾		<u>\$(138,047)</u>					
Total Capitalization...		<u>\$446,100</u>					

- (1) See "Prior Sales". After giving effect to the exercise of the Special Warrants, Series "A" Special Warrants and Series "B" Special Warrants.
- (2) Net of issuance costs.
- (3) Net of consideration paid to the Agent.
- (4) We have agreed to issue an additional 100,000 Common shares to Kennecott following the completion of the Offering. See "Development of Our Business – Significant Acquisitions and Significant Dispositions".
- (5) Prior to exercise of the Over-Allotment Option, Warrants, Series "A" Warrants, Series "B" Warrants and Agent's Warrants.
- (6) As at July 31, 2001, the date of the most recent balance sheet included in the financial statements scheduled to this prospectus, we had a deficit of \$138,040 (audited) and no contributed surplus. We have no long-term debt.

Subsequent to July 31, 2001, we issued an aggregate of 2,800,000 of our Common shares to our directors at a price of \$0.01 per share. We also issued a further 233,333 of our common shares at a price of \$0.15 each to each of Patrick Power, our President and one of our directors, and Thomas Yingling, our Vice President and one of our directors, in satisfaction of accrued management fees.

OPTIONS TO PURCHASE SECURITIES

Options

The following table sets out certain information, as at September 30, 2001, concerning options to purchase our securities held by our executive officers, directors, employees, consultants and certain other persons on completion of the Offerings:

Optionees	Total Number of Optioned Common shares ⁽¹⁾	Exercise Price ⁽²⁾	Expiry Date
All of our executive officers and past executive Officers	650,000	\$0.25 ⁽³⁾	March 27, 2006
(2 persons)	750,000	\$0.10	February 28, 2002
All of our directors and past directors..... (other than Executive Officers) (2 persons)	350,000	\$0.25 ⁽³⁾	March 27, 2006
All of our employees and past employees..... (Nil persons)	Nil	N/A	N/A
Consultants..... (Nil persons)	Nil	N/A	N/A
Others.....	Nil	N/A	N/A
Total:.....	1,750,000	N/A	

- (1) After giving effect to the exercise of the Series "A" Special Warrants.
- (2) There was no public market for our Common shares as of the dates of grant.
- (3) The exercise price of the incentive stock options was set at the offering price of the Units in accordance with the policies of the Exchange.

There are no assurances that the options described above will be exercised in whole or in part.

Stock Options

We have granted employee and director incentive stock options in accordance the Policy 4.4 of the Exchange.

Exchange Policy 4.4

Exchange Policy 4.4 sets out the term and conditions with which we must comply in granting incentive stock options. The main terms and conditions are as follows:

- (a) the aggregate number of shares that may be reserved for issuance pursuant to the granting of stock options may not exceed 10% of our outstanding shares and must not exceed 5% of our outstanding shares to any one individual at the time of granting of the options;
- (b) the aggregate number of options we may grant to our consultants may not exceed 2% of our outstanding shares at the time of grant;
- (c) all options granted are subject to a hold period of four months from the date of grant;
- (d) subject to a minimum price of \$0.10 per share, the exercise price of an incentive stock option shall not be less than the closing price of our shares on the Exchange on the day before the date on which the options are granted, less an allowable discount;
- (e) options can be exercisable for a maximum of five years;
- (f) all options granted are non-assignable and non-transferable; and
- (g) disinterested shareholder approval is required for, among other things, an amendment to reduce the exercise price of any stock options granted to one of our insiders.

Our Common shares will not be issued on the exercise of any incentive stock options until they have been fully paid for by the option holder. We will not provide financial assistance to option holders to assist them in exercising their options.

PRIOR SALES

Prior Sales of Securities	Number of Issued		Total Consideration
	Securities	Price per Security	
Common shares ⁽¹⁾	100	\$1.00	\$100
	2,800,000	\$0.01	\$28,000
	446,666	\$0.15	\$67,000
Special Warrants	1,500,000 ⁽²⁾	\$0.04	\$60,000
Series “A” Special Warrants	2,990,000 ⁽³⁾	\$0.10	\$299,000
Series “B” Special Warrants	1,116,000 ⁽⁴⁾	\$0.25	\$279,000

(1) We have agreed to issue an additional 100,000 Common shares to Kennecott following the completion of the Offering. See “Development of Our Business – Significant Acquisitions and Significant Dispositions”.

- (2) 1,500,000 Special Warrants were issued at a deemed price of \$0.04 per share to Montello on the acquisition of the Poplar Joint Venture Interest. Each Special Warrant is exercisable for one Common share. See “Development of Our Business – Significant Acquisitions and Significant Dispositions”.
- (3) 2,990,000 Series “A” Special Warrants were issued under a private placement at \$0.10 per special warrant. Each Series “A” Special Warrant is exercisable for one Common share and one Series “A” Warrant.
- (4) 1,116,000 Series “B” Special Warrants were issued under a private placement at \$0.25 per special warrant. Each Series “B” Special Warrant is exercisable for one Common share and one Series “B” Warrant.

ESCROWED SECURITIES

Escrowed Securities

The following table sets out details of our issued and outstanding securities held to our knowledge in escrow, including securities subject to a pooling agreement:

Designation of Class	Number of Securities⁽¹⁾ Held in Escrow	Percentage of Class
Common shares	4,947,089	41.7%
Series “A” Warrants	675,000	22.6%

- (1) The securities have been deposited in escrow under the National Escrow Regime, with Computershare Trust Company of Canada acting as escrow agent (see “ - National Escrow Regime”).

National Escrow Regime

Under the applicable policies and notices of the Canadian Securities Administrators including the British Columbia Securities Commission, securities held by Principals (as defined below) are required to be held in escrow in accordance with the national escrow regime applicable to initial public distributions. Equity securities owned or controlled by Principals are subject to the escrow requirements. Principals include all persons or companies that, on the completion of the Offering, fall into one of the following categories:

- (i) our directors and senior officers or the directors and senior officers of a material operating subsidiary, as listed in this Prospectus;
- (ii) our promoters during the two years preceding this Offering;
- (iii) those who own and/or control more than 10% of our voting securities immediately after completion of this Offering if they also have appointed or have the right to appoint one or more of our directors or senior officers or one or more of the directors or senior officers of a material operating subsidiary;
- (iv) those who own and/or control more than 20% of our voting securities immediately after completion of this Offering; and
- (v) associates and affiliates of any of the above.

Our principals are all of our directors and senior officers and Montello and its directors and senior officers. Pursuant to an agreement (the “Escrow Agreement”) dated as of ■, 2001 we entered into with Computershare Trust Company of Canada (the “Escrow Agent”) and our principals, the principals agreed to deposit in escrow their Common shares (the “Escrowed Securities”) with the Escrow Agent. The Escrow Agreement provides that the Escrowed Securities will be released from escrow in equal tranches at six-month intervals over the 36 months following the issue of the final receipt for this Prospectus (that

is 15% of each Principal's holdings being released in each tranche) (with 10% of each Principal's holdings being exempt from the escrow provisions).

We are an "emerging issuer" as defined in the applicable policies and notices of the Canadian Securities Administrators. If we achieve "established issuer" status, as defined in such applicable policies and notices, during the term of the Escrow Agreement, we will "graduate" resulting in a catch-up release and an accelerated release of any securities remaining in escrow under the 18 month schedule applicable to established issuers as if we had originally been classified as an established issuer. Securities held by Principals of "established issuers" are released from escrow in equal tranches at six month intervals over 18 months (that is 25% of each Principal's holdings being released in each tranche) (with 25% of each Principal's holdings being exempt from the escrow provisions).

Pursuant to the terms of the Escrow Agreement, the securities held in escrow may not be transferred or otherwise dealt with during the term of the Agreement unless the transfers or dealings with escrow are:

- (i) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the our board of directors;
- (ii) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor's spouse or children;
- (iii) transfers upon bankruptcy to the trustee in bankruptcy; and
- (iv) pledges to a financial institution as collateral for a *bona fide* loan, provided that upon a realization the securities remain subject to escrow. Tenders of escrowed securities to a take-over bid are permitted provided that, if the tenderer is a Principal of the successor company upon completion of the take-over bid, securities received in exchange for tendered escrowed securities are substituted in escrow on the basis of the successor company's escrow classification.

Seed Share Resale Restrictions

The Exchange has required that all of our Series "A" Units and Series "B" Units be subject to seed share resale restrictions, other than our Series "A" Units and Series "B" Units held in escrow under the National Escrow Regime. Under the seed share resale restrictions, a hold period is imposed on these securities, based upon the date of issue of the securities and the amount paid for the securities, commencing on the date (the "Listing Date") our Common shares commence trading on the Exchange. Our Series "A" and Series "B" Special Warrants were issued at a price of \$0.10 and \$0.25 per special warrant, respectively, and within two years before the date of the receipt issued by the securities regulatory authorities for our preliminary prospectus filed in respect of the Offering. Consequently, our Series "A" Units and Series "B" Units will be subject to the following resale restrictions.

Designation of Class	Date of Release	Percentage Released
Series “A” Units	Listing Date	Nil%
	Listing Date plus 3 months	25%
	Listing Date plus 6 months	25%
	Listing Date plus 9 months	25%
	Listing Date plus 12 months	25%
Series “B” Units	Listing Date	100%

PRINCIPAL SHAREHOLDERS

As at September 30, 2001, the following table sets out the number of Common shares owned by our principal shareholders, the number of all classes of our securities to be owned by our principal shareholders after the completion of the Offering and the percentages of each class of securities known to us to be owned by our principal shareholders before and after the completion of the Offering.

Name of Principal Shareholder	Number and class of securities owned before completion of the Offering	Percentage of class before completion of the Offering^{(2) (3)}	Number and class of securities owned after completion of the Offering	Percentage of class after the completion of the Offering^{(2) (3)}
Montello	1,500,000 Special Warrants ⁽¹⁾ 100 Common shares	16.9% 0.001%	1,500,100 Common shares ⁽¹⁾	12.7%
Patrick Power ⁽⁴⁾	350,000 Series “A” Special Warrants 1,523,333 Common shares	4.0% 17.2%	1,873,333 Common shares	15.8%
Thomas Yingling	400,000 ⁽⁵⁾ Series “A” Special Warrants 1,223,333 Common shares	4.5% 13.8%	1,623,333 Common shares	13.7%
Christopher Campbell	250,000 Common shares	2.8%	250,000 Common shares	2.1%
John Buckle	250,000 Common shares	2.8%	250,000 Common shares	2.1%

(1) Owned beneficially and of record.

(2) After giving effect to the exercise of the Special Warrants, Series “A” Special Warrants and Series “B” Special Warrants, but prior to giving effect to the exercise of Series “A” Warrants, Series “B” Warrants, Agent’s Warrants and incentive stock options (see “Plan of Distribution” and “Options”).

(3) The percentages of each class of our securities known to us to be owned by Montello Resources Ltd. before and after the completion of the Offering on a fully diluted basis are 10.7% and 8.0%, respectively.

(4) Patrick Power, our President and CEO and one of our directors, is also President and a director of Montello.

(5) Includes 350,000 Series “A” Special Warrants acquired by Brahma Communications Corp., a company of which Mr. Yingling is the sole director, officer and shareholder.

DIRECTORS AND OFFICERS

Name, Address, Occupation and Security Holding

The following table sets out the name, municipality of residence and position or office of each of our directors and executive officers, their principal occupations for the past five years, and the date of appointment of each director:

Name, Municipality of Residence and Position or Office Held	Principal Occupations within the five Preceding Years	Date Appointed a Director⁽²⁾
Patrick Power Vancouver, B.C. President, Chief Executive Officer and a director	President and a director of Montello Resources Ltd., a publicly listed natural resource exploration company, since November 1993. Our President and a director since January 5, 2001.	January 5, 2001
Thomas Yingling ⁽¹⁾ Delta, B.C. Vice President, Secretary and a director	President of Brahma Communications Corp. since July 1993. Our Vice President and Secretary and one of our directors since January 5, 2001.	January 5, 2001
John Buckle ⁽¹⁾ Waterdown, Ontario Director	Principal of Geological Solutions, a geological consulting firm, since October 1998. Vice President Business Development of Quantec Geoscience, a geological consulting firm, from August 1995 to October 1998.	February 22, 2001
Christopher Campbell ⁽¹⁾ North Vancouver, B.C. Director	Geophysicist with Intrepid Geophysics Ltd., a geophysics consulting firm, since August 1997. Geophysicist with Department of Geological Survey of Botswana from November 1991 to June 1997.	February 22, 2001
Glenn Greig Vancouver, B.C. Chief Financial Officer	Self-employed accounting consultant since July 1993.	N/A

(1) Member of our Audit Committee.

(2) All of the directors hold office until the next annual meeting of our shareholders, which must be held by July 5, 2002.

As of the conclusion of the Offering, the aggregate number of each class of our voting securities that are beneficially owned, directly or indirectly, or over which control or direction is exercised by all of our directors and executive officers, as a group, is 3,996,666 Common shares, being 33.7% of our issued and outstanding Common shares.

Corporate Cease Trade Orders or Bankruptcies

None of our directors or officers or principal shareholders are, or have been within the past ten years, directors or officer of any other issuer that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation

relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that issuer.

Penalties or Sanctions

None of our directors or officers or principal shareholders have been, within the last ten years, the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Individual Bankruptcies

None of our directors or officers or principal shareholders, or a personal holding company of such persons, has, within the past ten years become bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Conflicts of Interest

The transactions which our directors or officers have had an interest in are described under the “Interest of Management and Others in Material Transactions”. Other than as described under such heading, there are no material transactions with our directors or officers that have occurred since our incorporation.

Certain of our directors and officers serve as directors or officers of companies, which we may enter into contracts with in the future. In the event this occurs, a conflict of interest will exist. In accordance with the *Canada Business Corporations Act*, directors and officers are required to act honestly and in good faith with a view to the best interests of the Company and exercise the care, diligence and skill that reasonably prudent person would exercise in comparable circumstances. In addition, directors and officers who are directly or indirectly interested in a material contract or proposed material contract are required to disclose their interest in the matter and directors are required to abstain from voting on the matter.

Management of Junior Issuers

We have a total of two persons performing management or managerial functions. The persons forming our management team and our outside directors and their resumes are described briefly below.

Patrick Power, President, Chief Executive Officer and a Director

Mr. Power, age 38, is our President and Chief Executive Officer and one of our directors and contracts his services to us on a part time basis. Mr. Power devotes approximately 50% of his time to our business. Mr. Power has served with us in this capacity since incorporation, January 5, 2001.

In addition to holding the position of our President and Chief Executive Officer, Mr. Power serves as President and CEO of Montello, a publicly listed natural resource exploration and development company, a position he has held since 1993. Mr. Power also serves as a director of First Narrows Resources Corp.

and Solitaire Minerals Corp., also publicly listed natural resource exploration and development companies.

Mr. Power has entered into a non-disclosure agreement with us, but not a non-competition agreement.

Thomas Yingling, Vice President, Secretary and a Director

Mr. Yingling, age 32, is our Vice President and Secretary and one of our directors and contracts his services to us on a part-time basis. Mr. Yingling has entered into a non-disclosure agreement with us, but not a non-competition agreement. Mr. Yingling devotes approximately 50% of his time to our business.

Mr. Yingling is President of Brahma Communications Corp., an administrative services company, a position which he has held since 1993. Mr. Yingling also serves as Vice President and a director of Tomco Developments Inc., a publicly listed natural resource exploration company. Mr. Yingling was first appointed a director and officer of Tomco Developments Inc. in September 1993.

Mr. Yingling received a Marketing Diploma in 1989 from Langara College in Vancouver, British Columbia.

John Buckle, Director

Mr. Buckle, age 50, is one of our directors and contributes to meetings of our board of directors when and as required. Mr. Buckle has served with us in this capacity since February 22, 2001.

Mr. Buckle has been the principal of Geological Solutions, a geological consulting firm, since October 1998. From August 1995 to October 1998, Mr. Buckle was Vice President Business Development of Quantec Geoscience, a geological consulting firm.

Mr. Buckle also serves as a director of Odyssey Resources Ltd., a publicly listed natural resource exploration company, and as a director of Oasis Diamond Exploration, a private diamond exploration firm. Mr. Buckle was first appointed a director of Odyssey Resources Ltd. in August 1998.

Mr. Buckle has a B.Sc. from York University granted in 1980 and a Geological Technicians Certificate from Sault College granted in 1972.

Mr. Buckle has not entered into a non-disclosure agreement or a non-competition agreement with us.

Christopher Campbell, Director

Mr. Campbell, age 52, is one of our directors and contributes to meetings of our board of directors when and as required. Mr. Campbell is also a member of our audit committee. Mr. Campbell has not entered into a non-disclosure agreement or non-competition agreement with us.

Mr. Campbell is a geophysicist with Intrepid Geophysics Ltd., a geophysics consulting firm, a position which he has held since August 1997. From November 1991 to June 1997, Mr. Campbell was a geophysicist with the Department of Geological Survey of Botswana.

Glenn Greig, Chief Financial Officer

Mr. Greig, age 39, is our Chief Financial Officer and contracts his service to us on a part-time basis. Mr. Greig has entered into a non-disclosure agreement with us, but not a non-competition agreement. Mr. Greig devotes approximately 25% of his time to our business. Mr. Greig assumed the position of our Chief Financial Officer on August 1, 2001.

Mr. Greig has been a self-employed accounting consultant since July 1993. During this time, Mr. Greig has focused his efforts on providing accounting services to public companies whose shares are listed on the Exchange. One of the companies for which Mr. Greig provides accounting services is Montello. Mr. Greig has also served as an officer of a number of public companies over the last six years, however, does not currently serve as an officer or director of any other companies.

Mr. Greig received a Bachelor of Commerce from the University of British Columbia in November 1987.

EXECUTIVE COMPENSATION

Summary Compensation

The following table provides a summary of compensation earned during the period from incorporation on January 5, 2001 to July 31, 2001 of the Chief Executive Officer and certain other of our executive officers (together, the “Named Executive Officers”):

Name and Principal Position	Annual Compensation		Long-Term Compensation Awards	
	Year	Salary (Cdn\$)	Securities Under Options⁽²⁾	All Other Compensation (Cdn\$)
Patrick Power President & CEO	July 31, 2001 ⁽¹⁾	\$35,000	325,000	Nil

(1) Patrick Power was appointed our Chief Executive Officer and President on January 5, 2001. Mr. Power and Mr. Yingling, our Vice President, Chief Financial Officer and Secretary, each receive \$5,000 per month for the period commencing January 5, 2001 and expiring September 30, 2001. As of October 1, 2001, Mr. Power and Mr. Yingling agreed to reduce their respective compensation to \$2,500 per month.

(2) In March, 2001, incentive stock options were granted to Patrick Power and to certain other persons (see “Options”).

Employment Contracts

Mr. Power and Mr. Yingling have entered into agreements with us that set out their respective duties, time to be allotted to our business and compensation (see “- Summary Compensation” and “Directors and Officers - Management of Junior Issuers”). None of these agreements include a compensatory plan or arrangement resulting from the resignation, retirement or any other termination of employment of a Named Executive Officer or from a change in control.

Remuneration of Directors

We do not pay any compensation to our directors for their services in their capacity as directors (see Executive Compensation - Summary Compensation”). We have granted stock options to our directors (see “Options”).

PLAN OF DISTRIBUTION

The Offering

By an agreement dated for reference the ◆ day of ◆, 2001 (the “Sponsorship and Agency Agreement”), we appointed Canaccord Capital Corporation as our Agent to offer a total of 3,000,000 Units to the public through the facilities of the Exchange, comprised of 1,000,000 Flow-Through Units and 2,000,000 Non Flow-Through Units. Each Unit is to consist of one Share and one Warrant. Each Warrant will entitle the holder thereof to purchase one additional Common share in our capital at a price of \$0.25 per share for a period of two years following the date the Warrants commence trading on the Exchange. The Share comprised in each Flow-Through Unit will be a “flow-through share” for Canadian federal income tax purposes, and the Warrant comprised in each Flow-Through Unit will be a non flow-through warrant. See “Certain Canadian Federal Income Tax Consequences” below. The Units will be offered at a price of \$0.25 per unit during the period ending on the earlier of 12 months from the date of issuance of a receipt for the preliminary prospectus or 90 days following the date of the receipt issued by the last of the Alberta, British Columbia and Ontario Securities Commissions for the final prospectus. In accordance with the policies of the Exchange, we will receive the net proceeds of the Offering within ten business days of the conclusion of the Offering. We have granted to the Agent an option (the “Over-Allotment Option”) which will permit the Agent to solicit and accept subscriptions for up to 450,000 additional Non Flow-Through Units also at a price of \$0.25 per Unit. The Over-Allotment Option may be used by the Agent to stabilize the price of the Units in order to facilitate the distribution of the Units.

The Flow-Through Shares comprised in the Units will have the features set out in the Flow-Through Share Agreement attached as Schedule “A”, including the terms and conditions attached. By agreeing to purchase the Flow-Through Units, the purchasers are deemed to appoint the Agent to execute the Flow-Through Subscription Agreement on their behalf.

Under the terms of the Agency Agreement, we have agreed to pay to the Agent a commission of \$0.02375 per unit for each Unit sold from this Offering including Units sold by the Agent, if any, pursuant to the Over-Allotment Option. The price of our Units to the public and the commission to the Agent was established through negotiation with the Agent. None of the proceeds from the sale of the Flow-Through Units will be used to pay commissions, fees or other expenses of the Offering.

We have also agreed to grant the Agent a non-transferable share purchase warrant (the “Agent’s Warrant”) entitling it to purchase up to 450,000 Common shares at any time up to the close of business two years from the day our Common shares commence trading on the Exchange. The exercise price of the Agent’s Warrant is \$0.25 per share. If the Over-Allotment Option is exercised in full, we will grant the Agent an additional 67,500 Agent’s Warrants.

The Over-Allotment Option will permit the Agent to solicit and accept subscriptions for up to 450,000 additional Non Flow-Through Units also at a price of \$0.25 per unit. The number of Units subject to the Over-Allotment Option will be the lesser of 450,000 Units or the actual number of Units subscribed for by way of over-subscription.

In order to exercise the Over-Allotment Option, the Agent must give us notice within 60 calendar days of the date of closing. The Agent is not obliged to cover the over-allotment of this Offering by exercising the Over-Allotment Option. The Agent may, in its discretion, cover the over-allotment by purchasing Common shares and Warrants in the open market.

We have also granted to the Agent a right of first refusal to provide us with further public equity financing for a period of 12 months from the day our Common shares commence trading on the Exchange.

An application has been made to conditionally list the securities being offered herein on the Exchange. Listing is subject to our fulfilling the listing requirements of the Exchange, including prescribed distribution and financial requirements.

The Agent has reserved the right to offer selling group participation in the normal course of the brokerage business to selling groups of other licensed broker dealers, brokers and investment dealers who may or may not be offered part of the commissions or Agent's Warrants being derived by the Agent from the Offering.

The obligations of the Agent under the Agency Agreement may be terminated prior to the opening of the market on the day our Common shares are to be listed, posted and called for trading on the Exchange at the discretion of the Agent on the basis of its assessment of the state of the financial markets and may also be terminated at any time upon the occurrence of certain stated events.

This prospectus also qualifies the issuance of the Agent's Warrants to the Agent and the sale of additional Units pursuant to the Over-Allotment Option.

Under the Sponsorship and Agency Agreement, the Agent also agreed to sponsor us for our listing on the Exchange. We have paid the Agent a cash sponsorship fee of \$25,000 (plus applicable taxes)(the "Sponsorship Fee"). We have also advanced to the Agent \$10,000 as a deposit against expenses.

The Special Warrant Offering

The Special Warrant Offering consists of the issuance of 1,500,000 of our Common shares issuable, without payment of any additional consideration, upon the exercise of 1,500,000 Special Warrants, 2,990,000 Series "A" Units issuable, without payment of any additional consideration, upon the exercise of 2,990,000 Series "A" Special Warrants and 1,116,000 Series "B" Units issuable, without payment of any additional consideration, upon the exercise of 1,116,000 Series "B" Special Warrants, all of which special warrants were previously issued by us.

Each Special Warrant is exercisable into one Common share (a "Special Warrant Share"). The Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Special Warrant Shares on exercise of the Special Warrants (the "Special Warrant Expiry Time"). Any Special Warrant not exercised prior to the Special Warrant Expiry Time will be deemed to have been exercised immediately prior to the Special Warrant Expiry Time. We will not receive any additional proceeds or pay any additional fees to the Agent or any other agent with respect to the Special Warrant Shares distributed on exercise of the Special Warrants under the Special Warrant Offering. The Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series "A" Special Warrant is exercisable into one Series "A" Unit. Each Series "A" Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a "Series "A" Warrant") entitling the holder to purchase one additional Common share in our capital at a price of \$0.10 per share until February 28, 2002. Of the 2,990,000 Common shares forming part of the

Series "A" Units, 1,990,000 are flow through Common shares. The Series "A" Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Series "A" Units on exercise of the Series "A" Special Warrants" (the "Series "A" Expiry Time"). Any Series "A" Special Warrant not exercised prior to the Series "A" Expiry Time will be deemed to have been exercised immediately prior to the Series "A" Expiry Time. The Series "A" Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

Each Series "B" Special Warrant is exercisable into one Series "B" Unit. Each Series "B" Unit is comprised of one Common share in our capital and one non-transferable share purchase warrant (a "Series "B" Warrant") entitling the holder to purchase one additional Common share in our capital at a price of \$0.25 per share until February 28, 2002. The Series "B" Special Warrants are exercisable at any time at the option of the holder before the fifth business day after a receipt is issued by the last of the securities regulatory authorities in each of the Provinces of British Columbia, Alberta and Ontario for the final prospectus qualifying the issuance of the Series "B" Units on exercise of the Series "B" Special Warrants" (the "Series "B" Expiry Time"). Any Series "B" Special Warrant not exercised prior to the Series "B" Expiry Time will be deemed to have been exercised immediately prior to the Series "B" Expiry Time. The Series "B" Special Warrants were issued pursuant to prospectus exemptions under applicable securities legislation.

RISK FACTORS

We, and as a result our securities, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this prospectus prior to making an investment in our securities. In addition to the other information presented in this prospectus, the following risk factors should be given special consideration when evaluating an investment in any of our securities.

Exploration and Development: All of the resource properties in which we have an interest or the right to acquire an interest are in the exploration stages only and are without a known body of diamonds or ore. Development of our resource properties will only follow upon obtaining satisfactory results. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that our exploration and development activities will result in any discoveries of commercial bodies of diamonds or ore. The long-term profitability of our operations will be, in part, directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

Operating Hazards and Risks: Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which we have a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although we have or will

obtain liability insurance in an amount which we consider adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or we might not elect to insure ourselves against such liabilities due to high premium costs or other reasons, in which event we could incur significant costs that could have a material adverse effect upon our financial condition.

Fluctuating Prices: Our revenues, if any, are expected to be in large part derived from the extraction and sale of diamonds as well as base and precious metals such as gold. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond our control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of base and precious metals, and therefore the economic viability of any of our exploration projects, cannot accurately be predicted.

Environmental Factors: All phases of our operations are subject to environmental regulation in the various jurisdictions in which we operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect our operations.

Competition: The resource industry is intensely competitive in all of its phases, and we compete with many companies possessing greater financial resources and technical facilities than ourselves. Competition could adversely affect our ability to acquire suitable properties for exploration in the future.

Options and Joint Ventures: We may, in the future, be unable to meet our share of costs incurred under option or joint venture agreements to which we are a party and we may have our interest in the properties subject to such agreements reduced as a result. Furthermore, if other parties to such agreements do not meet their share of such costs, we may be unable to finance the cost required to complete recommended programs.

Title to Assets: Although we have or may receive title opinions for any properties in which we have or will acquire a material interest, there is no guarantee that title to such concessions will not be challenged or impugned. In some countries, the system for recording title to the rights to explore, develop and mine natural resources is such that a title opinion provides only minimal comfort that the holder has title. Also, in many countries, claims have been made and new claims are being made by aboriginal peoples that call into question the rights granted by the governments of those countries.

Political and Economic Instability: Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The effect of these factors cannot be accurately predicted.

Management: We are dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on us.

Requirement of New Capital: As an exploration company without revenues, we typically need more capital than we have available to us. In the past, we have had to raise, by way of equity financing,

considerable funds to meet our needs. There is no guarantee that we will be able to continue to raise funds needed for our business. Failure to raise the necessary funds in a timely fashion will limit our growth. See also “Selected Consolidated Financial Information and Management’s Discussion and Analysis”.

Dilution: The following sets forth the dilution per share (as at July 31, 2001) after giving effect to the Offering:

Offering price of Units offered under this prospectus:		\$0.25
Net tangible book value before the Offering:	\$0.104	
Increase in net tangible book value attributable to the Offering:	\$0.043	
Net tangible book value after the Offering:		\$0.147
Dilution to investor:		\$0.103
Dilution to investor (as a percentage):		41.2%

There are a number of outstanding securities and agreements pursuant to which Common shares may be issued in the future. If these Common shares are issued, this will result in further dilution to our shareholders. See “Options” and “Capitalization”.

Dividends: We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain our earnings to finance further growth and, when appropriate, retire debt.

PROMOTERS

Montello may be considered to be our promoter and owns 1,500,000 Special Warrants and 100 Common shares (see “Principal Shareholders”). We acquired the rights to the Poplar Joint Venture Interest from Montello on January 5, 2001 on issuance of 1,500,000 Special Warrants (issued) and the payment of \$75,000 (paid). We have also agreed to assume all of Montello’s obligations under the Poplar Joint Venture and, in this regard, agreed to advance to Montello forthwith on signing the Assignment Agreement \$302,000 (advanced) for payment to Kennecott in respect of Poplar Joint Venture expenditures and pay to Kennecott on behalf of Montello following the completion of the initial public offering of our Common shares a further \$125,000 in respect of Poplar Joint Venture expenditures (see “Development of Our Business - Significant Acquisitions and Significant Dispositions”).

Patrick Power, our President and Chief Executive Officer and one of our directors, is the President and a director of Montello.

LEGAL PROCEEDINGS

There are no material legal proceedings or pending legal proceedings to which we are or are likely to be a party or of which any of our subsidiaries or properties are or are likely to be the subject.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On January 5, 2001, we entered into an asset purchase agreement with Montello for the acquisition of all of the rights to the Poplar Joint Venture Interest which agreement was amended by an agreement dated September 30, 2001. Mr. Patrick Power is the President and a director of Montello and is also our President and Chief Executive Officer and one of our directors. See “Development of Our Business - Significant Acquisitions and Significant Dispositions”.

On February 28, 2001, Mr. Power and Brahma Communications Corp., a company of which Mr. Yingling is the sole director, officer and shareholder, each subscribed for 350,000 Series “A” Special Warrants at a price of \$0.10 each. On March 9, 2001, Mr. Yingling subscribed for 50,000 Series “A” Special Warrants at a price of \$0.10 each.

On September 28, 2001, we issued to each of Mr. Power and Mr. Yingling 223,333 of our Common shares at a deemed price of \$0.15 per share in satisfaction of \$67,000 in fees accrued over the period commencing July 5, 2001 and expiring September 30, 2001.

On September 28, 2001, we also allotted a total of 2,800,000 of our Common shares for issuance to our directors and officers at a price of \$0.01 per share.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Charlton & Company, tax advisors to the Company, the following is a fair and adequate summary of the principal Canadian federal income tax considerations applicable to purchasers who acquire Flow-Through Units pursuant to this prospectus, who are individuals or corporations that are resident in Canada, who deal at arm’s length with the Company and who hold the flow-through shares and non flow-through warrants comprised in the Flow-Through Units as capital property, all within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”). The shares will generally be considered to be capital property unless the purchaser holds such shares in the course of carrying on a business of trading or dealing in securities or has acquired them in a transaction or transactions considered to be an adventure in the nature of a trade.

This summary does not address purchasers who or which are partnerships, trusts, “principal-business corporations” as that phrase is defined in the Tax Act (being essentially corporations whose main business is the exploitation of natural resources), traders or dealers in natural resource properties, “financial institutions” as that phrase is defined in the Tax Act, persons who deal with the Company on a non-arm’s length basis or non-residents of Canada. Nor does this summary address any transferee of a non-flow-through warrant.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the “Regulations”), any publicly-announced proposals (the “Proposals”) to amend the Tax Act or Regulations prior to this date and our understanding of the current administrative policies of the Canada Customs & Revenue Agency (“CCRA”). This summary does not take into account or anticipate any other changes in law (which may, without notice, apply on a retroactive basis) nor does it take into account the tax laws of any province of Canada or any jurisdiction outside Canada. No assurances can be given that any of the Proposals will be enacted into law or that legislation will implement the Proposals in the manner now proposed.

This summary assumes that the Company will make all the necessary tax filings in respect of the issuance of the flow-through shares comprised in the Flow-Through Units and the renunciation of CEE in the manner and within the time required by the Tax Act and the Regulations. This summary assumes that the

Company will be a “principal-business corporation” at all material times and that the flow-through shares, when issued, will not be “prescribed shares” within the meaning of the Tax Act.

This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations. This summary is not intended to be, and should not be construed to be, legal or tax advice to any prospective purchaser and no representation is made with respect to the tax consequences to any particular purchaser. Accordingly, prospective purchasers should consult their own legal and tax advisors to determine the particular tax consequences to them having regard to their own particular circumstances.

Flow-Through Shares

A “principal-business corporation” as that phrase is defined in the Tax Act, that incurs Canadian exploration expense (“CEE”) with funds received from a purchaser pursuant to an agreement to subscribe for flow-through shares (other than certain prescribed shares described in the Regulations) can renounce such CEE to the purchaser so that the expenses are deemed, for income tax purposes, to have been incurred by the purchaser. Generally, CEE includes any expense incurred by a corporation for the purpose of determining the existence, location, extent, or quality, of a mineral resource in Canada (“Grass Roots Expenses”).

Pursuant to the Flow-Through Share Agreement in substantially the form set forth as Schedule “A” hereto (the “Agreement”) to be entered into between the Company and each purchaser obtaining flow-through shares, the Company will represent that it is, and at all material times will be, a principal-business corporation and that the flow-through shares will not be prescribed shares when they are issued. To effectively renounce the CEE to purchasers, the Company must make certain filings with respect to issuance of the flow-through shares and renunciation of CEE in the manner and within the times required by the Tax Act. The Company will represent to purchasers that it will make such filings and provide purchasers with the necessary information with respect to CEE renounced for purposes of each purchaser’s income tax returns. However, the preparation and filing of the income tax returns will be the responsibility of each purchaser.

In general terms, the Company can renounce CEE incurred by it between the date the Agreement is fully executed by the Company and the purchaser and the end of March of the calendar year following the date which is 24 months from the end of the month that includes that date. The Company will be entitled to renounce the amount of CEE otherwise deductible by it, less: (i) any previous renunciations with respect to such CEE; (ii) any portion of such CEE that is prescribed under the Regulations as relating to overhead expenses; (iii) any assistance the Company has received or may reasonably be expected to receive that is reasonably related to such CEE; and (iv) any such CEE that is the cost of, or an expense incurred for the use of, certain seismic data as more fully described in the Tax Act. The Company may not renounce to purchasers an amount in excess of the consideration paid by the purchasers for the flow-through shares. Further, the Company will not be entitled to renounce CEE to the extent that such renunciation, if effective, would cause the Company’s own cumulative CEE account to be negative.

Where an Agreement is entered into and the purchaser has paid money for the Flow-Through Units before the end of a calendar year (“Year 1”), the Tax Act will permit the Company to make a renunciation by March 31 of the next calendar year (“Year 2”) in respect of certain CEE which the Company plans to incur or has incurred in Year 2 and such renunciation will be effective December 31 of Year 1. The Company will be required under the Tax Act to pay deductible monthly charges on any balance of CEE renounced but not incurred at the end of each month in Year 2 (other than January) for CEE renounced

effective December 31 of Year 1 under the Agreement. The monthly charge is the consideration received by the Company allocated to the flow-through shares comprised in the Flow-Through Units under the Agreement multiplied by $1/12^{\text{th}}$ of the prescribed rate used for the purpose of determining refund interest under the Tax Act.

In the event that the Company fails to expend the renounced amounts on CEE by the end of Year 2 in connection with the flow-through shares, the Company will be required to adjust renunciations made to purchasers. Purchasers will not be required to pay interest to the government on any increase in income tax payable as a result of such adjustment until April of the calendar year following the renunciation. In addition, the Company must pay a charge under the Tax Act equal to 10% of the balance of any renounced but unexpended CEE at the end of Year 2.

Deduction for CEE

CEE deemed to have been incurred by a purchaser will be added to the purchaser's cumulative CEE account. A purchaser may deduct, in computing income from all sources for a taxation year such amount as may be claimed not exceeding 100% of the purchaser's cumulative CEE account.

Any such deductions reduce the purchaser's CEE account by a corresponding amount. Also, a purchaser's CEE account is reduced by the amount of any assistance the purchaser receives or becomes entitled to receive in respect of CEE included in that account.

CEE incurred by the Company after October 17, 2000 and before 2004 in conducting grassroots mining exploration activities from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a base or pressure metal deposit will, upon renunciation to a purchaser who is an individual (other than a trust) give rise to a 15% non-refundable investment tax credit for that purchaser. This tax credit can be applied by a purchaser to offset federal taxes otherwise payable. CEE incurred in connection with digging test pits and preliminary sampling generally will not qualify for the non-refundable federal investment tax credits.

The cumulative CEE pool of a purchaser, at any time in a taxation year, will be reduced by the amount of the 15% non-refundable investment tax credit claimed by the purchaser in the preceding year.

If a purchaser's CEE account becomes negative at the end of a taxation year, that amount must be included in the purchaser's income for that year, and the resulting balance in the account is nil until the purchaser incurs or is deemed to incur further CEE. For example, if a purchaser deducts an amount equal to 100% of his CEE account and claims that 15% federal tax credit in Year 1, and the purchaser does not incur and is not deemed to incur any CEE in Year 2, the CEE account will be negative in Year 2. And that negative amount must be included in the purchaser's income for computing his income tax liability for Year 2.

To the extent that a purchaser does not deduct the balance of his or her cumulative CEE account at the end of a taxation year, the balance will be carried forward indefinitely and, generally, the purchaser will be entitled to claim deductions in respect thereof in subsequent taxation years. A purchaser who disposes of flow-through shares will retain the entitlement to receive renunciations of CEE from the Company as described above as well as the ability to deduct any CEE previously renounced to the purchaser by the Company, and the buyer who purchases such shares from the purchaser will not be entitled to a renunciation of any CEE or to such deductions.

The Company does not propose to engage counsel to verify the expenses incurred or to be incurred, the amounts of renunciation made or to be made by the Company, nor the effective date of any renunciation.

Allocation of Flow-Through Unit Price

Each purchaser of Flow-Through Units must allocate the \$0.25 price per unit between the flow-through shares and non-flow-through warrants comprised therein on a reasonable basis. This is required to determine the separate cost to the purchaser of each security for the purposes of the Tax Act. The Company will allocate \$0.249 to the flow-through share and \$0.001 to the non-flow-through warrant. CCRA takes the position that the allocation made by the Company and each purchaser must be the same. The Company advises that it considers this allocation to be reasonable, however this determination is not binding on CCRA.

Disposition of Flow-Through Shares or Non-Flow-Through Warrants

Any disposition or deemed disposition (other than a disposition to the Company) of flow-through shares or non-flow-through warrants may result in the realization of a capital gain (or capital loss) in the taxation year of the disposition, equal to the amount by which the proceeds of disposition and any costs of disposition exceed (or are exceeded by) the adjusted cost base of the flow-through shares or non-flow-through warrants.

Flow-through shares are deemed by the Tax Act to have been acquired at a cost of nil, notwithstanding the amount actually paid for the shares. However, the “adjusted cost base”, as that phrase is defined in the Tax Act, of a flow-through share to a purchaser at any time will be averaged with the adjusted cost base of any other flow-through or non-flow-through common shares of the Company in the same class of such shares which are held by the purchaser at that time as capital property.

One-half of any capital gain (i.e., a taxable capital gain) from the disposition of flow-through shares or non-flow-through warrants must be included in the purchaser’s income for the taxation year in which the disposition occurs. One-half of any capital loss (i.e., an allowable capital loss) may be deducted by the purchaser from taxable capital gains for the year, and any excess allowable capital losses may generally be carried back three years and forward indefinitely. Allowable capital losses may not generally be used to offset other types of income. In some circumstances, an allowable capital loss will be denied if the loss arises from a disposition to a related person.

A purchaser that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay, in addition to the tax otherwise payable under the Tax Act, a refundable tax of 6 2/3 %, determined by reference to its aggregate investment income for the year, which is defined to include an amount in respect of taxable capital gains.

Non Flow-Through Warrant Exercise or Expiry

No taxable gain or loss arises when a purchaser exercises a non-flow-through warrant and thereby acquires a non-flow-through common share. On exercise, generally the initial cost to the purchaser of the share for the purposes of the Tax Act will be the purchaser’s cost of the warrant plus the exercise price paid for the share.

If a non-flow-through warrant expires while held by a purchaser, generally the purchaser will realize a capital loss equal to its cost to the purchaser. Under the Tax Act, one-half of that capital loss generally

may be deducted from certain taxable capital gains which may be realized by the purchaser, in that year or the three preceding taxation years or any subsequent taxation year in accordance with the rules set forth in the Tax Act.

Dividends Received on Flow-Through Shares

Dividends received by an individual on the flow-through shares will be eligible for a dividend tax credit. For purposes of calculating the individual's income, dividends received by the individual will be increased by one quarter (the "gross-up") and the total amount is added to the individual's income. The individual will then be entitled to a credit against federal income tax payable equal to two-thirds of the amount of the gross-up.

Dividends received by a corporation on the flow-through shares are normally received tax-free under the Tax Act, but may be subject to a special refundable tax under Part IV of the Tax Act.

Alternative Minimum Tax

Under the Tax Act, taxes payable by an individual are the greater of the taxes otherwise determined, and an alternative minimum tax based in part on the amount by which the individual's "adjusted taxable income" as that phrase is defined in the Tax Act, for the year exceeds \$40,000. In calculating adjusted taxable income, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise taxable are included in income. The disallowed items include deductions claimed by the individual in respect of CEE, to the extent they gave rise to losses from resource-related activities, and in respect of any carrying charges relating to the acquisition of flow-through shares. For these purposes, 80% of the amount of net capital gains realized by an individual during the year is also added to the individual's adjusted taxable income. Consequently an individual who deducts CEE or disposes of flow-through shares may be subject to alternative minimum tax.

Any additional tax payable by an individual purchaser for a taxation year by virtue of alternative minimum tax may be carried forward and credited against the purchaser's ordinary income tax otherwise payable in the next-following seven taxation years. However, such credits can be applied only in any of those seven years if the purchaser's ordinary income tax liability in that year exceeds what would be the purchaser's minimum tax liability for that year.

Whether alternative minimum tax applies in each particular purchaser's case will depend on the amount of such purchaser's income, the sources from which it is derived, and the nature and amounts of deductions such purchaser claims. Purchasers should consult their tax advisors to determine whether they will be subject to alternative minimum tax.

Interest

Generally, a purchaser will be entitled to deduct a reasonable amount of interest paid or payable on money borrowed to acquire flow-through shares provided the purchaser continues to own the shares or otherwise uses the borrowed funds to earn income from a business or property.

Eligibility for Investment in Deferred Income Plans

If Common shares (including flow-through shares) were listed on a prescribed stock exchange (such as Tier 1 or Tier 2 of the Canadian Venture Exchange) on the date hereof, the flow-through shares would be

“qualified investments” for a trust governed by a “registered retirement savings plan”, a “deferred profit sharing plan”, a “registered education savings plan”, or a “registered retirement income fund”. Purchasers who wish to contribute all or a portion of their flow-through shares to any such deferred-income plan should consult their own tax advisors as to the tax consequences of such a contribution.

RELATIONSHIP BETWEEN ISSUER AND AGENT

We are not a related party or connected party of the Agent as defined in the Rules to the *Securities Act* (British Columbia).

AUDITOR, TRANSFER AGENT AND REGISTRAR

Auditor

Our auditor is Charlton & Company, Chartered Accountants, 6th Floor, 509 Richards Street, Vancouver, British Columbia, V6B 2Z6.

Transfer Agent and Registrar

The transfer agent and registrar of our Common shares is Computershare Trust Company of Canada, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9.

Registration of Securities

The registers on which ownership of the Warrants, Series “A” Warrants, Series “B” Warrants and Agent’s Warrants is recorded are located in Vancouver, British Columbia. Only the Warrants are transferable.

MATERIAL CONTRACTS

The following are our material contracts that are either outstanding as at the date of this Prospectus, or that were entered into since our incorporation:

1. The Asset Purchase Agreement dated January 5, 2001 we entered into with Montello described under “Development of Our Business - Significant Acquisitions and Significant Dispositions”.
2. The Consent Agreement dated May 16, 2001 we entered into with Montello and Kennecott described under “Development of Our Business - Significant Acquisitions and Significant Dispositions”.
3. The Poplar Joint Venture Agreement dated July 8, 1999 between Montello and Kennecott described under “Development of Our Business - Significant Acquisitions and Significant Dispositions”.
4. The Diamond Marketing Agreement dated July 8, 1999 between Montello and Kennecott described under “Development of Our Business - Significant Acquisitions and Significant Dispositions”.
5. The Amended and Restated Purchase Agreement dated September 30, 2001 we entered into with Montello described under “Development of Our Business - Significant Acquisitions and Significant Dispositions”.
6. The Sponsorship and Agency Agreement described under “Plan of Distribution - The Offering”.

7. The Escrow Agreement described under “Escrow Securities”.

The material contracts described above may be inspected at the offices of our solicitors, Bragagnolo & Ovsenek, Solicitors, 602-570 Granville Street, Vancouver, British Columbia during normal business hours during the period of the distribution of the shares being distributed hereunder and for a period of thirty days thereafter.

OTHER MATERIAL FACTS

There are no other material facts relating to securities offered by this Prospectus which have not previously been disclosed elsewhere in this Prospectus.

CONTRACTUAL RIGHTS OF RESCISSION

In the event that a holder of Special Warrants, who acquires Common shares or Warrants upon the exercise or deemed exercise of such special warrants as provided for in this Prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of its special warrants but also of the private placement transaction pursuant to which the special warrants were initially acquired, and shall be entitled in connection with that rescission to a full refund of all consideration paid to the Company on the acquisition of the special warrants. In the event that such holder is a permitted assignee of the interest of the original special warrants subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted to the original special warrant subscriber as if such permitted assignee was such original subscriber. The foregoing is a direct contractual right extended by the Company alone (but specifically not by either the Agent or the directors, officers or other agents of the Company) to holders of special warrants, permitted assignees of such holders and holders of units acquired by such holders on exercise of special warrants and are in addition to any other right or remedy available to a holder of special warrants under section 168 of the *Securities Act* (Alberta), section 131 of the *Securities Act* (British Columbia) the securities legislation of the holder's province or otherwise at law. The purchaser should refer to any applicable provisions of the securities legislation of its province for the particulars of these rights or consult with a legal adviser. The foregoing contractual rights of action for rescission, being based on the availability of a remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, is subject to the defence described under section 168(3) of the *Securities Act* (Alberta) and section 131(4) of the *Securities Act* (British Columbia) and the corresponding provisions of any other applicable legislation, which defence is incorporated herein by reference, *mutatis mutandis* and, for similar reasons, no action may be commenced to enforce the foregoing rights of action for rescission more than 180 days after the date of original issuance of the special warrants.

STATUTORY RIGHTS OF RESCISSION AND WITHDRAWAL

Securities legislation in certain of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment thereof. In several of the provinces and territories of Canada, securities legislation provides a purchaser with remedies for rescission or, in some jurisdictions, damages where this prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province or territory.

The purchaser should refer to any applicable provisions of the securities legislation of his or her province or territory for the particulars of these rights or consult with a legal adviser.

ARCTIC STAR DIAMOND CORP.
INTERIM FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
JULY 31, 2001

Arctic Star Diamond Corp.

July 31, 2001

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AUDITORS' REPORT

To: the Directors of
 Arctic Star Diamond Corp.

We have audited the interim balance sheet of Arctic Star Diamond Corp. as at July 31, 2001 and the interim statements of operations and deficit and cash flows for the period then ended. These interim financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these interim financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the interim financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these interim financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2001 and the results of its operations and cash flows for the period then ended in accordance with generally accepted accounting principles.

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
August 21, 2001

Arctic Star Diamond Corp.
Interim Balance Sheet
As at July 31, 2001

ASSETS

Current

Cash	\$	3,297
Loan receivable (Note 4)		<u>26,800</u>
		30,097

Deferred share issuance costs 10,000

Investment in resource property (Notes 2 and 5) 707,266

\$ 747,363

LIABILITIES & SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued liabilities (Note 8 (c)) \$ 234,263

Accounts payable (Note 13 (c)) 67,000

301,263

Shareholders' equity

Share capital (Notes 6 and 13) 100

Special warrants (Notes 7 and 13) 584,040

Deficit, per accompanying statement (138,040)

446,100

\$ 747,363

Continuance of operations (Note 1)

Commitments (Note 9)

Approved by the Board

Director

Director

See accompanying notes.

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Arctic Star Diamond Corp.**Interim Statement of Operations and Deficit****Period from Date of Incorporation on January 5, 2001 to July 31, 2001**

Expenses

Accounting and audit	\$ 10,393
Advertising and promotion	3,289
Bank charges and interest	470
Consulting	1,960
Insurance	956
Legal	26,681
Management fees	70,000
Office	2,642
Rent	12,000
Telephone	1,800
Travel	8,723
Web site fees	214

139,128

Loss before other item

(139,128)

Interest income

1,088

Loss for the period

(138,040)

Deficit, beginning of period

-

Deficit, end of period

\$ (138,040)

Loss per share (Note 3 (e))

\$ (0.02)

See accompanying notes.

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Arctic Star Diamond Corp.
Interim Statement of Cash Flows
Period from Date of Incorporation on January 5, 2001 to July 31, 2001

Cash flows from (used in)

Operating activities

Loss for the period	\$ (138,040)
Changes in non-cash working capital item	
Increase in accounts payable	<u>301,263</u>
	<u>163,223</u>

Investing activities

Resource property expenditures	(647,266)
Loan receivable	<u>(26,800)</u>
	<u>(674,066)</u>

Financing activities

Issuance of shares	100
Issuance of special warrants	524,040
Deferred share issuance costs	<u>(10,000)</u>
	<u>514,140</u>

Increase in cash during the period 3,297

Cash, beginning of period -

Cash, end of period \$ 3,297

Supplemental disclosure with respect to cash flows (Note 10)

1. **Continuance of operations**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from the carrying values as shown in the financial statements should the Company be unable to continue as a going concern.

2. **Nature of operations**

The Company was federally incorporated under the Canada Business Corporations Act on January 5, 2001.

The Company is in the process of exploring its resource property and has not determined whether this property contains mineral reserves which are economically recoverable.

The recoverability of amounts shown for the resource property and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production from the property or proceeds from its disposition.

3. **Significant accounting policies**

(a) Resource property

Acquisition costs of the resource property together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained these costs will be amortized. When deferred expenditures on the individual producing property exceed the estimated net realizable value, the property is written down to the estimated value. Costs relating to the property abandoned are written off when the decision to abandon is made

(b) Financial instruments

The Company's financial instruments consist of cash, loan receivable, and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values.

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

3. **Significant accounting policies** (continued)

(d) Stock option plans

The Company provides options to buy shares of the Company to directors, officers and employees allowing them the opportunity to participate in the progress of the Company. Such options are granted by the board of directors for periods of up to five years at prices equal to or greater than the market price of the Company's shares on the date the options are granted. No compensation expense is recognized when stock options are granted to or exercised by directors, officers, and employees. Any consideration paid to the Company on exercise of stock options is credited to share capital.

(e) Loss per share

Basic loss per share is calculated using the weighted daily average number of common shares and special warrants outstanding. Fully diluted loss per share has not been calculated as it is anti-dilutive.

(f) Income taxes

The Company follows the new accounting recommendations for income taxes issued by the Canadian Institute of Chartered Accountants, whereby future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Although the Company has tax loss carry-forwards (Note 11), there is uncertainty as to utilization prior to their expiry. Accordingly, the future income tax asset amounts have been fully offset by an uncertainty provision.

4. **Loan receivable**

The loan receivable, due from a company with a common director, bears no interest and has no terms of repayment. Subsequent to July 31, 2001, the loan was received in full.

5. **Investment in resource property**

Poplar

During the period ended July 31, 2001, the Company purchased from Montello Resources Ltd. ("Montello"), a company related by a common director, a 40% interest in the Poplar property. This is a joint venture agreement with Kennecott Canada Exploration Inc. ("Kennecott") over prospective claims in the Province of Manitoba. The participating interests are Kennecott 60% and the Company 40%. The acquisition consisted of cash consideration of \$75,000 and a further \$302,000 cash on account of amounts due to Kennecott with respect to Poplar joint venture expenses, and the issuance of 1,500,000 special warrants at a deemed price of \$0.04 per special warrant (Note 7(c)).

5. **Investment in resource property** (continued)

Within fifteen days after the completion of an initial public offering, the Company is required to pay Montello \$125,000 on account of amounts due to Kennecott with respect to Poplar joint venture expenses.

Acquisition costs and deferred exploration expenditures during the period ended July 31, 2001 were as follows:

Property acquisition costs	\$ <u>437,000</u>
Deferred exploration expenditures	
Consulting fees (Note 8(d))	13,109
Geophysics and field	251,386
Reports and mapping	<u>5,771</u>
	<u>270,266</u>
	\$ <u>707,266</u>

As at July 31, 2001, the investment in resource property balance includes \$30,996 for which the Company will not be entitled to deductions for income tax purposes.

6. **Share capital**

(a) Authorized:

Unlimited common shares without par value

Issued:

100 common shares \$ 100

(b) At July 31, 2001, the Company had stock options outstanding enabling holders to acquire the following:

Number of Shares	Exercise Price	Expiry Date
1,000,000	\$0.25	March 27, 2006

Stock option transactions and the number of outstanding stock options are summarized as follows:

	Number of Share Options	Weighted Average Exercise Price
Balance, beginning of period	-	\$ -
Granted	1,000,000	0.25
Balance, end of period	<u>1,000,000</u>	<u>\$ 0.25</u>

7. **Special warrants**

(a) Special warrants issued during the period ended July 31, 2001 were as follows:

	Special Warrants	\$
Balance, beginning of period	-	\$ -
Special "B" warrants issued for cash (Note 7 (b)(i))	1,116,000	279,000
Special "A" warrants issued for cash (Note 7 (b)(ii))	2,990,000	299,000
Issuance costs	-	(53,960)
Special warrants issued for property acquisition (Note 7 (c))	1,500,000	60,000
Balance, end of period	<u>5,606,000</u>	<u>\$ 584,040</u>

(b) During the period ended July 31, 2001, the Company issued special warrants pursuant to private placements, as follows:

- i) 1,116,000 Series "B" special warrants at a price of \$0.25 each, for gross cash proceeds of \$279,000. Each special warrant entitles the holder to acquire, without payment of additional consideration, one common share in the capital of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder thereof to acquire one additional common share until February 28, 2002 at a price of \$0.25 per share.
- ii) 2,990,000 Series "A" special warrants at a price of \$0.10 each, for gross cash proceeds of \$299,000. Each special warrant entitles the holder to acquire, without payment of additional consideration, one common share in the capital of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder thereof to acquire one additional common share until February 28, 2002 at a price of \$0.10 per share.

Of the 2,990,000 common shares issuable upon exercise of these special warrants, 1,990,000 representing cash proceeds of \$199,000, will be flow-through common shares. Under the terms of the flow-through agreements the Company agreed to conduct exploration work in Canada and transfer the related tax deductions to the investors. The investors will not acquire any interest in the resource property.

(c) During the period ended July 31, 2001, the Company issued 1,500,000 special warrants at a deemed price of \$0.04 per special warrant pursuant to the acquisition of the resource property (Note 5). These entitle the holder to acquire, without payment of additional consideration, one common share in the capital of the Company.

8. **Related party transactions**

- (a) The Company purchased the resource property from Montello Resources Ltd. ("Montello"), a company related by a common director (Note 5). Through the acquisition Montello received 1,500,000 special warrants, thereby becoming a significant shareholder of the Company.

8. **Related party transactions**

- (b) During the period ended July 31, 2001, the Company incurred management fees of \$70,000 with two directors of the Company.
- (c) As at July 31, 2001, accounts payable include \$51,072 due to directors of the Company (Note 13 (c)) and \$2,000 due to a company with a common director.
- (d) As at July 31, 2001, investment in resource property includes consulting fees of \$2,500 paid to a director.

9. **Commitments**

The Company has entered into two-year consulting agreements commencing January 2001 with two directors for \$5,000 each per month to September 2001 and \$2,000 per month thereafter.

10. **Supplemental disclosure with respect to operating, financing and investing activities**

Non-cash investing and financing activities:

Issuance of special warrants for investment in resource property	\$ <u>60,000</u>
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11. **Income taxes**

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provisions due to the following:

Loss for the period	\$ <u>(148,832)</u>
Income taxes at statutory rate of 44.62%	\$ (66,409)
Unrecognized benefits of non-capital losses	<u>66,409</u>
Total income taxes	\$ <u>-</u>

11. **Income taxes** (continued)

The approximate tax effect of each type of temporary difference that gives rise to the Company's future deferred tax rates is as follows:

Future income tax assets

Net operating tax loss carryforwards	\$	66,409
Other		19,262
Valuation allowance for future tax assets		<u>(85,671)</u>
	\$	<u>-</u>

As at July 31, 2001, the Company had approximately \$148,832 in available non-capital losses to be utilized. These losses will expire between the years 2002 and 2009. The tax effect of the loss carry-forward has not been recorded in the financial statements.

12. **Segmented information**

The Company operates in one segment. As at July 31, 2001, all assets and operations are in Canada.

13. **Subsequent events**

Subsequent to July 31, 2001:

- (a) pursuant to a proposed initial public offering ("IPO"), the Company, subject to regulatory acceptance, intends to issue 3,000,000 units at a price of \$0.25 per unit, for proceeds, net of commissions, of \$678,750. Included in this issuance will be 1,000,000 flow-through units, yielding cash of \$250,000. Each flow-through unit will consist of one flow-through common share and one non flow-through share purchase warrant. Each non flow-through unit will consist of one non flow-through common share and one non flow-through share purchase warrant. Two warrants will entitle the holder to purchase an additional common share at a price of \$0.25 for a period of one year following the IPO.

The agent will be granted an option (the "over-allotment option") to purchase up to an additional 450,000 non-flow through units, also at \$0.25 per unit and having the same terms as those above, for a period of sixty days following the IPO.

As well, the agent will be granted warrants to purchase an additional 450,000 common shares at a price of \$0.25 per share for a period of one year following the IPO. If the over-allotment option is exercised in full, the agent will also receive warrants to purchase an additional 67,500 common shares.

The Company intends to file a prospectus to qualify the distribution of these proposed share issuances as well as the special warrants described in Note 7.

13. **Subsequent events** (continued)

- (b) the Company, subject to regulatory acceptance, has entered into a subscription agreement to issue 2,800,000 performance escrow common shares at \$0.01 per share to the directors of the Company; and
- (c) the Company, subject to regulatory acceptance, has entered into agreements to settle an aggregate \$67,000 of accounts payable owed to two directors of the Company by the issuance of 446,666 shares at a deemed price of \$0.15 per share.

CERTIFICATE

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

DATED: October 29, 2001

"Patrick Power"

Patrick Power
President, Chief Executive Officer and Director

"Glenn Grieg"

Glenn Grieg
Chief Financial Officer

ON BEHALF OF THE BOARD

"John Buckle"

John Buckle
Director

"Thomas Yingling"

Thomas Yingling
Director

CERTIFICATE

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

DATED: October 29, 2001

CANACCORD CAPITAL CORPORATION

Per: "*Michael Greenwood*"

Authorized Signatory

The following includes the name of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in capital of Canaccord Capital Corporation: Peter M. Brown (through the MacLachlan Investments Corporation) and Michael G. Greenwood (directly and through 728541 Alberta Ltd.). Their interests are held indirectly through Canaccord Investment Ltd. and Canaccord Holdings Ltd.

SCHEDULE "A" TO THE PROSPECTUS OF
ARCTIC STAR DIAMOND CORP.
DATED _____, 2001

FLOW-THROUGH SHARE AGREEMENT

THIS AGREEMENT dated for reference _____, 2001.

BETWEEN

**THE PERSONS LISTED AS PURCHASERS IN APPENDIX I TO
THIS AGREEMENT**

(the "Purchasers");

AND

ARCTIC STAR DIAMOND CORP., c/o 2100-1111 West Georgia Street,
Vancouver, British Columbia, V6E 4M3

(the "Issuer").

WHEREAS each of the Purchasers has agreed to purchase, and the Issuer has agreed to sell, the number of Flow-Through Units (as that term is defined in the prospectus of the Issuer dated _____, 2001 (the "Prospectus")) set forth across from the Purchaser's name on Appendix I to this Agreement, which Flow-Through Units are comprised of one Flow-Through Share, and one Non-Flow-Through Warrant;

THEREFORE, upon payment for the Flow-Through Units by the Purchasers, and execution of this agreement by Canaccord Capital Corporation, as agent for the Purchasers and by the Issuer, the Purchasers and the Issuer hereby irrevocably agree to be bound by the terms and conditions set forth in Appendix II to this Agreement with respect to the Flow-Through Shares.

EXECUTED by Canaccord Capital Corporation, as agent for the Purchasers, this _____ day of _____, 2001.

Canaccord Capital Corporation

Per:

Authorized Signatory

EXECUTED by the Issuer this _____ day of _____, 2001

ARCTIC STAR DIAMOND CORP.

Per:

Authorized Signatory

APPENDIX I TO THE FLOW-THROUGH SHARE AGREEMENT

[illegible]

[illegible]

**APPENDIX II
TO THE FLOW-THROUGH
SHARE AGREEMENT**

**TERMS AND CONDITIONS GOVERNING
FLOW-THROUGH SHARES**

WHEREAS:

- A. Arctic Star Diamond Corp. (the “Issuer”) is listed on the Exchange and is subject to the regulatory jurisdiction of the Exchange and the Commission;
- B. The Issuer has certain interests in natural resource properties situated in Canada (collectively, the “Property”);
- C. The Issuer is a “principal-business corporation” as that phrase is defined in subsection 66(15) of the *Income Tax Act* of Canada (the “ITA”);
- D. It is the intention of the Issuer, either alone or in conjunction with others, to carry out or participate in an exploration program on the Property for the purpose of determining the existence, location, extent and quality of the mineral resources located thereon (the “Program”);
- E. The expenses incurred in performing the Program will qualify as “Canadian exploration expense” as described in paragraph (f) of the definition thereof in subsection 66.1(6) of the ITA (other than expenditures which constitute “Canadian exploration and development overhead expense” (“CEDOE”) as prescribed for the purposes of paragraph 66(12.6)(b) of the ITA and seismic expenses specified in paragraph 66(12.6)(b.1) of the ITA), such qualifying expenses hereinafter referred to as “Qualifying Expenses”;
- F. Certain persons (individually, the “Purchaser”) have purchased or will purchase Units for the price of \$0.25 each, \$_____ of which the Issuer has allocated as the price for each Flow-Through Share comprised in each Flow-Through Unit;
- G. The Purchaser has agreed to fund, in part, the Program by purchasing the Flow-Through Share comprised in each Flow-Through Unit purchased or to be purchased; and
- H. The Issuer has agreed to apply the funds received from the Purchaser as the price for Flow-Through Shares comprised in Flow-Through Units to carry out the Program and to renounce the expenditures associated therewith to the Purchaser in accordance with the terms of this Appendix.

1. DEFINITIONS

In this Appendix, the following words have the following meanings unless otherwise indicated:

- (a) “Agent” means Canaccord Capital Corporation or one of its sub-agents;
- (b) “Agreement” means the agreement between the Issuer and the Purchaser dated for reference _____, 2001 pursuant to which they irrevocably agreed to be bound by the terms and conditions set forth in this Appendix and, for greater certainty, includes this Appendix;
- (c) “Appendix” means this Appendix II;
- (d) “CEDOE” has the meaning set forth in recital E above;

- (e) "Commission" means the British Columbia Securities Commission;
- (f) "Exchange" means the Canadian Venture Exchange;
- (g) "Flow-Through Shares" means the previously unissued common shares of the Issuer having the special "flow-through" share features described in this Appendix and in the Prospectus;
- (h) "Flow-Through Units" means units of the Issuer offered pursuant to the Prospectus comprised of one Flow-Through Share and one non-flow-through warrant of the Issuer;
- (h) "ITA" has the meaning set forth in recital C above;
- (j) "Program" has the meaning set forth in recital D above;
- (k) "Property" has the meaning set forth in recital B above;
- (n) "Prospectus" means the prospectus of the Issuer dated _____, 2001;
- (l) "Purchaser" has the meaning set forth in recital F above;
- (m) "Qualifying Expenses" has the meaning set forth in recital E above; and
- (o) "Transfer Agent" means _____.

2. ALLOCATION OF SUBSCRIPTION PRICE

The subscription price of \$0.25 per Flow-Through Unit will be allocated as follows:

- (a) \$0._____ as to the subscription price for the Flow-Through Share comprised therein (the "Flow-Through Funds"); and
- (b) \$0._____ as to the subscription price for the non-flow-through warrant of the Issuer comprised therein.

3. ISSUE OF FLOW-THROUGH SHARES

Following receipt by the Issuer or the Transfer Agent from the Purchaser of the subscription price for Flow-Through Shares, the Issuer will:

- (a) deposit the Flow-Through Funds in a bank account (the "Exploration Account") established by the Issuer for the purpose of financing the Program;
- (b) issue to the Purchaser the number of Flow-Through Shares the Purchaser purchased; and
- (c) deliver to the Purchaser a share certificate representing the Flow-Through Shares the Purchaser purchased.

4. ACCRUED INTEREST ON EXPLORATION ACCOUNT

The Purchaser acknowledges that any interest accruing on Flow-Through Funds in the Exploration Account will accrue to the sole benefit of the Issuer and may be applied by the Issuer for general corporate purposes.

5. ADDITIONAL PURCHASERS TO PARTICIPATE IN THE PROGRAM

The Purchaser acknowledges that the Issuer has entered into and will be entering into agreements similar to the Agreement with other persons in respect of the Flow-Through Shares. Such agreements may be dated for reference the same date as the Agreement. Any Flow-Through Funds paid to the Issuer pursuant to the terms of such agreements will also be deposited in the Exploration Account. If the Issuer, however, sells rights to acquire, or issues, “flow-through” common shares pursuant to private placements or pursuant to other public offerings, any subscription funds received from such private placements or public offerings will be deposited into a bank account separate from the Exploration Account and will not be commingled with the funds deposited in the Exploration Account, it being the intention of the Issuer that separate subscribers’ exploration accounts be established for each such private placement or public offering. Subject to section 7, the Issuer will expend each subscribers’ exploration account in the order of:

- (a) the reference date of any private placement “flow-through” subscription agreements entered into for such private placements; and
- (b) the date of closing of such public offerings,

such that the subscription funds from the oldest “flow-through” financing will always be spent first and renunciation made in respect of such expenditures before any renunciations are made in respect of any exploration expenditures that are financed from subsequent “flow-through” financings.

6. APPLICATION OF FLOW-THROUGH FUNDS

Subject to the Issuer’s right to revise the Program as provided in section 18 below, the Issuer will apply a sum of money equal to the Flow-Through Funds as expenditures on the Program and the Issuer will only apply such funds to incur expenditures which are Qualifying Expenses. Expenditures made by the Issuer on the Program with the Flow-Through Funds are referred to herein as “Resource Expenditures”.

7. SCHEDULE FOR INCURRING RESOURCE EXPENDITURES

7.1 Unless the Purchaser gives notice to the Issuer or the Issuer gives notice to the Purchaser to the contrary (the “Notice Requirement”) during the periods of time described in paragraphs 7.2(a) or 7.2(b), for the purposes of this Appendix the Purchaser will be deemed to be dealing with the Issuer at “arm’s length”, as that term is used in the ITA.

7.2 The Issuer will expend as much of the Flow-Through Funds as is commercially reasonable between the date the Agreement is entered into (the “Effective Date”) and:

- (a) the end of February of the year after the year in which the Effective Date occurs, if the Notice Requirement has not been fulfilled prior to December 1 of the year in which the Effective Date occurs; or
- (b) December 31 of the year in which the Effective Date occurs, if the Notice Requirement has been fulfilled prior to December 1 of such year.

7.3 The Issuer will expend as much of the remainder of the Flow-Through Funds as is commercially reasonable between the date described in paragraph 7.2(a) or (b), as the case may be, and December 31 of the year after the year in which the Effective Date occurs and, in any event, the Issuer will expend the Flow-Through Funds on or before the date which is the last day of the twenty-fourth month after the end of the month that includes the Effective Date.

8. ISSUER TO RENOUNCE RESOURCE EXPENDITURES IN FAVOUR OF PURCHASER

8.1 Subject to sections 8.2 and 8.3, the Issuer will, within the times set out below and in accordance with the provisions of subsections 66(12.6) and 66(12.66) of the ITA, take all necessary steps to renounce in favour of the Purchaser, the amount of Resource Expenditures incurred by it using the Flow-Through Funds under the Program during the periods specified below less the amount, if any, of the assistance, as that latter term is defined in subsection 66(15) of the ITA, that the Issuer received or may reasonably be expected to receive in respect of such Resource Expenditures:

- (a) on or before March 31 of the year following the year (the “Base Year”) in which the Effective Date occurs, if the Purchaser has paid the price for Flow-Through Shares in the Base Year the Issuer will renounce, effective December 31 of the Base Year, Resource Expenditures it has incurred between the Effective Date and the end of February of the year following the Base Year;
- (b) on or before March 31 of the year following the Base Year, if the Purchaser has paid the price for Flow-Through Shares in the Base Year the Issuer will renounce, effective December 31 of the Base Year, Resource Expenditures it has incurred or plans to incur between March 1 and December 31 of the year following the Base Year; and
- (c) with respect to Resource Expenditures which are not renounced in accordance with paragraphs 8.1(a) or (b), the Issuer will renounce those expenditures effective as of the earliest possible calendar year and, in any event, before March of the calendar year following the date which is 24 months after the end of the month that includes the Effective Date.

8.2 Should the Notice Requirement be fulfilled prior to December 1 of the Base Year, the term “February of the year following” will be deleted from paragraph 8.1(a), paragraph 8.1(b) will be deleted, paragraph 8.1(c) will become paragraph 8.1(b) and the term “paragraphs 8.1(a) or (b)” therein will be replaced with “paragraph 8.1(a)”.

8.3 The aggregate Resource Expenditures renounced to the Purchaser will not exceed the consideration paid by the Purchaser for Flow-Through Shares.

8.4 The Purchaser acknowledges that if the Issuer renounces Resource Expenditures pursuant to paragraph 8.1(b) (otherwise than as amended pursuant to section 8.2) and does not incur all or part of the Resource Expenditures which it planned to incur during the period specified therein, the Issuer will be required to reduce the amount of Resource Expenditures renounced pursuant to that paragraph and, as a result, the Purchaser:

- (a) may be subject to increased income tax liabilities for the year in respect of which the excess renunciation was made; and
- (b) may be required to file appropriate amendments to the Purchaser’s income tax return for that and other years.

9. ISSUER TO FILE PRESCRIBED FORM IN RESPECT OF RENUNCIATIONS

The Issuer will file, in respect of each renunciation made pursuant to this Appendix, before the last day of the month following the date of making such renunciation, such information returns with the Minister of National Revenue as are prescribed by subsection 66(12.7) of the ITA and will send concurrently a copy of such information returns to the Purchaser.

10. ISSUER TO FILE COPY OF AGREEMENT WITH REVENUE CANADA

The Issuer will file, together with a copy of the Prospectus (or other selling instrument) or the Agreement, the prescribed form referred to in subsection 66(12.68) of the ITA with the Minister of National Revenue on or before the last day of the month following the earlier of:

- (a) the month in which the Agreement is entered into; and
- (b) the month in which the Prospectus (or other selling instrument) is first delivered to a potential investor.

11. ISSUER TO FILE PART XII.6 RETURN WITH REVENUE CANADA

The Issuer will file, before March of the year following a particular year, any return required to be filed under Part XII.6 of the ITA in respect of the particular year, and will pay any tax or other amount owing in respect of that return on a timely basis.

12. ISSUER TO FILE PRESCRIBED FORM WITH REVENUE CANADA IN RESPECT OF EXCESS

Where an amount that the Issuer has purported to renounce to the Purchaser effective December 31 of the Base Year pursuant to paragraph 8.1(a) or (b) (otherwise than as amended pursuant to section 8.2) exceeds the amount that it can renounce on that effective date because it did not actually incur Resource Expenditures within the period of time specified in that paragraph, and at the end of the Base Year the Issuer knew or ought to have known of all or part of such excess renunciation, the Issuer will file a statement in prescribed form before March of the second year following the Base Year, all as required by subsection 66(12.73) of the ITA. A copy of such statement will be sent concurrently to the Purchaser.

13. WARRANTIES

13.1 The Purchaser acknowledges, represents, warrants and covenants to and with the Issuer that, as at the effective date of the Prospectus and at the Effective Date:

- (a) the Purchaser is at arm's length (as that term is used in the ITA) with the Issuer and, notwithstanding the fulfilment or non-fulfilment of the Notice Requirement pursuant to section 7, the Purchaser acknowledges that if at any time during the year following the Base Year, the Purchaser is not at arm's length with the Issuer and the Issuer renounces Resource Expenditures it incurs or plans to incur pursuant to paragraph 8.1(a) or (b) (otherwise than as amended pursuant to section 8.2), notwithstanding the provisions of those paragraphs, the renunciation will not be effective December 31 of the Base Year; and
- (b) if:
 - (i) either the Purchaser or the Issuer has not executed the Agreement, or
 - (ii) the Purchaser has not paid the subscription price for the Flow-Through Shares to the Issuer

on or before December 31 of a particular year, the Purchaser will not be entitled to have any Resource Expenditures incurred after the particular year renounced to the Purchaser effective

December 31 of the particular year, pursuant to paragraphs 8.1(a) or (b) (otherwise than as amended pursuant to section 8.2),

and the Purchaser agrees that the above acknowledgements, representations, warranties and covenants in this subsection will be true and correct both as of the Purchaser's execution of the Agreement and as of the Effective Date.

13.2 The Issuer represents, warrants and covenants that, as of the effective date of the Prospectus and at the Effective Date:

- (a) the Issuer is, and at all material times will remain, a "principal-business corporation" within the meaning prescribed by subsection 66(15) of the ITA;
- (b) the Flow-Through Shares will qualify as "flow-through" shares as described in subsection 66(15) of the ITA and in particular will not be prescribed shares as defined in section 6202.1 of the regulations to the ITA;
- (c) if the Issuer amalgamates or otherwise merges with any one or more companies, any shares issued to or held by the Purchaser as a replacement for Flow-Through Shares as a result of such amalgamation or merger will qualify, whether by virtue of subsection 87(4.4) of the ITA or otherwise, as "flow-through" shares as described in subsection 66(15) of the ITA and in particular will not be prescribed shares as defined in section 6202.1 of the regulations to the ITA; and
- (d) the Issuer will incur expenses which are Qualifying Expenses in an amount which equals the proceeds derived from the sale of Flow-Through Shares to the Purchaser, renounce that amount to the Purchaser and otherwise comply with its obligations as set forth in this Appendix,

and the Issuer agrees that the above representations, warranties and covenants in this subsection will be true and correct both as of the Issuer's execution of the Agreement and as of the Effective Date.

14. NO RENUNCIATION TO THIRD PARTIES, AND ALLOCATION OF RENOUNCED AMOUNTS

The Issuer will not renounce any Resource Expenditures in respect of the Program in favour of any person other than the Purchaser and the other purchasers who purchase Flow-Through Shares. For the purpose of determining the extent to which the Flow-Through Funds received by the Issuer from the Purchaser have been the subject of renunciation under the ITA, the total amount expended on Resource Expenditures will be allocated among the Purchaser and the other purchasers who purchase Flow-Through Shares, on a basis *pro rata* to the relative amounts of their respective contributions of flow-through funds, as described in section 2 and as set forth in the information returns required by subsection 66(12.7) of the ITA.

15. ISSUER NOT TO CLAIM A DEDUCTION IN RESPECT OF THE RESOURCE EXPENDITURES

The Issuer acknowledges that it has no right to claim any deduction for Qualifying Expenses or depletion of any sort in respect of the Resource Expenditures and covenants not to claim any such deduction when preparing its tax returns from time to time.

16. ISSUER TO ACCOUNT TO PURCHASER

The Issuer will maintain proper accounting books and records relating to the Exploration Expenditures. On the completion of the Program, the Issuer will account to the Purchaser in respect of the application of the Flow-Through Funds.

17. NO DISSEMINATION OF CONFIDENTIAL INFORMATION

The Issuer will be entitled to hold confidential all information relating to any program on which any portion of the Flow-Through Funds is expended pursuant to the Agreement and it will not be obligated to make such information available to the Purchaser except in the manner and at such time as it makes any such information available to its shareholders or to the public pursuant to the rules and policies of any stock exchange or laws, regulations or policies of any province.

18. REVISION OF THE PROGRAM

While it is the present intention of the Issuer to undertake the Program, it is the nature of mining exploration that data and information acquired during the conduct of a resource development program may alter the initially proposed Program and the Issuer expressly reserves the right to alter the Program on the advice of its technical staff or consultants and further reserves the right to substitute other resource programs on which to expend part of the Flow-Through Funds, provided such programs entail the incurrence of Qualifying Expenses and are otherwise capable of renunciation by the Issuer to the Purchaser pursuant to the Agreement.

19. OTHER FLOW-THROUGH SHARE SALES

The Purchaser acknowledges that there may be other sales of Flow-Through Shares, some or all of which may occur after the acquisition of Flow-Through Shares by the Purchaser. The Purchaser further acknowledges that there is a risk that insufficient funds may be raised from the sale of Flow-Through Shares to fund the Issuer's objectives described in the Prospectus, if any, and that it is possible that no Flow-Through Shares may be purchased after the Purchaser has done so.

20. ISSUER'S ACCEPTANCE

The Agreement, when executed by the Agent on the Purchaser's behalf and delivered to the Issuer, will constitute a subscription for Flow-Through Shares which will not be binding on the Issuer until accepted by the Issuer by executing this Agreement in the space provided on the first page of the Agreement and, notwithstanding the reference date on that page, if the Issuer accepts the subscription by the Purchaser, the Agreement will be entered into on the date of such execution by the Issuer.

21. MISCELLANEOUS

21.1 The Purchaser hereby irrevocably authorizes the Agent, in its sole discretion:

- (a) to act as the Purchaser's representative to receive certificates for Flow-Through Shares subscribed for and to execute in his, her or its name and on his, her or its behalf all closing receipts and documents required; and
- (b) to waive, in whole or in part, any representations, warranties, covenants or conditions for the benefit of the Purchaser contained herein or in any agreement or document ancillary or related thereto.

21.2 The Agreement is not assignable or transferable by either of the parties hereto without the express written consent of the other party hereto.

21.3 Time is of the essence of this Appendix and will be calculated in accordance with the provisions of the *Interpretation Act* (British Columbia).

21.4 Except as expressly provided in this Appendix and in the Prospectus, agreements, instruments and other documents contemplated or provided for herein, the Agreement contains the entire agreement between the parties with respect to Flow-Through Shares and there are no other terms, conditions, representations or warranties whether expressed, implied, oral or written, by statute, by common law, by the Issuer, by the Agent, or by anyone else.

21.5 The parties to the Agreement may amend the Agreement only in writing.

21.6 The Agreement enures to the benefit of and is binding upon the parties to the Agreement and their successors and permitted assigns.

21.7 A party to the Agreement will give all notices to or other written communications with the other party to the Agreement concerning the Agreement by hand or by registered mail addressed to such party, in the case of the Issuer to the address given on the Prospectus and in the case of the Purchaser, c/o the Agent at its address given on the Prospectus.

21.8 This Appendix is to be read with all changes in gender or number as required by the context.

21.9 The Agreement will be governed by and construed in accordance with the laws of British Columbia, and the parties hereto irrevocably attorn and submit to the jurisdiction of the courts of British Columbia with respect to any dispute related to the Agreement.

END OF APPENDIX II