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**A.F. Budge (Mining) Limited**

P.O. Box 143  
Clarkdale, AZ 86324  
(602) 634-7712

4301 North 75th Street  
Suite 101  
Scottsdale, AZ 85251-3504  
(602) 945-4630  
FAX (602) 949-1737

P.O. Box 20878  
Wickenburg, AZ 85358  
Mobile (602) 376-9056

October 26, 1988

Mr. Ronald Ashcroft  
1652 E. Grove  
Mesa, AZ 85204

Re: Silver Quartz-Flux Mine

Dear Mr. Ashcroft:

Thank you for taking the time to meet with us last Tuesday and to discuss the merits of the Silver Quartz-Flux Mine.

A.F. Budge (Mining) Limited would like to pursue this matter further. We would specifically like to make some arrangements for our personnel to visit the operation and meet with the operators. It is our understanding that if this visit results in a continuing interest on our part, an option agreement would be negotiated.

Also, by this letter, A.F. Budge (Mining) Limited would, contingent upon the successful acquisition of an equity position in this operation, enter into good faith negotiations with you and your associates for an equitable arrangement or reasonable finder's fee in consideration of your bringing this opportunity to our attention.

Sincerely,

Carole A. O'Brien  
Mining & Financial Coordinator

c: A.F. Budge

PRELIMINARY INFORMATION ON SILVER QUARTZ-FLUX MINE

PROPERTY: 5 PATENTED MINING CLAIMS  
 2 PATENTED MILL SITES  
 33 UNPATENTED MINING CLAIMS

HISTORY: BETWEEN 1913 AND 1986, 401,063 TONS OF ORE WERE PRODUCED  
 AT AN AVERAGE GRADE OF 8.27 OPT AG, AND .032 OPT AU.

RESERVE POTENTIAL:  
 ESTIMATED TO BE AS MUCH AS 5 MILLION TO 10 MILLION TONS  
 OF VEIN IN VICINITY OF EXISTING WORKINGS.

CURRENT OPERATIONS:  
 PRESENTLY MINING 600-800 TONS PER WEEK WITH AN AVERAGE  
 GRADE OF 7.3 OPT AG AND .025 OPT AU.

ECONOMICS: BASIS-- 2000TONS/WK.

COSTS		\$/TON
PAYROLL		5.00
CONSUMABLES		2.30
UTILITIES		1.00
G&A		1.00
R&M		1.00
ROYALTY		2.50
FREIGHT		11.00
CONTINGENCY @25%		5.95
	TOTAL	29.75
INCOME		
7.30Z/TON X \$6.30 X .75		34.49
FLUX PAYMENT		18.00
	TOTAL	52.49

NET = \$52.49 - \$29.75 22.74

WEEKLY NET = \$45480 OR IN EXCESS OF \$2,000,000 ANNUALLY.

CONCLUSIONS:

THE PROPERTY IS AN ATTRACTIVE INVESTMENT FOR FOLLOWING REASONS:

1. IT IS A PRODUCING MINE.
2. AT 300 - 400 TONS PER DAY IT SHOULD PROVIDE FUTURE LONG TERM INCOME.
3. THE GEOLOGICAL POTENTIAL OF THE DEPOSIT IS LARGELY UNTESTED AND APPEARS TO BE VERY LARGE.

CONTACT: NU-GOLD  
RONALD E. ASHCROFT  
892-3318

*1652 E. Grove  
Mesa, AZ.  
85204*

*office in Sun City 974-5701*

*9:30*

*Wes Becker @  
home 577-9275*

*Les Billingsley  
home 359-2783*

Schedule E

LEASE, SUB-LEASE AND PURCHASE OPTION AGREEMENT

This Lease, Sub-Lease and Purchase Option Agreement entered into this 25<sup>th</sup> day of June, 1986 by and between SHAMROCK ENTERPRISES, a partnership; ASH PEAK MINING CO., INC., an Arizona corporation; and ASH PEAK RESEARCH AND DEVELOPMENT CO., a Limited Partnership, hereinafter collectively referred to as "AP", and ARIZONA FLUX MINES, INC., an Arizona corporation, hereinafter referred to as "AFM".

WITNESSETH:

Whereas, AP is the owner of seven (7) unpatented lode mining claims; three (3) unpatented placer mining claims; one (1) Arizona State prospecting permit, together with certain other improvement and property connected with said mines, located in Greenlee County, Arizona (Exhibit A).

Whereas, AP holds a Lease and Purchase Option (Setter Consent and Ratification attached) of five (5) patented lode mining claims; two (2) patented millsites; twelve (12) unpatented lode mining claims, located in Greenlee County, Arizona (Exhibit B)

Whereas, AFM is desirous of purchasing aforesaid AP mining claims and the Lease and Purchase Option (Setter Agreement) aforementioned.

NOW, THEREFORE, IT IS AGREED BETWEEN THE PARTIES AS FOLLOWS:

1. That the intent of this Agreement is to set out the terms and conditions by which AP agrees to sell and AFM agrees to buy all right and title and interest AP has in and to that certain property herein described:

- Five (5) patented mining claims;
- Two (2) patented mill sites;
- Twenty-Two (22) unpatented mining claims;
- One (1) State prospecting permit

all as set forth in Exhibits A and B attached hereto and, by this reference, made a part of this Agreement. The property shall include improvements and fixtures located at said property, including but not

limited to surface and subsurface installations, power lines, structures, water well and ore stock piles, all drill cores, records and topographic, geological, engineering, production and environmental data. Hereafter all said real and personal property shall be referred to as Property. Specifically excluded from this property are ten (10) claims referred to as B&B and MAB set out in Exhibit C attached to this Agreement and by this reference made a part of this Agreement. AFM by this Agreement has the first right of refusal to acquire by purchase these claims though such purchase shall be made by a separate agreement on a comparable production payment basis as described herein.

2. The total purchase price for the property and the method of payment therefor is set out as follows:

a. The minimum total purchase price is \$3,300,000.00. This price may increase based on changes to the Producers Price Index (PPI) as set out below in Appendix I.

b. Minimum monthly payments will be paid by AFM in accordance with the schedule set out below in Appendix II. Normally a monthly production payment will be paid by AFM to AP in accordance with the schedule set out below in Appendix III and the minimum monthly payment will be deducted from this monthly production payment. Any excess of the monthly production payment over the minimum monthly payment will be credited against the total purchase price but will not be credited against future monthly minimum payments.

c. Should AFM be required to temporarily halt operations after the second year of the period of this Agreement because production is uneconomic (due to low silver prices or smelter shutdowns, etc.) or for regulatory reasons, then the minimum monthly payment will not be in accordance with the schedule in Appendix II below, but will be reduced to \$6,000.00 per month until AFM is able to resume operations. However, this period will not be longer than twelve (12) months. Upon expiration of this twelve month period, the payment schedule will revert to that outlined in Paragraph 2.b above.

d. Any minimum monthly payments not recouped by AFM from its operation of the property shall be applied against the total purchase price of the property.

e. Minimum monthly payments will be paid on the first day of each month to Shamrock Enterprises.

f. Monthly production payment will be paid to Shamrock Enterprises on or before the 15th day of each month for ore paid for by a smelter, or other, the previous month after deducting the minimum payment for the month which coincides with production payment month.

3. During the term of the Purchase Agreement, AFM would perform:

a. All necessary assessment work on the unpatented mining claims, pay the property taxes and the state lease payments on the property as well as comply with all governmental rules and regulations applicable to the exploration, development or production of mineral products from the Property. In connection therewith, AFM would make all necessary filings required by governmental agencies and would furnish copies to the owners.

b. The owners would remain liable for all third party claims and environmental liabilities accruing prior to the effective date of the Purchase Agreement and AFM would assume liability for all third party claims and environmental liabilities resulting from AFM's activities on the property occurring after the effective date of the purchase agreement.

c. Neither AFM nor AP will by any action or inaction cause any lien, charge or other encumbrance to be placed upon or against the Property, other than liens for taxes not yet due and delinquent or being contested, except that if AFM, in good faith, shall dispute the validity or amount of any claims or liability assessed against it for work performed on the Property it shall not be required to pay the same until the amount and validity thereof have been finally determined. AFM will indemnify and save AP harmless as to any liability for or on account of injury to or death of any person or damage to any property of persons not a party hereto which are sustained during the period this Agreement remains in effect.

d. AFM's obligation under the Purchase Agreement, except for Paragraph 3.a, 3.b, and 3.c above, would be suspended during any period of force majeure.

4. AFM has the right to terminate the Lease Purchase Option Agreement at any time upon six months prior written notice, with no further obligation to accrue after the six month period. Likewise, AP has the right to terminate the Agreement upon six months prior written notice for any failure of AFM to execute the provisions of this Agreement or failure to carry out the work according to safe and prudent mining methods with minimum monthly payments due during this six month period. AFM will have sixty days to correct any failures to comply after receiving written notice of such default.

5. Upon the early termination of this Agreement, AFM shall surrender to AP the possession of the Claims and Permit lands in a condition which substantially complies with applicable state and federal laws relating to safety and to fencing or securing shafts and tunnels. AFM shall further execute and deliver to AP a quit claim deed evidencing the relinquishment of all claims contained in this Agreement.

Upon early termination of the Agreement AFM shall have a vested interest in certain portions of the property, to wit: That property owned or leased by Shamrock Enterprises and Ash Peak Mining Co., Inc. if, at the time of termination, the total of payments made by AFM to AP exceeds \$1,000,000.00. AFM's proportionate interest in property owned or leased by Shamrock Enterprises and Ash Peak Mining Co., Inc. shall be based upon current price of AP property as adjusted by PPI and laid out in Paragraph 2.a and Appendix I of this Agreement at the time of early termination of this Agreement.

AFM's interest in that property described in Exhibit B shall be specifically limited to a proportionate interest only in Lease and Purchase options held by AP and will not represent any ownership whatsoever in that property unless AP has, prior to early termination

of this Agreement, exercised its option to purchase and holds clear title to that property.

6. Notwithstanding the provisions of Paragraph 5 above, AFM shall have the right, within ninety (90) days following the expiration or termination of this Agreement, to remove, if it so elects, and the right of ingress and egress for such purpose, any and all PMBSF mined by AFM and stockpiled on the Property (subject to payment for such PMBSF in accordance with the provisions for production payments as laid out in Paragraph 2.b and Appendix III, such payment not applicable to the purchase price in view of expiration or termination of this Agreement) and any and all pipes and pipelines, improvements, structures, facilities, machinery, equipment, tools and supplies constructed, installed or placed by AFM upon the Property, except timbering, structural supports, and other improvements of a permanent nature.

7. So long as this Agreement remains in effect AFM shall perform all work relating to the Property, or cause the same to be performed, in a good and workmanlike manner and in compliance with all applicable laws and regulations, and safeguard and maintain the Property in compliance with all applicable laws and regulations, including environmental and reclamation. AFM will maintain all shafts and audits in the same condition as exists on the effective date of the Purchase Agreement.

8. AP warrants and represents to AFM that the location of each claim (patented or unpatented) has been perfected and maintained in all respects with the mining laws of the United States and of the State of Arizona and that they have good and sufficient possession, and title thereto, free of all claims, liens, encumbrances and rights of others; subject only to the paramount title of the United States and/or the State if Arizona with respect to the lease.

AP further represents and warrants to AFM that they have the full power and authority to enter into this Agreement and to deal with the Property described herein and assign said Property in accordance with

the terms hereof without the leave or necessity or approval of any person except the State Land Department as to the permit.

AP further warrants and represents to AFM that there is not presently pending any suit, action, claim, dispute or other proceeding either at law or in equity affecting the property and to the best of their knowledge, information and belief, there is none now contemplated by any person or corporation and that they have taken no action which would prejudice their right, title or interest in and to said property.

9. Owners represent to AFM that they have marketable title as herein represented and do hereby convey legal rights to the Property and all incidents thereto to AFM as well as any ingress and egress and excess related thereto. In connection therewith, AP agrees that it will furnish two (2) copies of the United States Patents to the above claims within a reasonable time after the execution thereof together with the documents regarding location of the unpatented mining claims and the state lease.

Upon payment of the purchase price AP will deliver to AFM warranty deeds to all of the patented mining claims hereinabove designated and deeds to the unpatented mining claims together with proper assignments of the state prospecting permit. Said deeds and assignments shall be in recordable form and free from any and all liens, encumbrances, rights of others, all of which set forth herein.

10. During the term of this Agreement AP will, to the extent reasonably requested by AFM and at their expense, take prompt action to defend title to the Property as warranted herein and to cure any defect in the title and/or location of the mining claims in accordance with applicable mining laws. Should AP fail to take prompt action to defend such title or to cure such effects in such title, AFM may, at AP's expense take all action necessary for this purpose and such amounts expended by AFM shall be due and payable by AP upon demand. In addition to any other rights it might have, AFM shall have the

right to deduct all such amounts from any payment subsequently becoming due AP.

If there exists now or during the life of this Agreement any underlying obligations payable by AP, then AP shall cause AFM to be included in any default notices that may occur.

11. AP, at any time upon request of AFM, shall execute and acknowledge in form required by law for recording in the State of Arizona and deliver to AFM such assignments, deeds, memorandum of agreement or other instruments incorporating, referring to or carrying out the provisions of this Agreement as AFM may reasonably deem necessary in order to preserve and protect its interest under this Agreement or to effectuate the provisions herein set forth.

12. Any notice required to be given hereunder shall be sufficient as sent by United State Certified Mail as follows:

PAUL M. TURNEY  
3715 Hash Knife  
Tucson, AZ 85749

ARIZONA FLUX MINES, INC.  
Post Office Box 26706  
Tucson, AZ 85726

13. If AFM discovers any disseminated, massive, porphyritic or similar type deposit within the Property and mines the same, AFM shall pay AP a production royalty equal to five percent (5%) of the net smelter returns derived by AFM from the sale of the first five million (5,000,000) tons of ore produced from such deposit within the Property, and two percent (2%) of the net smelter returns derived by AFM thereafter from the sale of ores, concentrates, or derivatives retrieved through leaching or solution mining, mined or retrieved from such deposit within the Property. The term "net smelter returns" as used in this Agreement shall mean the gross receipts, including all bonuses and subsidies, from the sale of ores, concentrates, or derivatives retrieved through leaching or solution mining, mined or retrieved from any disseminated, massive, porphyritic or similar type deposit within

the Property, less all costs, expenses, charges, and deductions incurred with respect to such ores, concentrates or derivatives subsequent to concentrating (whether or not deducted by the purchaser or paid or incurred by AFM in the first instance).

AP has rights to on-site inspection and information on all mine data not including judgemental information.

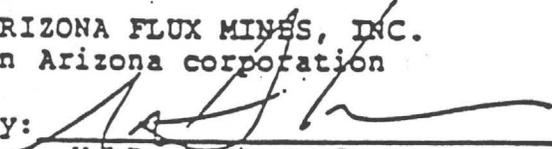
14. AP agrees that it will produce a collection agreement acceptable to AFM which will guarantee the payment of any underlying obligation of them in property being sold under this Agreement.

15. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors and assigns.

16. This Agreement supercedes any and all previous agreements in connection with the property described herein.

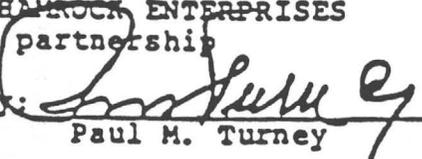
SIGNED this 25<sup>th</sup> day of June, 1986.

ARIZONA FLUX MINES, INC.  
an Arizona corporation

By: 

W. R. Becker, Sr.  
President

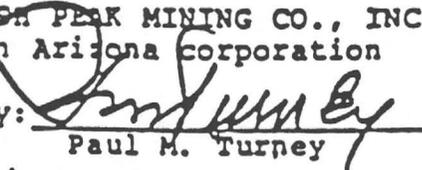
SHAMROCK ENTERPRISES  
a partnership

By: 

Paul M. Turney

  
Lowell T. Patton

ASH PEAK MINING CO., INC.  
an Arizona corporation

By: 

Paul M. Turney

ASH PEAK RESEARCH & DEVELOPMENT CO.  
a limited partnership

By: *Paul M. Turney*  
Paul M. Turney

*Lowell T. Patton*  
Lowell T. Patton

APPENDIX I

A. The monthly minimum payment shall be increased for each three-year term of this Agreement as of July 1 of the first year of each three year term in the same proportion that the Producer Price Index (as hereinafter defined) for the preceding month of June is greater than the Producer Price Index for the month of December, 1985.

B. For purposes of this Agreement the Producer Price Index shall mean the average prices of all commodities, at all stages of processing, produced or imported for sale in primary markets in the U.S., promulgated by the Bureau of Labor Statistics of the United States Department of Labor. In the event that such Producer Price Index or a successor or substitute index is not available, a reliable governmental or other publication shall be used in lieu of such Producer Price Index.

APPENDIX II

Minimum monthly payments will be in accordance with the following schedule subject to adjustment (upwards only) in accordance with the PPI as laid out and defined in Appendix I.

- A. For the first three (3) months of the year 1986 the sum of \$24,000.00 payable on or before November 20, 1985, receipt of which sum is hereby acknowledged by AP.
- B. For the last nine (9) months of 1986 the sum of \$4,000.00 per month totaling \$36,000.00.
- C. For the year 1987 the sum of \$5,000.00 per month totaling \$60,000.00 for the year 1987.
- D. For the years 1988 through 1990 the sum of \$6,250.00 per month totaling \$75,000.00 for each year.
- E. For the years 1991 through 1995 the sum of \$20,000.00 per month totaling \$240,000.00 for each year.
- F. For the years 1996 through the year 2000 the sum of \$33,000.00 per month until the total purchase price as herein set forth is paid in full.

### APPENDIX III

Monthly production payments are determined as follows per short dry ton of such material:

1.    A. For ore shipped directly to smelters, the values and tonnage are determined by reports furnished by the smelters.  
  
      B. For ore concentrated by AFM before shipment to smelters a method for determination of values and tonnage shall be mutually agreed upon by both parties in a manner in which results are consistent with the methods used in Paragraph A above.
2.    On ore having a net metal value (NMV) of twenty dollars (\$20.00) or less per ton, two dollars (\$2.00) per ton.
3.    On ore having a NMV of fifty-two dollars (\$52.00) per ton or less but more than twenty dollars (\$20.00) per ton, two dollars (\$2.00) per ton plus 6.25% of the difference between the NMV per ton and twenty dollars (\$20.00).
4.    On ore having a NMV of sixty-two dollars (\$62.00) per ton or less but more than fifty-two dollars (\$52.00) per ton, four dollars (\$4.00) per ton plus 22.5% of the difference between the NMV per ton and fifty-two dollars (\$52.00).
5.    On ore having a NMV greater than sixty-two dollars (\$62.00) per ton, six dollars and twenty five cents (\$6.25) per ton plus 37.5% of the difference between the NMV per ton and sixty-two dollars (\$62.00).
6.    The NMV limits and the base per ton payment specified in Paragraphs 2, 3, 4, and 5 above shall be increased or decreased for each three-year term of this agreement as of

July 1 of the first year of each three year term in the same proportion that the Producer Price Index (as defined in Appendix I) for the preceding month of June is greater or lesser than the Producer Price Index for the month of December, 1985.

To illustrate, the NMV limits and base royalty (R) for 1985 are as follows:

NMV < \$20	R = \$2.00
\$20 < NMV < \$52	R = \$2.00 + .0625 (NMV - \$20)
\$52 < NMV < \$62	R = \$4.00 + .225 (NMV - \$52)
NMV > \$62	R = \$6.25 + .375 (NMV - \$62)

Assume the Producer Price Index for the month of June, 1988 is twenty percent (20%) greater than the same index for the month of December, 1985. The NMV limits and base payment for the three-year term of July 1, 1988 through June 30, 1991 would be as follows:

NMV < \$24	R = \$2.40
\$24 < NMV < \$62.40	R = \$2.40 + .0625 (NMV - \$24)
\$62.40 < NMV < \$74.40	R = \$4.80 + .225 (NMV - \$62.40)
NMV > \$74.40	R = \$7.50 + .375 (NMV - \$74.40)

7. The net metal value per short dry ton of PMBSF (Precious Metal Bearing Silica Flux) shall be determined in accordance with the following formula:

$$\text{NMV} = (\text{Au} \times \text{R})\text{Pau} + (\text{Ag} \times \text{R})\text{Pag}$$

Wherein:

Au = Troy ounces of contained gold per short dry ton of PMBSF

Ag = Troy ounces of contained silver per short dry ton of PMBSF

R = Applicable deemed rate of recovery of the precious metal

Pau = Price of gold

Pag = Price of silver

JOSEPH E. SHEARER  
CONSULTING GEOLOGIST  
6821 EAST BAKER STREET  
TUCSON, ARIZONA 85710-2228  
(602) 296-8837  
December 30, 1987

SOUTHERN GOLD RESOURCES LTD.  
Suite 220, Quayside Plaza  
145 Chadwick Court  
North Vancouver, B.C., Canada V7M 3k1

Attn: Stephen P. Quin, Vice President, Exploration

Re: Title Search, Ash Peak Mine Property

Dear Mr. Quin:

By this letter and attachments I am stating my findings in regard to the title and ownership of the Ash Peak Mine Property as of this date. Copies of all recorded data listed in this report will be enclosed. Also, recorded data on existing and previously existing claims in the property area are included.

The data and chain of title will be in three parts as follows:

1. Patented Mining Claims and Millsites (7)
2. Unpatented Mining Claims (33)
3. State Prospecting Permit (1)

Your detailed list of unpatented mining claims, attached to your letter, included thirty two (32) claims. Also, one additional claim was found with the group that was not on your list. The additional claim is Harmony #1, and the location certificate is recorded in Docket 131, Pages 468-469. This makes a total of thirty three (33) unpatented claims.

Your check in the amount of fifteen hundred dollars (\$1,500.00) was received for payment in full.

The title search at the Graham and Greenlee County Court Houses, State Land Department and Bureau of Land Management were conducted on December 28th & 29th. In excess of 400 pages of recorded data were copied. In the following pages this data will be tabulated in chronological order in relation to each of the three categories.

1. Patented Mining Claims

2

The Great Eastern, Commerce, Fraction, Summit and Homestead lode claims, and Commerce and Summit millsite claims, Surveys Numbers 3076A and 3076B, were patented on March 7, 1921, to the Ash Peak Mining Company, Patent Number 783751. Copies of both the Patent and the Survey Plat are enclosed.

Assignment of Mining Lease- Robert H. Sayre, Jr., and George E. Morehouse assign their rights to A. George Setter, dated February 24, 1978, and recorded in Docket 89, page 493. This and all of the following documents, unless otherwise noted, are recorded in Greenlee County, Clifton, Arizona.

Special Warranty Deed- conveys to A. George Setter, as his sole and separate property, from Arizona Title Insurance and Trust Company, as Trustee under Trust No. 3182, is dated June 1, 1978, and recorded in Docket 91, page 776.

Disclaimer Deed- is signed by his wife Katherine Setter on June 5th, 1978 and recorded in Docket 91, page 777.

Royalty Agreement- between the parties to the above Special Warranty Deed is dated June 1, 1978, and recorded in Docket 91, page 778.

Posting of "no lien" notice- by A. George Setter is dated March 22, 1979 and recorded in Docket 97, page 722.

Lease and Purchase Option- between A. George Setter and Paul Turney dated April 16, 1979, and recorded in Docket 99, pages 307-313.

Certificate of Limited Partnership- to form SHAMROCK ENTERPRIZES, dated June 13, 1979, and recorded in Docket 101, pages 205-207.

Quit-Claim Deed- between Grantor, Paul Turney, and Grantee, Shamrock Enterprises, dated July 6, 1979 and recorded in Docket 101, page 208.

Certificate of Limited Partnership- as above, signed and dated September 19, 1979, and recorded in Docket 106, pages 15-17.

Supplemental Deed and Assignment of Lessee's Interest in Lease- between Paul Turney and Shamrock Enterprises, dated February 20, 1981, and recorded in Docket 121, pages 405-408.

Quit-Claim Deed- Bette Turney quit-claims her interests to Shamrock Enterprises, dated February 20, 1981, in Docket 121, page 409.

Agreement- between A. George Setter and Shamrock Enterprises to make the lease holdings compatible, dated February 20, 1981, recorded in Docket 121, pages 415-423.

### Patented Mining Claims continued 3

Memorandum of Lease, Sublease and Purchase Option Agreement- between Ash Peak Mining Company, Inc, acting as General Partner on behalf of Shamrock Enterprises and Phelps Dodge Corporation, dated February 20, 1981, recorded in Docket 121, pages 424-434.

First Amendment to Memorandum of Lease, Sublease and Purchase Option Agreement and Notice of Extension of Term- between Shamrock Enterprises and Phelps Dodge Corporation, dated July 1, 1983, and recorded in Docket 143, pages 714-724, and in Graham County in Docket 364, pages 546-556.

Quitclaim Deed and Relinquishment- where by Phelps Dodge quit-claims all acquired interests in Ash Peak back to Shamrock Enterprises, dated January 13, 1986, recorded in Docket 153, pages 434-441, and in Graham County in Docket 381, pages 758-765.

Memorandum of Termination of Royalty Agreement- whereby the royalty agreement of June 1, 1978, is terminated on the patented claims, dated September 2, 1986, and recorded in Docket 156, pages 378-379.

Amendment to Lease Agreements- between A. George Setter and Shamrock Enterprises, dated August 27, 1986, recorded in Docket 156, pages 415-423.

Lease, Sub-lease and Purchase option Agreement- between Shamrock Enterprises and Arizona Flux mines, Inc., dated June 25, 1986, recorded in Docket 156, pages 424-441.

The records show that the patented claims are owned by A. George Setter, and that the claims are leased by a purchase lease to Shamrock Enterprises, who in turn has sub-leased the claims to Arizona Flux mines, Inc.

### 2. Unpatented Mining Claims

Notice of Locations- the Shamrock Placer, Shamrock No.1 Placer and Shamrock No.2 placer, here after refered to as the SHAMROCK PLACERS, were originally located on May 19, 1963, by Paul M. Turney, and recorded in Docket 12, pages 669-671, Greenlee County, Clifton, Arizona.

Notice of Locations- the Hardy No.1, Hardy No.2, Lone Camp No.3, Lone Camp No.6, Hellfire No.2, Sudan No.2, Fran No.2, Cougar No.2 Granduc no.2, Granduc no.5 and Granduc No.6, here after refered to as the HARDY GROUP, were located on February 9, 1972 by George E. Morehouse, and recorded in Docket 43, pages 339-340, and 361-369, Greenlee County, Clifton, Arizona.

Unpatented Mining Claims continued 4

Mining Deed- whereby the HARDY GROUP is quitclaimed to A. George Setter by Robert H. Sayre Jr., A. George Setter, George E. Morehouse and John L. Chapman, Partners of Ash Peak Partners, dated February 24, 1978, and recorded in Docket 89, page 492.

Affidavit of Labor- Hardy No.1 by A. George Setter, Partner of Ash Peak Partners, dated March 28, 1978, recorded in Docket 89, pages 494-496.

Royalty Agreement- between Arizona Title Insurance and Trust Company and A. George Setter in regard to the unpatented claims, dated June 1, 1978, and recorded in Docket 91, pages 778-785.

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated October 3, 1978, and recorded in Docket 94, pages 361-362.

Affidavit of Labor- HARDY GROUP, by A. George setter, dated January 15, 1979, and recorded in Docket 96, pages 450-451.

Posting of "no lien" notice- by A. George Setter is dated March 22, 1979 and recorded in Docket 97, page 722.

Relocation of Claims- SHAMROCK GROUP, by Paul M. Turney, dated May 30, 1979, and recorded in Docket 101, pages 188-195.

Lease and Purchase Option- HARDY GROUP, between A. George Setter and Paul Turney dated June 13, 1979, and recorded in Docket 101, pages 197-203.

Certificate of Limited Partnership- to form SHAMROCK ENTERPRIZES, dated June 13, 1979, and recorded in Docket 101, pages 205-207.

Quit-Claim Deed- SHAMROCK PLACERS and interest in Patented Claims between Grantor, Paul Turney, and Grantee, Shamrock Enterprizes, dated July 6, 1979 and recorded in Docket 101, page 208.

Quit-Claim Deed- HARDY GROUP, between H. Clyde Davis, Grantor and Shamrock Enterprises, Grantee, dated July 6, 1979, and recorded in Docket 101, page 209.

Notice of Location- Patton No.1-No.7, located by Paul M. Turney and Lowell Patton on July 14, 1979, and recorded in Docket 102, pages 195-208. These claims will be refered to as the PATTON GROUP.

Affidavit of Labor- HARDY GROUP, by A. George Setter, dated August 23, 1979, and recorded in Docket 102, pages 267-268

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated August 23, 1979, and recorded in Docket 102, pages 269-276.

Unpatented Mining Claims continued 5

Notice of Relocation- HARDY GROUP, by A. George Setter ( Note: Granduc No.7 is not included, and Hellfire No.2 was recorded twice ) dated November 21, 1979, and recorded in Docket 104, pages 374-409.

Notice of Location- B & B No.1 - No.4, by Billingsley and Best hereafter refered to as B & B GROUP, dated January 13, 1980, and recorded in Docket 105, pages 576-583.

Notice of Location- MAB No.1 - No.6, by Paul M. Turney, hereafter refered to as MAB GROUP, dated January 13, 1980, and recorded in Docket 105, pages 584-595. MAB Nos. 2, 3, 4 & 5 are also recorded in Graham County, Docket 321, pages 56-63.

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Notice of Amendment of Location- PATTON GROUP, amended by Paul M. Turney and Lowell Patton on June 5, 1980, and recorded in Docket 109, pages 626-639.

Notice of Amendment of Location- SHAMROCK PLACERS, by Paul M. Turney, dated May 27, 1980, and recorded in Docket 109, pages 640-645.

Notice of Amendment of Location-HARDY GROUP, by A. George Setter, dated July 4, 1980, and recorded in Docket 111, pages 281-309.

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Affidavit- A. George Setter re: Mining Deed recorded March 28, 1978 in Docket 89, page 492, dated February 20, 1981, recorded in Docket 121, page 404.

Unpatented Mining Claims continued 6

Quit-Claim Deed- SHAMROCK GROUP, Bette Turney to Shamrock Enterprises, dated February 20, 1981, recorded in Docket 121, page 410

Quit-Claim Deed- SHAMROCK GROUP, Alice Quay to Shamrock Enterprises, dated February 23, 1981, recorded in Docket 121, page 411.

Deed- PATTON GROUP, from Paul Turney and Lowell Patton to Shamrock Enterprises, dated February 20, 1981, recorded in Docket 121, page 412.

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Affidavit of Labor- B & B GROUP, by Mary Greeley for Paul M. Turney, dated November 17, 1981, recorded in Docket 128, page 724.

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Unpatented Mining Claims continued 7

Intention to Abandon- Turney Tunnel Site, for P. M. Turney and A. G. Setter, dated October 18, 1981, recorded in Docket 128, page 728.

Notice of Relocation- HARDY GROUP and PATTON GROUP, by A. George Setter and Phelps Dodge Corporation, dated February 24, 1982, recorded in Docket 131, pages 434-451 and 454-467.

Location Notice- Granduc No.7, BY Phelps Dodge Corporation for A. George Setter, dated February 24, 1982, recorded in docket 141, pages 452-453.

Location Notice- Harmony No.1, located by Phelps Dodge Corporation, dated February 24, 1982, recorded in Docket 131, pages 468-469

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Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated August 29, 1983, and recorded in Docket 139, page 341.

Affidavit of Labor- B & B GROUP, by Paul M. Turney, dated August 29, 1983, recorded in Docket 139, page 342.

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Affidavit of Labor- HARDY & PATTON GROUPS, Jerome A. Waegli for Phelps Dodge Corporation, dated November 14, 1983, recorded in Docket 141, pages 21-26. Includes Granduc No.7 and Harmony No.1.

Quit-Claim Deed- B & B and MAB GROUPS, 1/2 interest from Paul Turney to Lowell Patton, dated September 12, 1983, recorded in Docket 141, page 52.

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Unpatented Mining Claims continued 8

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated August 20, 1984, and recorded in Docket 147, page 12.

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Change of Ownership- B & B Group, as per Deed above, dated September 13, 1984, recorded in Docket 147, page 219.

Affidavit of Labor- HARDY & PATTON GROUPS, Jerome A. waegli for Phelps Dodge Corporation, dated October 22, 1984, recorded in Docket 148, pages 489-493. This includes the Harmony No.1 and Granduc No.7.

Affidavit of Labor- HARDY & PATTON GROUPS, Jerome A. waegli for Phelps Dodge Corporation, dated October 8, 1985, recorded in Docket 152, pages 608-612. This includes the Harmony No.1 and Granduc No.7.

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated december 5, 1985, and recorded in Docket 153, pages 202-203.

Affidavit of Labor- B & B and MAB Groups, by Paul M. Turney, dated december 5, 1985, recorded in Docket 153, pages 204-205.

Quitclaim Deed- Harmony No.1, from Phelps Dodge Corporation to Shamrock Enterprises, dated January 13, 1986, recorded in Docket 153, pages 442-443.

Quitclaim Deed and Relinquishment- HARDY & PATTON GROUPS, SHAMROCK PLACERS, and TUNNEL SITES, whereby Phelps Dodge quitclaims all acquired interests in Ash Peak back to Shamrock Enterprises, dated January 13, 1986, recorded in Docket 153, pages 434-441, and in Graham County in Docket 381, pages 758-765.

Amendment to Lease Agreements- between A. George Setter and Shamrock Enterprises, dated August 27, 1986, recorded in Docket 156, pages 415-423.

Lease, Sub-lease and Purchase option Agreement- between Shamrock Enterprises and Arizona Flux mines, Inc., dated June 25, 1986, recorded in Docket 156, pages 424-441.

Affidavit of Labor- SHAMROCK PLACERS, by Wes Becker, Arizona Flux Mines, Inc, dated October 20, 1986, recorded in Docket 157, pages 81-82

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Unpatented Mining Claims continued 9

Affidavit of Labor- HARDY, PATTON, B & B and MAB GROUPS, by Wes Becker, Arizona Flux Mines, Inc, dated December 7, 1987, recorded in Docket 162, pages 179-184. Recorded in Graham County in Docket 402, pages 279-284.

The ownership of these unpatented claims according to the recorded documents are as follows:

A. George Setter

Hardy No.1 and Hardy No.2  
 Lone Camp No.3 and Lone Camp No.6  
 Hellfire No.2  
 Sudan No.2  
 Fran No.2  
 Cougar No.2  
 Granduc No.2, Granduc No.5, Granduc No.6 and Granduc No.7  
 Harmony No.1

Shamrock Enterprises

Patton No.1 through No.7

Paul M. Turney, Agent for Tenants in Common

B & B No.1 through No.4  
 MAB No.1 through No. 6

Paul M. Turney

Shamrock Placer, Shamrock No.1 Placer and Shamrock No.2 Placer

Arizona Flux mines, Inc. presently have the properties under sub-lease from Shamrock Enterprises.

3. Arizona State Prospecting Permit

An Application for Mineral Prospecting Permit in Section 2; T. 8 S., R. 30 E. G&SRB&M., was applied for on February 28, 1986 by Shamrock Enterprises, but was not perfected and was cancelled on April 28, 1986. This Section was later Transferred to the Bureau of Land Management, and became open for location as of January 30, 1987. I do not know the status of the land at this time. If the land is still open for staking, and you are interested, I would be willing to stake it and lease it to you.

Sincerely yours

*Joseph E. Shearer*  
 Joseph E. Shearer



**ADDENDUM**  
**TO TITLE REPORT DATED 12/31/87**

In further reviewing the documents pertaining to the Ash Peak Property, it is my determination that the Harmony No.1 unpatented claim belongs to Shamrock Enterprises rather than to A. George Setter. This claim was staked by Phelps Dodge Corporation for Phelps Dodge Corporation and then was Quit Claimed to Shamrock Enterprises.

In regard to the Setter and Patton Tunnel Sites, they were deeded to Shamrock Enterprises in Deed, dated February 20, 1981, Docket 121, page 414. Phelps Dodge Corporation Quit Claimed them back to Shamrock Enterprises, Docket 153, pages 434-441. The two Tunnel Sites may still be valid, however, they are not mentioned in the 1986 and 1987 Affidavits of Labor prepared by Wes Becker of Arizona Flux Mines, Inc.

Sincerely yours

*Joseph E. Shearer*  
Joseph E. Shearer



JOSEPH E. SHEARER  
CONSULTING GEOLOGIST  
6821 EAST BAKER STREET  
TUCSON, ARIZONA 85710-2228  
(602) 296-8837  
December 30, 1987

SOUTHERN GOLD RESOURCES LTD.  
Suite 220, Quayside Plaza  
145 Chadwick Court  
North Vancouver, B.C., Canada V7M 3k1

Attn: Stephen P. Quin, Vice President, Exploration

Re: Title Search, Ash Peak Mine Property

Dear Mr. Quin:

By this letter and attachments I am stating my findings in regard to the title and ownership of the Ash Peak Mine Property as of this date. Copies of all recorded data listed in this report will be enclosed. Also, recorded data on existing and previously existing claims in the property area are included.

The data and chain of title will be in three parts as follows:

1. Patented Mining Claims and Millsites (7)
2. Unpatented Mining Claims (33)
3. State Prospecting Permit (1)

Your detailed list of unpatented mining claims, attached to your letter, included thirty two (32) claims. Also, one additional claim was found with the group that was not on your list. The additional claim is Harmony #1, and the location certificate is recorded in Docket 131, Pages 468-469. This makes a total of thirty three (33) unpatented claims.

Your check in the amount of fifteen hundred dollars (\$1,500.00) was received for payment in full.

The title search at the Graham and Greenlee County Court Houses, State Land Department and Bureau of Land Management were conducted on December 28th & 29th. In excess of 400 pages of recorded data were copied. In the following pages this data will be tabulated in chronological order in relation to each of the three categories.

1. Patented Mining Claims

2

The Great Eastern, Commerce, Fraction, Summit and Homestead lode claims, and Commerce and Summit millsite claims, Surveys Numbers 3076A and 3076B, were patented on March 7, 1921, to the Ash Peak Mining Company, Patent Number 783751. Copies of both the Patent and the Survey Plat are enclosed.

Assignment of Mining Lease- Robert H. Sayre, Jr., and George E. Morehouse assign their rights to A. George Setter, dated February 24, 1978, and recorded in Docket 89, page 493. This and all of the following documents, unless otherwise noted, are recorded in Greenlee County, Clifton, Arizona.

Special Warranty Deed- conveys to A. George Setter, as his sole and separate property, from Arizona Title Insurance and Trust Company, as Trustee under Trust No. 3182, is dated June 1, 1978, and recorded in Docket 91, page 776.

Disclaimer Deed- is signed by his wife Katherine Setter on June 5th, 1978 and recorded in Docket 91, page 777.

Royalty Agreement- between the parties to the above Special Warranty Deed is dated June 1, 1978, and recorded in Docket 91, page 778.

Posting of "no lien" notice- by A. George Setter is dated March 22, 1979 and recorded in Docket 97, page 722.

Lease and Purchase Option- between A. George Setter and Paul Turney dated April 16, 1979, and recorded in Docket 99, pages 307-313.

Certificate of Limited Partnership- to form SHAMROCK ENTERPRIZES, dated June 13, 1979, and recorded in Docket 101, pages 205-207.

Quit-Claim Deed- between Grantor, Paul Turney, and Grantee, Shamrock Enterprises, dated July 6, 1979 and recorded in Docket 101, page 208.

Certificate of Limited Partnership- as above, signed and dated September 19, 1979, and recorded in Docket 106, pages 15-17.

Supplemental Deed and Assignment of Lessee's Interest in Lease- between Paul Turney and Shamrock Enterprises, dated February 20, 1981, and recorded in Docket 121, pages 405-408.

Quit-Claim Deed- Bette Turney quit-claims her interests to Shamrock Enterprises, dated February 20, 1981, in Docket 121, page 409.

Agreement- between A. George Setter and Shamrock Enterprises to make the lease holdings compatible, dated February 20, 1981, recorded in Docket 121, pages 415-423.

### Patented Mining Claims continued 3

Memorandum of Lease, Sublease and Purchase Option Agreement- between Ash Peak Mining Company, Inc, acting as General Partner on behalf of Shamrock Enterprises and Phelps Dodge Corporation, dated February 20, 1981, recorded in Docket 121, pages 424-434.

First Amendment to Memorandum of Lease, Sublease and Purchase Option Agreement and Notice of Extension of Term- between Shamrock Enterprises and Phelps Dodge Corporation, dated July 1, 1983, and recorded in Docket 143, pages 714-724, and in Graham County in Docket 364, pages 546-556.

Quitclaim Deed and Relinquishment- where by Phelps Dodge quit-claims all acquired interests in Ash Peak back to Shamrock Enterprises, dated January 13, 1986, recorded in Docket 153, pages 434-441, and in Graham County in Docket 381, pages 758-765.

Memorandum of Termination of Royalty Agreement- whereby the royalty agreement of June 1, 1978, is terminated on the patented claims, dated September 2, 1986, and recorded in Docket 156, pages 378-379.

Amendment to Lease Agreements- between A. George Setter and Shamrock Enterprises, dated August 27, 1986, recorded in Docket 156, pages 415-423.

Lease, Sub-lease and Purchase option Agreement- between Shamrock Enterprises and Arizona Flux mines, Inc., dated June 25, 1986, recorded in Docket 156, pages 424-441.

The records show that the patented claims are owned by A. George Setter, and that the claims are leased by a purchase lease to Shamrock Enterprises, who in turn has sub-leased the claims to Arizona Flux mines, Inc.

### 2. Unpatented Mining Claims

Notice of Locations- the Shamrock Placer, Shamrock No.1 Placer and Shamrock No.2 placer, here after refered to as the SHAMROCK PLACERS, were originally located on May 19, 1963, by Paul M. Turney, and recorded in Docket 12, pages 669-671, Greenlee County, Clifton, Arizona.

Notice of Locations- the Hardy No.1, Hardy No.2, Lone Camp No.3, Lone Camp No.6, Hellfire No.2, Sudan No.2, Fran No.2, Cougar No.2 Granduc no.2, Granduc no.5 and Granduc No.6, here after refered to as the HARDY GROUP, were located on February 9, 1972 by George E. Morehouse, and recorded in Docket 43, pages 339-340, and 361-369, Greenlee County, Clifton, Arizona.

Unpatented Mining Claims continued 4

Mining Deed- whereby the HARDY GROUP is quitclaimed to A. George Setter by Robert H. Sayre Jr., A. George Setter, George E. Morehouse and John L. Chapman, Partners of Ash Peak Partners, dated February 24, 1978, and recorded in Docket 89, page 492.

Affidavit of Labor- Hardy No.1 by A. George Setter, Partner of Ash Peak Partners, dated March 28, 1978, recorded in Docket 89, pages 494-496.

Royalty Agreement- between Arizona Title Insurance and Trust Company and A. George Setter in regard to the unpatented claims, dated June 1, 1978, and recorded in Docket 91, pages 778-785.

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated October 3, 1978, and recorded in Docket 94, pages 361-362.

Affidavit of Labor- HARDY GROUP, by A. George setter, dated January 15, 1979, and recorded in Docket 96, pages 450-451.

Posting of "no lien" notice- by A. George Setter is dated March 22, 1979 and recorded in Docket 97, page 722.

Relocation of Claims- SHAMROCK GROUP, by Paul M. Turney, dated May 30, 1979, and recorded in Docket 101, pages 188-195.

Lease and Purchase Option- HARDY GROUP, between A. George Setter and Paul Turney dated June 13, 1979, and recorded in Docket 101, pages 197-203.

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Quit-Claim Deed- HARDY GROUP, between H. Clyde Davis, Grantor and Shamrock Enterprises, Grantee, dated July 6, 1979, and recorded in Docket 101, page 209.

Notice of Location- Patton No.1-No.7, located by Paul M. Turney and Lowell Patton on July 14, 1979, and recorded in Docket 102, pages 195-208. These claims will be refered to as the PATTON GROUP.

Affidavit of Labor- HARDY GROUP, by A. George Setter, dated August 23, 1979, and recorded in Docket 102, pages 267-268

Affidavit of Labor- SHAMROCK PLACERS, by Paul M. Turney, dated August 23, 1979, and recorded in Docket 102, pages 269-276.

Unpatented Mining Claims continued 5

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Notice of Location- B & B No.1 - No.4, by Billingsley and Best hereafter referred to as B & B GROUP, dated January 13, 1980, and recorded in Docket 105, pages 576-583.

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Unpatented Mining Claims continued 7

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Unpatented Mining Claims continued 9

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The ownership of these unpatented claims according to the recorded documents are as follows:

A. George Setter

Hardy No.1 and Hardy No.2  
 Lone Camp No.3 and Lone Camp No.6  
 Hellfire No.2  
 Sudan No.2  
 Fran No.2  
 Cougar No.2  
 Granduc No.2, Granduc No.5, Granduc No.6 and Granduc No.7  
 Harmony No.1

Shamrock Enterprises

Patton No.1 through No.7

Paul M. Turney, Agent for Tenants in Common

B & B No.1 through No.4  
 MAB No.1 through No. 6

Paul M. Turney

Shamrock Placer, Shamrock No.1 Placer and Shamrock No.2 Placer

Arizona Flux mines, Inc. presently have the properties under sub-lease from Shamrock Enterprises.

3. Arizona State Prospecting Permit

An Application for Mineral Prospecting Permit in Section 2; T. 8 S., R. 30 E. G&SRB&M., was applied for on February 28, 1986 by Shamrock Enterprises, but was not perfected and was cancelled on April 28, 1986. This Section was later Transferred to the Bureau of Land Management, and became open for location as of January 30, 1987. I do not know the status of the land at this time. If the land is still open for staking, and you are interested, I would be willing to stake it and lease it to you.

Sincerely yours

*Joseph E. Shearer*  
 Joseph E. Shearer



**ADDENDUM**  
**TO TITLE REPORT DATED 12/31/87**

In further reviewing the documents pertaining to the Ash Peak Property, it is my determination that the Harmony No.1 unpatented claim belongs to Shamrock Enterprises rather than to A. George Setter. This claim was staked by Phelps Dodge Corporation for Phelps Dodge Corporation and then was Quit Claimed to Shamrock Enterprises.

In regard to the Setter and Patton Tunnel Sites, they were deeded to Shamrock Enterprises in Deed, dated February 20, 1981, Docket 121, page 414. Phelps Dodge Corporation Quit Claimed them back to Shamrock Enterprises, Docket 153, pages 434-441. The two Tunnel Sites may still be valid, however, they are not mentioned in the 1986 and 1987 Affidavits of Labor prepared by Wes Becker of Arizona Flux Mines, Inc.

Sincerely yours

*Joseph E. Shearer*  
Joseph E. Shearer

