

JOINT VENTURE AGREEMENT

BETWEEN

Cariboo Rose Resources Ltd.

AND

ISM Resources Corp

DATED the 29th day of December, 2021

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JOINT VENTURE AGREEMENT

THIS JOINT VENTURE AGREEMENT dated for reference the 29 day of December,
2021

BETWEEN:

CARIBOO ROSE RESOURCES LTD., a British Columbia company having an office at
#110 - 325 Howe Street, Vancouver, British Columbia, V6C 1Z7

("Cariboo Rose")

AND:

ISM RESOURCES CORP., a British Columbia company having an office at #1300 - 409
Granville Street, Vancouver, British Columbia, V6C 1T2

("ISM")

W H E R E A S

A. Pursuant to the terms of the Property Option Agreement, ISM earned a 45% undivided Interest in the Property from Cariboo Rose; and

B. Upon ISM earning its undivided 45% Interest in the Property, the parties have executed this Joint Venture Agreement for the operation, exploration, development and production pursuant to Section 7.1 of the Property Option Agreement.

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the payment by ISM to Cariboo Rose of the sum of \$10.00 (the receipt and sufficiency of which is hereby expressly acknowledged by Cariboo Rose) and of the mutual covenants and agreements herein contained the parties agree as follows:

1. **DEFINITIONS**

1.1 In this agreement and in the Schedules and the recitals hereto, unless the context otherwise requires, the following expressions will have the following meanings:

(a) "Assets" mean the Property, other Tenements, Product and Facilities, Supplies and all other assets acquired or held by the Participants with respect thereto or pursuant to this agreement

as the same may exist from time to time;

- (b) "Area of Interest" means the area within two kilometres from the outer boundaries of the Property;
- (c) "Associated Company" means:
 - (i) any corporation which owns directly or through any other means not less than 30% of the outstanding capital stock of a party hereto,
 - (ii) any corporation of which a party hereto owns directly or through any other means not less than 30% of the outstanding capital stock, and
 - (iii) any corporation of which either of the corporations referred to in paragraphs (i) and (ii) owns directly or through any other means not less than 30% of the outstanding capital stock;
- (d) "Commercial Production" means the commercial exploitation of Ore but does not include milling for the purpose of testing or milling or leaching by a pilot plant or during the initial tune-up period of a plant. Commercial Production will be deemed to have commenced:
 - (i) if a plant is located on the Property, on the first day of the month following the first period of 30 consecutive days during which Ore has been processed through such plant for not less than 15 days at an average rate of not less than 70% of the initial rated capacity of such plant, or
 - (ii) if no plant is located on the Property, on the first day of the month following the first period of 30 consecutive days during which Ore has been shipped from the Property on a reasonably regular basis for the purpose of earning revenue;
- (e) "Contingency Fund" means the fund which may be established by the Joint Operators pursuant to subsection 14.8, the moneys in which will be used to satisfy all legal obligations of the Joint Operators in connection with the permanent or temporary shutdown in whole or in part of any mine on the Property, whether or not such obligations are recognized in the accounts of the Joint Operators and including, without limitation, to post any required reclamation bonds or deposits required by any government authority, all anticipated costs of reclamation of the surface lands to the Property and other environmental rehabilitation as may be required by any governmental, regulatory or other body having jurisdiction and any obligation for severance pay and pensions for employees;
- (f) "Cost Share" means the respective shares of Costs and other liabilities to be borne by each Participant after the date hereof and will be equal to the respective Interests of each Participant as determined from time to time;
- (g) "Costs" means Expenditures, Program Overruns, Production Program Costs, Production

Program Overruns and operating Costs, as applicable;

- (h) "Expenditures" means all expenses, obligations and liabilities of whatever kind or nature spent or incurred directly or indirectly by the Participants up to the implementation of the Production Program, in connection with the exploration and development of the Property, including, without limiting the generality of the foregoing, moneys expended in maintaining the Property in good standing, moneys expended in doing and filing assessment work, expenses paid for or incurred in connection with any program of surface or underground prospecting, exploring, geophysical, geochemical and geological surveying, diamond drilling and drifting, raising and other underground work, assaying and metallurgical testing and engineering, environmental studies, data preparation and analysis, submissions to government agencies with respect to production permits, in acquiring Facilities, in making contributions to the Contingency Fund pursuant to subsection 14.8, in paying the fees, wages, salaries, travelling expenses, and fringe benefits (whether or not required by law) of all persons engaged in work with respect to and for the benefit of the Property, in paying for the food, lodging and other reasonable needs of such persons;
- (i) "Facilities" means all mines and plants including, without limitation, all pits, shafts, haulageways and other underground workings, and all buildings, plants and other structures, fixtures and improvements, and all other property, whether fixed or moveable, as the same may exist at any time, in or on the Property or outside the Property if for the exclusive benefit of the Property only;
- (j) "Feasibility Report" means a detailed report, showing the feasibility of placing the Property or any part thereof into Commercial Production at an acceptable rate of return on capital, in such form and detail and using such assumptions as to metal prices as are customarily required by institutional lenders of major stand alone non-recourse financing for mining projects, and will include a reasonable assessment of the mineable Ore reserves and their amenability to metallurgical treatment, a complete description of the work, equipment and supplies required to bring such part of the Property into Commercial Production and the estimated cost thereof, a description of the mining methods to be employed and a financial appraisal of the proposed operations supported by all reasonably necessary information and data including at least the following:
 - (i) a description of that part of the Property to be covered by the proposed mine;
 - (ii) the estimated recoverable reserves of minerals and the estimated composition and content thereof;
 - (iii) the proposed procedure for development, mining and production;
 - (iv) results of Ore amenability tests (if any);

- (v) the nature and extent of the Facilities proposed to be acquired and constructed which may include mill facilities, if the size, extent and location of the ore body makes such mill facilities feasible, in which event the study will also include a preliminary design for such mill;
- (vi) the total costs, including capital budget, which are reasonably required to purchase, construct and install all structures, machinery and equipment required for the proposed mine, including a schedule of timing of such requirements;
- (vii) all environmental impact studies and costs;
- (viii) the period in which it is proposed the Property will be brought to Commercial Production;
- (ix) such other data and information as are reasonably necessary to substantiate the existence of an ore deposit of sufficient size and grade to justify development of a mine, taking into account all relevant business, tax and other economic considerations; and
- (x) working capital requirements for the initial four month operations of the Property as a mine or such longer period as may be reasonably justified in the circumstances;
- (k) "Interest" means the undivided beneficial percentage interest of a Participant in the Property;
- (l) "Joint Operator" means each Participant acting as joint operator pursuant to this agreement;
- (m) "Management Committee" means a committee formed pursuant to section 12;
- (n) "Managing Operator" means the Participant acting as managing operator pursuant to this agreement;
- (o) "Operating Costs" means, for any period after commencement of Commercial Production, all costs, expenses, obligations, liabilities and charges of whatsoever kind or nature actually incurred or chargeable directly by the Joint Operators in connection with the operation of the Property as a mine during such period, which costs, expenses, obligations, liabilities and charges include, without duplication and without limiting the generality of the foregoing, the following:
 - (i) all costs of or related to the mining and concentrating of Ore or Product and the operation of the Facilities and all costs of or related to marketing of Product including transportation, commissions and/or discounts,
 - (ii) such amount of cash for working capital as is required for the operation of the Property as a mine,

- (iii) all costs of or related to operating employee facilities, including housing,
- (iv) all duties, charges, levies, royalties, taxes (excluding taxes levied on the income of the parties) and other payments imposed by any government or municipality or department or agency thereof upon or in connection with operating the Property as a mine,
- (v) fees, wages, salaries, travelling expenses and fringe benefits (whether or not required by law) of all persons directly engaged in respect of and for the benefit of the Property and all costs involved in paying for the food, lodging and other reasonable needs of such persons,
- (vi) all costs of consulting, legal, accounting, insurance and other services,
- (vii) all exploration expenditures incurred after commencement of Commercial Production,
- (viii) all capital costs of operating the Property as a mine including all costs of construction, equipment and mine development including maintenance, repairs and replacements, and any capital expenditures relating to an improvement, expansion, modernization or replacement of the Facilities,
- (ix) all costs for pollution control, reclamation costs and any other related costs incurred or to be incurred by the Joint Operators,
- (x) any costs or expenses incurred or to be incurred relating to the termination of the operation of the Property as a mine, including all contributions to the Contingency Fund by the Joint Operators pursuant to subsection 14.8,

less the amount of all insurance recoveries and settlements received during such period to the extent such recoveries and settlements were not deducted in any previous period and, except where specific provision is made otherwise, all Operating Costs will be determined in accordance with generally accepted accounting principles applied consistently from year to year but such costs shall not include any amount in respect of amortization of Costs, depletion or depreciation;

- (p) "operating the Property as a mine" or "operation of the Property as a mine" means any or all of the mining, milling, leaching, smelting, and refining or other recovery of Ore or Product;
- (q) "Ore" means all materials from the Property, the nature and composition of which, in the judgment of the Joint Operators, justifies either:
 - (i) mining or removing from place and shipping and selling such material, or delivering such material to a processing plant for physical or chemical treatment, or
 - (ii) leaching such material in place;

- (r) "Other Tenements" means all surface rights of and to any lands within or outside the Property including surface rights held in fee or under lease, licence, easement, right of way or other rights of any kind (and all renewals, extensions and amendments thereof or substitutions therefor) acquired by or on behalf of the parties with respect to the Property;
- (s) "Participant" means either of Cariboo Rose or ISM having an Interest and its successors and permitted assigns and "Participants" means together Cariboo Rose and ISM, provided that they both have an Interest, and their successors and permitted assigns;
- (t) "Prime Rate" means, for any month, the annual rate of interest declared to the Participants by the main branch in Vancouver, British Columbia, of the Canadian Imperial Bank of Commerce as the reference rate of interest for determining Canadian dollar loans in Canada at noon on its first business day in that month;
- (u) "Product" means:
 - (i) all Ore shipped and sold prior to treatment, and
 - (ii) all concentrates, precipitates and products produced by or for the Joint Operators from Ore;
- (v) "Production Program" means any Program contemplating achievement of Commercial Production pursuant to a Feasibility Report;
- (w) "Production Program Costs" means, without duplication, all costs, outlays and expenses, obligations and liabilities of whatever kind or nature spent or incurred directly or indirectly by the Participants in connection with a Production Program in order to equip the Property for Commercial Production including working capital required for the initial four month (or longer period as determined by the Joint Operators) operation of the Property as a mine, and including contributions to the Contingency Fund required by the Joint Operators pursuant to subsection 14.8;
- (x) "Production Program Overruns" means all Production Program Costs which exceed those estimated under a Production Program;
- (y) "Program" means as the context requires:
 - (i) any program and budget to carry out work and incur Expenditures or Production Program Costs on the Property,
 - (ii) a document wherein there is specified in reasonable detail an outline of any and all research, prospecting, exploration and development work proposed to be carried out during such Program, the estimated Expenditures or Production Program Costs to be incurred in carrying

- out such work and the area of the Property on which such work is to be undertaken, and
- (iii) the preparation of any Feasibility Report and the preparation of any Production Program;
 - (z) "Program Overruns" means all Expenditures which exceed those estimated under a Program;
 - (aa) "Property" means the Koster Dam property, a gold-silver occurrence 80 kilometres Southeast of Williams Lake, South central British Columbia.
 - (bb) "Property Option Agreement" means the Property Option Agreement between Cariboo Rose and ISM and attached at Schedule B hereto;
 - (cc) "Royalty Interest" means the right to be paid 3% of Net Profits which may be payable to Cariboo Rose or ISM in accordance with subsection 4.5, calculated and paid in accordance with Schedule C hereto;
 - (dd) "Significant Program" means a Program having estimated Expenditures in excess of \$250,000 or a Production Program; and
 - (ee) "Supplies" means all tangible personal property of a non-capital nature (other than Product or Facilities) acquired or held by the Participants with respect to the Property.

2. REPRESENTATIONS, WARRANTIES

2.1 Each of Cariboo Rose and ISM represents, warrants and covenants to the other that:

- (a) it is a company duly incorporated, organized and validly subsisting under the law of its incorporating jurisdiction and is qualified to carry on business in the manner contemplated by this agreement;
- (b) it has full power, capacity and authority to carry on its business and to enter into and perform its obligations under this agreement and any agreement or instrument referred to or contemplated by this agreement;
- (c) all necessary corporate and shareholder approvals have been obtained and are in effect with respect to the transactions contemplated hereby, and no further action on the part of the directors or shareholders is necessary or desirable to make this agreement valid and binding on a Participant;
- (d) neither the execution and delivery of this agreement nor any of the agreements referred to herein or contemplated hereby, nor the consummation of the transactions hereby contemplated conflict with, result in the breach of or accelerate the performance required by,

any agreement to which it is a Participant; and

- (e) the execution and delivery of this agreement and the agreements contemplated hereby will not violate or result in the breach of the laws of any jurisdiction applicable or pertaining thereto or of its constating documents.

2.2 The representations and warranties hereinbefore set out are conditions on which the Participants have relied in entering into this agreement and each of the Participants will indemnify and save the other harmless from all loss, damage, costs, actions and suits arising out of or in connection with any breach of any representation, warranty, covenant, agreement or condition made by it and contained in this agreement.

3. ASSOCIATION OF PARTICIPANTS

3.1 Cariboo Rose and ISM will become associated as joint venturers for the following limited functions and purposes:

- (a) to explore and, if deemed warranted as herein provided, to develop the Property and equip all or a part thereof for Commercial Production;
- (b) to operate the Property as a mine; and
- (c) to engage in such other activities as may be considered by the Participants to be necessary or desirable in connection with the foregoing.

3.2 All transactions, contracts, employments, purchases, operations, negotiations with third parties and any other matter or act undertaken on behalf of the Participants in connection with the Property will be done, transacted, undertaken or performed in the name of the transacting Joint Operator only and neither Participant will do, transact, perform or undertake anything in the name of the other Participant or in the joint names of the Participants.

3.3 The rights and obligations of the Participants will be, in each case, several, and will not be or be construed to be either joint or joint and several. Nothing contained in this agreement will, except to the extent specifically authorized hereunder, be deemed to constitute a Participant a partner, an agent or legal representative of the other Participant. It is intended that this agreement will not create the relationship of a partnership among the Participants and that no act done by any Participant pursuant to the provisions hereof will operate to create such a relationship.

3.4 Each Participant will be liable for its Cost Share of Costs and any other costs associated with the exploration, development or operation of the Property as a mine at such time as the liability is incurred by a Joint Operator. Each Participant will be liable for its Cost Share of any debts, liabilities or obligations arising from operations hereunder.

3.5 Each Participant, in proportion to its Interest, will indemnify and hold the other Participant harmless from any claim of or liability to any third person asserted upon the ground that any action taken under this agreement has resulted in or will result in any loss or damage to such third person, to the extent, but only to the extent, that such claim or liability is paid by the other Participant in an amount in excess of the other Participant's Cost Share thereof and that, subject to a Joint Operator's rights under section 6.1(e), each Participant has consented to such settlement.

3.6 Each Participant will devote such time as may be required to fulfil any obligation assumed by it hereunder but, except for the Participants' respective obligations hereunder in relation to the Property:

- (a) each Participant will be at liberty to engage, for its own account and without duty to account to the other Participant, in any other business or activity outside the joint venture constituted hereby, including the ownership and operation of any other mining permits, licenses, claims and leases wherever located;
- (b) neither Participant will be under any fiduciary or other duty or obligation to the other Participant which will prevent or impede such Participant from participating in, or enjoying the benefits of, competing endeavours of a nature similar to the business or activity undertaken by the Participants hereunder; and
- (c) the legal doctrines of "corporate opportunity" or "business opportunity" sometimes applied to persons occupying a relationship similar to that of the Participants will not apply with respect to participation by either Participant in any business activity or endeavour outside the joint venture constituted hereby, and, without implied limitation, a Participant will not be accountable to the other for participation in any such business activity or endeavour outside the joint venture constituted hereby which is in direct competition with the business or activity undertaken by the joint venture.

3.7 Neither Participant will acquire any interest in minerals, directly or indirectly, located wholly or in part within the Area of Interest unless such acquisition is expressly subject to the terms of this agreement.

4. INTEREST OF PARTICIPANTS

4.1 The Participants will have such Interest as is determined from time to time in accordance with subsections 4.3, 4.4 and 4.5.

4.2 The Participants will upon the execution of this agreement have the following respective Interests:

<u>Participant</u>	<u>Interest</u>
Cariboo Rose	55.00%
ISN	45.00%

4.3 The percentage level of each Participant's Interest will be determined from time to time as being equal to the product obtained by multiplying 100% by a fraction of which the numerator is the amount of such Participant's contributions or deemed contributions to Costs since the date hereof, and the denominator of which is the aggregate amount of all contributions or deemed contributions to Costs by the Participants since the date hereof.

4.4 The percentage level of the respective Interests of the Participants will not change so long as each Participant contributes its respective Cost Share of every Program and any Production Program as set out in sections 10 and 11. At any time and from time to time after a Participant has elected or is deemed to have elected not to contribute its Cost Share to a Program or Production Program or loses its right to contribute to Programs or any Production Program as set out in subsections 10.8 and 11.6, the percentage level of such Participant's Interest will be adjusted in accordance with the formula set out in subsection 4.3.

4.5 If as a result of adjustment pursuant to subsections 4.3 and 4.4, the Interest of a Participant is reduced to 10% or less then the Interest of such Participant (a "Diluted Participant") will thereupon be deemed to be transferred to the other Participant (the "Remaining Participant"), and thereafter the Diluted Participant will not be a Participant but in consideration of such transfer will be entitled to receive, and the Remaining Participant will pay to the Diluted Participant, the Royalty Interest. Upon such transfer, the Diluted Participant will forthwith execute and deliver to the Remaining Participant all such documents as may, in the opinion of counsel for the Remaining Participant, be necessary to transfer to the Remaining Participant all Interest of the Diluted Participant, subject to the right of the Diluted Participant to receive the Royalty Interest.

4.6 If the Interest of a Diluted Participant is transferred in consideration of the Royalty Interest pursuant to subsection 4.5, then any decision thereafter to place the Property into Commercial Production will be at the sole discretion of the Remaining Participant and the Remaining Participant will be under no obligation and nothing in this agreement will be construed as creating an obligation upon the Remaining Participant to place the Property into Commercial Production. If the Remaining Participant commences the operation of the Property as a mine, it will have the unfettered right to suspend or curtail any such operation as it in its sole discretion may deem advisable.

4.7 Any reduction or forfeiture of a Diluted Participant's Interest shall not relieve that Diluted Participant of its share of any liability, whether it accrues before or after such reduction or forfeiture, arising out of operations conducted prior thereto. For the purposes of the foregoing, such Diluted Participant's share of liability will be equal to its Interest at the time such liability was incurred. The increased Interest accruing to the Remaining Participant as a result of the reduction of the Diluted Participant's Interest shall be free of royalties, liens or other encumbrances arising through the Diluted

Participant, other than those existing at the time the Property was acquired or those to which both Participants have given their written consent. An adjustment to an Interest need not be evidenced during the term of this agreement by the execution and recording of appropriate instruments, but each Participant's Interest will be shown in the books of the Joint Operators. However, any Participant, at any time upon the request of another Participant, will execute and acknowledge instruments necessary to evidence such adjustment in form sufficient for recording in the jurisdiction where the Property is located.

5. JOINT OPERATORS AND THE MANAGING OPERATOR

5.1 Cariboo Rose and ISM will be Joint Operators and will act as Joint Operators under this agreement until either resigns in accordance with the provisions hereof. A Joint Operator may resign as Joint Operator at any time by giving not less than 120 days' prior notice to the Management Committee, or such shorter period as the Management Committee may agree to.

5.2 Cariboo Rose will be the initial Managing Operator and will act as Managing Operator under this agreement until it resigns or is replaced in accordance with the provisions hereof. The Managing Operator may resign as Managing Operator at any time by giving not less than 120 days' prior notice to the Management Committee or such shorter period as the Management Committee may agree to, and within such 120 day or shorter period the Management Committee will appoint another party who covenants to act as the Managing Operator upon the terms and conditions hereof and such other terms and conditions as the Management Committee may agree.

5.3 Title to the Property held by either Participant, will be held by such Participant, in trust for both Participants, subject to the terms of this agreement.

5.4 A Joint Operator may engage an Associated Company to provide services, supplies, equipment or machinery hereunder, provided that it will do so on terms no less favourable than would be the case with unrelated persons in arm's length transactions.

6. POWER AND AUTHORITY OF THE MANAGING OPERATOR

6.1 Subject to the control and direction of the Management Committee, the Managing Operator will have full right, power and authority to do everything necessary or desirable in accordance with good mining practice in connection with the exploration and development of the Property and to determine the manner of operation of the Property as a mine including, without limiting the generality of the foregoing, the right, power and authority to:

- (a) implement any Program in accordance with section 10 and any Production Program in accordance with a Feasibility Report approved by the Participants in accordance with section 11;

- (b) regulate access to the Property subject only to the right of the Participants pursuant to subsection 8.1(i);
- (c) employ and engage such employees, agents, and independent contractors as it may consider necessary or advisable to carry out its duties and obligations hereunder and in this connection to delegate any of its powers and rights to perform its duties and obligations hereunder, but the Managing Operator will not enter into contractual relationships with an Associated Company except on terms which are commercially competitive;
- (d) exclude any part of the Property from this agreement provided it will give 30 days' prior notice to the other Joint Operator (the "Non-Managing Joint Operator") of its intention to do so and if the Non-Managing Joint Operator notifies the Managing Operator within such 30 day period of its desire to hold such part of the Property the Managing Operator will deliver to the Non-Managing Joint Operator a duly executed transfer of the Property in registrable form in favour of the Non-Managing Joint Operator and the Property so transferred will no longer be subject to this agreement and the Non-Managing Joint Operator will defend, indemnify and save the Managing Operator harmless from any liability arising thereafter in respect thereof. If neither Joint Operator elects to hold the Property then they will be entitled to abandon the Property which will then no longer be subject to this agreement unless either Joint Operator or an Associated Company of either of them, acquires an interest, direct or indirect, in such part of the Property within one year of the date of abandonment, in which case the acquired interest will be deemed to be again subject to this agreement; and
- (e) after giving notice to the Non-Managing Joint Operator, prosecute or defend all litigation arising out of operations conducted hereunder, but the Managing Operator will not incur legal expenses in excess of \$100,000 or settle any lawsuit, claim or demand involving an aggregate amount or value exceeding \$1,000,000 without the approval of the Non-Managing Joint Operator, and the Non-Managing Joint Operator may join in the prosecution or defence of such litigation at its own expense.

7. ADDITIONAL POWER AND AUTHORITY OF THE MANAGING OPERATOR

7.1 Subject to the control and direction of the Management Committee, the Managing Operator will have the right, power and authority to prepare and present to the Management Committee proposed Programs, Production Programs and any Feasibility Report in respect of the Property, as applicable.

8. DUTIES AND OBLIGATIONS OF THE MANAGING OPERATOR

8.1 The Managing Operator will have such duties and obligations as the Management Committee may from time to time determine including, without limiting the generality of the foregoing, the following duties and obligations:

- (a) to implement Programs and the Production Programs;
- (b) to manage, direct and control all exploration, development and production operations in, on and under the Property, in a prudent and workmanlike manner, and in compliance with all applicable laws, rules, orders and regulations of the Province of British Columbia;
- (c) to prepare and deliver to each of the members of the Management Committee:
 - (i) written quarterly progress reports of the work completed in the last calendar quarter and presently in progress and results obtained,
 - (ii) comprehensive annual reports on or before March 31 of each year covering the activities hereunder and results obtained during the calendar year ending on December 31st immediately preceding, accompanied by copies of all data, reports and other information on or with respect to the Property not already provided to the Management Committee, and
 - (iii) during periods of active field work, timely written current reports and information on any material results obtained, accompanied by copies of all relevant data, reports and other information concerning such results;
- (d) subject to the terms and conditions of this agreement, to keep the Property in good standing and free and clear of liens, charges and encumbrances of every character arising from operations hereunder (except liens for taxes not yet due, other inchoate liens and liens contested in good faith by either Joint Operator), and to proceed with all diligence to contest or discharge any lien that is filed;
- (e) to account to the Non-Managing Joint Operator for all contributions to Costs and for all insurance recoveries, settlements and other receipts;
- (f) to maintain true and correct books, accounts and records of operations hereunder in accordance with Canadian generally accepted accounting principles, consistently applied and, subject to the contrary direction of the Management Committee by unanimous vote, to cause to be prepared and delivered to the Management Committee audited financial statements of the joint venture (which financial statements and audit will also include the Contingency Fund provided for in subsection 14.8) on or before 120 days following each fiscal year end of the joint venture (which fiscal year end will be determined by the Management Committee);

- (g) to permit the Non-Managing Joint Operator, at its own expense, to inspect, take abstracts from or audit any or all of the records and accounts referred to in subsection 8.1(f) during normal business hours and upon seven days' prior notice;
- (h) to obtain and maintain, or cause any contractor engaged hereunder to obtain and maintain, adequate insurance coverage with respect to activities on or with respect to the Property, and to provide proof of such insurance coverage to the Non-Managing Joint Operator on request, to reflect the addition of any mortgagee as permitted by this agreement, to prosecute all insurance claims and not to settle or compromise any insurance claims in excess of \$1,000,000 without the approval of the Non-Managing Joint Operator;
- (i) to permit the Non-Managing Joint Operator or its representatives duly appointed in writing, at its own expense and risk, access to the Property and all data derived from carrying out work hereunder, provided that in exercising such right the Non-Managing Joint Operator will not unreasonably interfere with the activities of the Managing Operator and that the Non-Managing Joint Operator and its representatives will defend, indemnify and save harmless the Managing Operator and its directors, officers, employees and agents from and against all and any losses, damages, expenses, claims, suits, actions and demands of any kind or nature whatsoever in any way referable to or arising out of the entry, presence or activities of the Non-Managing Joint Operator or its representatives in connection with access to the Property and the records of the Managing Operator under this paragraph (i) including, without limitation, bodily injuries or death or damage to property at any time resulting therefrom;
- (j) to arrange for and maintain workers' compensation or equivalent coverage for all eligible employees engaged by it in accordance with local statutory requirements;
- (k) to perform its duties and obligations in a manner consistent with good exploration and mining practices; and
- (l) to transact, undertake and perform all transactions, contracts, employments, purchases, operations, negotiations with third parties and any other matter or thing undertaken on behalf of both Participants but in the Managing Operator's name only.

9. ADDITIONAL DUTIES AND OBLIGATIONS OF THE MANAGING OPERATOR

9.1 The Managing Operator will have such other duties as the Management Committee may from time to time determine including without limiting the generality of the foregoing, the duty and obligation to propose Programs, Production Programs and Feasibility Reports in respect of the Property to the other Participant.

10. PROGRAMS

10.1 Subject to the Non-Managing Operator's right to present a Program as set out in subsection 10.2, Expenditures will only be incurred under and pursuant to Programs prepared by the Managing Operator and approved by the Management Committee as provided in this section. Any Feasibility Report will be prepared pursuant to a separate Program.

10.2 Forthwith after the date hereof and on or before the earlier of 90 days after the completion of the last Program or November 15 in each year, if no Program has been approved or completed in that year, the Managing Operator will prepare and submit to the Management Committee a Program proposed by the Managing Operator. If in any year the Managing Operator fails to submit a Program in accordance with this subsection, the non-Managing Operator will have the right to prepare and submit a Program in its stead and the provisions of this section will apply, mutatis mutandis, to such Program.

10.3 Within 90 days of the approval by the Management Committee of the first Program following the date hereof and, except as set out hereafter, thereafter within 30 days of the approval of a Program by the Management Committee, each Participant will give written notice to the other Participant stating whether or not it elects to contribute its Cost Share of such Program. Notwithstanding the foregoing, if any Program contemplates Expenditures in excess of 150% of those incurred under the immediately preceding Program, each Participant will give written notice to the other Participant stating whether or not it elects to contribute its Cost Share of such Program within 60 days of the approval of such Program by the Management Committee. Failure to give notice pursuant to this subsection within such 30 day or 60-day period will be deemed to be an election by a Participant not to contribute its Cost Share of such Program.

10.4 If one Joint Operator, (the "Non-Contributing Joint Operator"), elects or is deemed to have elected not to contribute its Cost Share of a Program approved by the Management Committee pursuant to subsection 10.3 then the remaining Joint Operator, (the "Contributing Joint Operator"), may contribute all Expenditures to be incurred under or pursuant to such Program by the Non-Contributing Joint Operator in addition to its own Cost Share, and thereafter the Contributing Joint Operator will proceed with such Program. The Contributing Joint Operator will not proceed with any Program which is not fully subscribed. If the Program is completed to at least 80% of the Expenditures estimated in respect of such Program, the Joint Operators respective Interests will thereafter be adjusted in accordance with subsections 4.3 and 4.4. If the Program is not completed to at least 80% of the Expenditures estimated in respect of such Program, then the Non-Contributing Joint Operator may, within 60 days of receiving notice from the Contributing Joint Operator of the completion of such Program, contribute its Cost Share of the Expenditures actually incurred in such Program (calculated as at the time of the original elections), in which case it will maintain its Interest and will be entitled to contribute to further Programs. If the Non-Contributing Joint Operator does not make such payment in a timely manner, the Interests of the Joint Operators will thereupon be adjusted pursuant to subsection 4.3.

10.5 An election to fund a Program will make a Participant liable to pay its Cost Share of all of the Expenditures actually incurred under or pursuant to such Program, including Program Overruns up to but not exceeding 10% of estimated Expenditures.

10.6 After having elected to fund a Program which is proceeded with, each Participant will, within 10 days, pay such amount of Expenditures incurred or to be incurred under or pursuant to such Program as may be required, but payment of any funds will not be more than one month in advance of the period during which the same are to be expended. Monthly Expenditure projections will be prepared by the Joint Operators once each calendar quarter for the next succeeding three months.

10.7 If it appears to one Joint Operator that Expenditures will exceed by greater than 10% those estimated under a Program, such Joint Operator will immediately give written notice to the other Joint Operator outlining the nature and extent of the Program Overruns. If such Program Overruns are accepted by the Joint Operators then, within 30 days, each Joint Operator will pay its Cost Share of such Program Overruns. If either Joint Operator does not accept such Program Overruns, or fails to pay its Cost Share of such Program Overruns, the Contributing Joint Operator will be entitled to pay such Cost Share on behalf of the Non-Contributing Joint Operator or to curtail or abandon such Program. If the Contributing Joint Operator pays such Cost Share it will be entitled to recoup such amount together with interest at a rate per annum equal to the Prime Rate plus 2%, compounded semi-annually, not in advance, on June 30 and December 31 in each year, pursuant to subsection 15.3.

10.8 If a Joint Operator at any time fails to pay such amount of Expenditures as is requested in accordance with subsection 10.6 after having elected to do so or, having accepted Program Overruns, fails to pay such Program Overruns upon request pursuant to subsection 10.7, the Contributing Joint Operator may give notice to the Non-Contributing Joint Operator demanding payment, and if the Non-Contributing Joint Operator has not paid such amount within 30 days after receipt of such notice, the Non-Contributing Joint Operator will be deemed to:

- (a) be in default under subsection 10.6 or 10.7, as applicable; and
- (b) have lost its right to contribute to any future Programs and to any Production Programs,

and thereafter the Joint Operators' respective Interests will be adjusted in accordance with subsections 4.3 and 4.4, and the Contributing Joint Operator will have the right to curtail or abandon that Program.

10.9 Any Program Overruns in excess of 10% which are not accepted by one Joint Operator, but are paid by the other Joint Operator, pursuant to subsection 10.7 will be deemed not to be Expenditures unless otherwise agreed by the Management Committee.

10.10 In case of emergency, a Joint Operator may make any expenditures and take any actions it deems necessary to safeguard life, property and the environment, to protect the Property or to comply with law or government regulation. A Joint Operator may also make reasonable expenditures for unexpected events which are beyond its reasonable control and which do not result from a breach by it

of its standard of care. A Joint Operator will, as promptly as possible, report the emergency or unexpected event and the amounts expended or proposed to be expended by it to the other Joint Operator. The other Joint Operator will, within 21 days of a request therefor by such Joint Operator, pay to such Joint Operator its Cost Share (calculated as at the time such expenditures were incurred) of such emergency or unexpected expenditures (all of which will be deemed to be Expenditures).

11. PRODUCTION PROGRAMS

11.1 If the Managing Operator determines that the economic potential of any part of the Property warrants the preparation of a Feasibility Report the Managing Operator will present a Program in accordance with section 10 contemplating the preparation of a Feasibility Report. The Managing Operator will, concurrently with the presentation of such Program, deliver to the Management Committee any internal or draft report on the economics of Commercial Production which it may have prepared or caused to have been prepared. On completion of the Feasibility Report pursuant to such Program the Managing Operator will forthwith deliver to the Management Committee the Feasibility Report and, if the Feasibility Report recommends placing the Property (or a portion thereof) into Commercial Production, a Production Program in respect of the Property or such portion thereof will be prepared by the Managing Operator.

11.2 Within 120 days of the delivery to the Management Committee of a Production Program and Feasibility Report delivered pursuant to subsection 11.1 each Joint Operator will give notice stating whether it elects to contribute its Cost Share of the Production Program. Failure to give such notice within such period will be deemed to be an election not to contribute to such Production Program. If both Joint Operators elect to contribute their respective Cost Shares of the Production Program the Joint Operators will implement the Production Program. If one Joint Operator elects or is deemed to have elected not to contribute to a Production Program, its Interest will thereafter be determined in accordance with sections 4.3 and 4.4. The Joint Operators will not proceed with any Production Program which is not fully subscribed.

11.3 An election to fund a Production Program under subsection 11.2 will make a Joint Operator liable to pay its Cost Share of:

- (a) all of the Production Program Costs actually incurred under or pursuant to such Production Program, including Production Program Overruns up to but not exceeding 10% of estimated Production Program Costs;
- (b) Operating Costs and any other costs associated with establishing and operating the Property as a mine at such time as the liability is incurred by either Joint Operator; and
- (c) any debts, liabilities or obligations arising from operations hereunder, except financing costs incurred by the other Joint Operator in connection with such other Joint Operator's contributions to Production Program Costs, other than as contemplated in subsection 15.4 hereof.

11.4 After having elected to fund a Production Program which is proceeded with, each Joint Operator will, within 30 days, pay such amount of Production Program Costs incurred or to be incurred under or pursuant to such Production Program as may be required, but payment of any funds will not be required more than one month in advance of the period during which the same are to be expended.

11.5 If it appears to one Joint Operator that Production Program Costs will exceed by greater than 10% those estimated under a Production Program, such Joint Operator will immediately give written notice to the other Joint Operator outlining the nature and extent of the Production Program Overruns. If such Production Program Overruns are accepted by both Joint Operators then, within 30 days, each Joint Operator will pay its Cost Share of such Production Program Overruns. If any one Joint Operator does not accept such Production Program Overruns, or fails to pay its Cost Share of such Production Program Overruns (the "Non-Contributing Joint Operator"), the other Joint Operator (the "Contributing Joint Operator") will be entitled to pay the Cost Share of the Non-Contributing Joint Operator. If the Contributing Joint Operator pays such Cost Share it will be entitled to recoup such amount together with interest per annum at a rate equal to the Prime Rate plus 2%, compounded semi-annually, not in advance, on June 30 and December 31 in each year, pursuant to subsection 15.3 and, except in the case where a Joint Operator fails to pay its Cost Share of a Production Program Overrun, such amount will be deemed not to be a contribution to Production Program Costs for purposes of the calculation of each Joint Operator's Interest as set out in subsection 4.3 and 4.4.

11.6 If the Non-Contributing Joint Operator:

- (a) elects or is deemed to have elected not to contribute its Cost Share of a Production Program pursuant to subsection 11.2; or
- (b) at any time fails to pay such amount of Production Program Costs in accordance with subsection 11.4; or
- (c) at any time fails to pay such amount of Production Program Overruns as was accepted by that Joint Operator in accordance with subsection 11.5,

the Contributing Joint Operator may give written notice to such Non-Contributing Joint Operator demanding payment, and if such Non-Contributing Joint Operator has not paid such amount within 30 days after receipt of such notice, such Non-Contributing Joint Operator will be deemed to be in default under subsection 11.4 or 11.5 and have lost its right to contribute to the Production Program. The Contributing Joint Operator may contribute all Production Program Costs to be incurred under or pursuant to such Production Program by the Non-Contributing Joint Operator in addition to its own Cost Share, and thereafter the Contributing Joint Operator will proceed with such Production Program. Upon the Production Program Costs being fully committed, the Contributing Joint Operator will proceed with the Production Program and the Joint Operator's respective Interests will thereafter be adjusted in accordance with subsections 4.3 and 4.4. If the Contributing Joint Operator does not elect

to contribute all Production Program Costs, then it will curtail or abandon the Production Program.

12. MANAGEMENT COMMITTEE

12.1 The Participants will, as soon as is practicable after the date hereof, establish a Management Committee consisting of two members and two alternate members representing each Participant.

12.2 A Participant may from time to time revoke in writing the appointment of either or both of its member(s) to the Management Committee and appoint in writing another in his place. A Participant may from time to time in writing appoint one alternate member for a member theretofore appointed by such Participant. Alternate members may attend meetings of the Management Committee, and in the absence of a member, his alternate may vote and otherwise act in his stead and place. Whenever any member or alternate member votes or acts, his votes or actions will for all purposes of this agreement be considered the actions of the Participant whom he represents. The Participants will give written notice to each other from time to time as to names, addresses and telephone numbers of their respective members and alternates on the Management Committee.

12.3 Meetings of the Management Committee will be held as required but in any event not less than once each year. A meeting of the Management Committee may take place by means of conference telephones or other communication facilities by which means both Participants or their alternates participating in the meeting can hear each other. The persons participating in a meeting in accordance with this subsection will be deemed to be present at the meeting and to have so agreed and will be counted in the quorum therefor and be entitled to speak and vote thereat.

12.4 Meetings of the Management Committee may be called by either Participant by giving 10 days' notice to the other Participant.

12.5 A representative of the Participant having the largest Interest will be the chairman. If the Participants have equal Interests, one of Cariboo Rose's representatives will be the chairman (the "Chairman").

12.6 The Managing Operator will consult freely with the Management Committee and the members thereof, and keep them fully advised of the present and prospective operations and plans.

12.7 Voting by the Management Committee may be conducted by verbal, written, facsimile or telex ballot.

12.8 Except as hereinafter provided, a quorum of any meeting of the Management Committee will consist of not less than two members, two alternate members or one member and one alternate member, representing both Participants. If a quorum is not present within 30 minutes after the time fixed for holding any such meeting, the meeting will be adjourned to the same day in the next week (unless such day is a non-business day in which case it will be adjourned to the next following

business day thereafter) at the same time and place. At the adjourned meeting the members or alternate members present in person (which may be only one person) will form a quorum and may transact the business for which the meeting was originally convened. Notwithstanding any of the foregoing, a quorum will only be formed if a representative of Cariboo Rose is present at the meeting.

12.9 One member of the two members appointed by each Participant will be designated as the voting member. The voting member (or alternate member in the absence of the voting member) will have a number of votes equal to the Interest held by the Participant such member or alternate member represents.

12.10 Except as provided in subsection 8.1(f) and subsection 12.11, all decisions of the Management Committee will be by the affirmative vote of a majority of the votes represented by voting members in attendance. Unresolved votes shall proceed to arbitration under the *Arbitration Act* (British Columbia). The voting member representing a Participant which is in default under subsections 10.6, 10.7, 11.4 or 11.5 will not be entitled to vote.

12.11 Notice of any management Committee meeting will be given at least 10 days prior to the date fixed for such meeting, except that at least 30 days' notice will be given in respect of a meeting to consider a Feasibility Report and a Production Program unless otherwise agreed by both Participants. All meetings will be held at such place as may be designated by the Managing Operator unless otherwise agreed to by both Participants. Each Participant will bear the costs of its representatives in preparing for and attending meetings of the Management Committee.

12.12 There will be included with a notice of meeting such material and data as may be reasonably required to enable the members of the Management Committee to determine the position they should take in respect of any vote or election to be made at such meeting.

12.13 The Managing Operator will have the responsibility of preparing and distributing notices and agendas of meetings and keeping records of the proceedings at such meetings and distributing such records to the other Non-Managing Operator.

13. POWERS OF MANAGEMENT COMMITTEE

13.1 The Management Committee will, without limiting any of its powers as specified elsewhere in this agreement, have the exclusive right, power and authority to:

- (a) approve, modify, or reject or request the revision of, any Program, Feasibility Report or Production Program proposed by the Managing Operator;
- (b) remove a Participant as Joint Operator if the Interest of such Participant is reduced to less than 10% for more than one year; and

- (c) approve a form of accounting procedure for all Costs to be charged to the Participants, such procedure to be consistent with then prevailing industry standards.

14. OPERATING PROGRAMS, BUDGETS, PAYMENTS AND FUNDS

14.1 After the commencement of Commercial Production, all mining operations on the Property will be planned and conducted and all estimates, reports and statements will be prepared and made on the basis of an operating year. The first operating year will be the period from the commencement of Commercial Production to December 31st of the same calendar year and thereafter each operating year will coincide with the calendar year (an "Operating Year").

14.2 Prior to the beginning of each Operating Year the Managing Operator will prepare and deliver to the other Participant (the "Non-Managing Operator") an operating plan for the ensuing Operating Year (an "Operating Plan"). The Operating Plan applicable to the first Operating Year will be submitted not later than three months prior to the date estimated by the Managing Operator as the date of commencement of Commercial Production, and the Operating Plan for each subsequent Operating Year will be submitted not later than November 15 in the year immediately preceding the Operating Year to which such Operating Plan relates. Each Operating Plan will contain, with reference to the Operating Year to which it relates, the following:

- (a) a plan of proposed mining operations including, without limiting the generality of the foregoing, particulars of any special items such as:
 - (i) a major increase in the capacity of Facilities,
 - (ii) additional general exploration of the Property outside the area of the mine,
 - (iii) opening and equipping an additional mine or mines on the Property, or
 - (iv) a substantial or radical departure from development or mining plans previously followed by the Managing Operator;
- (b) a detailed estimate of all Operating Costs plus a reasonable allowance for contingencies;
- (c) an estimate of the quantity of Product to be produced; and
- (d) such other facts and figures as may be necessary to give the Non-Managing Operator a reasonably complete picture of the results the Managing Operator plans to achieve,

and the Managing Operator will promptly supply to the Non-Managing Operator any additional or supplemental information which the Non-Managing Operator may reasonably require in respect of the Operating Plan.

14.3 The Non-Managing Operator will have 30 days from receipt of any annual Operating Plan within which to consider such Operating Plan following which a meeting of the Management Committee will be called to deal with any objections and alternative proposals. The proposed Operating Plan will then be voted on by the Management Committee. If the Non-Managing Operator objects to an Operating Plan on the basis of any of the items set out in subsections 14.2(a)(i) to (iv) the Managing Operator will have the right either to modify the Operating Plan or to bear all of the Operating Costs relating to such item, in which event it will be entitled to recoup such amount together with interest at an annual rate equal to the Prime Rate plus 2%, compounded semi-annually, not in advance, on June 30 and December 31 in each year, pursuant to subsection 15.3.

14.4 Based upon the budgets submitted to and approved by the Management Committee as the same may be revised from time to time the Managing Operator will submit to the Non-Managing Operator on or before the 15th day of each month an estimate of the cash requirements for the next month which will show:

- (a) separately, the estimated cash disbursements which the Joint Operators will be required to make for Operating Costs and any other approved expenditures;
- (b) the extent, if any, to which such disbursements will be satisfied out of cash in the Operating Fund (as hereinafter defined) after allowing for the cash balance to be maintained in the Operating Fund as approved by the Management Committee;
- (c) the amounts, if any, which were credited to each Joint Operator in the immediately preceding month;
- (d) the Cost Share which each Joint Operator will be required to furnish for such disbursements net of and indicating the amount of Operating Costs, if any, to be advanced by the Managing Operator on behalf of the Non-Managing Operator pursuant to subsection 14.3; and
- (e) the account into which the required funds are to be deposited.

14.5 Within 10 days after the receipt of each such cash estimate, the Joint Operators will each remit their respective Cost Shares required under subsection 14.4(d) and if one Joint Operator fails to pay all or any part of its Cost Share pursuant to subsection 14.4(d) (the "Non-Contributing Joint Operator") the other Joint Operator (the "Contributing Joint Operator") will be entitled to pay the unpaid share of that Non-Contributing Joint Operator. If the Contributing Joint Operator pays such unpaid share, such amount will constitute a debt due and owing and payable on demand and the Contributing Joint Operator will have a lien pursuant to section 20 in respect of such amount plus interest at an annual rate equal to the Prime Rate plus 5%, compounded semi-annually not in advance, on June 30 and December 31 in each year, both before and after demand (provided that if at any time it is determined that interest at the rate aforesaid is not exigible under the *Interest Act*, such debt will bear interest at the rate of 20% per annum payable on the date on which the amount in default is paid, except that interest

accrued and unpaid in any year will be payable on January 1 in the next succeeding year), and the provisions of subsection 15.3 will apply.

14.6 Prior to incurring any Operating Costs hereunder or as soon as reasonably practicable thereafter, the Joint Operators will open an account or accounts with bank(s) approved by the Management Committee for the purpose of establishing and maintaining therein at all times a cash fund (the "Operating Fund") from which Operating Costs will be paid by the Joint Operators or from which the Joint Operators may be reimbursed for Operating Costs spent by either or both of them.

14.7 All money contributed by each Joint Operator will be deposited in the Operating Fund including the sums provided for in subsection 14.4. The total amount of deposits in the Operating Fund, regardless of the source thereof, will at no time exceed the gross Operating Costs of the Joint Operators for the then current and next succeeding month as estimated in the Operating Plan then in effect.

14.8 The Joint Operators will be entitled to establish and administer the Contingency Fund to which the Joint Operators will be obligated to contribute in accordance with their respective Interests and as specified in approved Programs, in the Development Program and as Operating Costs. Contingency Fund monies, if any, will be invested and re-invested by the Joint Operators in such liquid investments as the Management Committee may from time to time authorize. To the extent possible under then existing tax laws, the Contingency Fund will be set up and administered in such a manner as to provide the most beneficial tax treatment to the Joint Operators.

14.9 If the Interest of either Joint Operator is transferred (the "Transferring Joint Operator") in consideration of the Royalty Interest pursuant to subsection 4.5, then the Transferring Joint Operator will remain liable for its Cost Share of all amounts chargeable to it as of the date of such transfer as well as all liabilities and obligations relating to the Property, calculated at the time such liabilities and obligations arose. If the Non-Transferring Joint Operator requires it to do so, the Transferring Joint Operator will secure to the satisfaction of the Non-Transferring Joint Operator its Cost Share of the costs of reclamation of the surface lands to the Property and other environmental rehabilitation as may be required, such Cost Share to be determined on the basis of the Interest the Transferring Joint Operator had at the time the events giving rise to such liabilities occurred.

15. DISPOSITION OF PRODUCTION

15.1 Subject to the provisions of subsection 15.3, for any period after the commencement of Commercial Production and provided that each Joint Operator has paid its respective Cost Share of Operating Costs for that period, each Joint Owner will take in kind and separately dispose of Product in the ratio of its Interest. Division of Product will take place at the Facilities unless in the opinion of either Joint Operator an equitable division of Product cannot be performed at the Facilities in which event division of Product will be performed at the refinery or other facilities at which an equitable division can be made by separation of payable metals.

15.2 For purposes of determining the value of Product taken in kind pursuant to subsection 15.3, each Joint Operator's share of Product will be valued at the time of delivery to the Joint Operators (or purchase or sale by the Taking Joint Operator pursuant to subsection 15.5) and at a value equal to that received by the Joint Operators after deduction of:

- (a) all costs of transporting Product, including insurance, from the Property to the place of delivery designated by the purchaser of such Product,
- (b) such reasonable charge for marketing Product as is consistent with generally accepted industry marketing practices, and
- (c) all taxes (other than income taxes), royalties or other charges or imposts provided for pursuant to any law or legal obligation imposed by any government if paid by either or both Joint Operators in connection with the disposition of Product taken in kind.

15.3 If one Joint Operator makes any payment on behalf of the other Joint Operator pursuant to:

- (a) subsection 14.5, it will have the prior and preferred right to receive that Non-Contributing Joint Operator's share of Product pursuant to subsection 15.1 until the Contributing Joint Operator has received Product in kind of a value equal to the actual payment made plus interest as provided therein from time to time from the date of advance of such funds;
- (b) subsections 10.7 or 11.5, it will have the prior and preferred right to receive that Non-Contributing Joint Operator's share of Product pursuant to subsection 15.1 until the Contributing Joint Operator has received Product in kind of a value equal to the actual payment made by the Contributing Joint Operator pursuant to subsections 10.7 or 11.5 together with interest as provided therein on the outstanding balance from time to time from the date of advance of such funds; or
- (c) subsection 14.3, it will have the prior and preferred right to receive that Non-Contributing Joint Operator's share of Product pursuant to subsection 15.1 until the Contributing Joint Operator has received Product in kind of a value equal to the actual payment made by the Contributing Joint Operator pursuant to subsection 14.3 together with interest as provided therein, calculated on the outstanding balance from time to time from the date of advance of such funds.

The Joint Operator's rights hereunder will be subordinate only to the rights of any third party providing financing for the Production Program as contemplated in subsection 18.1, except for the Contributing Joint Operator's rights in respect of any amount advanced on behalf of the Non-Contributing Joint Operator pursuant to subsection 14.5, which will be paramount to any third party financing under subsection 18.1.

15.4 Any extra expenditure incurred by reason of the taking in kind or separate disposition by a Joint Operator of its proportionate share of Product will be borne by such Joint Operator and such

Joint Operator will be required to construct, operate and maintain, at its own expense, any and all facilities which may be necessary to receive, store and dispose of its share of Product.

15.5 If a Joint Operator fails to make the necessary arrangements to take in kind or separately dispose of its proportionate share of Product (the "Non-Taking Joint Operator"), the other Joint Operator (the "Taking Joint Operator") as agent may upon reasonable notice purchase for its own account, sell or stockpile such share, subject to the right of the Non-Taking Joint Operator owning such share to revoke at will the Taking Joint Operator's authority under this subsection in respect of Product not then purchased by the Taking Joint Operator or committed for sale to others, and the Taking Joint Operator will be entitled to deduct from the sale proceeds all costs of or related to stockpiling or marketing such Product including, without limitation, transportation, storage, commissions, and discounts, but all contracts of sale executed by the Taking Joint Operator for a Non-Taking Joint Operator's share of Product will be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances and in no event will any such contract be for a period in excess of one year.

15.6 Proceeds, if any, from the sale by the Taking Joint Operator of Product pursuant to subsection 15.5 will be calculated at the end of each calendar month and will be paid monthly within 21 days after the end of each such calendar month following payment by each Joint Operator of its respective Cost Share of Operating Costs outstanding as at the end of that calendar month.

15.7 If a Joint Operator, any Associated Company of a Joint Operator or any person with whom a Joint Operator is not dealing at arm's length is a purchaser of Product from a Taking Joint Operator, and if the value of such Product is to be used to determine any matter arising under this section 15, such Taking Joint Operator will be deemed to receive prevailing market prices for all Product so sold.

16. AUDIT

16.1 The records relating to Product taken in kind or to the calculation of proceeds from the sale thereof will be audited annually at the end of each of the fiscal years of the Joint Operators by an independent firm of chartered accountants appointed by the Management Committee (which may be the chartered accountants or auditor for either Joint Operator) and upon completion of such audit:

- (a) any adjustments required by such audit will be made forthwith; and
- (b) a copy of the audited statements will be delivered to the Joint Operators,

and all such accounts and records will be deemed to be correct and accurate unless questioned by a Joint Operator within three months following the delivery of such audited statements.

16.2 A Joint Operator (the "Auditing Joint Operator"), at reasonable times and upon not less than seven days' notice to the other Joint Operator (the "Audited Joint Operator"), will have the right to

inspect, audit and copy the Audited Joint Operator's accounts and records relating to the accounting for Product taken in kind or to the determination of proceeds from the sale thereof for any calendar year within six months following the end of such calendar year. The Auditing Joint Operator will make all reasonable efforts to conduct audits in a manner which will result in a minimum of inconvenience to the Audited Joint Operator and any such audit will be conducted at that Auditing Joint Operator's sole cost and expense. If the audit by an Auditing Joint Operator indicates a difference of more than 5% from the amount determined by the Audited Joint Operator, then the accounts will be re-audited by a third independent firm of chartered accountants whose decision will be final. If the results of the third audit indicate a difference of more than 5% from the amount determined by the Audited Joint Operator, then appropriate adjustments to the distribution of Product will be made by the Audited Joint Operator.

17. SHARING OF AND CONFIDENTIAL NATURE OF INFORMATION

17.1 Subject to subsection 17.2, each Participant agrees that all information obtained hereunder will be the exclusive property of the Participants and will not be publicly disclosed or used other than for the activities contemplated hereunder except as required by law or by the rules and regulations of any regulatory authority or stock exchange having jurisdiction, or with the written consent of the other Participant, such consent not to be unreasonably withheld.

17.2 Consent to disclosure of information pursuant to subsection 17.1 will not be unreasonably withheld where a Participant wishes to disclose any such information to a third party for the purpose of arranging financing for its contributions hereunder or for the purpose of selling its Interest as permitted by section 19, provided that such third party first enters into a written agreement with the other Participant that any such information not theretofore publicly disclosed will be kept confidential and not disclosed to others.

17.3 No Participant will be liable to the other Participant for the fraudulent or negligent disclosure of information by any of its employees, servants or agents, provided that such Participant has taken reasonable steps to ensure the preservation of the confidential nature of such information.

18. LIMITED CHARGING

18.1 Notwithstanding the provisions of sections 19 or 22, but solely for the purpose of financing its Cost Share of the Production Program or otherwise following commencement of Commercial Production and repayment of any third party financing, a Participant may, at any time, mortgage, charge or otherwise encumber the whole or any part of its Interest but only upon the condition that the holder of such encumbrance (the "Chargee") , first enters into a written agreement with the other Participant in a form satisfactory to counsel for such other Participant, binding upon the Chargee, as set out in subsections 18.2 and 18.3.

18.2 If the Chargee is not engaged, directly or indirectly, in metal mining or exploration:

- (a) the Chargee may take possession of the encumbering Participant's Interest subject to the terms of this agreement; and
- (b) any disposition by the Chargee of the encumbering Participant's Interest will be conducted in accordance with section 19 of this agreement.

18.3 If the Chargee is engaged, directly or indirectly, in metal mining or exploration:

- (a) the Chargee will not enter into possession or institute any proceedings for foreclosure or partition of the encumbering Participant's Interest and that such encumbrance will be subject to the provisions of this agreement;
- (b) the Chargee's remedies under the encumbrance will be limited to the sale of the whole, (but only of the whole), of the encumbering Participant's Interest to the other Participant in accordance with section 19 as if such Interest were a Royalty Interest, or failing such disposition, at a public auction to be held after 90 days' prior notice to the other Participant, such sale to be subject to the purchaser entering into a written agreement with the other Participant whereby such purchaser assumes all obligations of the encumbering Participant under the terms of this agreement; and
- (c) if the Interest of either Participant is forfeited, the right of such Participant to act as Joint Operator will cease.

19. RESTRICTIONS ON ALIENATION

19.1 Neither Participant (the "Transferor") will transfer, convey, assign, mortgage or grant an option in respect of or grant a right to purchase or in any manner transfer or alienate or agree to transfer or alienate (all of which are collectively referred to in this section 19 as a "Transfer") any or all of its Interest, its Royalty Interest or its rights under this agreement, except as provided in this section 19.

19.2 No Transfer of a Participant's Interest or Royalty Interest or rights under this agreement will be effective unless the Transferor has given notice of the Transfer as required by subsection 19.4, is not in default of any term or provision of this agreement at the time of Transfer and until any proposed assignee, transferee, purchaser, grantee or encumbrancer of such Interest, Royalty Interest or rights under this agreement ("Transferee") has executed and delivered to the remaining Participant an agreement in form and substance satisfactory to counsel for the remaining Participant, related to this agreement, containing:

- (a) a covenant by such Transferee with the remaining Participant to perform all of the obligations of the Transferor to be performed under this agreement in respect of the Interest or rights under this agreement to be received by the Transferee; and

- (b) a provision subjecting any further Transfer of such Interest or rights under this agreement to the provisions of this section 19,

and, unless consented to by the remaining Participant (which consent may be given subject to reasonable conditions for the protection of the remaining Participant) , the Transferor will remain liable for the performance of all obligations assumed by the Transferee in default of the performance thereof by the Transferee. No transfer permitted by this section 19 will relieve the transferor of any liability, whether accruing before or after such Transfer, which arises out of operations conducted prior to such Transfer.

19.3 No holder of a Royalty Interest will Transfer any of its Royalty Interest except:

- (a) in accordance with this section 19;
- (b) pursuant to a binding agreement in writing; and
- (c) as a single transaction not directly or indirectly part of some other sale or purchase or agreement for any additional consideration of any nature whatsoever.

19.4 Any Participant (in this section called the "Offeror") intending to Transfer its Interest or Royalty Interest will first give notice to the other Participant of such intention together with the terms and conditions on which the Offeror intends to Transfer its Interest or Royalty Interest.

19.5 If any Participant (in this section also called the "Offeror") receives any offer to Transfer its Interest or Royalty Interest which it intends to accept, the Offeror will not accept the same unless and until the Offeror has first offered to Transfer its Interest or Royalty Interest to the other Participant (in this section called the "Offeree") on the same terms and conditions as in the offer received and the same has not been accepted by the Offeree in accordance with subsection 19.6.

19.6 Any communication of an intention to sell pursuant to subsections 19.4 or 19.5 (the "Offer" for the purposes of this section 19 only) will be delivered in accordance with section 23 and will:

- (a) set out fully and clearly all of the terms and conditions of any intended Transfer together with confirmation that the consideration is cash only;
- (b) if it is made pursuant to subsection 19.4, include a photocopy of the Offer and clearly identify the offering party and include such information as is known by the Offeror about such offering party,

and such communication will be deemed to constitute an Offer by the Offeror to the Offeree to Transfer the Offeror's Interest or Royalty Interest to the Offeree on the terms and conditions set out in such Offer.

19.7 Any Offer made as contemplated in subsection 19.5 will be open for acceptance by the Offeree for a period of 60 days from the date of receipt of the Offer by the Offeree.

19.8 If the Offeree accepts the Offer within the required time such acceptance will constitute a binding agreement between the Offeror and the Offeree to Transfer the Interest or Royalty Interest on the terms and conditions set out in such Offer.

19.9 If the Offeree does not accept the Offer within the required time the Offeror may complete a Transfer of the Interest or Royalty Interest on exactly the same terms and conditions set out in the Offer and, where applicable, only to the party making the original offer to the Offeror as contemplated in subsection 19.4, and in any event such Transfer must be completed within 60 days from the expiration of the right of the Offeree to accept such Offer or the Offeror must again comply with the provisions of this section with respect to the Interest or Royalty Interest.

19.10 While any Offer is outstanding no other Offer may be made until the first mentioned Offer is disposed of and any sale resulting therefrom completed in accordance with the provisions of this section 19.

19.11 In the event of a Transfer of less than all of a Participant's Interest after which the transferring Participant retains an Interest, it and its transferee shall be treated as one Participant.

19.12 If the Transfer is the grant of a security interest by mortgage, deed of trust, pledge, lien or other encumbrance of the Interest or Royalty Interest of a Participant to secure a loan or other indebtedness, such security interest shall be subordinate to the terms of this agreement and the rights and interests of the other Participant hereunder. Upon any foreclosure or other enforcement of rights in the security interest the acquiring third party shall be deemed to have assumed the position of the encumbering Participant with respect to this agreement and the other Participant, and it shall comply with and be bound by the terms and conditions of this agreement.

19.13 If a sale or other commitment or disposition of Product or proceeds from the sale of Product by a Participant upon distribution to it pursuant to section 15 creates in a third party a security interest in Product or proceeds therefrom prior to such distribution, such sales, commitment or disposition shall be subject to the terms and conditions of this agreement.

19.14 Each Participant agrees that its failure to comply with the restrictions set out in this section 19 would constitute an injury and damage to the other Participant impossible to measure monetarily and, in the event of any such failure the other Participant will, in addition and without prejudice to any other rights and remedies at law or in equity, be entitled to injunctive relief restraining or enjoining any Transfer of its Interest or Royalty Interest, save in accordance with the provisions of this section, and a Participant intending to make a Transfer or making a Transfer contrary to the provisions of this section hereby waives any defence it might have in law to such injunctive relief.

19.15 If the Managing Operator Transfers its Interest or its rights under this agreement to a third party which is not an Associated Company of the Managing Operator, its right to be Managing Operator under this agreement will be included in such Transfer only if, in the opinion of the Management Committee expressed in a resolution, the third party is capable of assuming and performing the duties and obligations of the Managing Operator imposed under this agreement.

19.16 A Participant may transfer its Interest or Royalty Interest to an Affiliate without the consent of the other Participant but otherwise in compliance with this section 19 provided that the Transferor remains principally liable for the obligations of the Affiliate under this agreement.

20. LIABILITY OF THE JOINT OPERATORS AND INDEMNITY

20.1 Except as hereinafter provided, both Joint Operators will indemnify and save the other harmless from and against any loss, cost, liability, claim, demand, damage, expense, injury and death (including, without limitation, legal fees and disbursements) resulting from any acts or omissions of either Joint Operator or its directors, officers, employees or agents in conducting operations pursuant to this agreement.

20.2 Notwithstanding subsection 20.1 but subject to subsection 20.4, a Joint Operator will not be indemnified nor held harmless by the other Joint Operator from, and will be liable to the other Joint Operator only for, any loss, cost, liability, claim, demand, damage, expense, injury or death (including, without limitation, legal fees and disbursements) resulting from:

- (a) the gross negligence or wilful misconduct of the Joint Operator or its directors, officers, employees or agents; and
- (b) failure of the Joint Operator to obtain and maintain any insurance which it is required to obtain and maintain under subsection 8.1(h), unless the Joint Operator has used all reasonable efforts to obtain and maintain any insurance but has been unable to do so on an economic basis and has promptly so notified the other Operator.

20.3 An act or omission of the Joint Operator or its directors, officers, employees or agents done or omitted to be done:

- (a) at the unanimous direction, or within the scope of the unanimous direction, of the Management Committee; or
- (b) with the unanimous concurrence of the Management Committee; or
- (c) unilaterally and in good faith by the Joint Operator to protect life or property,

will be deemed not to be gross negligence or wilful misconduct.

20.4 The obligations of a Joint Operator to indemnify and save harmless the other Joint Operator pursuant to subsection 20.1 will be in proportion to its Interest as at the date that the loss, cost, liability, claim, demand, damage, expense, injury or death occurred or arose.

20.5 In no case will a Joint Operator be liable to the other Joint Operator or the other Joint Operator be liable to such Joint Operator, whether in contract, tort or otherwise, for special or consequential damages including, without limitation, loss of profits or revenues or the inability to produce or market Ore or Product.

21. CONTRIBUTING JOINT OPERATOR'S LIEN

21.1 The Contributing Joint Operator will have a first lien and charge (subject only to the rights of any third party providing financing for the Production Program as contemplated in subsection 18.1), on the Non-Contributing Joint Operator, its Interest, its right to receive either Product in kind or proceeds from the sale thereof and its interest in any contracts for the sale of Product as security for:

- (a) its respective obligation from time to time to make contributions to working capital pursuant to section 14 and to pay its Cost Shares of Operating Costs;
- (b) any amount paid on behalf of a Non-Contributing Joint Operator by the Contributing Joint Operator pursuant to subsection 14.5 plus interest as set out therein;
- (c) any amount paid by the Contributing Joint Operator on behalf of a Non-Contributing Joint Operator in respect of Program Overruns or Production Program Overruns, plus interest, pursuant to subsections 10.7 or 11.5, as applicable, as set out therein; and
- (d) any amount paid by the Contributing Joint Operator on behalf of a Non-Contributing Joint Operator pursuant to subsection 14.3, plus interest as set out therein,

such lien and charge to be secured, upon the request of the Contributing Operator, by a mortgage, pledge and charge, general security and financing statement under applicable legislation in favour of the Contributing Joint Operator upon a Non-Contributing Joint Operator's Interest, its right at any time to receive either Product in kind or proceeds from the sale thereof and its interest in any contracts for the sale of Product, but if a Non-Contributing Joint Operator wishes to provide a sufficient bond for securing such payment, in the place of a mortgage, pledge and charge, general security agreement and financing statement, it may elect to do so, and if the Contributing Joint Operator objects thereto, the sufficiency of the bond (including the acceptability of the obligor thereunder) will be submitted for resolution to an independent firm of chartered accountants (which may be an auditor of the Joint Operators), whose decision on the matter will be final.

22. ENCUMBRANCE, PARTITION AND INDEMNIFICATION

22.1 Except as provided in sections 18 and 21 hereof, a Participant will not encumber or permit or suffer to exist any lien, charge or encumbrance on its Interest.

22.2 No Participant will partition or seek partition, whether through order of any court or otherwise, of the Property.

22.3 A Participant will not have authority to act for or assume any obligations or liabilities on behalf of the other Participant except such as are specifically authorized pursuant to and in accordance with the terms of this agreement, and each Participant will defend, indemnify and hold harmless the other, and its directors, officers, employees, and agents, from and against any and all losses, expenses, claims, damages, suits and demands whatsoever arising out of any act or any assumption of any obligations by it done or undertaken on behalf of the other Participant other than as provided herein.

23. NOTICES

23.1 Any notice, direction or other instrument required or permitted to be given under this agreement will be in writing and may be given by the delivery of the same or by mailing the same by prepaid registered or certified mail or by sending the same by telegram, telex, telecommunication, facsimile or other similar form of communication, in each case addressed as follows:

(a) If to Cariboo Rose at:

Cariboo Rose Resources Ltd.
110 - 325 Howe Street
Vancouver, British Columbia
V6C 1Z7

Attention: Bill Morton
Email: jwmorton@eastfieldgroup.com

(b) If to ISM at:

ISM Resources Corp.
306 1110 Hamilton Street
Vancouver, British Columbia
V6B 2S2

Attention: Glenn Collick
Email: geclick@ymail.com

23.2 Any notice, direction or other instrument will:

- (a) if delivered, be deemed to have been given and received on the day it was delivered;
- (b) if mailed, be deemed to have been given and received on the 10th business day following the day of mailing, except in the event of disruption of the postal service in which event notice will be deemed to be received only when actually received; and
- (c) if sent by telegram, telex, telecommunication, facsimile or other similar form of communication, be deemed to have been given and received on the business day following the day it was so sent.

23.3 A Participant may at any time give to the other Participant notice in writing of any change of address of the Participant giving such notice and from and after the giving of such notice the address or addresses therein specified will be deemed to be the address of such Participant for the purposes of giving notice hereunder.

24. TERMINATION

24.1 This agreement will terminate upon the occurrence of the earliest of:

- (a) the written agreement by the Participants to terminate; and
- (b) such time as there is only one Participant and no party has a Royalty Interest.

24.2 On termination of this agreement, the Participants will remain liable for continuing obligations in respect of the Property until final settlement of all accounts and for any liability, whether it accrues before or after termination, if it arises out of operations in respect of the Property during the term of the agreement.

24.3 Promptly after termination of this agreement, the Managing Operator will take all action necessary to wind up the activities of this joint venture and all costs and expenses incurred in connection with the termination of this joint venture will be chargeable to this joint venture. The Assets of this joint venture shall first be paid, applied, or distributed in satisfaction of all liabilities of this joint venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the Participants. Before distributing any Assets to Participants, the Managing Operator may segregate amounts which, in the Managing Operator's reasonable judgment, are necessary to discharge continuing obligations or to purchase for the account of Participants, bonds or other securities for the performance of such obligations. Thereafter, any remaining cash and Assets will be distributed in undivided interests unless otherwise provided herein or otherwise agreed.

24.4 On termination of this agreement, the Managing Operator will have the power and authority in

respect of the Property, subject to control of the Management Committee, to do all things on behalf of the Participants which are reasonably necessary or convenient to:

- (a) wind-up operations of this joint venture; and
- (b) complete any transaction and satisfy any obligation unfinished or unsatisfied at the time of such termination,

if the transaction or obligation arises out of operations prior to such termination. The Managing Operator will have the power and authority to grant or receive extensions of time or change the method of payment of any already existing liability or obligation, prosecute and defend actions on behalf of the Participants and this joint venture, mortgage Assets, and take any other reasonable action in any matter with respect to which the former Participants continue to have, or appear or are alleged to have, a common interest or a common liability.

25. FORCE MAJEURE

25.1 No Participant will be liable for its failure to perform any of its obligations under this agreement due to a cause beyond its control (each an "Intervening Event") (except those caused by its own lack of funds) including, but not limited to adverse weather conditions, environmental protests or blockages, acts of God, fire, flood, explosion, strikes, lockouts or other industrial disturbances, laws, political instability, rules and regulations or orders of any duly constituted governmental authority or non-availability of materials or transportation.

25.2 A Participant relying on the provisions of subsection 25.1 will promptly give written notice to the others of the particulars of the Intervening Event and all time limits imposed by this agreement will be extended from the date of delivery of such notice by a period equivalent to the period of delay resulting from an Intervening Event.

25.3 A Participant relying on the provisions of subsection 25.1 will take all reasonable steps to eliminate any Intervening Event and, if possible, will perform its obligations under this agreement as far as commercially practical, but nothing herein will require such Participant to settle or adjust any labour dispute or to question or to test the validity of any law, rule, regulation or order of any duly constituted governmental authority or to complete its obligations under this agreement if an Intervening Event renders completion commercially impracticable. A Participant relying on the provisions of subsection 25.1 will give written notice to the others as soon as such Intervening Event ceases to exist.

26. DEFAULT

26.1 Notwithstanding anything in this agreement to the contrary (other than the provisions of this

agreement providing for elections to contribute and contributions to any Program and any Production Program, for which no notice of default need be given), if any Participant (a "Defaulting Participant") is in default of any requirement herein set forth the Participant affected by such default will give written notice to the Defaulting Participant specifying the default and the Defaulting Participant will not lose any rights under this agreement, unless within 30 days after the giving of notice of default by the affected Participant the Defaulting Participant has failed to take reasonable steps to cure the default by the appropriate performance and if the Defaulting Participant fails within such period to take reasonable steps to cure any such default, the affected Participant will be entitled to seek any remedy it may have on account of such default including terminating this agreement and/or seeking the remedies of specific performance, injunction or damages.

27. OPERATING AGREEMENT

27.1 After the commencement of Commercial Production, a Participant may give notice to the other Participant requiring such other Participant to enter into negotiations to settle an operating agreement to supersede this agreement. Both Participants will thereupon diligently endeavour in good faith to settle such an agreement but if they fail to do so this agreement will remain in full force and effect.

28. GENERAL

28.1 The Participants will execute such further and other documents and do such further and other things as may be necessary or convenient to carry out and give effect to the intent of this agreement.

28.2 All references to moneys hereunder will be in Canadian funds. All payments to be made to any Participant hereunder may be made by cheque or bank draft mailed or delivered to such Participant at its address for notice purposes as provided herein, or deposited for the account of such Participant at such bank or banks in Canada as such Participant may designate from time to time by notice to the paying Participant. Said bank or banks will be deemed the agent of the designating Participant for the purpose of receiving, collecting and receipting such payment.

28.3 If any right, power or interest of any Participant in any property under this agreement would violate the rule against perpetuities, then such right, power or interest will terminate at the expiration of 20 years after the death of the last survivor of all the lineal descendants of Her Majesty, Queen Elizabeth II of England, living on the date of this agreement.

28.4 Time will be of the essence in the performance of this agreement.

28.5 The headings of the sections of this agreement are for convenience only and do not form a part of this agreement nor are they intended to affect the construction or meaning of anything herein contained or govern the rights and liabilities of the Participants.

28.6 This agreement will enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns, provided that any Transfer (as defined in section 19) not made in accordance with this agreement will be null and void and of no force or effect.

28.7 This agreement constitutes the entire agreement between the Participants and, except as hereafter set out, replaces and supersedes all prior agreements, memoranda, correspondence, communications, negotiations and representations, whether oral or written, express or implied, statutory or otherwise between the Participants with respect to the subject matter herein.

28.8 This agreement will be governed by and construed according to the laws of British Columbia.

IN WITNESS WHEREOF the parties hereto have executed these presents as of the day and year first above written.

CARIBOO ROSE EXPLORATIONS CO. LTD.

Bill Morton

Per:

Bill Morton

ISM RESOURCES CORP.

"Glenn Collick"

Per:

Glenn Collick

SCHEDULE A

PARTICULARS OF THE PROPERTY

SCHEDULE B

PROPERTY OPTION AGREEMENT

SCHEDULE C

NET PROFITS ROYALTY

Pursuant to the attached agreement a Participant (the "Royalty Holder") may be entitled to a royalty equal to 3% of Net Profits (hereinafter called the "Net Profits Royalty") payable by the other Participant (the "Royalty Payor"). The Net Profits Royalty shall be calculated as follows:

The Royalty Payor shall establish a Royalty Account to which it shall debit:

- (a) Preproduction Expenditures;
- (b) Working Capital;
- (c) Operating Losses;
- (d) Post Production Capital Expenditures;
- (e) Interest Charges; and
- (f) Reserve Charges.

The Royalty Payor shall apply Net Profits first to reduce the amount debited to the Royalty Account. While there is any debit balance in the Royalty Account, the Royalty Payor shall retain all Net Profits. Whenever the Royalty Account shows a credit balance, the percentage of Net Profits to which the Royalty Holder is entitled shall be distributed to the Royalty Holder and the balance shall be distributed to the Royalty Payor.

The Royalty Payor shall debit or credit amounts to the Royalty Account, whichever is applicable, on a monthly basis and distribution of Net Profits shall be made on an interim basis within 20 days of the end of each month. A final settlement of the distribution of Net Profits shall be made within 90 days of the end of each calendar year. The Royalty Payor shall be entitled to deduct any overpayment of Net Profits as revealed in the annual calculation for purposes of the final settlement from future payments due to the Royalty Holder. Any underpayment shall be paid forthwith.

As used in this Schedule the following terms have the meaning shown below:

Conversion Date: The Conversion Date is the date as of which the Royalty Holder's Interest was relinquished under subsection 4.5 of the agreement.

Royalty Account: The Royalty Account is the account to be established by the Royalty Payor for purposes of calculating the amount of the Royalty Holder's Net Profits Royalty.

Preproduction Expenditures: Preproduction expenditures means all monies spent or paid by the Royalty Payor on or in respect of the Property prior to the Conversion Date. Without limiting the generality of the foregoing statement Preproduction Expenditures shall include all money spent or paid by the Royalty Payor for exploring, developing and equipping the Property for production; completing feasibility studies; maintaining the Property in good standing; constructing all facilities necessary to commence commercial operations on the Property; constructing or acquiring infrastructure or facilities off the Property but required for commercial operations; and on making or paying for any other expenditures related to the achievement of commercial operations. The Royalty

Payor shall be entitled to include as a Preproduction Expenditure a reasonable charge for management and administration which shall be computed quarterly and charged to the Royalty Account at the end of each calendar quarter. Initially, the charge for management and administration shall be an amount equal to 15% of all other expenditures incurred after the Conversion Date and shall remain at this level until Preproduction Expenditures incurred after the Conversion Date amount to more than \$4,000,000 per year at which time the Royalty Payor shall review this amount and propose a reasonable revision.

Commercial Production: Commercial Production has the meaning assigned to it in the agreement. The Royalty Payor shall notify the Royalty Holder of the date of the commencement of Commercial Production.

Working Capital: Working Capital means all monies spent or provided by the Royalty Payor for working capital prior to the date when commercial operations on the Property generate sufficient revenue to satisfy working capital requirements.

Operating Losses: Operating Losses means, in any month after the commencement of Commercial Production, the amount by which Operating Costs exceed Revenue.

Operating Costs: Operating Costs means all costs of commercial operations categorized as "Operating" costs by generally accepted accounting practice including all taxes, royalties and other levies except for federal and provincial corporate income taxes but not including any charges for depreciation, depletion or amortization. Operating Costs shall also include a reasonable charge for administration and management after the Conversion Date but not to exceed 15% of all other Operating Costs incurred after the Conversion Date. The determination of whether or not a cost is properly categorized as "operating" shall be finally made by the Joint Operators' auditors if the parties cannot agree between themselves.

Revenue: Revenue means the amount of money received by the Royalty Payor for the sale of their shares of minerals, metals or other products derived from the Property.

Post Production Capital Expenditures: Post Production Capital Expenditures means all expenditures made or paid for by the Royalty Payor after the commencement of Commercial Production to acquire assets having a useful life of more than one year or on development or expansion of a mine the cost of which would be charged on a unit of production basis in accordance with generally accepted accounting practice. The categorization of an expenditure as a Post Production Capital Expenditure shall be finally made by the Joint Operators' auditors if the parties cannot otherwise agree.

Interest Charges: Interest Charges means an amount obtained by applying the Prime Rate at the time the calculation is made plus one percent to the month end debit balance in the Royalty Account. For purposes hereof the monthly Prime Rate shall be the rate as at the last working day in each month. The amount so obtained shall be added to the Royalty Account at the time of calculation.

Reserve Charges: Reserve Charges means an amount to be established by estimating the cost of

rehabilitation which will have to be spent after commercial operations have terminated and charging a portion of that cost monthly to the Royalty Account over a reasonable period of time commencing no sooner than five years prior to the termination of commercial operations.

Net Profits: Net Profits means, in any month after the commencement of Commercial Production the amount by which Revenue exceeds Operating Costs. Prior to the commencement of Commercial Production Net Profits shall be deemed to be nil.

The Royalty Payor shall at all times maintain adequate records which shall be made available to the Royalty Holder in order that it may verify the correctness of any entries in the Royalty Account or in the determination of Net Profits. The Royalty Payor shall utilize methods for weighing and sampling ore which are generally accepted within the industry.