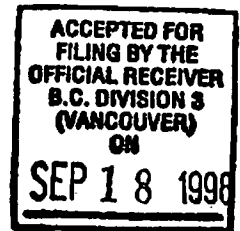


IN THE SUPREME COURT OF BRITISH COLUMBIA  
IN BANKRUPTCY

IN THE MATTER OF THE PROPOSAL OF  
RICHARD WILLIAM WARKE  
BUSINESSMAN, OF THE MUNICIPALITY OF WEST VANCOUVER,  
IN THE PROVINCE OF BRITISH COLUMBIA



TRUSTEE'S REPORT TO THE CREDITORS

**BACKGROUND**

- 1) Richard William Warke, the debtor, is 38 years old, and has been engaged in the mineral exploration and resource industry for many years. He is employed by Augusta Gold Corporation, is married to Carlotte Warke, and has three children aged 6, 3 and 1. The debtor's income has been derived from the activities of several public companies. His assets, stated in the sworn Statement of Affairs, reflect the holdings in those public companies, the values of which are believed to have diminished significantly recently as a result of the worldwide deterioration in commodity prices.
  
- 2) The principal debts which are the subject of this Proposal are as follows:-
  - a) Revenue Canada (\$800,000 unsecured, according to the sworn Statement of Affairs) - this debt arose as a result of an assessment of income tax payable for the tax years 1987 through 1991, together with interest and penalties.
  
  - b) Royal Bank of Canada (\$68,000 unsecured, according to the sworn Statement of Affairs) - resulting from a personal guarantee given in 1984 for a Royal Bank loan to Templar Mining Co., now defunct.

These are not recent debts. We understand that Mr. Warke had tried unsuccessfully to settle these debts without a formal Proposal. Mr. Warke initiated negotiations with the principal creditor, Revenue Canada, and has discussed his Proposal in detail with Revenue Canada. Mr. Warke believes that Revenue Canada will support his Proposal.

**SUMMARY OF PROPOSAL**

- 3) The Proposal provides for the payment on or before October 1, 2002, of:
- \$300,000 principal; and
  - Interest at the Bank of Canada Prime Rate plus 5% from the date of Court approval to October 1, 2001, and thereafter at the Bank of Canada Prime Rate.
- This obligation will be guaranteed by way of a third mortgage to be granted by Mrs. Warke on her residential dwelling at 5340 Seaside Place, West Vancouver, BC. This Mortgage is conditional upon creditors' acceptance and Court approval of Richard Warke's Proposal.
- 4) The Proposal also refers to potential defaults under the Mortgage, prepayment of the principal, and portability of the Mortgage. The Mortgage is available for the creditors' review from either the Trustee or the debtor.
- 5) There are no known preferred creditors listed in Mr. Warke's sworn Statement of Affairs. Therefore, all realizations (net of costs) will be divisible between the unsecured creditors.

**ASSETS**

6) Richard Warke declared the following assets in his sworn Statement of Affairs:-

- Shareholders Loan to Augusta Financial Corp.	\$200,000
- Bad Debt, estimated to produce	nil
- Household Furniture and Effects	\$7,500
- Subject to \$4,000 exemption	
- Personal Effects	\$2,500
- Shares in Augusta Capital Corporation (100% ownership), Augusta Financial Corporation (100% ownership), and Tatiana Investment Corp. (25% ownership)	
- estimated to produce	\$124,000
- RRSP with Nesbitt Burns	
- estimated to produce	<u>\$7,450</u>
TOTAL - estimated to produce	<u>\$141,450</u>

- 7) The principal assets are the shares which are owned, directly, or indirectly in the family of public companies with which Mr. Warke has been associated. He owns 100% of Augusta Capital Corp., a personal holding corporation, which in turn owns shares in the following public companies:-

Augusta Gold Corp.	-	1,362,000 shares
Augusta Metals Inc.	-	192,200 shares
Augusta Resource Corp.	-	674,900 shares

We understand that these shares represent de facto control of the companies. However Mr. Warke is Chief Executive Officer and Director of Augusta Gold Corp. and Augusta Metals Inc., and a director of Augusta Resource Corp. These public companies trade on the Vancouver Stock Exchange with the exception of Augusta Resource Corp. which trades on the Canadian Dealers Network, although none appear recently to trade actively or in substantial quantities. Based on recent trading figures, the shares of these public companies would be worth \$154,810 before brokerage commissions. However, Mr. Warke has emphasized to us that, in the event his Proposal is rejected by the creditors causing an automatic bankruptcy, he would be ineligible to act as a director of a public company, and thus he believes that his absence from these public companies would have an adverse effect on the share prices and liquidity for his shares. In consequence, the realizable value of these shares in a bankruptcy could be worth significantly less than the above value, or even worthless if the market for these shares were effectively eliminated.

- 8) The debtor's RRSP is a self-directed plan, which holds the following:-

Augusta Gold Corp.	-	9,500 shares
Augusta Metals Inc.	-	25,205 shares
Augusta Resource Corp.	-	119,000 shares

Based on recent trading figures, these shares would be worth \$14,895 before brokerage commission. However, because they are within an RRSP, income tax would be exigible on the proceeds. The debtor has estimated a net recovery of approximately 50% of the gross value, being \$7,450.

- 9) Mr. Warke owns a 25% investment in Tatiana Investments Corp., a private company. We do not know what restrictions there may be concerning the transfer of minority shares in this company, in the event of a bankruptcy. Mr. Warke believes that his investment in Tatiana is valueless. Based on the most recent financial information available to us, we doubt that there would be any —recovery from this source, in a bankruptcy.

- 10) The debtor's 100% shareholding in Augusta Financial Corp. is also estimated to be valueless according to the sworn Statement of Affairs. The assets in this corporation are believed to be mostly investments in the family of public companies referred to above, as well as escrow shares in West Coast Forest Products Ltd. We have no financial information concerning Augusta Financial Corp. since the last financial statements dated January 31, 1997. Based on the information available, we assume that any recovery from Augusta Financial Corporation would be negligible in relation to Mr. Warke's total debt, in the event of bankruptcy, as a result of income taxes and other debts owed by Augusta Financial Corp.
  
- 11) Richard Warke's income is derived directly from Augusta Gold Corporation, his employer, his personal holding corporation, and indirectly from the family of public companies referred to above. His 1997 T4 states that his employment gross income was \$111,251.58. His 1998 income is \$58,562.14 from January 1 to July 31, 1998 from Augusta Gold Corp. Continuation of this income is believed to be dependent on the debtor retaining his association with the public companies which are the source of this income.

#### **CONDUCT OF THE DEBTOR**

- 12) Mr. Warke has disclosed no transactions which might be viewed as a preferential payment, settlement or viewable transaction in the event of a bankruptcy.

#### **CREDITORS' CLAIMS**

- 13) In addition to the two principal debts owed to Revenue Canada and the Royal Bank of Canada referred to above, Mr. Warke has listed a further \$14,600 of unsecured debt owed to three professional firms, \$100,000 debt due to CIBC, secured on Mrs. Warke's house, and a \$10,000 disputed debt due to Blake Cassels Graydon. There is also a contingent claim for \$275,000 also secured on Mrs. Warke's house, in respect of financing provided by CIBC to Augusta Financial Corp. At the time of drafting this report, we have no independent information as to the amount or acceptability of these debts in the event of a claim.

#### **PREVIOUS BUSINESS DEALINGS WITH DEBTOR**

- 14) The Trustee was approached by Mr. Warke on the advice of his legal counsel in late May 1998. Prior to that date, we had not had any dealings with the debtor. No conflict of interest affecting the Trustee is known.

**REMUNERATION OF TRUSTEE**

- 15) The Proposal provides for the Trustee's fees and costs to be paid in priority from proceeds under the Proposal, in accordance with the requirements of the Bankruptcy and Insolvency Act. The Trustee has required that Mrs. Warke provide a deposit of funds and an Indemnity for the Trustee's fees and costs, to be repaid to Mrs. Warke from the eventual proceeds of Proposal realization in year 2002.

**STATEMENT OF ESTIMATED REALIZATION**

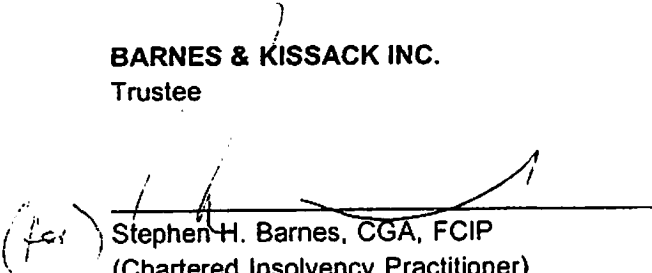
- 16) If the Proposal is rejected by the creditors or the Court, Richard Warke will be deemed to have made an Assignment in Bankruptcy as of the date of filing the Proposal, September 15, 1998. In the consequent bankruptcy, the creditors will not receive the funds which Mr. Warke offers to pay to the creditors under the Proposal in year 2002. The attached Statement of Projected Realization and Distribution (Appendix A) compares the recovery to the creditors under this Proposal with that in a bankruptcy.

**TRUSTEE'S RECOMMENDATIONS**

- 17) The Proposal is dependent on the value and marketability of Mrs. Warke's house, valued in one appraisal commissioned recently by the debtor at \$2.2 million, leaving \$875,000 free equity in the property before the Proposal Mortgage. Assuming that there is no significant drop in West Vancouver property prices, and based on Appendix "A" and the above comments, there is clearly a higher recovery projected to the creditors under the Proposal, than in the alternative of a bankruptcy arising from the creditors' rejection of this Proposal. On this basis, the Trustee recommends acceptance of this Proposal.

DATED at Vancouver, B.C. this 18<sup>th</sup> day of September, 1998.

**BARNES & KISSACK INC.**  
Trustee

(for)   
Stephen H. Barnes, CGA, FCIP  
(Chartered Insolvency Practitioner)