Ontario

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The Mining and Lands Commissioner
Le Commissaire aux mines et aux terres

File No. MA 038-99

L. Kamerman) Wednesday, the 6th day
Mining and Lands Commissioner) of December, 2000.

THE MINING ACT

IN THE MATTER OF

Mining Claims L-1225677 and 1226882, both recorded in the names of Glenn Walter Bray, as to a 32% interest, Sharon Adelia Cotton, as to a 24% interest, Fred Ross Swain, as to a 20% interest, 903573 Ontario Limited, as to a 16% interest and Margaret Kaye Montgomery, as to an 8% interest, situate in the Township of Van Hise, in the Larder Lake Mining Division, hereinafter referred to as the "Mining Claims Drilled by Johnson";

AND IN THE MATTER OF

Mining Claims L-1076976, 1221753, 1223175, 1223921, 1223939, 1223942, 1224210, 1224235, 1224237 to 1224239, both inclusive, 1224293 to 1224295, both inclusive, 1227201 and 1238906, situate in the Township of Milner; and 1207053, 1223905, 1223906, 1223932, 1224216 and 1224217, and 1238902 to 1238905, both inclusive, situate in the Township of Van Hise, situate in the Township of Van Hise, in the Larder Lake Mining Division, recorded in the name of Lake Superior Resources Corporation, hereinafter referred to as the "Superior Mining Claims";

AND IN THE MATTER OF

Mining Claims L-1225672 situate in the Township of Milner; and 1225673 to 1225676, both inclusive, 1225678, 1226881, 1227025, 1227027 to 1227029, both inclusive, 1227048, 1227049, 1227199, 1227255 and 1234970, situate in the Township of Van Hise,in the Larder Lake Mining Division, recorded in the names of Glenn Walter Bray, as to a 32% interest, Sharon Adelia Cotton, as to a 24% interest, Fred Ross Swain, as to a 20% interest, 903573 Ontario Limited, as to a 16% interest and Margaret Kaye Montgomery, as to an 8% interest, hereinafter referred to as the "Swain Mining Claims";

(Amended December 6, 2000)

. . . . 2

AND IN THE MATTER OF

A Joint Venture Agreement between Randsburg International Gold Corporation and Lake Superior Resources Corporation involving lands in Milner and Van Hise Townships and alleged to include the Mining Claims;

B E T W E E N:

W. JOHNSON MINING AND OIL FIELD SERVICES LTD.
Applicant

- and -

RANDSBURG INTERNATIONAL GOLD CORPORATION and LAKE SUPERIOR RESOURCES CORPORATION
Respondents of the First Part

- and -

GLENN WALTER BRAY, SHARON ADELIA COTTON, FRED ROSS SWAIN, 903573 ONTARIO LIMITED and MARGARET KAYE MONTGOMERY
Respondents of the Second Part

AND IN THE MATTER OF

An agreement dated the 16th day of July, 1999, between Randsburg International Gold Corporation, as contractee and W. Johnson Mining and Oil Field Services Ltd. as contractor for drilling and other services on lands in Milner and Van Hise Townships and alleged to be on the Mining Claims;

AND IN THE MATTER OF

An application under section 69 of the **Mining Act** for the vesting of ownership of the Mining Claims Drilled by Johnson from the Respondents of the Second Part, Bray, Cotton, Swain, 903573 Ontario Limited and Montgomery and a vesting of the interest in the Mining Claims Drilled by Johnson, the Superior Mining Claims and the Swain Mining Claims from the Respondents of the First Part, Randsburg International Gold Corporation and Lake Superior Resources Corporation, to the Applicant, by reason of default in payment for work performed by the said Applicant and such other relief as the tribunal deems just.

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INTERLOCUTORY JUDGMENT

UPON hearing from the parties and reading the materials filed;

1. **THIS TRIBUNAL DECLARES** that the Applicant, W. Johnson Mining and Oil Field Services Ltd. is owed $85,415.08 by the Respondent of the First Part, Randsburg International Gold Corporation on account of drilling on Mining Claims L-1225677 and 1226882.

2. **IN THE ALTERNATIVE, THIS TRIBUNAL FURTHER DECLARES** that the Applicant, W. Johnson Mining and Oil Field Services Ltd. is owed $49,937.08 and 70,940 shares in Randsburg International Gold Corporation by the Respondent of the First Part, Randsburg International Gold Corporation on account of drilling on Mining Claims L-1225677 and 1226882.

3. **THIS TRIBUNAL FURTHER DECLARES** that unless the Respondent, Randsburg International Gold Corporation pays to the Applicant, W. Johnson Mining and Oil Field Services Ltd. either the amount set out in Paragraph 1 or the amount and shares set out in paragraph 2 hereto within a period of 30 days, the tribunal will vest a portion of the interest in the aforementioned Randsburg International Gold Corporation in the Applicant.

THE PARTIES ARE FURTHER ADVISED that, should a valuation of the Mining Claims become necessary, further evidence and submissions will be required to assist the tribunal in reaching its determination as to what portion of Randsburg International Gold Corporation's interest will be vested in the Applicant.

THIS TRIBUNAL FURTHER ADVISES that pursuant to subsection 129(4) of the **Mining Act** as amended, a copy of this Order shall be forwarded by this tribunal to the Provincial Mining Recorder **WHO IS HEREBY DIRECTED** to amend the records in the Provincial Recording Office as necessary and in accordance with the aforementioned subsection 129(4).

Reasons for this Interlocutory Judgment are attached.

DATED this 6th day of December, 2000.

Original signed by

L. Kamerman
MINING AND LANDS COMMISSIONER

Ontario

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(Amended December 6, 2000)

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B E T W E E N:

W. JOHNSON MINING AND OIL FIELD SERVICES LTD.
Applicant

- and -

RANDSBURG INTERNATIONAL GOLD CORPORATION and LAKE SUPERIOR RESOURCES CORPORATION
Respondents of the First Part

- and -

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REASONS

The hearing of this matter took place in the Courtroom of the Tribunal, 24th Floor, 700 Bay Street, Toronto, on May 17 through 19 and on June 21, 2000.

The applicant, W. Johnson Mining and Oil Field Services Ltd. ("Johnson") was represented by Mr. Kenneth Fitz, a lawyer whose offices are in Edmonton, Alberta. Mr. Warren Johnson, a principal of Johnson, attended the hearing.

The respondents of the first part, Randsburg International Gold Corporation ("Randsburg") and Lake Superior Resources Corporation ("Lake Superior") were represented by Mr. Timothy Hill and Mr. David Stevens. Mr. James Lenigan of Randsburg attended for portions of the hearing, as did Mr. Michael Opara of Lake Superior.

Glenn Walter Bray, Sharon Adelia Cotton, Fred Ross Swain, 905373 Ontario Limited and Margaret Kaye Montgomery, respondents of the third part, were represented by Mr. Fred Swain and Mrs. Sherry Swain.

Background Facts

This application arises out of an agreement between Randsburg and Johnson which was entered into on July 16, 1999 (Ex. 2, Tab A), pursuant to which Johnson commenced its drilling activities (Hole 01-99, or Johnson's Hole) by drilling at an angle on Mining Claim L-1226882 and under Mining Claim L-1225677. Only one hole was drilled by Johnson.

These two Mining Claims are held by Glenn Walter Bray, Sharon Adelia Cotton, Fred Ross Swain, 903572 Ontario Limited and Margaret Kaye Montgomery (Fred Swain et. al.). The Agreement refers to "the Company's property", the Company being Randsburg, and the property referring to unpatented mining claims within Milner and Van Hise Townships. The agreement specifies a minimum of 20,000 feet of drilling, with no hole to exceed 1000 feet, with certain provisos applying.

Fred Swain et al. entered into an Agreement with Lake Superior Resources Corporation (Lake Superior), dated June 21, 1999, (Ex. 4, Tab 4) whereby Lake Superior purchased the right to a 75 percent interest in a number of mining claims in Van Hise and Milner Townships, comprised of approximately 9000 acres. The mining claim numbers do not appear in the agreement.

Lake Superior entered into an agreement with Randsburg on June 17, 1999 (Ex. 3, Tab 3), whereby Lake Superior and Randsburg entered into a Joint Venture arrangement, each as to a 50 percent interest, in certain mining claims within Van Hise and Milner Townships, said to consist of approximately 16,000 acres (the Joint Venture). The mining claim numbers do not appear in the body of the agreement.

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Johnson experienced considerable difficulty in drilling the Johnson Hole, which reached a depth of 2,062 feet on September 5, 1999. Pursuant to the terms of the Agreement, allowing for time off, Warren Johnson had returned to St. Albert, Alberta just prior to this depth having been reached. In the ensuing period, Randsburg declined to pay certain invoices of Johnson. During late September and October, Johnson refused to return to resume drilling pending the payment of invoices. Eventually, the rig, owned by Johnson, was stripped by persons unknown, after which Mr. Johnson returned to Ontario and arranged for the return of the rig to Alberta. Randsburg did not seek further drilling to be carried out by Johnson, who was asked to remove his rig from the Johnson Hole.

The rig was not fully insured, due to oversight and the losses were not covered, the cost of demobilization, payment for outstanding invoices and compensation for the 17,900 feet not having been drilled form the bulk of the claim advanced by Johnson.

Issues

1. What are the terms of the Agreement, including any ancillary documents, if found to be applicable?

2. Is Randsburg entitled to terminate the Agreement and if so, at what point?

3. How much money is owed, if any, by Randsburg to Johnson?

4. In the event that money is found owing, which Randsburg does not pay, how should section 69 be construed, meaning does it entitle Johnson to an interest in the two Mining Claims upon which his drilling occurred or does it mean that Johnson would be entitled to an interest in all the Mining Claims?

5. If an interest is found owing, would it be a proportionate share or all of the interest in the Mining Claims and is it necessary to value the (2 or all) Mining Claims to determine a proportionate interest would vest in Johnson?

The Mining Claims

The Mining Claims are held by either Swain et al. (9000 acres) or Lake Superior (8,000 acres), in a relatively random configuration as to ownership. All are contiguous and straddle both sides of the boundary between Milner and Van Hise Townships, fanning out from the western boundary of each. Lake Superior has launched another action against Swain et al. (tribunal file MA-007-00), pursuant to section 105 of the **Mining Act**, for a declaration that their agreement is in good standing.

The Section 69 Application

Johnson is seeking a decision of the tribunal as to the amount owing on its agreement with Randsburg. Mr. Fitz has requested that Randsburg be given time to pay any outstanding amounts, failing which 100% interest in the Mining Claims be transferred to Johnson. His position is that Johnson would be entitled to transfer of all interest in all of the Mining Claims.

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Time Leading Up to the Agreement(s)

Warren Johnson, principal of Johnson, was in the business of drilling oil and gas wells, diamond drilling for mining and welding; he also rebuilt diamond drills and offered them for sale. He has over 20 years of experience in these fields. Johnson is located in St. Albert, Alberta, near Edmonton.

Mr. Johnson had prior dealings with James Lenigan, (Lenco Mining and Development) during 1996, in conjunction with gold properties in Columbia, pursuant to an ad placed in the Northern Miner advertising joint venture opportunities. Mr. Lenigan intended to "put Lenco into" Randsburg, which was taking steps during this time frame to acquire properties in Angola. Mr. Lenigan had travelled to Edmonton to view Mr. Johnson's drilling rig, and Mr. Johnson had travelled to Vancouver to discuss becoming a director of Randsburg, offering his drilling expertise. Mr. Johnson also travelled to Florida, considering the sale of his drilling rig for shares in Randsburg, a sale for which money was forwarded, but according to Mr. Johnson, he subsequently pulled out of the deal.

Johnson as Director of Randsburg

There is no agreement between Messrs. Johnson and Lenigan as to whether Mr. Johnson gave his consent to become a Director of Randsburg, although he did agree that he was retained to offer expertise in drilling matters.

Mr. Johnson's name does appear in the Minutes of the Annual General Meeting for several years. The issue of his consenting to act as Director arose in connection with which was the inclusion of his mailing address in documents filed with the Ministry of Finance and Corporate Relations of British Columbia. There was no disagreement that Mr. Johnson did appear to act in the capacity of Director on one occasion, to prevent a takeover of the Board of Directors. Mr. Johnson's account did vary from Mr. Lenigan's on this occasion, but it is clear that his conduct, whether as Director or purported Director, was to assist in preventing the takeover. Mr. Johnson acknowledged his participation, but asserted that he was not comfortable with the situation. At all times, however, it was his position that he declined actual directorship. His reason was that he did not want to be liable for a company which owed hundreds of thousands of dollars.

Events Leading up to Agreement

Mr. Johnson listed his re-built Boyles 37-A diamond drill for sale in the Northern Miner newspaper, being the same drill used for the Johnson Hole. Mr. Opara first contacted him in connection with the ad. Based on these discussions, Mr. Johnson concluded that Lake Superior lacked sufficient funds for its drilling program, either to pay a contractor for drilling or to purchase a drill. Discussions centred around the Firth Lake project in Van Hise and Milner Townships and not other properties held by Lake Superior.

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In a letter dated April 12, 1999 from Lake Superior to Johnson (Ex. 20), Mr. Opara asks whether Johnson would be interested in drilling for cost plus shares at the second line of the first paragraph: "We would be interested in an arrangement for drilling at cost plus shares." Exhibit 20 is comprised of a two-page letter and three-page Fact Sheet on Lake Superior.

The timing of events which followed becomes less clear during this time frame. Mr. Johnson stated that he introduced Messrs. Lenigan and Opara after his first contact with Mr. Opara, although the date was uncertain. Once Mr. Johnson determined that Lake Superior did not have the funds for the drill, he called Mr. Lenigan, suggesting that he look into Lake Superior. It was Mr. Johnson's initial suggestion that the three enter into a joint venture arrangement. Mr. Lenigan initially thought it was April or May of 1999, but then thought it could have been January or February when he first contacted Mr. Opara. The later dates appear correct, as Mr. Opara did not contact Mr. Johnson until April, 1999. After the initial contact and once it was clear that Lake Superior did not have the funds to purchase the drill, discussion took place between Mr. Johnson and Messrs. Lenigan and Opara as to a means of working out an arrangement.

Mr. Johnson was asked to provide a written cost as a drilling contractor involving the Firth Lake Properties (Van Hise/Milner Townships), which is reflected in his hand-written document, found at Exhibit 9, Tab 19 (seven pages in) and Exhibit 3, Tab 7 and while there was some discussion as to whether the quote uses the work "on" or "or". This has been set out in its entirety in Schedule 1 to these Reasons. The quote makes mention of a 5,000 foot or/on a 30 day drill program, showing a per foot cost of $15.66 or a total of $78,300.

In an ensuing discussion, Mr. Opara apparently told Mr. Johnson that he could do the drilling in Ontario for $7 per foot or $25,000 a month. Mr. Opara also brought up the matter of Norex Drilling being able to do the work for $10.50 to $11.00 per foot. It was Mr. Johnson's evidence that Lake Superior should go ahead for that price with an Ontario contractor.

In a fax from Johnson to Lake Superior dated May 30, 1999 (Ex 3, Tab 14), the issue of the purchase price of the rig is addressed:

> Here are some conditions and quote's written in stone. This is what I would require to close a deal. The equipment has been appraised at $138,000 and is in new condition. I think you people are getting a deal on your end, being the way times are in the industry.

It was Mr. Lenigan's evidence that the Joint Venture worked out between Lake Superior and Randsburg would see Lake Superior provide the Van Hise Milner properties and day to day administration of the project, while Randsburg, as a publicly traded company, would raise funds for the venture. Mr. Lenigan indicated that Randsburg relied on Warren Johnson's drilling expertise, and decided to keep the contract within their own group, believing that Johnson's quote of $15.66 would be the top price for drilling. Supervision on the drilling project was shared by Mr. Opara as administrator, Mr. Johnson as drilling supervisor and Frank Puskas as geologist.

Discussions were ongoing and not productive at first. Finally Mr. Lenigan advised that Randsburg and Lake Superior had reached a deal to which Johnson was not a party. However, according to Mr. Johnson, Johnson was to become a third party joint venturer, supplying the equipment, but with costs to be paid by Randsburg. According to Mr. Lenigan, Johnson was included in the negotiations with Opara on the basis that Johnson was a Director of Randsburg as well a technical advisor with respect to drilling matters.

The tribunal concludes that the exact date when Mr. Johnson introduced Messrs. Lenigan and Opara cannot be determined. It may have been some time after Lake Superior's April 12, 1999 letter to Johnson, and perhaps after Johnson's April 25, 1999 quote to Lake Superior, although the tribunal notes, upon the admission of Mr. Lenigan, that Randsburg also received the quote, both from Johnson and Mr. Opara.

It is at this point that the relevance of the issue of Mr. Johnson as a Director of Randsburg arises. Once introduced, it is apparent that discussions took place between Johnson, Lenigan and Opara moving toward agreement(s), with telephone discussions taking place between all of them. What is difficult to determine is the nature of Mr. Johnson's involvement as perceived by Mr. Opara, namely whether Johnson was a Director of Randsburg as opposed to owner of Johnson. Notwithstanding what may have been agreed to as between Randsburg and Johnson, the evidence of Mr. Lenigan was that on the ground drilling was conducted under the joint oversight of Opara, Johnson and Frank Puskas.

It was Mr. Lenigan's evidence that he had virtually no experience with drilling, a fact he made known to Messrs. Johnson and Opara. In this regard, he stated that he relied upon Mr. Johnson as Randsburg's technical advisor and as Director. It is unclear of the extent to which discussions focused on the drilling or on the Joint Venture which ultimately was agreed to by Lake Superior and Randsburg. One cannot but help be left with the impression that the two became inextricably intertwined. However, as discussions seemed to vacillate between joint ventures, purchases, drilling contracts, it becomes clear that so many different proposals were on the table at one point or another that the parties cannot hope to rely on the various positions put forward as might have been favourable to their positions after the fact.

The Agreement

On July 18, 1999, Johnson and Randsburg executed the Agreement for diamond drilling (Ex. 2, Tab 1). Evidence differs as to how the final draft was agreed upon, the number of drafts and the time involved. Johnson's evidence leans towards complex, detailed negotiation and attendant changes. Lenigan's evidence suggests that discussions were cursory. The Agreement was drafted by Mr. Johnson, borrowing from an agreement between Cominco Mines and Tundra Drilling. Mr. Lenigan stated that he had received the contract on a Sunday, and signed as Mr. Johnson was refusing to ship the rig until a deal had been reached.

According to Mr. Lenigan, Johnson's drilling equipment was presented to him as being in excellent condition and that it could achieve 150 to 200 feet per shift per day, so that a hole could be completed in 6 or 7 days (of single shift, making a 1000 foot hole). According to Mr. Lenigan, he had understood that this could be done for the $15 per foot set out in the

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Agreement, based on the earlier quote. Therefore, Mr. Lenigan anticipated that the work could be completed in a month. Mr. Lenigan explained that the $10 in shares per foot was in way of a debt settlement for shares, meaning that for every foot actually drilled, Johnson would be entitled to shares worth $10. It was never his intention, nor that of the Agreement to print 200,000 shares, being 20,000 feet times the $10.

The contract sets out terms of mobilization, demobilization and the scope of activity, made out between "James Lenigan Randsburg International Gold Corporation (the Company) and W. Johnson Mining & Oil Field Services Ltd. (the Contractor). The tribunal has set out a paraphrasing of the Agreement in Schedule 2 to these Reasons.

The contract ends with signatures on behalf of Johnson and Randsburg, Mr. Lenigan having initialled each page. Although page seven implies that there was an eighth page attached, such a page was not filed. Nor was its existence raised.

Initial Meeting at Gowganda

The initial meeting concerning the drilling took place in Gowganda on July 20, 1999, between Messrs. Lenigan, Opara and Johnson, joined by geologist Frank Puskas, and an investor named Freedland. According to Mr. Johnson, the drilling conditions had been presented to him as being good up to this meeting.

Frank Puskas, who had been retained by Randsburg, identified the drilling program he drafted, found at Exhibit 9, Tab 18. Hole FL-00-01 was to be drilled with an Azimuth of 090 with a -50 degree dip. The drilling was to have targeted anomaly E.

The location was the subject of prior drilling by Texmont, in 1966. The two Texmont holes (drill logs found at Ex. 9, Tab 15) were drilled with a size E drill, being smaller than the Johnson BQ drill. According to Mr. Puskas, the Texmont hole encountered sulphides, involving pentalum, which is a nickel bearer, which was necessary to an economic deposit. Mr. Puskas wanted the first hole to duplicate as closely as possible the results from the Texmont hole. The actual cores from the Texmont hole had been stored at Firth Lake and were inspected by those present.

As to the matter of deviation, Mr. Puskas explained that the E size core is smaller than the BQ. A small core is more likely to deviate from the direction it is drilled. It was his belief that an experienced driller using a larger core could avoid the deviation. Mr. Puskas agreed that the matter of deviation had been discussed. In his words at page 240 of the May 19, 2000 transcript, line 18:

> ... we were not committed to drilling and getting a lot of footage. That was not our mandate. The mandate here was to drill a hole and try to hit a target. What is the Target? Anomaly "E".

Mr. Lenigan could not recall whether it was at this meeting or some later time that Frank Puskas indicated that he wanted the hole to go to 2000 feet, although Mr. Lenigan did agree that this was ultimately the case. He also indicated that discussions taking place at the

time regarding the Texmont hole(s) drilled in 1966, was primarily by Mr. Opara, although Puskas was involved. Mr. Lenigan recalls that Mr. Puskas took them through the structure of the deposit they were looking for, discussion of anomalies and a particular kind of conductor. Mr. Lenigan stated that controlled drilling had never been mentioned. His evidence was that he had never heard the term until just prior to the hearing. He would have asked for an explanation, had he heard the term. However, he did recall Mr. Puskas stating that the 50 degree dip was important.

Mr. Johnson's evidence was that he examined the Texmont drill logs with Mr. Puskas and discussed what had taken place. Mr. Johnson stated that the Texmont log for hole #1 which reached 1012 feet showed that the drilling would be in heavily fractured and faulted rock. According to Mr. Johnson, he was questioned by Puskas as to why the two holes were lost. He explained at the time that drilling into soft rock, namely serpentine or soapstone, with the hydraulic force on the drill and bit at a high rate, would cause the drill to deviate its course considerably. This type of drilling cannot be sustained in this type of fractured zone over great distances and resulted in the loss of the two holes.

In view of the two lost Texmont holes and the target of 2000 feet, Johnson told Mr. Puskas and Mr. Opara that he would have to control drill the hole in order to reach this depth without threat of losing it as well. A hole of this depth would have to be drilled straight.

The results of this first hole were important, as they would be used to raise funds for further drilling, according to Johnson. According to Johnson, there was a minimum of funds available at the commencement of drilling and it was imperative that there be success on the first hole to support attempts to raise more capital. Despite the wording of the Agreement as to 1000 foot holes, the target of the Johnson Hole was 2000 feet. Mr. Johnson stated that he had advised that in order to control drill a hole, the feet-rate would have to be cut in half and more time would be involved.

Johnson explained that the way in which a driller can expect to make money on a contract based on footage is to work on drilling as much footage as possible during the time available. Slowing the drill rate to control its direction will impact directly on the footage achieved. This is fine where the holes are short, but once the depth is to go to a depth of 2000 feet, unless the drilling is controlled, the hole will be lost. Mr. Johnson said to do otherwise would be a waste of money to the company paying for the drilling. Mr. Johnson stated that Messrs. Lenigan, Opara and Puskas were all aware that Hole FL-01-99 was a control drilled hole.

Referring to the practices of other drilling companies, Mr. Johnson stated that it is normal practice to obtain 50 per cent of the contract up front. Contracts contain a clause which states that the driller does not have to guarantee the hole. Based upon these type of provisions, the practice is to obtain the maximum footage in the shortest time frame. The deposit provides a cushion for the up-front costs, such as consumables, mobilization and labour. Mr. Johnson stated that he did not obtain a 50 per cent deposit as his arrangement with Randsburg was one of joint venture.

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The Drilling of Hole 01-99

Considerable time was spent giving evidence concerning the drilling which took place on hole 01-99, the only hole drilled by Johnson, during the period of mid-July to September 6, 1999. In addition to the evidentiary review of the Daily Time Reports (found at Ex. 2, Tab 2, Ex. 9, Tab 17), which will be set out in some detail, the tribunal summarized information, such as depth, activity and comments, taken from the Daily Time Reports, and set them out in Schedule 3 to these Reasons. This is a summary of documentary evidence filed, but in the interest of expediency, direct quotes are not noted; much of the information is summarized.

Mr. Johnson stated that Hole FL-01-99 was one of the worst holes he has ever drilled. He characterized it as being very fractured and smashed up. In the first 300 feet of drilling, he did not extract a piece of core larger than a couple of inches. Between 300 and 400 feet, it was very hard to put in a rod too. This caused the rig to bounce around like a jackhammer, which in turn damaged third gear at around the 400 to 500 foot level.

Mr. Johnson went through the drill reports in detail and provided the following explanations. In reaming the casing to 6 feet starting off, a hydraulic fitting on the head was broken, due to the hard, blocky and unstable conditions of the hole. With high vibrations in the hole, the rods were pulled and greased as a means of cutting down on vibrations. The rods are greased with a heavy, environmentally friendly grease and smooths out the vibrations.

The hydraulic lock-up in the drill hole means that the formation, being soft, absorbs the drill fluids and swell, exerting pressure back onto the drill. This was done with an environmentally friendly drilling fluid, which Mr. Johnson said was made of fish scales. At 635 feet Mr. Johnson tried to wash the hole, which he explained means that the string is pulled back 20 to 30 feet, at which point the driller works the fault, namely to wash the fault out, to prevent debris from falling in behind the core barrel, which would lock up the pipe and hole.

According to Mr. Johnson, a driller could easily lose a hole by failing to condition and stabilize. When the rods are pulled, due to it being a fault zone, loose material falls back in and has to be reamed out. At 630 feet, observing that every time they pulled the rods there was material caving back into the hole, which took half a shift to return to hole depth, Mr. Johnson came to the conclusion that he should case more of the hole.

Mr. Johnson suggested to Mr. Lenigan at this point that the hole, or as much of it as possible, should be cased. Mr. Johnson had brought 100 feet of casing with him from St. Albert, based on the assertion by Mr. Opara that drilling conditions would be good and they were not. He told Mr. Lenigan that they would require another 150 feet of casing. It was at this point that he was told they were out of money, being July 31 on the Daily Time Reports as out of money at the time the transmission required replacing.

According to Mr. Johnson, Mr. Lenigan gave his personal guarantee that he would reimburse the cost of the transmission, which Mr. Johnson asked be within 30 days, but the money was never forthcoming. In addition, Mr. Johnson cased 250 feet of the hole, having

purchased an extra 150 feet of casing, which he also was not paid for, although Mr. Lenigan similarly agreed that he would pay. The need for additional casing took place on a weekend. Extra casing jaws were needed to drive the casing for the projected depth, at a cost of $1,100. Mr. Johnson stated that he picked up an extra 600 feet of casing, but due to difficulties in the hole, they only put down 250 feet in total.

Mr. Johnson stated that he removed the core barrel and ran the rods to the bottom of the hole with the bit, then he reamed the casing over top of the string, or drill rod. This was to keep the hole straight and align the casing. He explained that the casing can deviate into the faults and make its own hole, which can eventually break off. There were problems running the casing in and out of the hole, as it was using up casing shoes, due to the depth and absence of water. He could not keep water at the casing shoe bit because there is so much fault that the water runs away from the bit, the cooling bits. Mr. Johnson described steps taken to modify a bit which had been muddied in the waterways, so that better water circulation to the mud rings would be available.

The vibrations were explained by Mr. Johnson as being caused by the string down the hole, causing the bit to bounce around inside the coring tube, so that when trying to pull the core tube, the core size becomes undercut and core is lost. When this happened, it was necessary to use hole stabilization drilling fluid or pull the rods and grease them.

Mr. Johnson explained the terms used in his drilling reports. "Reaming rods" means to ream on the outside of a drill pipe to pilot the casing into the hole. When the rods are pulled to either change a bit or grease the rods and the faulty sections cave in, the driller will ream the rods by having to essentially redrill the same whole through the caved portions to bottom. Hole stabilization involves stabilizing the sides of the hole with drilling muds and drilling fluids. According to Mr. Johnson, for 2000 foot holes, acid tests should not be used over 1,000; rather, a speri-sun test should be used. Mud bombs and drilling fluids are used to attempt to seal off fault zones, without which there is not proper drilling fluid circulation bringing the sludge and drill core to surface and the hole can be lost.

Mr. Johnson ran out of drill rods, due to the fact that he only brought down 1600 feet, and with sorting, perhaps 1500 feet were left. The contract specified 1000 foot holes, and it is Mr. Johnson's evidence that Mr. Lenigan had agreed to pick up the cost of the additional drill rods necessary due to the greater depth sought.

Mr. Johnson explained that when rock that is broken and fractured is drilled, pressure is put on and through the drill pipe, causing a jackhammer effect. The vibration causes damage in the gear of the transmission. The transmission broke down on the Saturday of the August long weekend, but he could not fix the rig until the following Tuesday.

Another unforeseen difficulty was the contaminated oil which caused the drill to be taken off line for several hours of maintenance. The chuck seal also went on the rig, which Mr. Johnson stated was the first one in 4000 feet of drilling, not particularly bad, but possibly caused by the extreme vibrations.

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