

July 25, 2008

Discussion Working Paper For Resolution

The purpose of this paper is to identify issues, probable outcomes and possible go forward solutions with the intention that all stakeholders embrace a single targeted strategic resolution..

Prior to the forward discussion all should be aware of allegations and information currently available on the internet and through the Alberta Securities and other regulatory bodies implicating certain parties together in collusion. Some of these documents regarding the information to obtain warrants are located at:

<http://www.webmechanic.com.au/IFFL/Investments.htm>

After going to the link: click on <[Brost Family et al under Tax Fraud investigation?](#)> and on the subsequent page click on the link <Click Here>

This will bring you to a pdf document regarding information to obtain search warrants. Everyone should be aware of the information and associations alleged in the document. The main issues brought forward are the inter-relationships and non arms length transactions that have taken place. It is not unreasonable to assume that without resolution in a timely fashion that some or all of those individuals will become subject to indictment and prosecution under the criminal code, and the thought of extradition for foreign residents should not be ruled out.

There are some concerns over intent between the principals and the investors. Another link on the web:

http://greywolfinternationalholding.com/pages/greywolf_international_holdings.htm

indicates that the holdings in question to be purchased or used by the organization are not owned by Eiger or any other entity but by Grey Wolf. It indicates a total holding by one shareholder of \$1.7billion with no debt and no liabilities. This information does not seem to bode well with strategies currently being discussed about the purchase of assets or use of the assets to make the investors owners and/or completing their payouts.

- 1) **Objectives** – the overview of the current situation is that regardless of marketing or other money raising activities going forward the only way that investors can be made whole will need to come from the production of existing mine concessions. Providing an acceptable level of consideration from all stake holders of the organization is achieved, including operations, investors, principals as well as ancillary domestic investments that can and will provide the biggest threat of litigation and service costs if not handled properly.
Suggestion – all aspects have to be considered in a win-win strategy going forward with concentrated effort in resolving operations, payouts and cash flows needed to handle all aspects. New investors to move the projects forward may have to be treated in a preferential manner due to the commitments required to meet demands. An exit strategy of conveying the remaining assets after all settlements are completed should be known and put into any planning going forward. Speaking from a personal preference it would be preferable to transfer all remaining assets after investors have been satisfied back to the principals. This would facilitate a cost effective development and help expedite a speedy payout of investors if the principals can regain control of all remaining assets. Since they ultimately benefit long term from the final solution, principals should be willing to have

their needs in the queue with all other investors and willing to work together. Perhaps a “put/call” option on shares after certain conditions are achieved will be satisfactory enough to guarantee a fixed resolution to the situation.

- 2) **Agreement on Liabilities** – there appears to be some ambiguity on the amount of actual money received versus the funds owed to investors. This matter has to be resolved with satisfactory consideration to the investors knowing that the remaining assets will revert to the principals upon completion of the project. Based on outstanding debts per unit values it is hard to believe the organization can continue to provide interest rate or valuation growth similar to what has been bantered around or what statements indicated in the past. Current debt accumulation will be insurmountable in a couple of years if left to grow at current rates.

Other debt obligations will also need to be disclosed and any other encumbrances that may exist revealed, to establish a complete and total picture, which must be included in any strategy moving forward. These would include companies such as Parklane, Redhouse (Voyageur) and any others that are not listed here.

Suggestion - A structured payout schedule with substantially reduced expectations (30%+ not tenable) on returns are in order. A development plan of the production of gold must be matched to a structured target on settlement. Although it may be a consideration to freeze asset growth at current levels it will be more advantageous to provide a minimal interest/valuation growth of around 7%-10% to offset inflation and be more palatable to existing investors.

- 3) **Asset Valuations** - A confidential list of the organizations asset base including Merendon assets needs to be put forward so that all the pending issues can be best addressed including any encumbrances that are related to the assets. Is the current drill testing at Los Ornos N43-101A standard? (this is the internationally recognized test assay standard and has significant value as true providence as opposed to an in house standard) If it is N43-101A we have a much easier path forward regarding any potential deals. Are there other valuation processes that need to take place for current and future investors?

Suggestion – if there is agreement to move forward in a joint effort and confidentiality can be maintained within the group (Non Disclosure Documentation) then an overview of the assets and valuation processes should be made available. Also ongoing plans for drilling and/or other valuation time frames should be reviewed so we can determine a realistic time frame and capital requirements going forward.

- 4) **Membership Conversion** – this process has been delayed for approximately 7 months now as the original discussions to move forward were made in late 2007 and again in Jan/08. This completion of this process is critical to the ongoing relationship with investors providing the ability to head off pending litigation and allow time for the operations process to move forward.

Suggestion – that this be treated as a priority in any plan to move forward. General consensus is that a process time of 8 weeks or longer from start to finish is required to complete just the documentation side of the equation. Then court filings, investor contacts and administration must be established to finish the process. Without this process started immediately we will mostly run out of time before any operations activities will become available to quiet the masses. A look at the overall structure of LPs versus corporations’

pros and cons should be discussed pending tax legislation changes slated for 2009 in Canada.

- 5) **Operations Worst Case** – a plan taking into account the worst case scenario should be established based on no or minimal future funding coming to the table. Can the operations side support putting more equipment on the ground from current operations to continue to grow and eventually make good on all the liabilities of the organization. This speaks to the current production capabilities and cash flows of the organization. If this is achievable how long will the process take? If not what is the minimum required cash to move the process forward.

Suggestion – Meet with the principals to get confidential disclosure on production, operation costs and create a move forward plan taking into account all the mitigating circumstances to establish a basic move forward plan. Develop ideas to move the process forward faster, and establish marketing areas to facilitate this including but limited to; sale of assets, forward sales of gold and joint venture arrangements.

- 6) **Domestic Debenture & CCPC** – these particular structures are under heavy attack from the CRA in Canada and IRS in the United States. They are being deemed a strip of registered accounts and most investors will be burdened with a major tax bill towards the late part of 2008 or early 2009 and there will be a major call on cash to pay the outstanding tax assessments, interest and penalties. Currently KLPC or other accounting firms have been engaged to deal with the situation but the investors are now being asked to provide the financial cost out of pocket as no funding is available to deal with this issue. Relief is available in some regards in that the original notes can be removed from the registered accounts and the total value of those notes can be purchased or redeemed and treated as a return of capital bearing no additional tax load on the taxpayer. The main concern is where do these individuals get the funds to satisfy the tax bills before operations gets enough cash flow to release funds to investors.

Suggestion – establish a group to work independently or with IFFL to address what can be done with the assessment process and costs associated with defense. This is a national issue but will bear on the cash flow requests to the organization for tax payments. It may be preferable to delay the assessments through defense funding support or allow partial cash redemption in 2009 and a conversion to units for the remainder. This should weigh in to the structuring of the rollover. It may be more advantageous to establish a purchase entity (Bearstone) to buy up the notes as they are flushed from the trustee providers similar to other purchases. It seems counter productive and too costly to have to have several domestic companies to facilitate this process. Let's get everything under one roof and one administration to deal with it all. Have one company in Canada, and one in the US where we can communicate with administrations on a cohesive and agreeable plan of action, any thing else will only delay and expand time frames.

- 7) **MMNI** – currently is in default with note holders and has commenced an arrangement to shift the investors to a long term annuity through an outside insurance provider. This situation seems to be stalled. The proposal has been accepted by about 90% of the respondents but even if the plan was to move forward there are no funds to effect the transition. MMNI has a commitment from “Tena” that also affects the go forward position of future gold sales or joint ventures in that particular site. The directors are under duress

from the justice and tax departments and may have very little wiggle room if they are forced to act in the “best interest” of their note holders. One scenario is that the directors would have to act on their security against “Tena” to try and satisfy their investors. Another scenario is the investors force the company into Chapter 11 bankruptcy and a court receiver is appointed to facilitate the collection subsequent sale of assets to satisfy the investors. Neither scenario is desired.

Suggestion – speed up the annuity process which may include initial funding and ongoing support. Costs at this time are unknown. Once the annuity is established all remaining note holders can be addressed for payout on a schedule that would have to coincide with production from “Tena”. This would release the encumbrance on “Tena” or rather shift it from MMNI to the insurance company. If a \$100million asset is to be assigned to the insurance company from Los Ornos then any MMNI call on Tena would be removed. The existing shareholders of MMNI should sell their shares to an independent group to control the assets of MMNI in default with the annuity rollover. If MMNI can be made solvent without encumbrances then concessions should be reviewed for sale, development or abandonment. The independent group then as shareholders can fund through loans or other means and net profits can be redirected as a third party buyer or operational funding.

- 8) **Strategic Metals** - currently is not in default with note holders but has been served with notice from an investor in pending litigation. This situation can cause an upsetting situation if forced into receivership as Strategic has a commitment from “Tena” that also affects the go forward position of future gold sales or joint ventures in that particular site. The courts have made note of the terms of the agreement defaulting on the appointment of a receiver and have side stepped by assigning an inspector that has been given wide latitude to investigate the corporation, money trail, and call on witnesses at will. The current situation should be appealed as no default has taken place at this time. The directors are under duress and bank accounts are frozen. One scenario is that the directors would have to act on their security against “Tena” in an attempt to satisfy their investors. Strategic has viable concessions but lack the funds to remove the litigation threat. Fines of existing directors were promised to be paid and are still outstanding in the courts, compounding the importance of a swift remedy.

Suggestion – Assist them in removing the litigation threat. Assist in paying the directors fines and allow them to start operations or contract out the concessions so they can handle there pending liabilities to investors starting late in 2009. Agreements could be put in place to remove encumbrances or delay them for a few years based on assistance to get operations underway. With a little effort by all stake holders SMC can be self sufficient and handle their own corporate obligations without any further drain on the organization, providing this is handled in a timely manner. Discussions are already underway with interested operators.

- 9) **Bearstone** – has both outstanding series of bonds and preferred shares that have an interest payment due September 30, 2008 of about \$1.2million. Default on this payment could cause the same effect that may exist with MMNI and Strategic of investor backlash and court appointed receiver. There has been talk about moving these holdings and reimbursing them at a 40% surplus to their existing holdings. Based on a \$35 million liability this would cost approx. \$14million in additional debt, a much more costly proposition than just paying the interest funding.

Suggestion – be proactive based on the current marketing of gold. It seems counter intuitive to volunteer to assume another \$14million in debt when most of the investors have already accepted the discount offered on the first conversion. If possible make allowances to meet this interest payment to offset the chance of more investor and regulatory intervention. If Bearstone can be kept in house as it stands, it may be able to be used to consolidate a platform to assist in rectifying most of the other domestic CCPC and debenture issues. Do not move or rearrange this structure due to increased administration, filing and other related costs. It is time to try and consolidate administration costs rather than spreading everything all over. Consolidation will control costs, improve communication and be able to provide a superior platform to better handle overall operational domestic challenges. New administrators would have to be established to offer a more cooperative work arrangement.

10) **Arbour Energy** – at the current time there is less familiarity with the Arbour position but they are currently under Alberta Securities investigation and tied to principals by allegation. There are a number of outstanding preferred shares earning a cumulative dividend. Shares are convertible to common share but until it is able to trade publicly again there is no incentive for the preferred shareholders to convert. There is no information on the holdings of Arbour or the viability of their projects, Corel being the most well known.

Suggestion – the outstanding preferred share holders are a debt liability and if not converted will eventually become a current payable to Arbour. The best solution will be to get Arbour trading so that preferred shareholders convert to common. In this manner the debt on the preferred would be removed from the balance sheet and investors could recoup their individual investments by selling to the public at large. This scenario would eliminate the liability to the organization and remove any further support requirements. Initial support to get them trading would be preferred but the costs and time are unknown. A review of their operation viability should be done to see if they are in a position to move forward and create positive cash flow now and into the foreseeable future.

11) **Communications** – at the present time Milo continues to have organized discussions with members and marketers at large. The concern with these discussions is related to the number of companies and information he is disseminating. There are no controls in place to filter listeners to the calls and the risk of any and all of these communications being recording is very real. All disclosure aids in building legal arguments against the “non arms length” arrangements and could have serious legal consequences to himself and other related parties he chooses to discuss. Milo’s communications help to disseminate information and somewhat relieve investor concerns but it also exposes the organization to more scrutiny by authorities.

Suggestion – communications going forward should be segmented to be facilitated by those legally responsible for the organization and guidelines set down as how future communications will be carried out. At the present time Milo continues to draw a lot of attention from regulatory authorities and search engines make his profile a negative mark regarding these establishments as well as future investors doing any due diligence research.

12) **Summary** – it is virtually impossible to remove one aspect of the overall picture from the rest. Each one offers a virtually pending challenge to the overall picture and ongoing operation of the organization. Regulators and attorneys are already building legal

arguments to tie all aspects of the organization together. Any one of the issues that are not at least addressed to mitigate damage or to address investor concerns would be a mistake. Although the development of the operations are key to long term survival and settlement, the short term effects of unresolved issues are counter productive and could upset that agenda. I believe a team of individuals need to be put in place to assist in addressing the issues with a concerted and cohesive effort. Money management and a working trust arrangement will be necessary to move forward and gain the support of all the past marketers and administrators in the organization. I believe the brain trust is available to facilitate these functions but a lot of time has been wasted especially in the last 6 months and I am not sure how long the organization has before it will be subject to a firestorm of civil litigation and regulatory intervention.

- 13) **Marketing** – may or may not be a required activity going forward. Based on the needs of the organization and how the funds will be utilized may determine if a consumer or institutional approach to marketing is used for capital funding. At the present time there is no concerted effort for marketing and any funds being raised are being used to chase other funding deals instead of being made available to support operations. Any marketing ideas going forward could be supported by the marketers based on controls and expectations of the use of funds towards resolving the overall situation. Any suggested marketing ideas should be discussed in conjunction with the rest of the suggestions and in the Initial Actions listed below.
- 14) **Initial Actions** - organize a meeting of a select group of individuals and the principals as soon as reasonably possible to discuss alternatives and set some initial plans to move forward. There has to be a meeting of the minds to establish a general and mutual trust that ensures all parties are moving towards the same goals. Prior to formalizing any permanent group or consulting agreements, except non disclosure agreements, it would be appropriate to have you or the principals agree to cover travel expenses for the individual consultants for the initial meeting.