HALLGARTEN & COMPANY

PORTFOLIO INVESTMENT STRATEGY

Christopher Ecclestone
cecclestone@hallgartenco.com

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AQUILINE (AQI.V): C$0.91
IMA (IMR.V): C$2.93
STRATEGY: PAIRS TRADE - LONG AQI, SHORT IMR
Interesting Legal Arbitrage is Icing on Aquiline's Cake

Financial Data		Earnings Estimates	2004	2005
AQI.V				
Current Price (C$)	$0.91	First Call Consensus	n/a	n/a
12-Month Target Price (C$)	$1.50	Cantillon EPS	n/a	n/a
Upside to Target	64.8%	P/E (based on our e:	n/a	n/a
Market Cap (C$ mn)	$51.87	Dividend	n/a	n/a
Shares Outstanding (million)	29.96	Dividend Yield	0.0%	0.0%
IMR.V				
Current Price (C$)	$2.93	First Call Consensus	n/a	n/a
12-Month Target Price (C$)	$0.50	Cantillon EPS	n/a	n/a
Upside to Target	-82.9%	P/E (based on our e:	n/a	n/a
Market Cap (C$ mn)	$120.58	Dividend	n/a	n/a
Shares Outstanding (million)	41.16	Dividend Yield	0.0%	0.0%

COMPANY HIGHLIGHTS

+ Both IMA and Aquiline have exciting precious metal projects (Navidad and Calcatreu respectively) in Argentina with a high probability of reaching production and bringing substantial cashflows if our scenario for ongoing reflation plays out.
+ Legal action by Aquiline against IMA over the source of data used to discover the Navidad prospect has the potential to bring Aquiline a windfall.
+ Aquiline also has exposure to prospective PGM territory in Canada, a prospect in the Sierra Madre in Mexico and is bidding for further properties in Argentina.

✘ What is good for AQI is bad for IMA. Already IMA is demerging some assets, a cloud will hang over the Navidad financing and the possibility exists that the prospect could be lost or IMA will have to settle with AQI.

Looking for arbitrage in mining disputes has not usually been our thing, but in our hunt for opportunities in Argentine mining, we have come across the cat-fight between Aquiline Resources and IMA and it looks like a situation where investors could make an interesting foray. Our basic call is to stake a claim on Aquiline's prospect at Calcatreu and to get oneself a potential warrant on the Navidad prospect in the event that IMA can not fend off Aquiline's claim. We are adding AQI to the model resources portfolio with a twelve-month target of C$1.50 and a five-year target of C$6. We are also adding a Short position in IMR with a 12-month target of below C$0.50 and five-year target of between C$0.20 and C$8.

The essence of the legal battle, being fought in the courts of British Columbia, is over the ownership of the rights to the enormous Navidad resource that IMA claims in the south of Argentina.

Essentially the story is that both companies were examining the data in the bidding process for the Calcatreu prospect of Newmont Mining in the Argentine province of Rio Negro. Newmont had inherited the prospect from the purchase of Normandy Mining and deemed it of insufficient size to fit in with its strategy going forward.

In the process of due diligence IMA requested more information and were given a packet of data which included sampling made by Newmont at the Navidad site some 30 miles to the southeast of the Calcatreu site, located across the provincial boundary in Chubut province. Aquiline claims that the information was given solely on the basis that it should be used only in formulating a bid for Calcatreu.

IMA withdrew from the bidding process for Calcatreu and it was won by Aquiline with a bid of US$2mn. Aquiline acquired Minera Normandy Argentina, which owned the Calcatreu site and the data that belonged to Minera. AQI claims that the data given to IMA was proprietary to the Argentine subsidiary of Newmont and thus belongs to AQI.

Bidding and Legal Timeline

October 02	Bidding process for Calcatreu (16 companies register for purchase docs)
November 02	Bids received (six offers)
November 02	AQI advised they had won
6th December 02	Navidad staked by IMA
10th December 02	Ima's first visit to site
Jan-Feb 03	More claims staked by IMA
28 January 03	AQI advised that it was the winner of Calcatreu
3rd February 03	IMA announces Navidad find
July 03	AQI takes possession of Normandy Argentina
October 03	AQI writes to IMA complaining about Navidad
March 04	Lawsuit filed against IMA

Most of these points are agreed between the parties. It is here that the divergence of views appears. AQI claim that IMA took the data, which had been provided by the due diligence process and immediately staked the Navidad site. Seeing the enormous potential at Navidad they lost interest in Calcatreu and thus did not bid.

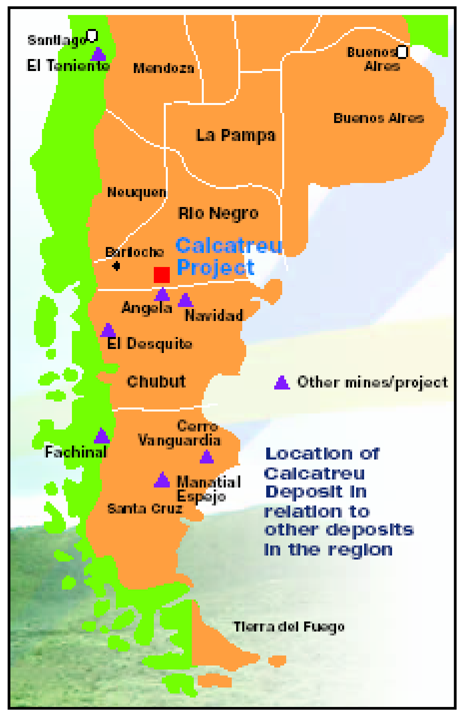
IMA claim that they have been prospecting around in the area for ages (as far back as 1994) and that it was coincidental that the staking of the claim occurred around the same time. On its website, IMA claims "…there is no evidence that a geologist has ever visited the property before IMA…". This may be true if IMA really stumbled on the site so many years before. But if it did, why didn't it stake it then? We also know that IMA weren't the only ones on the site as Normandy had sampled the site and had the data.

IMA also claim that the confidentiality agreement for Calcatreu documentation covers only two kilometers from the Calcatreu site.

Having heard the presentations of both sides, we would note the loquacity and vigor of AQI's claim and note the defensiveness of IMR. This extended to a curious slide at IMR's presentation that showed a fence post with a rock next to it. This was supposedly the telltale sign that IMR's wandering geologist stumbled upon. Such single rocks are the stuff that mining lore is made of (and have been for centuries) but usually the hapless prospector doesn't have state of the art sample results as well!

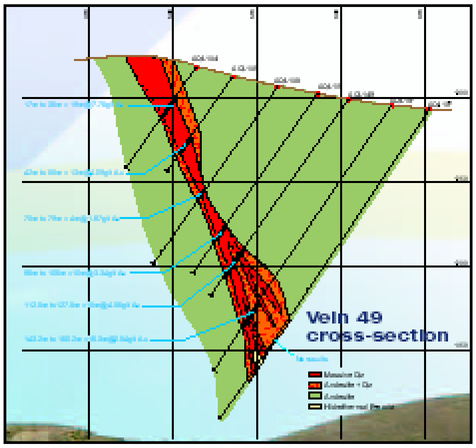
Jurisdictions are another point of contention. The case is currently being fought in the courts of British Columbia. IMA claim that it would be more relevant to fight the matter in the courts of Colorado, as that is where the non-disclosure agreement specified jurisdiction for disputes. While the assets in question are in Argentina, the transaction to sell Minera was undertaken elsewhere.

Trial date set…. if it goes that far. The date for the trial in the courts of British Columbia has been set for October 11th 2005. A lot of things could happen in the interim if IMR want to speed up their full access and control over the Navidad project.



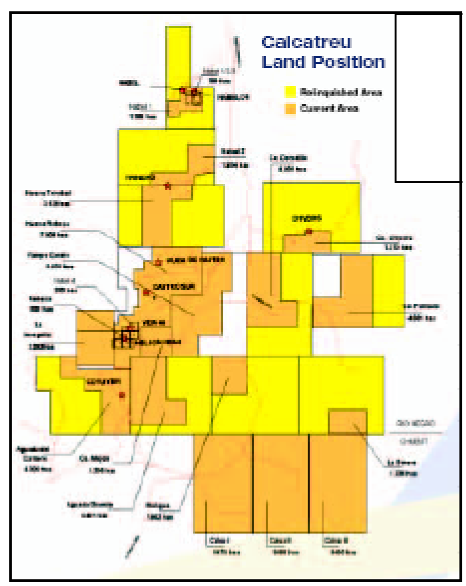
An exotic new world for portfolio investment in Argentina. Doomsayers on the Argentine economy have failed to notice the mining boom that Argentina is in the grip of. Revenues at miners with Argentine interests are soaring by leaps and bounds largely because of the low base. However, Argentina is not going from being a nothing to being an also-ran, rather it is leaping right into the front rank of mining economies. That this may not be evident to the run-of-the-mill emerging markets crowd is no surprise as they generally only play with a limited group of playthings (CVRD, Southern Peru Copper). Three weeks ago we were at the Gold Conference in New York and the preponderance of LatAm stories was truly stunning. Most notable were the Peru (a variety of metals), Argentina (gold, copper and silver) and Mexico (almost solely silver) stories. Chile was very sparse and Brazil was almost non-existent. To put it in perspective, there were as many Brazilian mining projects on show as those in Outer Mongolia. It was not that the show was Latin-oriented by any means. It was basically a platform for second- and third-tier miners to get in front of investors. The bulk of the presenters were Canadian. If there had been more Australian companies represented then there would have been a lot more buzz about South East Asia (Australians are pushing into exotica like Thailand and Laos) and Africa (though there was a fairly good showing of Canadians with action in West Africa). However, it was as an eye-opener on what is happening in LatAm that the conference served its purpose for us.

We knew of the obvious candidates in Argentina for we have tracked at a distance Minera Andes and Northern Orion for some years, and been more up close and personal with the Wheaton River Mining wonder story. The real poke in the eye is to see that Cerro Vanguardia (which we occasionally spouted as the most interesting thing about Perez Companc) has been reclassified to a five million ounce mine under Anglo-American's tutelage. Just as PC sold out of Carrefour too early, they also couldn't see a good thing when they were on it with Cerro Vanguardia. What a hopeless crew!!! But investors were happy to pat them on the back and tell them how clever they were. Now the Argentine mining stage is being invaded by majors, minors and everyone in between. The copper/gold mines like Bajo de la Alumbrera are world scale and there are line of them coming down the pike. The Navidad prospect of IMA in Chubut is the third largest silver find in the world. The Agua Rica project of Northern Orion promises to be another Alumbrera. The Veladero project of Barrick Gold, which has reserves of 6.8 million ozs is impressive by any measure.



All of this investment is going on while Argentina's government is still deep in default. Ironically, Barrick's investment is US$455mn at a time when outside portfolio investors imagine FDI in Argentina is dead. Let's put this in perspective noting that it is $455mn more than Telefonica or Telecom ever put into Argentina. Even better, this is new investment in new projects and new jobs, whereas so much of what happened with the private equity boom from 1996-2000 was Argentine owners selling out to Hicks Muse, Southern Cross, Exxel Group etc. and the proceeds heading straight to the Swiss bank accounts. Indeed, Argentina being in default has proven to be no impediment to getting the show on the road at these mines. Indeed, the devaluation has helped make the extracted cost of virtually anything hauled out of the ground much cheaper than Australia, Canada or South Africa can match. Few of the investments of the 1990s ever made a buck towards exports. Not a few of them reduced the workforce rather than created jobs. Do portfolio investors need to fall down a mine before they realize that the action is now beneath their feet in Latin America and not up a telephone pole?

Picking up where Newmont left off. Calcatreu was acquired in late 2002 from Newmont Mining. It was originally discovered by Normandy Gold in 1997 and passed to Newmont through its acquisition of Normandy Gold. Newmont decided to option the property in late 2002 when it pulled out of Argentina. AQI agreed to pay $2mn in staged payments over 36 months. Newmont retains a 2.5% net smelter return royalty on gold and silver production and a 60% back-in right on some mineral claims. The transaction was effected by AQI buying the entirety of Minera Normandy Argentina, complete with (the controversial) database, staff, office and AR$7 million in tax losses.



A not insubstantial asset. Calcatreu is a quartz adularia, epithermal gold deposit, discovered in 1997, located 200km east of Bariloche. It lies across the southern boundary of Rio Negro Province and the northern boundary of Chubut Province in southern Argentina.

Geologically it occurs within the Somuncura Massif and is hosted in the calc-alkaline bimodal Jurassic Taquetren Formation. Its geological setting has strong similarities with the Cerro Vanguardia (Anglo Gold 4.5 million oz) and El Desquite (Brancote, approx 3.0 million ounces) projects also located in southern Argentina.

Aquiline presently has 731km2 under license. The project area covers rolling pampas and low hills, which support very low intensity sheep farming based on very poor quality soil. Road access to the site is very good.

Drilling to date – 17,400 meters in 170+ holes – has been targeted at discovering and defining near surface economic mineralization, which could support an open pit mining scenario. The Vein 49 – Nelson system, which has a strike length of over 2km and widths up to 20m, has been the most intensely investigated. Detailed trenching and four short diamond-drilling campaigns located significant mineralisation.

Some of the trenches and drill holes completed by Normandy mining are listed below:

Trench 17 27.0 meters @ 3.6 g/t Au, 14 g/t Ag
Trench 19 24.5 meters @ 5.4 g/t Au, 34 g/t Ag
Hole CE-1 22.6 meters @ 3.76 g/t Au, 23 g/t Ag
Hole CE-5 24.6 meters @ 4.15 g/t Au, 31 g/t Ag
Hole CE-10 40.8 meters @ 2.85 g/t Au, 32 g/t Ag

A number of other prospect areas with outcropping veins containing significant mineralisation occur throughout the project. These include the following showings Mariano, Mariano East, Amistad, Cancela West, Castro South, Cerro Bayo, Viuda, Viuda de Castro. Most of these showings have been mapped and sampled by rock chip sampling but at best tested by only one or two drill holes.

Regional stream sediment BLEG (bulk leach extractable gold) sampling and geological mapping have outlined anomalies and zones of alteration that have also not been adequately explained.

In mid-June the company released results of its deepest drilling to date (hole AQI-259), drilled on Vein 49, which intercepted 5.0 meters @ 15.2 g/t Au and 215 g/t Ag from 238 meters depth.

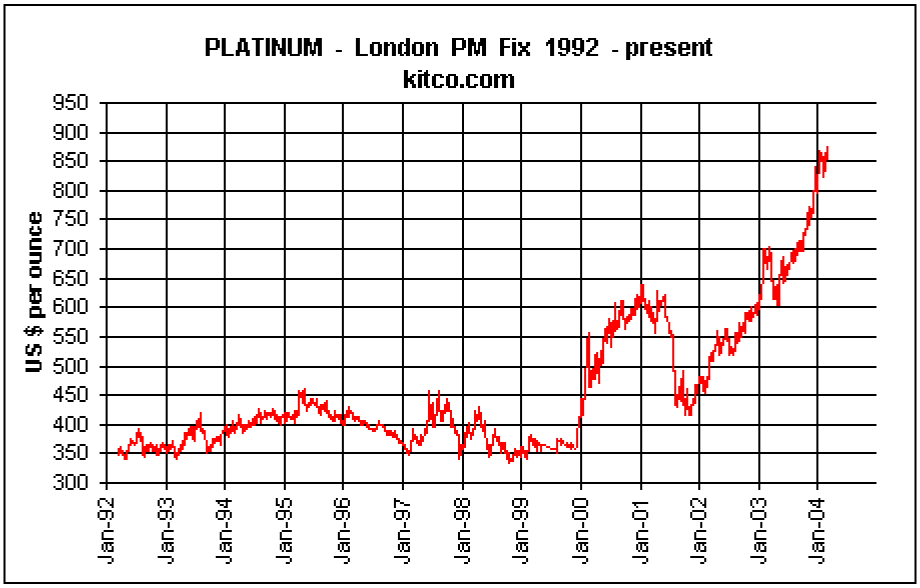
The company feels that potential exists to define a significant resource at or about the average grade of the current drilling 4.0 g/t Au. With the latest deep results, the likelihood of higher grade, steeply plunging shoots of mineralisation expands the overall size of the resource and makes the prospect of eventual underground mining more feasible.

An initial review by Aquiline personnel indicates that the initial strip ratio for a mining operation is low and that the deposit is oxidized to a depth of more than 100 meters.

In light of the latest drilling results at depth, Aquiline has decided to incorporate the possibility of a combined open pit/underground scenario into the mine scoping study, being prepared by Micon International Limited of Toronto. As a result the scoping study – and the revised resource calculation upon which the study is based – should now be delivered in September 2004.

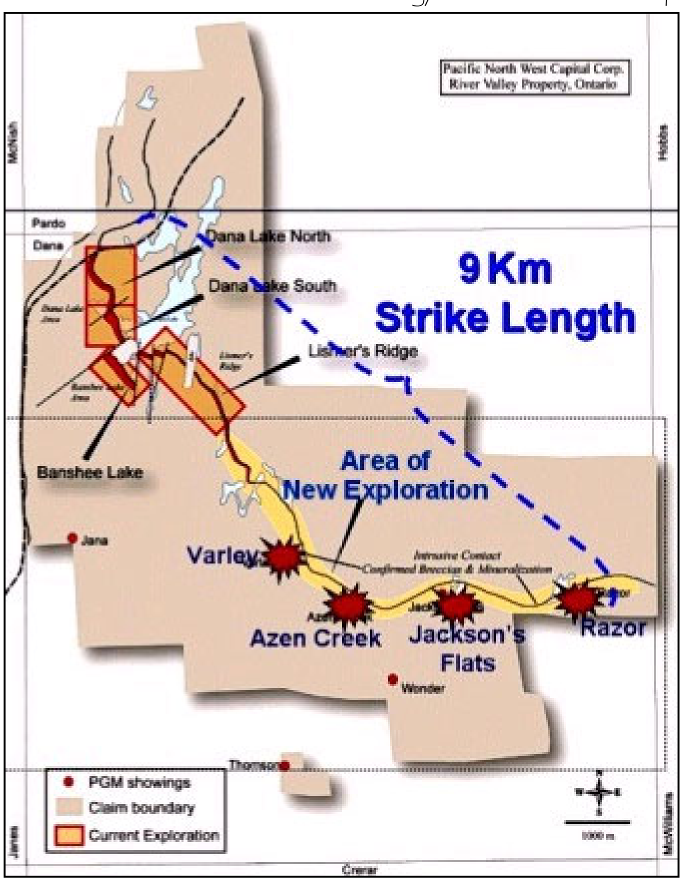
A large second tier project. The company estimates that Calcatreu has the potential to host between 0.5 and 1.0 million ounces of gold at 2.0 to 3.0 g/t. Potential also exists to discover high grade shoots of gold up to 10 g/t or better. Previous work does not seem to have considered the potential for high grade, steeply plunging shoots of gold mineralisation as latest drilling seems to indicate.

Aquiline has a second string in PGMs. As a result of the commodity deflation that knocked down metals prices and the monetary deflation with gold languishing against a triumphal dollar the company turned its focus to platinum group metals, which because of severe supply constraints were managing to buck the generalised malaise for precious metals. In 1997, Aquiline acquired a land position in two large layered mafic intrusions in the Sudbury area in Ontario, the East Bull Lake intrusion located to the west of Sudbury and the River Valley intrusive located east of Sudbury. From late 1999 until late 2002, Aquiline carried out an exploration program that included geochemical sampling, extensive geophysics, and some limited drilling.



With the collapse in the price of platinum from a high of over US $ 600 per oz in 2001 to a low of just over $400 per oz in early 2002, Aquiline returned to its earlier focus to gold, placing a secondary emphasis on its Sudbury PGM properties. Since that time the price of all PGMs have gone rocketing into the stratosphere and Aquiline's interest has reactivated in a limited fashion.

In previous campaigns on the sites, AQI discovered some zones of PGM rich mineralisation on its Central River Valley prospect in the River Valley area. This included one drill hole drilled in 2001 which intersected 19.5 meters @ 0.31 g/t PGM's. The company also holds the ground adjacent to Pacific North West Capital's (PFN.TO) Dana Lake Discovery. PFN discovered in excess of 800,000 oz of PGM mineralisation at Dana North at a grade of approximately 1.5 g/t PGM'S in a joint venture with Anglo-American Platinum Corporation (Amplats). The PFN-Amplats team have been pushing to expand the resource with 40,000 meters of drilling having been done in 2003 and the recent announcement of a further budget of $3mn for 15,000 meters of drilling in 2004.



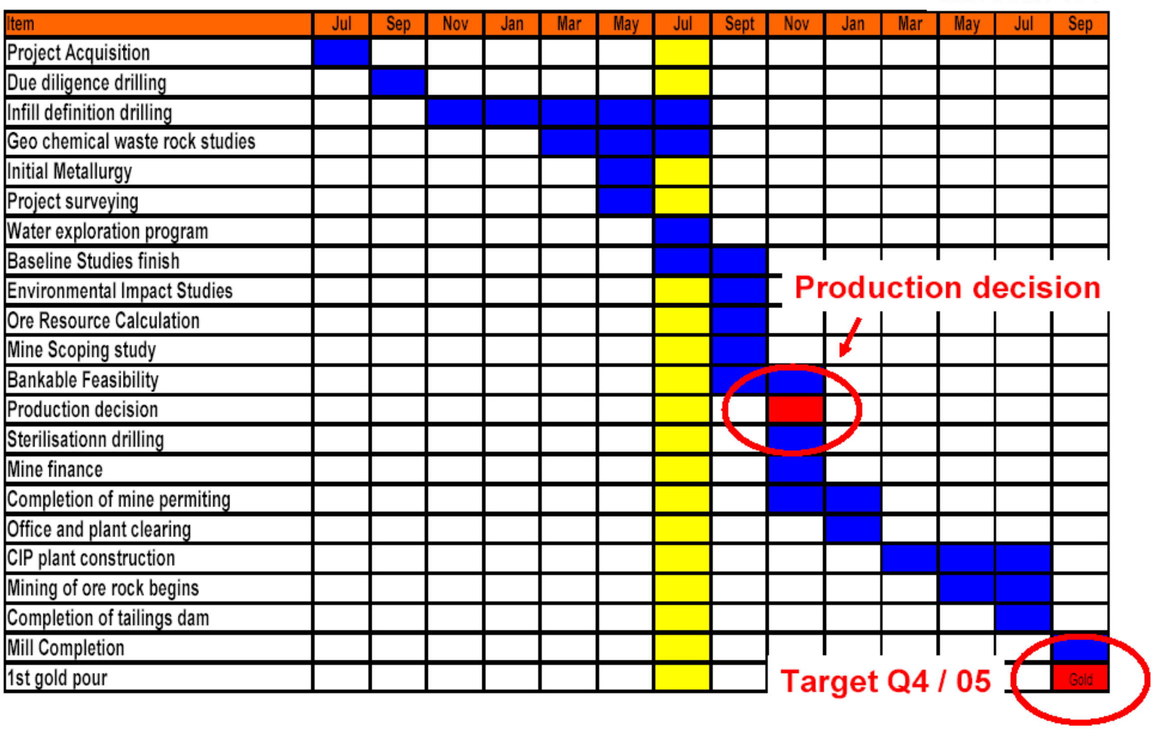
The company is planning some more drilling work there this year to the tune of about $250,000. It still has a number of untested induced polarization geophysical targets to test on the River Valley PGM Project.

Moving back into Mexico. In mid-May 2003, AQI announced that it had reacquired the option to purchase the Santa Lucia gold prospect in Sonora, Mexico, which the company previous held in 1998. The Santa Lucia prospect consists of claims located in Guadalupe de Toyopa in the Sierra Madre, approximately 190 kms ESE of Hermosillo. The mining camps at Mulatos and Moris lie about 60 kms NE and 100 kms SE respectively. This prospect has been an on-going saga for AQI with the asset passing backwards and forwards as legal battles have gone over the years for its control.

The claims cover 415 hectares over a zone of strong alteration accompanied by gold mineralisation in volcanic rocks near their contact with a granodiorite intrusive. The workings had been historically exploited by small miners via old workings scattered over a 2 km long area (dare we mention the Treasure of the Sierra Madre to highlight the activities of entrepreneurial miners in the zone). AQI's preliminary sampling yielded samples in the range of 0.5 to 1.5 grams/ton, mostly from fracture zones across one to four meter widths and the target at Santa Lucia is a bulk mineable gold deposit amenable to an open pit mining and heap leach processing. A first stage program of follow-up sampling and trenching is planned to trace the mineralisation outside the fractures and through a nearby favorable porous agglomerate formation. This will be followed by an initial phase of drilling. Aquiline had previously held the option on Santa Lucia in 1998 and the current terms of acquisition are similar with staged cash payments totaling $693,000 required over a three year period. The initial down payment was $23,000.

Company had a small fund raising earlier in the year. In February 2004, AQI conducted a private placement of 5.75 million units at a price of $1.20 per unit, for total proceeds of $6.9mn. In addition to the basic five million units, the placing agents (Pacific International Securities, Dundee Securities and Toll Cross Securities) exercised the 15% over-allotment option to purchase an additional 750,000 units. Each unit consists of one common share and one half of one common share purchase warrant. One whole purchase warrant entitles the holder to purchase one common share at a price of $1.65 per share for an eighteen month period from the date of closing.

This came on top of a previous placement in September 2003. At that time, the company privately placed 3,200,000 units at a price of $0.65 per unit, for total proceeds of $2,080,000.



The chart above shows that after the scoping study is out in September, there will be a two-month gap before the production decision is made. This would put the company in line to start gold pouring in less than a year.

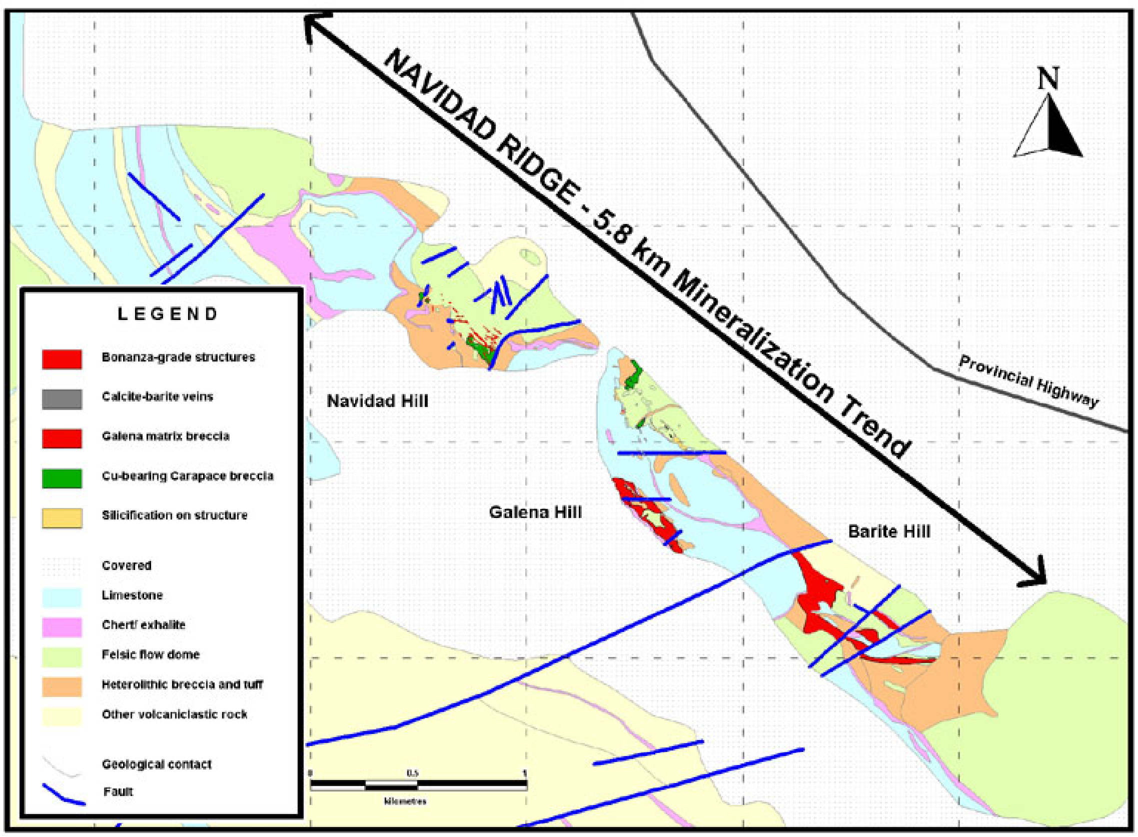
IMA feels it has a special advantage on the ground in Argentina. IMA Exploration Inc. is a Canadian-based junior gold and silver explorer that was founded in 1993 by Joseph Grosso, President & C.E.O. Mr. Grosso was drawn to Argentina because, despite the many discoveries in Chile along the Argentine border, little or no exploration work had taken place in the adjoining Argentine regions.

Mr Grosso recruited the former head geologist of Argentina 's state-owned mining agency, Dr. Vincente Mendez, who teamed up with North American expatriate geologists to lead the ground acquisition drive. The company established most of its land position immediately after the mining sector was opened to foreign investment, ahead of most of the multinational companies that now dominate activity in the area.

Christmas bonanza. As previously noted, IMR staked a claim on the Navidad site in late 2002. Navidad is a bonanza grade silver discovery. The company claims that the closest geological parallels for Navidad are other precious-metal enriched VMS systems with epithermal characteristics such as the Eskay Creek Mine (1.45 Mt @ 57.7 g/t gold and 2,493 g/t silver; 1999) and the Greens Creek Mine (17.5 Mt @ 6.5 g/t gold, 460 g/t silver, 4.0% lead and 12.8% zinc). The company claims that the discovery is without precedent in the Jurassic stratigraphy of continental Patagonia.

Cumulative strike length of known structures at Navidad Hill is now 637 meters. The length weighted average grade from this style of mineralization is 162 ounces per ton, 3.8% copper, and 9.8% lead.

Replacement style silver-lead mineralization has a cumulative strike length of over several kilometers within a 5.8 km trend metal anomaly. The average grade of all 41 samples taken from this style of mineralization is 158 g/t (4.61 oz/ton) silver and 8.9% lead.



Additional Potential - Geologic mapping, rock and soil sampling has shown potential for additional discoveries similar in style to Navidad within an 8 km by 3 km area. Results received to date from a detailed soil grid (958 samples) include values up to 531 g/t silver, 574 ppm copper and up to 2.39% lead from areas outside Navidad Hill.

Breaking up...... In May 2004, the company announced that it would split off its exploration projects from the Navidad prospect via a demerger. The silver mine would remain in the current vehicle while around 36 other areas scattered around Latin America would be hived off into a "newco". The company vigorously denies that this has anything to do with the legal action surrounding the Navidad prospect. Splitting off exploration projects from a mine about to go into production is fairly common practice. However, Navidad is nowhere near production. Moreover with Navidad holding so much promise of being a mega-mine, why cut loose projects needing exploration funding when the lure of Navidad can be used to fund exploration of the most prospective of the other areas? The move does have the look of a defensive measure to get some of the other projects out from under the Navidad ownership dispute to evolve unhindered by the legal process.

Baby out with the bathwater? One of the prospects being spun out is the Mogote copper prospect in Argentina. We are on record as getting more hot and bothered about base metals than precious metals and far prefer copper and nickel over silver's dynamics. In April, IMR announced that it had farmed out the Mogote copper-gold porphyry project, located 350 kilometers northwest of the city of San Juan, in the northwest of San Juan province, to Amera Resource Corp (AMS.V). AMS can increase its interest in Mogote from 51% to 75% by completing work expenditures totaling US$3 million over a three year period and issuing 300,000 shares. Amera must spend US$1 million by May 30, 2005.

To fully earn its 75% interest, Amera will have to spend a total of US$4.25 million on exploration and issue 1,950,000 shares to IMA (in addition to 500,000 shares of AMS already held by IMA). If this comes to pass then IMR will have just under 20% of AMS. The presence of this stake in the Newco could make that entity more attractive. However, we would prefer for IMR to be developing this project itself as a second string to Navidad, in case the worst comes to pass with the legal fight.

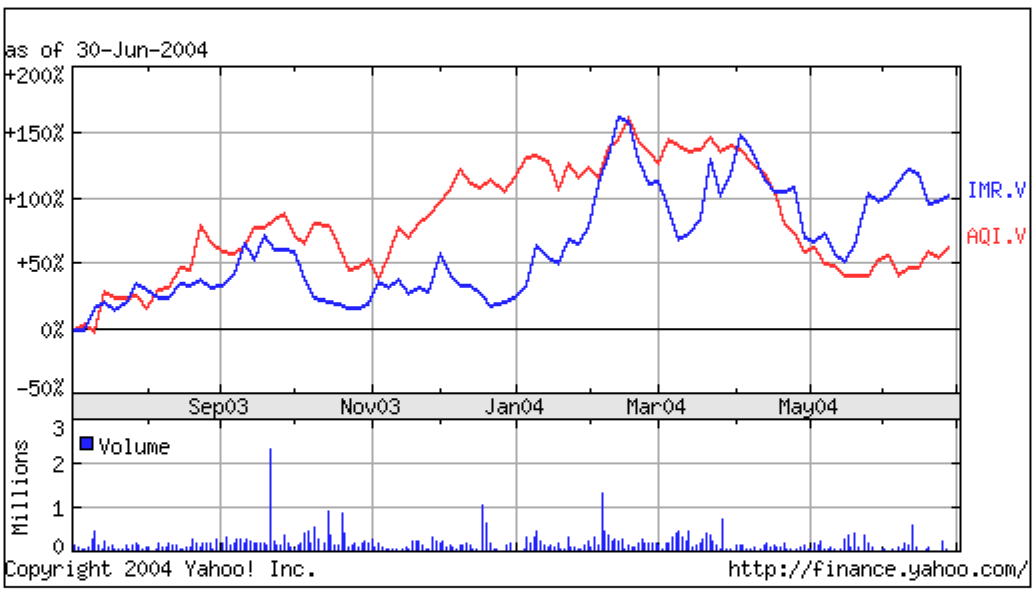
Nothing focuses the mind like losing Navidad. IMA would be an interesting animal if it didn't have the lawsuit hanging over it. We do not see anything happening with the prospect in the meantime. Only by really stretching our imagination could we see a major taking over IMA and then throwing their resources behind the fight against Aquiline and winning by sheer brute strength. Otherwise, management should remain preoccupied with skirmishing over the coming months.

If Aquiline wins...... This is rather simple in its ramifications. Aquiline would gain control of Navidad. Depending upon how aggressive they decided to be they could also claim legal and other damages for time wasted and alienation of data and an asset generated by that data. This would be a meltdown scenario for IMR. Even if it has managed to spin off its other non-Navidad properties, we are not convinced that they would be safe either. The Navidad vehicle, post-demerger, could be virtually worthless if it lost the battle to maintain the Navidad prospect.

If IMR fights off AQI.... Then AQI would have legal costs to bear and nothing to show for it. It would have to focus on Calcatreu exclusively. We would expect minimal downside to the share price as the stock appears to have no winning premium built in at this time. IMR, or rather whatever the spun-off Navidad is called, would have unfettered ownership and could push forward with development. The Navidad mine might even be a candidate for sale at that point to one of the global majors. We would note however, that majors have shown almost zero interest in predominantly silver-based prospects.

Over the tinkle of martini glasses.... We attended the Argentine mining company presentation in early June at which three Argentine miners made the case for their prospects. The question time brought up the lawsuit and things started getting tense. In the after-session cocktails, the word "greenmail" was heard floating in the air. This brought back memories of the 1980s. It is possible that the, currently, more resourced IMR might pay AQI to go away. There is a time value to money and the Navidad project has entered a kind of limbo as the legal issue is worked through. Paying AQI off or giving them part of the project might be one outcome. Such an outcome might come sooner rather than later.

Conclusion: Our basic call is to stake a claim on Aquiline's prospect at Calcatreu and to get oneself a potential warrant on the Navidad prospect in the event that IMA can not fend off Aquiline's claim. If IMA loses then its value will fall like a stone. It is not apparent that there is much in the way of danger premium built into IMA's value at the moment. Likewise, there seems to be no premium built into AQI's share price for the possibility that it might win. A pairs trade of going Long AQI and Short IMR would give maximum leverage to a positive AQI outcome. The legal process is grinding forward and AQI is relatively unfettered in bringing Calcatreu to production while IMR is going to continue to have a cloud over Navidad until the final resolution is reached for good or ill. This has to hold back and distort the evolution of IMR's business. If AQI was expensive then one might prefer to steer clear of the whole matter, but at its current valuation it appears that AQI has the potential for a share price move in multiples of its current value on a positive outcome. Beyond this, the outlook for Calcatreu to become a significant producer of gold, at a time when we see the potential for gold to be firm to rising in dollar terms, makes the company an undervalued and under-rated proposition. We are adding AQI to the model resources portfolio with a twelve-month target of C$1.50 and a five-year target of C$6. We are also adding a Short position in IMR with a 12-month target of below C$0.50 and five-year target of between C$0.20 and C$8 (if they manage to fight off AQI).



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