

September 8th, 1954.

W. B. Row, Esq.,
Kerr-Addison Gold Mines Limited,
Virginiatown, Ont.

C. K. COLEMAN

Dear Bill,

As you have been advised, a meeting of the directors of Prospectors Airways has been called for September 16th, at which it is to be decided whether or not we are to act on a proposed revision of the option agreement held by the company on the Vangorda prospect.

Under the terms of the option as it now stands, there remains a balance due of \$230,000 on a total purchase price of \$250,000. In addition, the optioners are to receive 12% of the stock issued as a vendor consideration when the purchased property is transferred to a company formed to operate it. The remaining cash balance is due, \$100,000 in November, 1954 and \$130,000 in November, 1955.

As a result of my negotiations during a recent visit to the Yukon, the optioners have agreed to reduce the purchase price from \$250,000 to \$150,000, providing the balance is paid before the end of September, 1954.

It is my considered opinion, that the prospects of the property fully justify exercising the option under the proposed revised terms and I will recommend this course of action at our meeting.

All of the directors have been kept advised of the exploration progress at the property and undoubtedly have formed some opinion as to the merit of the prospect. However, I believe I will be in a position to amplify my reports presented previously in our forthcoming discussion, with the assistance of a model, plans and certain calculations that have been prepared.

It has been suggested that I should submit calculations to demonstrate the economic possibilities of the property. I regret that I am unable to do this as I do not consider an economic proposition has been developed as yet. However, I do believe that we have obtained very promising results considering the extent of exploration to date and indications are very good that a deposit of economic dimensions and grade will eventually be developed.

A question that has been frequently put to me in the past is - what constitutes ore in the area we are exploring? In the light of the results to date it can be said, no ore has been developed when the average metal content and current market prices are weighted with the indicated tonnage. I believe drilling has now gone far enough to suggest what the average grade may be and after consideration of the appended calculations to determine the net value of the sulphide concentration, you can draw your own conclusions which I hope will be in line with mine.

I do not think sufficient work has been done to determine a mining method but the results of drilling this past summer suggest an open pit operation.

Some preliminary laboratory test work has been commenced at the Mines Branch, Ottawa and Noranda Mines, Ltd. We may have some results by the time of our meeting.

Transportation to the property is presently by temporary routes and any mining operation could only be sustained by services to be developed. The government is seriously considering the construction of a road to the property and the preliminary cost figure for transportation is based upon this service being provided.

Although diesel power might be considered for preliminary operations, a major operation such as I envisage would justify the development of the hydro potential in the area.

At present the nearest market for lead and zinc concentrates is the Trail smelter of the C.M. & S. Co. The appended calculations have been prepared based on the existing schedule this company has with United Keno Mines. It has been necessary to make certain assumptions as to grade and recoveries, and in addition, it is considered that copper will be paid for in a lead concentrate. There is reason to doubt this, according to Mr. McLaughlin of Noranda, and it might be necessary to ship this material to Kellogg, Idaho. Again, it would appear reasonable that with much more substantial tonnage shipments of concentrates than from United Keno, a better tariff might be secured. However, before going too far in these investigations it would also be advisable to give some thought to the reduction of concentrates closer to the property.

As soon as a smelter project would bear investigation, the whole cost structure is at once open for revision. Not only is an enormous saving presented in the cost of transportation but what are generally recognized as the smelter 'perqs' accrue to our benefit. Furthermore, the output of United Keno and any similar operation in the Yukon or adjacent B. C. would become captive.

The accompanying calculations show net values of the possible ore for various metal prices. The estimate does not include any allowance for cadmium which is present in some undetermined quantity.

It is apparent to make a reasonable profit, including the amortization of investment, that satisfactory costs could only be achieved by milling upwards of 3500 tons daily or over one million tons per annum. At this time, I would say it would require 25 to 30 million tons of material grading about 8% combined lead and zinc to be considered as an orebody of major importance.

At the time of this writing our triangulation has not been completed for the whole of the drilled area pending the receipt of complete assay results. It would appear from our calculations to date there may be

over 8 million tons indicated in a strike length of 2400'. Lead-zinc sulphides have been found in hole No. 70, 3400 feet to the southeast from the area considered. Furthermore, anomalies still further to the southeast remain to be explored.

I would not attempt to make any pretended close cost estimate for mining and milling operations at this time. However, with the knowledge of open pit mining and milling costs in the Thetford area and Barvue Mines, I offer the following round figures for milling 5,000 tons daily to show the trend of my thinking.

- What factor?

	<u>Per Ton</u>
Ore mining	.50
Waste Rock	.75
Stripping	.20
Milling	1.50
General	<u>.25</u>
Total Operating Cost	\$3.50

The above is on the basis of an open pit operation where the ratio of overburden to ore would be .5 to 1 and the ratio of waste to ore 1.5 to 1.

Yours sincerely,

PROSPECTORS AIRWAYS COMPANY LIMITED,



C. L. Coleman,
Managing Director

CLC:JK