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Mr. R. E. Thurmond
General Manager
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Whitehorse, Yukon Territory
CANADA

Dear Bob:

The following conclusions are derived from my recent trip (July 28 to August 5) to the Rose Creek area in Yukon Territory for a review of Anvil's current activities:

ORE RESERVES

From the information available to date, I have made a preliminary estimate of the reserves in the Faro No. 1 ore body. Complete logs of some of the holes now drilled are not yet available to me, and some seven to ten additional holes are yet to be drilled to complete the job. Consequently, this is a preliminary estimate subject to revision on the basis of information still to be received.

The following is my estimate:

FARO NO. 1 ORE BODY

	Short Tons	% Combined Lead and Zinc
Sections 11 to 3, inclusive	36,095,000	10.10
By projection to Section 2, and ½ interval beyond	1,664,000	10.00 (Approx.)
Ore projected below hole 66-22	493,000	8.00 (Approx.)
TOTAL (without dilution)	38,252,000	10.07

The above tentative estimate is based on a cut-off grade of 5% combined lead and zinc and a factor of 8.5 cubic feet of ore weighs one short ton.

In addition there is a substantial amount of internal low grade material on Sections 3 and 6, as follows:

2,161,000 short tons @ 3.575% combined lead and zinc

In the above preliminary estimates the grade of Faro No. 1 ore body was calculated as combined lead and zinc and not for the individual metals. This was done by developing a weighted average grade of areas defined by drill hole ore intervals on sections striking northeast.

The percentages of the individual metals present in the ore body were earlier obtained by an independent procedure that derived a weighted average from the length of the ore intervals in all of the drill holes piercing the ore body.

The latter method employed all the holes cutting the ore body up to and including hole No. 66-29. The following results were obtained:

Lead	3.966%
Zinc	6.458%
Combined	10.424%
Silver	1.221 oz/ton
Copper	0.142%

This method is less accurate than the weighted average by areas, and gives somewhat higher values, as follows:

By areas	10.07% combined Pb & Zn
By hole intervals	10.42% combined Pb & Zn

In the final estimate to be carried out when drilling is completed, a weighted average content of the individual metals will be derived from the grades assigned to blocks by areas on cross-sections.

ADDITIONAL DIAMOND DRILLING

During my inspection of the project, we agreed upon the locations of seven additional diamond drill holes. These are very much needed in order to make the final estimate of reserves. In addition there are three holes that should be deepened, or, if this is not possible, additional holes should be drilled nearby on the particular northeast section passing through each hole. It is expected that these holes will cut ore at greater depth, thereby improving the reserve estimate and also giving information that will help in designing the mining layout. These are:

Hole 65-12 --------- On Section 5

Hole 66-20 --------- On Section 5

Hole 66-22 --------- On Section 9

EXPLORATION PROGRAM

The program so far this year has investigated the possibilities of finding ore in two different geologic environments, although many of the claim groups tested have been selected because of the immediate need to do assessment work on them.

One environment is in the general rock group that is host to the Faro No. 1 and Vangorda ore bodies (the so-called No. 7 formation consisting of phyllite, schist and quartzite) along the general southeasterly extension of the Vangorda zone. Drilling has been located on the basis of various geophysical criteria believed to be promising in the DEA and west SEA areas. No ore was cut, the electrical anomalies apparently being caused by graphitic schist and the gravity anomaly by igneous rock. Drilling of the SEA area has just been started, and the more promising locations here are yet to be drilled. This is a favorable zone and it is recommended that the program as now laid out be carried to completion. It may be worth while to consider the advisibility of making a gravity survey of the west SEA area.

In the general Faro area three holes, located away from the known ore body, were drilled in 1966. None of these found ore.

The second geologic environment is well to the north where the host rocks are older (the so-called No. 5 formation)

consisting of argillite, siliceous shale, chert, sandstone and quartzite. Although no ore bodies have yet been found in this environment, it contains several gossans and a number of promising geophysical features.

Two holes have already been drilled in the Ivan area on the north. These were drilled on a magnetically anomalous zone. There are EM anomalies nearby but coincidence is rather poor. The two holes drilled cut sparse scattered sulfides consisting of pyrrhotite, pyrite and a little chalcopyrite. The country rock is graphitic argillite and interbedded cherty quartzite. It is evident that here the scattered sulfides and the graphite are responsible for the observed anomalies. The third hole is now being drilled but the core was not available for inspection. A fourth hole is planned to test a strong, broad conductor overlapped by a magnetic anomaly of moderate intensity.

The Ace area is in a central position near the junction of the north and south zones. Drilling is being conducted where magnetic and EM anomalies overlap in the hanging wall of a high magnetic zone (due to volcanic rocks?). One hole had been drilled to a depth of 270 feet on August 2 on a good conductor with no accompanying magnetic anomaly, and it revealed only graphitic rock as a probable source of the conductor. It is planned to drill three more scout holes in this area. The Ace also shows a very local geochemical anomaly that may be followed up by detailed sampling.

COMMENTS ON EXPLORATION

Now that the need for doing assessment work is no longer urgent, I agree that drilling be deferred for this season in the northerly areas (Ace, Ivan) when the presently planned program is finished.

Drilling in the west SEA area is very promising and should be completed as now planned; however, if no ore is found, I believe that future drilling this year should be confined to the favorable formation (No. 7) in the vicinity of the Faro area in which a strong ore body is known to occur.

In the east Faro area (now known as Faro D) we now have completed a ground magnetometer survey, an EM ground survey, a geochemical survey, and some gravity and IP work. A promising prospect has been outlined and drilling has just started. The area is geologically attractive because it falls between a pronounced linear (structural?) element and the south margin of the granitic intrusive. It shows two separate IP trends and associated copper geochemical anomalies in an unexplored portion of Faro ground.

West of the Faro ore body a geochemical survey of several creek channelways will soon be started. At present the MULTI and HOG areas northwest of the Faro are being investigated geophysically and geochemically.

As above stated, I believe that the properties near the Faro in formation No. 7 should receive detailed attention for the remainder of this season. Next year the northerly properties can receive further appraisal.

It now appears that a good prospect should show a strong coincidence of EM and magnetic anomalies plus an accompanying substantial geochemical anomaly. Inasmuch as a geochemical survey is not everywhere possible (due to permafrost or too much organic material in the soil) an additional geophysical method may be called for (a gravity or an IP survey); however, firm rules cannot be set forth because of the many complications entering the problem.

Yours very truly,

E. N. Pennebaker

ENP:bgm

cc: Mr. Robert Collins