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PMS JOHN E MCMYNN DEPUTY MINISTER OF MINES DEPARTMENT OF MINES
AND PETROLEUM RESOURCES
PARLIAMENT BUILDING
VICTORIA BC CAN

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THANK YOU FOR YOUR TELEX OF MARCH 6, 1975 IN RESPONSE TO OUR TELEX OF
MARCH 3, 1975 SETTINGOUR REEVES MACDONALD'S PROPOSAL FOR GOVERNMENT
PARTICIPATION IN A THREE-WAY JOINTVENTURE TO EXPLORE THE ADJACENT
RED BIRD PROPERTY

WE AGREE THAT THE PROPOSAL OF MARCH 3, 1975 DIFFERS FROM THE JANUARY
17, 1975 SCHEME. HAVING HAD AN ESSENTIALLY NEGATIVE RESPONSE FROM
THE BC GOVERNMENT ON SUSPENSION OF ROYALTY, TOP OFFICIALS OF HECLA
MINING COMPANY AND REEVES MACDONALD MET TO DETERMINEWHAT
ALTERNATIVES MIGHT BE AVAILABLE. IN THELIGHT OF THE BC GOVERNMENT'S
UNWILLINGNESS OR INABILITY TO COMPROMISE ON THE ROYALTIES AND THE
CONTINUING WORSENING GENERAL ECONOMICFORECAST, HECLA IS NOT PREPARED
TO PUT UP THECASH NECESSARY FOR THE WORK PROGRAM OUTLINED IN THE
JANUARY 17, 1975, PROPOSAL. REEVES ESSENTIALLY HAS NO CASH, HAVING
OPERATED AT A LOSS SINCE MID-1974. THEREFORE, IT WAS DECIDED TO
SUGGEST TO THE GOVERNMENT THAT THEY PARTICIPATE IN THE JOINT VENTURE
BY PROVIDING THE WORKING CAPITAL. PARTICIPATION IN PROFITS WOULD BE
ONE-THIRD TO EACH PARTNERWITH THE GOVERNMENT, OF COURSE, ALSO
COLLECTING THE ROYALTIES.

THE TOTAL CASH PARTICIPATION REQUIRED FROM THE GOVERNMENT WOULD BE
FUNDS TO PAY THE ROYALTIES, PLUS APPROXIMATELY ONE MILLION DOLLARS
FOR THE FIRST STAGE OF LOWER RED BIRD DEVELOPMENT AND THEN IF SUCH
EXPLORATIONIS SUCCESSFUL, A FURTHER ONE TO TWO MILLION DOLLARS FOR
CONFIRMATORY WORK, MINE DEVELOPMENT AND STOPE PREPARATION BEFORE
FULL SCALE LOWER LEVEL MINING COULD BE INITIATED. A STUDY GROUP,
CONSISTING OF TWO ENGINEERS, A GEOLOGIST AND AN ECONOMIST, FROMYOUR
DEPARTMENT, HAS VISITED REEVES AND STUDIED OUR PROPOSAL IN DETAIL.
THEY, NO DOUBT USING YOUR DEPARTMENT'S PROJECTIONS OF METAL PRICES
AND COST ESCALATORS, HAVE PROBABLY MADE THEIR OWN ESTIMATE OF THE
TOTAL MONEY REQUIREMENTS.

A COPY OF THE PROPOSED SMELTER CONTRACT WAS SENT ON JANUARY 19, 1975,
TO MR. P.E. OLSEN OFYOUR DEPARTMENT. IN OUR COVER LETTER WE STATED:
+IN THE EVENT THAT HECLA/REEVES COULDORTAIN A BETTER SALES CONTRACT
FO CONCENTRATES ELSEWHERE, RUNKER HILL WOULD MEET ANY SUCH OFFER, OR
HECLA/REEVES WOULD REFREE TO SELL THEM TO ANYONE WHO WOULD GIVE THEM
A BETTER PRICE+. SUCH A PROVISION WAS ALSO MENTIONED AT THE JANUARY
20, 1975, PRESENTATION OF THE ORIGINAL PROPOSAL.

THE CURRENT SMELTER LEAD AND ZINC CONTRACTS BETWEEN THE RUNKER HILL
COMPANY AND REEVES ARE IN THE BOTTOM THIRD OF ALL CUSTOM CONTRACTS
IN TERMS OF PROFITABILITY TO THE SMELTER. THE ONLY CHANGE PROPOSED
FOR THE FUTURE IS THE ADDITION OF AN ESCALATOR CLAUSE, WHICH WE ARE
NOW PUTTING IN ALL NEW CONTRACTS, TO TAKE ACCOUNT OF
UNCONTROLLABLEINCREASES IN ENERGY COST (ESPECIALLY NATURAL GAS AND
COKE SUPPLIES FROM BRITISH COLUMBIA). THE ADDITION OF SUCH CLAUSES
MAY, TEMPORARILY, MAKE THE REEVES CONTRACT LESS FAVORABLE TO REEVES,
BUT, OVER THE NEXT YEAR OR SO, AS THESE ESCALATORS ARE INCLUDED IN
ALL NEW CONTRACTS AND IN ALL EXISTING CONTRACTS AS THEY ARE
RENEWED, THE REEVES CONTRACT WILL SINK AGAIN INTO THE +LEAST
PROFITABLE TO THE SMELTER+ CATEGORY.

YOU COMMENTED THAT HECLA AND RUNKER HILL HAVE MUCH TO GAIN AND
SHOULD BE PREPARED TO PARTICIPATE. HECLA IS WILLING TO PLACE THEIR
ENTIRE RED BIRD ASSET INTO THEJOINT VENTURE.RUNKER HILL IS OFFERING
A SMELTER CONTRACT WHICH IS IN EFFECT, A SUBSIDY TO THE JOINT
VENTURE. BUNKER HILL IS ALSO PARTICIPATING BYBEING WILLING TO ALLOW
REEVES, IN WHICH IT HAS A 60 O/O OWNERSHIP, TO SINK ITS ENTIRE
ASSETS INTO THE VENTURE. REEVES, OF COURSE, IS PREPARED TO PLACE ALL
ITS ASSETS INTO THE PROJECT. THIS IS IN SPITE OF THE FACT THAT ONE
OF THESE COMPANIES IS FULLY CONVINCED THAT THERE IS MUCH FOR THEM
TO GAIN FROM THE PROJECT. HISTORICALLY, REEVES PROFITS HAVE BEEN
SUCH TAHT HAD THE PESENT ROYALTIES BEEN IN EXISTANCE THE MINE WOULD
HAVE RUN AT A LOSS OR NOT MUCH BETTER THAN BREAK-EVEN. ON THE NOT
ILLOGICAL ASSUMPTION THAT RED BIRD OPERATIONS WILL BE LARGELY
SIMILAR IN PROFITABILITY, THE FUTURE PROSPECTS ARE THAT THE JOINT
VENTURE WILL PROVIDE ENOUGH CASH TOPAY ROYALTIES TO THE GOVERNMENT
BUT NOT PROVIDE MUCH PROFIT FOR THE MINING COMPANIES WHO WOULD HAVE
INVESTED THEIR ENTIRE PROPERTIES INTO THE PROJECT AND WILL SEE
THEMINED-OUT FOR LITTLE OR NO RETURN. BUT, EVEN THOUGH IT APPEARS
TO US THAT THE GOVERNMENT IS THE ONLY PARTY CERTAIN TO OBTAIN A
RETURN ON ITS INVESTMENT (THROUGH THE ROYALTY), BOTH REEVES AND
HECLA ARE WILLING TO PLACE THEIR PROPERTIES IN THE VENTURE.

I HOPE THE ABOVE PROVIDES A FULLER EXPLANATION OF THE PROPOSAL THAT
WE ARE MAKING. SHOULD YOU WISH FOR A MEETING TO DISCUSS IT FUTHER,
REEVES AND HECLA REPRESENTATIVES WILL BE PLEASED TO MEET WITH YOU OR
MEMBERS OF YOUR STAFF AT ANY TIME. YOURS VERY TRULY

JAMES H HALLEY, VICE PRESIDENT REEVES MACDONALD MINES, LTD.

NNNN 1140AM PST



Subject to the conditions prescribed by order of the Canadian Transport Commission No. 49274, December 5, 1982 in which conditions are prescribed for the carriage of passengers and baggage by air. / Sous réserve des conditions établies par l'ordre de la Commission canadienne des transports n. 49274 en date du 5 décembre 1982, selon lesquelles la personne recevant ce message accorde de sa part son assentiment à accepter les conditions de transport de passagers et de bagages par avion. / Subject to the conditions prescribed by order of the Canadian Transport Commission No. 49274, December 5, 1982 in which conditions are prescribed for the carriage of passengers and baggage by air. / Sous réserve des conditions établies par l'ordre de la Commission canadienne des transports n. 49274 en date du 5 décembre 1982, selon lesquelles la personne recevant ce message accorde de sa part son assentiment à accepter les conditions de transport de passagers et de bagages par avion. / Form CD2TL-INT-REV