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Northair mines Ltd. (n.p.l.)

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ASSISTANT DEPUTY MINISTER MINERAL RESOURCES		
REC'D NOV 15 '77 869		
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REPORT FOR THE FIRST HALF ENDING AUGUST 31, 1977

During the six month period ending August 31, 1977, the concentrator treated 51,552 tons of ore, which produced 20,475 oz. of gold, 190,500 oz. of silver, 1,155,000 lbs. of lead and 1,195,000 lbs. of zinc. The average price in Canadian funds received for the above metals after smelting deductions was; gold \$144.43 per oz., silver \$4.00 per oz., lead .212¢ per lb., and zinc .193¢ per lb. From the above, it may be noted that the recent surge in the price of gold and silver did not significantly reflect the earnings in the first half. As all the metal payments are in U.S. funds the impact of the lower Canadian dollar, along with the higher gold and silver prices, will be reflected in earnings for the third quarter and hopefully the fourth.

An extensive exploration program consisting of geochemistry, cat trenching, and diamond drilling is still in progress. Deep drilling on the Warman zone returned a strong, well defined structure at a depth of 370 feet below the 32 level. The best hole returned 8' of .97 oz. of gold plus minor values of silver and base metals. This good hole confirmed the depth potential indicated by ore grade holes in earlier drilling. Several more holes are planned this fall. Although the C zone is a strong, well defined structure it failed to return economic values close to the surface. However, one deep drill hole on this zone has indicated it may make ore at depth. This will be followed up later. Engineering and planning is now underway to develop this deep ore for production. The approach that appears most likely is a lower level adit. The Discovery zone was opened up by a drift of some 500 feet which exposed a wide, strong faulted structure containing high values in lead, zinc, copper with some gold. It is planned to mine this ore body at a rate of approximately 1,000 tons per month blending with ores from the Warman and Manifold zones.

The concentrator plant is now operating efficiently. During October throughput was 9,500 tons of ore. The largest monthly tonnage since milling started. Recoveries are satisfactory, with some further improvements still to be achieved in the zinc circuit. Expansion of the flotation circuit in the plant is nearing completion. The 26 foot thickener tank is on stream and the cleaning capacity for lead and zinc, and filtering capacity for both will be completed by December 1st. This will improve the ability of the plant to handle higher grades of lead and zinc.

The mine is in good shape to supply the concentrator. Much higher grades of lead zinc are still being encountered. For example, in a new stope now being developed on the Warman zone, called 32-1800 stope, a chip sample across 6 feet returned .90 oz. gold/T, 2.52 oz. silver/T, 27.1% lead, and 17% zinc. Another sample in the same stope returned 1.35 oz. gold/T, 3.11 oz. silver/T, .75% copper, 32.1% lead and 14.1% zinc across 3.5 feet. Those grades are not indicative of the overall grades but indicate some of the higher grade material which had not been expected.

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Although the enclosed Earnings Statements show a loss for the period, of \$142,164, it may be noted that \$370,000 was expended in interest and exploration, and \$1,366,129 was charged to Depletion and Depreciation. Mine operating profit was \$1,223,965 or \$204,000 per month after loan interest payments. Also overall costs have been reduced in September and October. Costs in September before exploration, but including loan interest were \$42.87 per ton, a significant drop from the six month average of \$47.49. Similar or lower costs to the September costs are anticipated to prevail in the future.

The capital loan with the Royal Bank of Canada now stands at 3 million, a reduction of \$700,000 since my last report.

With the present conditions prevailing in the future, I am sure we can look forward to increased revenue, lower costs, resulting in higher earnings.

Enclosed is an unaudited Statement of Earnings for the six month period along with a Statement of Source & Application of Funds.

RESPECTFULLY SUBMITTED



D.A. McLeod
President.

URTHAIR MINES LTD. (N.P.L.)
EARNINGS STATEMENT
FOR THE SIX MONTHS ENDED 31 AUGUST 1977
(Prepared Without Audit)

PRODUCTION		\$ 3,782,833
OPERATING COSTS		
Exploration	\$ 111,676	
Development and stope preparation	210,315	
Mining	745,725	
Milling	377,153	
Mine general and surface	669,345	
Interest	257,844	
Indirect and administration	<u>186,810</u>	<u>2,558,868</u>
INCOME, before depletion and depreciation		1,223,965
DEPLETION	<u>632,546</u>	
DEPRECIATION	<u>733,583</u>	<u>1,366,129</u>
LOSS FOR THE PERIOD		<u>\$ 142,164</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 31 AUGUST 1977
(Prepared without Audit)

SOURCE OF FUNDS			
Operations -			
Loss for the period	\$(142,164)		
Adjustment for items not affecting working capital:			
Depreciation	\$ 733,583		
Depletion	632,546		
Interest	<u>29,430</u>	<u>1,395,559</u>	\$ 1,253,395
Share capital			30,500
Other assets			<u>4,832</u>
			<u>1,288,727</u>
APPLICATION OF FUNDS			
Additions to plant and equipment	64,468		
Long term debt	<u>65,456</u>	<u>129,924</u>	
IMPROVEMENT IN WORKING CAPITAL			1,158,803
Working capital deficit as at 28 Feb. 1977			<u>4,133,699</u>
WORKING CAPITAL DEFICIT - 31 AUGUST 1977			<u>\$ 2,974,896</u>

The financial statements have not been prepared in comparative form because the company was not in commercial production during the six months ended 31 August 1976. Comparative statements would therefore not be meaningful.

NORTHAIR MINE

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LOCATION

The Northair Mine is situated on the west slope of Sproatt Mountain in the Callaghan Creek area, about 30 miles north of Squamish and 70 miles north of Vancouver.

The mine is reached by about 6 miles of gravel road from Highway 99 near McGuire.

EARLY EXPLORATION

Although close to Vancouver, the geology of the Callaghan Creek area was known only from a report compiled in 1917 by Charles Camsell who made a "Preliminary Study of the Geology along the Pacific Great Eastern Railway Between Squamish and Lillooet." Virtually nothing was known of the mineral potential west of the rail line except for the occurrence of several small low grade vein deposits which were carefully documented in Minister of Mines Annual Reports between 1925 and 1936. The heavy timber, thick brush and almost total lack of access roads combined with the heavy rainfall combined to keep this area remote and virtually unknown. Since the last reported work in the 30's no work on any mineral prospect in this area was reported until the Northair discovery.

MODERN EXPLORATION

Since the initial discovery of mineralization at Callaghan Creek in 1970, the geology of the general area has become somewhat better known through some limited regional work by the Geological Survey of Canada, and a considerable amount of detailed information made available through the activities of the exploration companies. Detailed geological studies of this promising mineral belt have also been made by members of the British Columbia Ministry of Mines and Petroleum Resources and by students at the University of British Columbia in part supported by the Ministry of Mines and Petroleum Resources. In addition to the mineral potential, the zone extending from Squamish to Taseko Lakes has been recently studied and explored by B.C. Hydro for its geothermal resource potential.

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DISCOVERY OF THE NORTHAIR MINE

Credit for the work leading to the discovery of the Northair mineralization belongs to Dr. Mike Warshawski, a Vancouver dentist whose hobby is prospecting. He attended courses in Basic Prospecting and Geology in Vancouver during the winters of 1966/67 and 1967/68 in order to upgrade his interest with instruction in modern exploration methods. He initiated his prospecting program in the Brandywine area with reconnaissance stream silt sampling and after detecting an anomalous stream (now Anomaly Creek) contacted Mr. A.H. (Moose) Manifold, Geology Head at B.C.I.T. for assistance.

In 1970, these two partners outlined the anomalous area through the use of soil geochemistry and the location of mineralized float and staked 13 claims to cover the area. In 1971, further trenching and sampling disclosed high gold and silver values in an outcropping quartz vein. These results attracted McIntyre Mines Ltd. which optioned the property in 1971 and performed a limited amount of work on the vein in 1972. Because of the apparent narrow width of the vein and the erratic metal values, McIntyre dropped the option. The property was then offered to Mr. Don McLeod of Northair Mines Ltd., who recognized the potential of the vein system. Northair drilled 28 exploration holes on the vein in late 1972, the results of which upheld Mr. McLeod's optimism. On the basis of these results Northair collared the 3,700 foot elevation adit in May 1973.

MINE DEVELOPMENT

Since the basic exploration drilling in 1972 the property has been taken from the raw prospect stage to that of an operating mine in only five years, a long time for the developers, but a relatively short period in terms of British Columbia mine development.

The progress from prospect to mine followed through the implementation and application of systematic surface sampling, geochemistry, geophysics, diamond core drilling and geological interpretation to outline the vein structure and mineral potential. This preliminary work was followed up by a program of underground development on three levels to outline the mineralization through detailed sampling. As a result of this well planned and executed program, a sufficient tonnage and grade was outlined to advance the project towards completion and mine production.

In 1974, Northair purchased an existing concentrator from the defunct King Resources property, near Revelstoke and transported it to Vancouver for storage and modifications. Site preparations for the installation of the mill buildings and equipment proceeded in 1975 after a Production Permit had been obtained from the Ministry of Mines and Petroleum Resources.

On April 26, 1976 the concentrator was started up utilizing ore mined from the various development headings that had been stockpiled on the property. The preliminary mill testing showed that a capacity of 340 tons per day was possible on a continuing shift basis. Mill concentrates were first shipped on May 26, 1976 and a gold/silver brick poured shortly afterwards. Since then, additional construction and mine and mill development have continued to the point where continuous production from the Discovery, Warman, and Manifold ore zones and satisfactory mill operation has been assured.

ORE RESERVES AND CONCENTRATION RECOVERY

As of May, 1977 Northair reported an ore reserve totalling 330,637 tons with a grade of 0.396 oz. gold, 4.56 oz. silver, 2.72% lead, and 4.06% zinc. A concentrator recovery of 88 to 90% of gold, 75 to 80% silver, 85 to 90% lead, and 80 to 85% zinc has been achieved from the complex ore and is considered satisfactory.

Further metallurgical studies to increase recovery rates, and an expanded exploration program to outline new ore reserves are currently underway.

SYNOPSIS

The Northair Mine was discovered by a prospector in an area ignored because of its lack of known mineralization and its remoteness. The mine has been developed by a junior British Columbia based company in spite of prolonged negotiations over various permits and problems in raising the necessary funds.

The producing mine will employ 100 people and will help stabilize the economy of the Squamish-Brackendale area.

The current success of this venture has helped stimulate mining exploration in the general area and has shown that there is still a place for the small underground gold mine.

NOTICE AND COMMENTS RE: EXPLORATION
DEVELOPMENT OF THE NORTHAIR MINE

The official opening of the Northair mine is to be held June 11, 1977 about 7½ years from initial prospecting.

This is the first new mine to open in British Columbia in the last five years and is the first new gold-silver mine to open since the late 1930's, and is the only operation underground gold mine in the province at the present time.

The Northair Mine is a new discovery, found in an area which had a presumed low potential. The success of this find has revitalized exploration in the area from Squamish, north to Taseko Lake and east to Harrison Lake.

The company responsible for bringing this discovery from a raw prospect to a producing mine in only five years is a British Columbia junior mining company, funded in large part through shares issued through the Vancouver Stock Exchange.

The individuals responsible for this project are British Columbia residents who have gained their experience largely in British Columbia mining and exploration.

The Northair Mine will directly employ 100 persons:

75 - underground

20 - mill

5 - Vancouver office

and will contribute significantly to the economy of the Squamish-Brackendale area through sales services and taxes. Of these employees, fifty will house their families in Squamish.

NOTE: As a token of appreciation to the municipalities of Squamish and Brackendale, Mr. McLeod, on behalf of Northair Mines Ltd. will present (at the opening) a cheque for \$2,000.00 to support the new Sports Centre.

Northair officials and employees present at the opening June 11, 1977 will include:

Mr. Don McLeod - President

Mr. A.H. Manifold - Director and co-discoverer

Dr. M. Warshawski - co-discoverer

Mine staff will include:

Mr. Plen Dickson - Manager and Chief Geologist
Mr. Peter Bouma - Mill Superintendant
Mr. Harry Skoglund - Mine Superintendant
Mr. Wayne Ash - Chief Engineer
Mr. Ray Scheerschmidt - Planning Engineer