

March 1, 1979

PRELIMINARY NOTES ON A POSSIBLE
TAKEOVER OF
SELMON RESOURCES LTD.
SLOCAN AREA, B. C.

520442

8ZF/14

COMPANY CONCEPT

Selmon concentrates silver bearing mine dumps in the Slocan area, using a portable 500 ton per day Heavy Media Separation Plant (HMP). The resultant up-graded material is trucked to the Company's 80-100 ton per day concentrating mill located at Slocan. The mill produces a high grade silver bearing concentrate which is trucked to the Trail smelter. During delays of production from the Heavy Media Separation Plant custom milling of silver ores from the numerous small mines in the district is undertaken.

STRUCTURE AND MANAGEMENT

Selmon Resources Ltd. is a 10,000 share, private, non-reporting, B. C. company. The 300 shares issued are held equally by Rod Blundell of Kamloops and Fred Shukin of Slocan. Rod Blundell who is at retirement age was mill superintendent at Britannia and Bethlehem Copper. He also supervised Heavy Media Plant operations for fluorite in the U.S. Fred Shukin, who recently began treatments for cancer, is a "jack of all trades" mill man-miner from the Slocan district.

COMPANY OPERATIONS

The Company through the efforts of its shareholders owns a two part mill complex capable of refining old, generally hand-sorted, mine dumps to a silver-lead concentrate acceptable to the Trail Smelter.

A Heavy Media Plant, the first part of the complex, concentrates at a low cost per ton (\$3), silver bearing mine dumps. The HMP is portable and is capable of handling a maximum of 500 tons of dump material per 24 hours. Presently it is set up on the Arlington Mine dump which is said to contain 60,000 tons of broken rock averaging 5-oz silver, 1.5% lead and 1% zinc. The HMP concentrates at a ratio of about 10:1 with a recovery of about 95%.

HMP concentrates are trucked to the second part of the mill complex, a 8-100 ton per day stationary mill. The mill is located a drive 25 minutes away from the Arlington dump. It produces a Ag-Pb concentrate and a Zn concentrate, acceptable to the Trail Smelter. Mill costs are said to be \$10-\$12 per ton and Ag recoveries experienced to date have been 88% or better. Also, the Mill treats on a custom basis, silver ores from the Arlington Mine and others within the Slocan District. Rates for this service vary from \$23 to \$35. per ton.

Ore ready for custom milling and the Arlington dump will provide ample feed for the operation for at least one year. Preliminary agreements suggest a further 200,000 to 300,000 tons of dump material is readily available in the Slocan area. The complex can operate for at least 6 months per year.

The Arlington dump is being processed under an agreement with Arlington Silver Mines Ltd. (B.I.Nesbitt). This agreement fixes costs recoupable from Net Smelter returns of \$4.50/ton dump material, \$3.50/ton trucking, \$30/ton milling, and trucking costs to Trail. Net profits calculated by subtracting these costs only from Net Smelter Returns are to be divided equally between Selmon and Arlington.

The Mill sits on land leased by Selmon from the province at an expense of \$1,600 per annum. Pollution permits, water rights, etc. are in good standing.

The Company has tried without success to take this complex into a continuous 24 hour per day operating basis over the last two summers. Startup problems and equipment failures have no doubt caused delays which have exhausted the financial capabilities of the Company to move into a cash flow from operations position.

COMPANY FINANCES

ASSETS

- 1) Complete 80-100 ton per day mill
- 2) Lease on Mill site
- 3) Heavy Media Plant
- 4) Assay office
- 5) Old front end loader
- 6) Old dump truck
- 7) 10,000 ton tailings pond
- 8) Pollution permit
- 9) 100,000 gallon per day water license
- 10) Agreement on Arlington Mine dump material
- 11) Agreement on rates for custom milling Arlington Mine ore
- 12) Preliminary agreements on several dumps in Slocan area

LIABILITIES

FBDB loan	\$ 56,000
Bank of Montreal loan	38,000
Nelson Machinery Payable	58,000
Miscellaneous Accounts Payable	10,000
Shareholders loans	<u>20,000</u>
	<u>\$182,000</u>

TAKEOVER PROPOSAL

Malabar has been approached to purchase Selmon Resources Ltd. Its owners have stressed they are flexible. They have asked for:

- 1) 100% purchase price of a debt free company -- \$400,000
- 2) Purchase being in 25% increments with an option to purchase any further amount at any time for \$100,000 per 25% of the Company.

Recent discussion have led to the following general understandings if Malabar agrees to participate.

- 1) Malabar will advance \$100,000 to be used as working capital for a 25% interest in Selmon Resources Ltd.
- 2) Selmon wishes to reduce its Bank of Montreal loan by \$19,000.
- 3) Malabar will have at least one member on Selmon's Board of Directors.
- 4) Blundell and Shukin will work for expenses until a cash flow is established and then work for \$1,000/month.
- 5) Once takeover is accomplished Blundell will consult when required.
- 6) Malabar will have the right to purchase at any time up to 100% of the Company at a rate of \$4,000 per 1%.
- 7) Once Malabar agrees to takeover Selmon, payments to Blundell and Shukin can be made at a rate of a suggested \$50,000 per annum.

NOTE TO PROPOSAL

If Malabar's Board agrees to initially purchase 25% of Selmon for \$100,000, which sum is to be used primarily for working capital, the following suggestions may increase the probability of success of this venture.

- 1) Malabar should sell 12% for a minimum \$65,000 immediately with (or without) the opportunity to participate further.
- 2) R. Dickinson should go on site for at least 3 to 4 months to organize logistical problems and evaluate operation and potential fully. A takeover decision could then be made at the most opportune time.
- 3) Since the complex could need 18 men per 24 hour day, R. Dickinson should organize manpower aid, apply for MEIP grants, if announced for this year and other sources of financial aid.

PRELIMINARY CASH FLOW ESTIMATE FROM SILVER ONLY FROM ARLINGTON DUMP

1. SELMON'S FIGURES

Tons Dump	60,000	(@ 400TPD = 5 months)
Grade	5 oz/ton	
HMP Recovery	95%	
Tons of Concentrate (10:1)	6,000	(@ 60TPD = 3.3 months)
Grade of HMP Concentrate	47 oz/ton	

Mill Recovery	88%	
oz Silver Recovered	248,160	
Smelter Pays 90%	223,344	
Current Silver Price (\$Can.)	<u>\$8.00</u>	
Net Smelter Return	\$1,786,752	(+ some Pb & Zn)

<u>Actual Costs of Production</u>		<u>Arlington Charge Per Agreement</u>
HMP (\$3/ton)	\$180,000	\$270,000
Trucking (\$3/ton)	18,000	21,000
Milling (\$11/ton)	66,000	180,000
Truck Conc.	10,000	10,000
Miscellaneous	<u>100,000</u>	
Total costs	\$374,000	<u>\$481,000</u>
Net After Costs	\$1,412,752	<u>\$1,305,752</u>
Arlington Mine Share		<u>\$652,876</u>
Net Excluding Depr., Depl., etc.		<u>\$759,876</u>
25% Interest		\$189,969

2. PRELIMINARY RETURN ESTIMATES FOR SILVER ONLY

	<u>Worst</u>	<u>Likely</u>	<u>Best</u>
Tons of Dump Material	50,000	55,000	60,000
Grade (oz)	2	3.5	5
HMP Recovery (%)	90	92	98
Tons HMP Concentrate	5,000	5,500	6,000
Grade HMP Concentrate (oz)	18	32.2	49
Mill Recovery (%)	85	88	90
Ounces Silver Produced	76,500	155,848	264,600
Smelter Pays for (%)	90	90	90
Price Per oz (\$Can)	6.00	7.50	8.50
Net Smelter Return (\$Can)	413,100	781,972	2,024,190
Less Costs (\$Can)	481,000	481,000	481,000
Net (\$Can)	(67,900)	300,972	1,543,190
Arlington Share	0	150,486	771,595
25% Return	0	37,621	192,898



Wells Gray
COLUMBIA
PROVINCIAL
PARK

150 Mile House
100 Mile House
70 Mile House

Lillooet
Ashcroft
Kamloops

Merritt
Princeton
Hope

Everett
Snohomish
Monroe

Valemount
MOUNT
ROBSON
PROV. PARK

Clearwater
Vavenby
Barriere

Kelowna
Penticton
Osoyoos

Oroville
Okanagan
Brewster

Chelan
Grand Coulee
Coulee Dam

Jasper
NATIONAL
PARK

Revelstoke
Selkirk
MOUNTAINS

Vernon
Kelowna
Penticton

Oroville
Okanagan
Brewster

Chelan
Grand Coulee
Coulee Dam

Golden
GLACIER
NATL PARK

Revelstoke
Selkirk
MOUNTAINS

Vernon
Kelowna
Penticton

Oroville
Okanagan
Brewster

Chelan
Grand Coulee
Coulee Dam

Banff
NATIONAL
PARK

Golden
GLACIER
NATL PARK

Vernon
Kelowna
Penticton

Oroville
Okanagan
Brewster

Chelan
Grand Coulee
Coulee Dam

Area covered
by
Gulf Islands

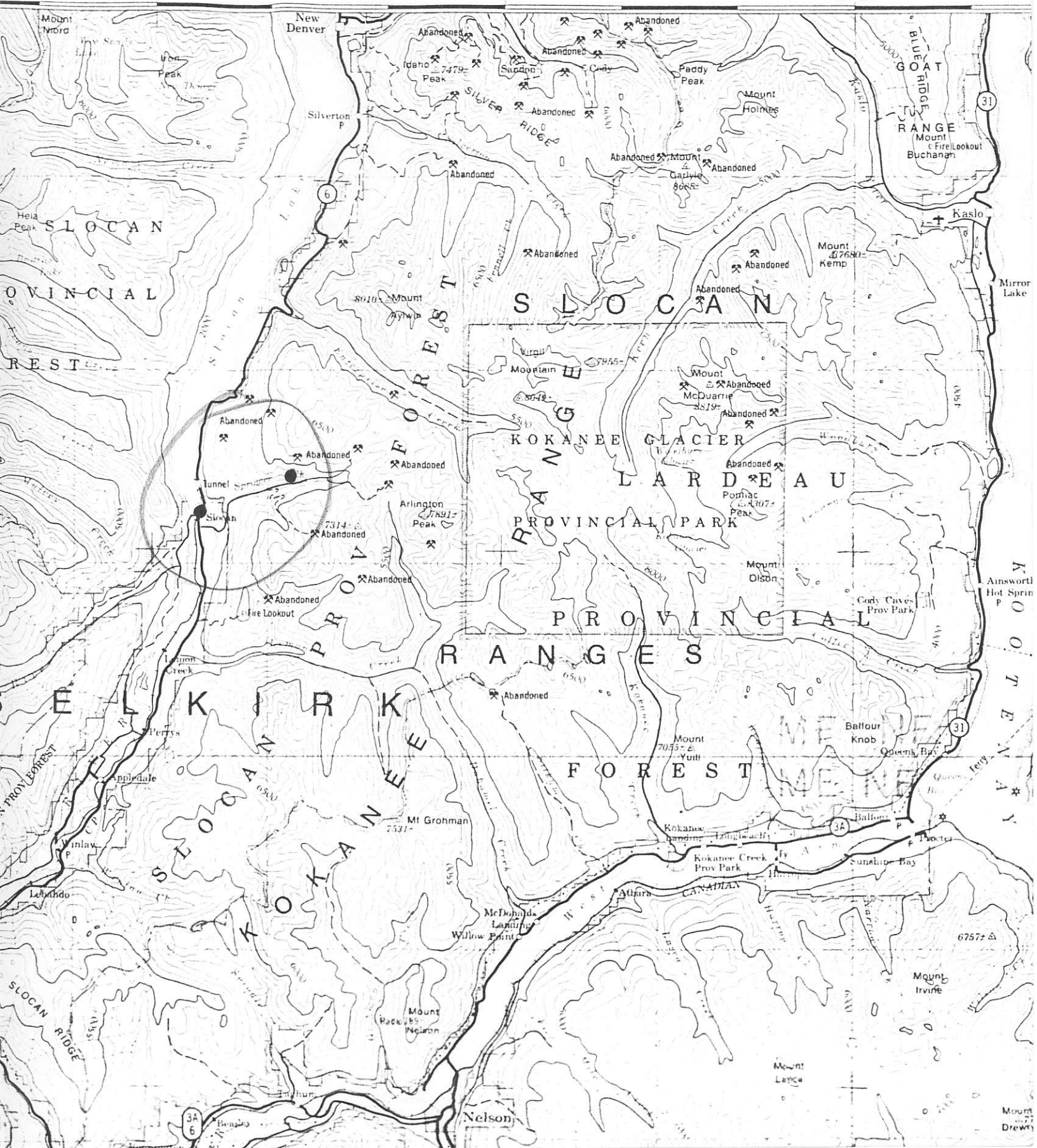
1:250,000

CANADA

30'

15'

117°00'



SUBMITTED DATA

SELMON RESOURCES Ltd.

Box 67, SLOCAN B. C. V0G 2C0

Phone 355 - 2414

Upgrading and Concentrating

356 Ridge Rd.,
Kamloops, B. C.
V2C 4Z1
February 14, 1979.

Malabar Mines Limited,
1326 - 510 West Hastings St.,
Vancouver, B. C.
V6B 1L8

Dear Sirs:

Further to our discussions in Vancouver recently, I am enclosing additional information regarding the Selmon Resources operation at Slocan.

I plan to be in Vancouver next week and will contact you then.

Yours very truly,

SELMON RESOURCES LTD.



R. G. Blundell,
Secretary-Treasurer.

RGB:d
Encl.

SELMON RESOURCES LIMITED

Selmon Resources Ltd. was incorporated as a company in Kamloops, B. C. in 1975 with capitalization of 10,000 shares, par value \$1.00. (300) shares were issued, 150 to R. G. Blundell and 150 to F. Shukin. These are the owners and only directors of the above company with F. Shukin as President and R. Blundell as Secretary-Treasurer.

An agreement was made for the purchase of the Ottawa Silver Concentrator from Nelson Machinery Co. Ltd. The purchase agreement is that Selmon Resources pay Nelson Machinery out of production returns until the sum agreed upon has been paid. A new three year extension to the agreement has recently been signed. *50,000?*

Min. 2 weeks. W. 500 tons A heavy media plant, (semi-portable), capable of treating 500 tons in 24 hours was assembled on the site of the Arlington silver dumps and several months were required to learn and to correct the various problems arising when processing this type of material. The Arlington was chosen since there were more problems in treating this material, because of the nature of these dumps, and it was obvious that if these problems could be overcome there, then the other dumps in the area would be simple to upgrade. Problems in training personnel also caused delays. All the above difficulties were overcome and it was possible to produce concentrates on a continuous basis from 2 ounce silver heads and upgrade this to material containing between 20 and 22 ounces. Waste rejected contained 0.10 ounces silver.

Material from several sources was processed in the 100 ton per day concentrator and high grade silver-lead concentrates and high grade zinc concentrates were produced with good recoveries in every instance. Cominco has agreed to take whatever amount of either of these concentrates Selmon produces.

A large tailings pond is completed and operating. Pollution permits are in good standing for both concentrator and heavy media plant. The company also has a water license for 100,000 gallons per day. $\$100/\text{yr}$.

Firm agreements are held on six good size dumps having totals of 300,000 tons of material. On the basis of reports plus spot sampling, figures of not less than 4 oz. silver and 5% combined lead and zinc are conservative. There are numerous other properties containing large tonnages whose owners have asked that we make a commitment for these. Some of the properties still have ore underground which would be available.

The concentrator will commence operating on custom ore from Arlington underground as soon as weather permits.

It is not possible for the present owners to put these two plants on a continuous operating schedule because they have used all of their financial resources to bring the operation to the position where all guesswork has been eliminated and both plants have proved to be able to efficiently perform according to plan. Unless they are operated on a continuous 24 hour schedule they will not produce the cash flow they are capable of.

*Selmon
Contract*

Buy of T.P.

Line of P.P.

If funds are available this spring (1979) there will be eight months of good operating weather for the heavy media plant. During this time, the plant could process 96,000 tons of waste. If this averages only four ounces of silver per ton it would provide at \$7.00 per ounce, over \$2,500,000. in gross revenue. The lead and zinc would have some value also.

Custom milling at prices ranging from \$23.00 per ton to \$35.00 per ton, depending on grade, would produce a further \$150,000.

We are interested in receiving financing so these figures can be realized.

SELMON RESOURCES LTD.



R. G. Blundell,
Secretary-Treasurer.

February 10, 1979.

RGB:d



Trebor Enterprises Ltd.

OUR FILE:
YOUR FILE:

March 18, 1977.

Selmon Resources Ltd.,
Slocan, B.C.

Attention: Mr. Fred Shukin, President.

Dear Mr. Shukin:

RE; Milling our ore at your
concentrator near Slocan, B.C.

As discussed with you recently this will confirm our intentions to mill ore at your concentrator located near Slocan, B.C.

We are not sure of the exact tonnage but the proven available ore supply at our operation near Silverton (Hercules Group) is in the vicinity of approximately 10,000 tons. We feel confident that the aforementioned figure will be greatly increased once the development raises between 12 level and the 970 sub-level are completed. As previously explained to you, the 10,000 tons of proven ore is located between 10 level and 8 level; we are presently on 12 level raising to 10 level a distance of some 300' difference in elevation. The lead (a shear within the Mammoth vein) that we are following on 12 level is mineralized over a width of 5 to 8 feet carrying values of 12% combined metals and 12 oz. silver, we feel confident that this shear will continue to 11 level (a distance of 160 feet vertically) where we presently have mineralization over a width of 8 feet carrying 13% zinc, 2% lead and 4 oz. silver. If this shear continues as expected there exists a possible 5,000 tons in this area.

We also have dump material on property we hold in the Sandon area assaying 6% metal and 6oz. silver. The tonnage is estimated to be 25,000 tons.

Hoping this meets your complete approval, I remain

Yours truly,

Douglas Penzelly

P.O. BOX 72, NEW DENVER, B.C., VOG 150. TELEPHONE 358-2563

Secty-Treas.

George Sipos
P.O.Box 818,
Kaslo, B.C.

July 1, 1978

Selmon Resources Ltd.,
Box 67, Slocan, B.C.

Dear Sirs;

RE: UPGRADING AND CONCENTRATING DUMPS
IN THE SANDON - CODY, B.C. AREA.

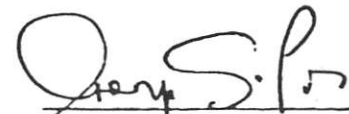
This is to confirm a Verbal Agreement made on the 1st of March, 1978, between Fred Shukin of Slocan B.C., and George Sipos, Kaslo, B.C., to grant an exclusive right and option to Selmon Resources Ltd., to upgrade and concentrate, using a "Heavy Media Plant", the mineral dumps owned by George Sipos in the Sandon-Cody area and consisting of approximately 200,000 tons of dump-material.

Claim:

Approximate tonnage:

Stranger	L-512,	30,000	"
Blue Bird	L-510,	70,000	"
Goodenough	L-501,	70,000	"
Idaho No. 2	L-1013,	10,000	"
Rawdon	L-855.	20,000	"

Yours truly:


George Sipos

TO WHOM IT MAY CONCERN:

Re: Mineral Lease No. 243
Known as Black Prince in the
Slocan Mining Division.

It is my intention to have Selmon Resources Ltd. process the dumps on the above property and mill same at the company Slocan Mill, providing an agreement is reached by both parties.


R. B. Strong

Dated at Winlaw, B. C. this 7th day of July, 1978.

- 10-14 oz - 10,000

30-40,000 needs

- Africa

20-40 x 10³ · 100₃.

Assets

Operating 100 Ton per day plant
 Heavy Media Plant to upgrade ore dumps
 Front end Loader
 Mack Dump Truck
 Complete Assay Office
 Pollution Permit
 Tailings Disposal Area
 Water License
 Land Usage Grant
 Crown Grant Clones, Lakeview 1 & 2
 Agreements on large tonnages of dump material
 Underground Ore available from Arlington Silver,
 Trebor Enterprises Ltd., Ottawa Silver, for $17\frac{1}{2}$ ton profit.
 custom milling at rates ranging from \$23.00 to \$35.00/ton.
 Heavy media set up and operating, during spring, summer and fall,
 at Arlington silver dump -- values average 1.5 % Lead,
 1% Zinc, 5 oz. Silver. Tonnage -- 60,000 Tons.

Liabilities

Federal Business Development Bank	\$56,000.00	\leftarrow 1st lien - 11%
Bank of Montreal	38,000.00	\leftarrow 500/mo 2% above prime.
Nelson Machinery Co. Ltd.	58,000.00	\leftarrow
Miscellaneous Accounts	15,000.00	

} personal guarantee

167,000.

*Costs to Arlington
 BI District*

4.50 HM
 30.00 milling
 3.50 trucking
 cost freight to trail
 cost. Trail Smelter charge

SELMON RESOURCES LTD.
PRO-FORMA BALANCE SHEET
DECEMBER 31, 1977
(unaudited)

Robert A. Cheesman Certified General Accountant

SELMON RESOURCES LTD.
 PRO - FORMA BALANCE SHEET
 as at December 31, 1977
 (unaudited)

Assets

Current Assets

Accounts Receivable

Bad debt.
 \$ 29,840.72

Fixed Assets - at cost

Laboratory Equipment

\$ 10,390.60

Mill Equipment

100,119.32

Mobile Equipment

12,895.00

123,404.92

Other Assets

Prepaid Opening up Expense

28,617.00

Incorporation Expense

525.22

\$182,387.86

Liabilities

Current Liabilities

Bank Deficit

\$ 1,740.65

Accounts Payable

88,556.20

\$ 90,296.85

Term Liabilities

Bank of Montreal

\$ 38,500.00

Federal Business Development Bank

48,600.00

87,100.00

\$177,396.85

Shareholders Accounts

F. Shukin

\$ 8,547.62

R. Blundell

9,850.00

18,397.62

Shareholders Equity

Share Capital

\$ 300.00

Deficit Accounts

(13,706.61)

(13,406.61)

\$182,387.86

SELMON RESOURCES LTD.
 PRO - FORMA STATEMENT OF OPERATIONS
 for year ended December 31, 1977
 (unaudited)

<u>Gross Revenue</u>			\$ 98,085.30
<u>Expenditures</u>			
Mill Expense	- Fuel	\$ 8,952.95	
	- Repairs & Maint.	2,137.30	
	- Supplies	2,240.76	
	- Freight & Hauling	4,088.15	
	- Ore Purchases	385.00	
	- Chemicals	<u>5,094.67</u>	22,898.83
			\$ <u>75,186.47</u>
Accounting & Legal		\$ 1,584.65	
Licences		270.00	
Insurance		1,555.00	
Property Taxes		1,083.40	
Labour		51,077.68	
Board & Lodgings		2,989.26	
Equipment Rental		2,515.65	
Interest & Finance		7,314.82	
Bad Debts		4,000.00	
Workers Compensation		2,206.28	
Telephone		907.05	
Travel		673.02	
Truck Expense		<u>4,846.36</u>	81,023.17
Net Loss on Operations			\$ <u><u>5,836.70</u></u>

ARLINGTON MINE

HIDA MINING

Box 247

Slocan, B. C.

(LEASES FROM ARLINGTON
SILVER MINES LTD)
BT MRS BITT

November 21, 1978.

Selmon Resources Ltd.,
Box 67,
Slocan, B. C.

Dear Sirs:

This will confirm our verbal agreement of November 15, 1978 regarding production from the Arlington Mine on the following terms:

1. Hida will deliver all ore to Selmon Resources storage yard or designated storage bins.
2. Selmon agrees to mill all ore mined by Hida during the winter months on a steady basis as soon as start up of the mill in the spring is possible and until Selmon has their heavy media plant in production.
3. Selmon will set up a milling schedule for ore produced by Hida during the season when Selmon is in production with the heavy media plant.
4. Hida will give Cominco authority to pay Selmon all monies due for milling on presentation of a statement signed by both parties.
5. Selmon will charge Hida a basic rate of \$23.00 per ton based on a combined metal content of 10% (ten percent) Lead and Zinc. The rate will increase in proportion of One Dollar (\$1.00) per ton over ten percent (10%).
6. Any increase in wages, reagents, or fuel and oil for milling will result in an increase in price for milling which will be negotiated between both parties.

Hida's objective will be to bring the Arlington property into production at a rate of eighty to one hundred tons per day as development progresses and working faces developed for production.

The potential of the Arlington is approximately as follows:

Proven tons -- 25,000 to 30,000 of a grade of eleven (11) oz. Silver with combined ten percent (10%) Lead & Zinc.

Possible tons approximately 25,000 with same grade as above.

There is approximately 40,000 tons of sorted stope material running from five (5) ounces Silver, five percent (5%) combined Lead & Zinc, to twenty (20) ounces Silver and eight to ten percent (8 - 10%) combined Lead & Zinc.

Cont'd.....

Selmon Resources Ltd.

November 21, 1979.

In the early 1900 all ore was sorted underground and any ore below the grade of twenty-five ounces Silver was left in the stopes as back fill. A large amount of this stope material is available as work progresses, some of which may have to be upgraded by heavy media.

Hoping this will meet with your approval as discussed before.

Yours truly,

HIDA MINING

FS:D