



CRAIGMONT MINES

A JOINT VENTURE

681212

EIK
92H/15

JWS Custom
milling
\$10/Ton + Cost
without Capital

22 January, 1993
File 9.60

Fairfield Minerals Ltd.
Suite 1980,
1055 West Hastings Street,
Vancouver, B. C.
V6E 2E9

Attn: John W. Stollery
President

Dear John:

The meeting held with you and your fellow Directors on December 22, 1992 was very useful, as it allowed us to get a clearer idea of the objectives of Fairfield regarding a processing facility. At the same time, I hope that our description of the magnetite market and the key role that we fulfil in supplying the coal industry highlighted some of our sensitive issues.

Our recent and on-going substantial investment in plant and equipment for the recovery of additional magnetite from the old Craigmont tailings pile is intended to maintain our position as the key supplier of magnetite to the coal industry for the foreseeable future.

The following points lead toward the conclusion that Craigmont is in a position to help meet some of the objectives of Fairfield, and that joint use of the Craigmont property could be beneficial to both Craigmont and Fairfield.

(1) Developed Site

Craigmont has graded and developed a site with room to accommodate the facilities that Fairfield will require for processing its ore. The site has developed infrastructure for water and power supply and for transportation access.

(2) Regulatory Permit Approvals

Craigmont has already obtained all of the permits necessary to carry out its planned magnetite recovery activities. Preliminary discussions with the regulatory authorities regarding the possible processing of Fairfield ore indicate that the existing permits can be modified to include Fairfield requirements, assuming tests to be conducted regarding Fairfield tailings are satisfactory.

We have developed a good relationship with the regulatory authorities during the development of our project and believe that would be helpful in obtaining modification of the permit to accommodate Fairfield tailings.

(3) Tailings Impoundment Area

Craigmont has already constructed the dykes to provide the necessary containment to meet its initial production requirements, and will construct additional dykes to provide tailings storage for a minimum of six years of magnetite recovery. When in full production, Craigmont will produce approximately 350,000 cubic meters of tailings annually. The much smaller

EIR
9/21/15

quantity of Fairfield tailings would be placed in the same containment and diluted by the larger Craigmont volume.

(4) Tailings Compatibility

It appears from Dr. McElroy's letter to myself, dated December 18, 1992, that zinc is the only heavy metal in the Fairfield tailings that could pose a problem, since it goes into solution in an acid environment. The dilution of Fairfield tailings with the larger quantity of Craigmont tailings will of itself go a long way toward bringing the zinc content of the total discharge within acceptable limits. Further, since Craigmont tailings are "basic", a strong case can be made that the zinc would be bound up in an alkaline environment.

The chemicals proposed for flotation appear to be innocuous and, to some extent will be biodegradable--for example the MIBC flotation reagent. Most of the heavy metals in the ore, as well as most of the flotation reagents, will report to the concentrate and recovery will be high.

A series of tests needs to be done to confirm that the Fairfield tailings will meet the requirements of the regulatory authorities. For the benefit of expediting consideration of Fairfield's objectives, and following discussions with Mr. Rowe in your Vancouver office, we have requested Wright Engineers to design this test programme in detail, with the intent of reviewing the proposed programme with the regulatory authorities to ascertain in advance that it will meet their requirements.

Since our last meeting with you our own group has met and has concluded that the concept of joint use of the Craigmont site appears to be practical and could be beneficial to both Craigmont and Fairfield. We therefore put forward the following for your consideration, and in doing so we emphasize that if our approach or any element of it causes you difficulty or concern, we are prepared to review and discuss it with you.

- (5) For reasons of security and independence of operation, the Fairfield plant should be completely separate from the Craigmont plant, both in terms of physical layout and operation.

We propose therefore that rather than set up the Marcy mill in conjunction with the Craigmont plant as previously discussed, Craigmont would be prepared to sell that mill to Fairfield at its fair market value and Fairfield could then incorporate that mill in its own processing and recovery plant.

- (6) We propose that the electric power usage of Fairfield be metered and that Fairfield buy its power at the going rate.
- (7) We propose that Craigmont supply the water requirements of Fairfield, subject to obtaining some better data with regard to the water requirements of Fairfield, both in terms of quantity and timing during the year.
- (8) We propose that Craigmont make available to Fairfield for its exclusive use, the land required for its plant and facilities.

Pick

(9) We believe that there is an opportunity to share, to our mutual benefit, some facilities at the site such as washrooms, maintenance facilities, office areas, etc. We recommend that we examine these possibilities together, to develop a mutually satisfactory approach to sharing these facilities.

(10) We propose that Fairfield pay to Craigmont \$333/mo

(10.1) A base fee of \$100,000 per annum for the longer of five years or the period over which Fairfield continues to occupy the Craigmont site, and

(10.2) A fee of \$34 per ton of Fairfield ore processed through the plant.

(11) The foregoing would permit completely separate operations for security and efficiency, as suggested above. Craigmont is a private company and we wish to keep a quiet profile—the arrangement suggested above would allow the Craigmont and Fairfield images, as well as their operations to be kept private and apart.

There are obviously many details still to be discussed and agreed. The above principles are put forward as a basis for discussion leading toward the establishment of a mutually satisfactory arrangement. I suggest we meet on Monday, February 8, or at such other time as is convenient to you, to pursue these interests. I will contact you during the week to confirm arrangements to get together.

Yours sincerely,
CRAIGMONT MINES

R. C. Hermann

R. C. Hermann.

Milling Cost on 50,000/tpy basis

\$2 rent
\$34 Toll
\$20 cost

\$57
5 haul

\$62 + capital = $\frac{2,500,000}{250,000} = 10$ (\$10,000,000 = \$40)

\$70/ton.

+ power

+ ~~Capital of plant~~