

William C. Douglass
 MINING ENGINEER
 1411 26TH AVENUE EAST
 SEATTLE, WASHINGTON 98102

206-322-0890

September 28, 1971

Mr. William M. Sharp
 171 West Esplanade
 North Vancouver, B. C.
 Canada

Dear Bill:

Re: Present Value of Royalty Payments that may be made to Burden Investment Services, Inc., on Future Production from the Silmonac Mine.

This letter, and the copies of letters and reports that I am sending under separate cover, will confirm our telephone arrangements for your services to determine the present fair-market value of the future royalty payments to Burden Investment Services, Inc. from production of the Silmonac Mine.

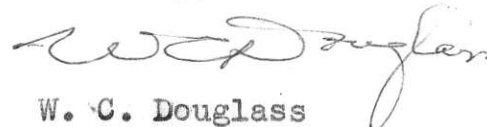
1. Copy of letter of July 21, 1971 from Roy N. Figueroa to Arthur E. Buller.
2. Copy of Memorandum of September 22, 1971 by Roy N. Figueroa re the meeting of Kam-Kotia and Burkam officials in Toronto on September 20, 1971. (The second page of this memo overlooked in transmission from New York). *pp 2 not relevant to my approval*
3. Copy of letter of September 24, 1971 from Roy N. Figueroa to W. C. Douglass with list of papers which I am now forwarding to you.

We understand that you will start on the assignment about October 6, 1971 and that your report will probably be ready about October 20th. Please send one copy of the report to Roy N. Figueroa at the Burden Investment office in New York; one to Graham Walkey at the Kam-Kotia office in Toronto; one to Arthur E. Buller, and one to me. You have given me an estimate of \$1200 for your services on the examination and reports which is satisfactory to us. I shall telephone Bill Hogg that you will be doing this for us and that it has been cleared with Arthur White and Graham Walkey. *Graeme?*

Please let me know if you need any further information.

Kindest personal regards and ~~I hope that~~ I hope that you, Art and I, with our wives, will be able to have a Kelowna reunion during the week of the C.I.M.M. meeting.

Sincerely,



W. C. Douglass

WCD/d

Copy: Roy N. Figueroa
 Arthur E. Buller

1
1
1
1
1
5

Memo

from the desk of

W. C. DOUGLASS

9/28/71

Dear Bill:

Here is the copy
of parts of Graham
Walkey's letter of
9/9/71 that give the
effect of H. S. import
tax, drop in silver
price, and cut-off
grades.

WCD

WILLIAM C. DOUGLASS
1411 - 26th Avenue East
Seattle, Washington 98102
Telephone EAst 2-0890

* CONFIDENTIAL
REPT.
EA 2

Mem C Douglas 100-322-0890- Sept. 28/71
9:47am

Peter Heron ~~100-2521~~

memo: (only 1 page incl at 2 pp.)

(2) Roy Figueroa memo
Figueroa
after meeting at White
Walley
Art. Buller

(3) - Xerox copies
mortgage agreement re royalty
payments w curve - do
not get confused w dates -
mortgage date listed then
date of agreement.

(2) Aug 7/71 - Report on Opa.

(3) Xerox copies of incl. memos

4 copies of my report Confidential

1 - W. Walley Green

don't discuss with
any one.

1 - Roy ^{Figueroa} Figueroa, N.Y.

1 - Art Buller

1 - W.C. Douglas

Please call Douglas if any questions arise.



Kam-Kotia mines limited

25 ADELAIDE STREET WEST, SUITE 416, TORONTO 1, CANADA
TELEPHONE 362-4581

RHF *WCD*

September 9, 1971.

Mr. Roy N. Figueroa,
Burden Investors Services, Inc.,
630 Fifth Avenue,
New York, N.Y., 10020,
U.S.A.

NET INCOME PER MONTH \$65,667
1971 AVG. TO 6/30/71 (7,000)
SURCHARGE (12,000)
SILVER PRICE (3,500)
LABOR COSTS

Re: Silmonac & Kam-Kotia - Burkam Joint Venture

Dear Roy:

I have seen your letter of September 7, 1971, to Art White and look forward to our meeting on September 20 here in Toronto.

In regard to your preliminary agenda for this meeting, I thought I might give you some data in advance.

TAKING INTO ACCOUNT ALL THREE ADVERSE CHANGES: PRICE MO. INCOME WOULD HAVE BEEN 43,167

In regard to the U.S. 10% import surcharge, this applies to lead and zinc only, and, not silver. The surcharge will probably be 1.0 cent/lb. of dutiable zinc and 0.75 cents/lb. of dutiable lead, although this is not an official ruling. If the surcharge had been in effect for all of 1971, Silmonac's income would have been reduced by \$41,400. We estimate the future reduction in income will be about \$6,000 to \$7,000 per month, depending, of course, on mill heads and production tonnage.

The drop in silver price to a current \$1.40 per ounce from a price of about \$1.60 is a serious matter. For August, this reduces income by about \$12,000.

1.30 @ 2000 31/71

September 9, 1971.

Mr. Roy N. Figueroa.

*AUG. PER JULY 1971
REPORT
17.92; 6.15 %
6.43 %*

At this time, at current conditions and metal prices, we need mill heads of 12 ounces silver, 4.5% Pb. and 4.5% Zn. to break even, i.e., cover production costs.

There is no possibility of marketing the lead and zinc concentrates in Canada, and, even with the surcharge, our current marketing arrangement is very favourable in light of present marketing charges being negotiated.

In regard to ore reserves, we have enough ore developed to maintain production for 6 - 9 months, and this does not include ore in pillars, which of course, must be left in place for the time being. We are taking steps to increase the scale of exploration and development.

*MIN. RES. 3,000 Month
6
180,000
PROBABLE RES. 3300
9
297,000*

One other item, a new labour agreement, must be negotiated as current agreement terminates 25 October, 1971. The Union is asking for a major increase, as is their pattern. However, a new agreement will likely add about \$3,000 to \$3,500 per month to monthly production costs. *- 1.00 per ton*

We look forward to seeing you on September 20.

Yours very truly,

KAM-KOTIA MINES LIMITED,

G. W. Walkey
G. W. Walkey,
Vice-President & General Manager.

GWW/cd

CC'S FROM RNF TO: ON 9/14/71

- (1) ROBERT R. BARKER (N.Y.)
- (2) WILLIAM C. DOUGLASS
- (3) ARTHUR BULLER
- (4) MARVIN LYONS *Fig Figueroa*
- (5) FOR RNF'S FOLDER = TRIP 9/20/71

(3)

Burden Investors Services, Inc.

630 FIFTH AVENUE
NEW YORK, N. Y. 10020

Telephone: (212) 459-1200

September 24, 1971

Mr. W. C. Douglass
1411 26th Avenue East
Seattle, Washington 98102

Dear Bill:

In order to help Bill Sharp in his evaluation of the production payment, I am sending you xerox copies of the following papers which you may make available to him:

1. Mortgage agreement and related amendments;
2. August 1971 report on operations;
3. Xerox copies of each month's production figures which accompany the Joint Venture's monthly financial statements.

Undoubtedly there will be other documents, reports, etc. which Bill Sharp may need, but these can be made available to him at the mine or from your files.

I do think that the next time you speak with Bill Hogg you should tell him that we have employed Bill Sharp for this purpose and that both Graham Walkey and Arthur White have agreed to our doing so on the basis that the report will be private and confidential, and further that they will receive a copy of it before it is released.

Make my copy not a part of the report as submitted.

Sincerely yours,

Roy N. Figueroa
Roy N. Figueroa

RNF:h
Enclosures

cc: Arthur Buller

Burden Investors Services, Inc.

630 FIFTH AVENUE
NEW YORK, N. Y. 10020

Circle 6-9300

August 25, 1970

Silmonac Mines Limited (N.P.L.)
Suite 416, 25 Adelaide Street West
Toronto 1, Ontario

Attention: Mr. G. W. Walkey, General Manager & Director

Dear Sirs:

Re: Silmonac Mines Ltd. and Burden Mortgage

Silmonac Mines Ltd. owns Crown granted claims located in the Kootenay District and Nelson-Slocan assessment district in the Province of British Columbia. These claims are listed in Part 1 of Schedule A attached to Mine Operating Agreement dated September 3, 1968, between Silmonac Mines of first part, Kam-Kotia Mines and Burkam Mines as "Operators" of second part and Burden Investors Services, Inc. of third part.

A mortgage in favor of Burden Investors Services, Inc. in the amount of \$500,000 is registered in the land registry office in Nelson as a charge against the lands listed in Part 1 Schedule "A" of the above agreement, being No. 74242-D. This mortgage is repayable from royalty on production as follows - 0.25 times the net smelter return per ton of ore, expressed in dollars up to but not exceeding a maximum of 12.5%, until the full amount of the mortgage has been repaid.

You have felt that the basis for calculating royalty payments to repay the "Burden" Mortgage is not in the best interests of Silmonac or the Lessors, i.e., Kam-Kotia and Burkam Mines and, in discussions with you and Mr. W. C. Douglass at New Denver it was suggested that the Royalty payments, when applicable, should be based on the formula set forth in such Agreement but further provided that there should be a maximum Royalty of \$3.00 per ton. For purposes of the formula net smelter return per ton is the net value received for concentrate production after paying marketing, freight, smelting and refining costs, divided by the number of tons milled, i.e., the ratio of concentration. The ratio of concentration is to be calculated on a monthly basis, and royalty payments to be made monthly.

on the property
mortgage secured \$500,000
production payment pending

attached to
attached
indenture

August 25, 1970

It is my understanding that this amendment is acceptable to Silmonac Mines Limited. If you accept this proposal, please acknowledge by signing both copies of this letter, where indicated, retain one copy for your reference and return the second copy to this office.

Very truly yours,

BURDEN INVESTORS SERVICES, INC.

By: Roy N. Figueroa

Roy N. Figueroa
Treasurer

Accepted on behalf of

Silmonac Mines Limited

By: Rowden

James S. ...
Secretary

Dated: September 17, 1970

Memo

from the desk of

W. C. DOUGLASS

No. 1.

WILLIAM C. DOUGLASS
1411 - 26th Avenue East Seattle, Washington 98102
Telephone East 2-0890

BURDEN INVESTORS SERVICES, INC.
630 FIFTH AVENUE
NEW YORK, N. Y. 10020

July 21, 1971

Mr. Arthur E. Buller
A. E. Buller Ltd.
Suite 1715
25 King Street, West
Toronto 1, Canada

** production payment = royalty.*

Dear Arthur:

We are presently considering distributing that portion of the Silmonac ^{*}production payment which is owned by Burden Investors Services, Inc. to the shareholders of that company. The total production payment is in the amount of \$500,000 and is payable pursuant to the terms of the enclosed document. *(11-6-62 Agreement + 8-23-70 Agreement)*

Burden Investors Services, Inc. is the owner of record for the entire production payment which it holds for itself and for the other actual owners as follows:

		<u>Amount</u>
Burden Investors Services, Inc.	<u>89.902%</u>	<u>\$ 449,510</u>
W. C. Douglass	5.000%	25,000
Helen E. Berger	3.263%	16,315
Roy N. Figueroa	1.835%	9,175
	<u>100.000%</u>	<u>\$ 500,000</u>

In order to assist us in evaluating the merits of making a distribution to the shareholders of Burden Investors Services, Inc., we now require a determination of the present fair-market value of the production payment *(royalty)*. I would, therefore, appreciate your advice as to whether you know of a competent independent mining engineer who might furnish such an appraisal. Reference would have to be made to the mine's past and expected future production, as well as to estimated recoverable ore reserves.]*

*Specify valuation date (have any royalties been paid?)
(perhaps Aug. 1/71 would accord w/ date of data provided)*

July 21, 1971

28
12
24
28
33 60

An appropriate discount factor (for interest to discount the future payments over their expected life and for the risk element) would have to be determined based upon a review of the available information. We are not interested in an elaborate evaluation and the principal purpose of the appraisal at this time would be to give us some indication of the dollar amount involved. If a 10% discount factor were to be applied and the presently projected three and one-half year pay-out used, the valuation would be roughly as follows:

Graham Walkey estimates 4,000 tons of production per month and assumes that the maximum \$3.00 per ton royalty would apply.

P.V. Factor

Present Value

12 x 12,000 = \$144,000	X	90.909 ✓	=	\$130,909 ✓	
12 x 12,000 = 144,000	X	82.645 ✓	=	119,008 ✓	
12 x 12,000 = 144,000	X	75.131 ✓	=	108,189 ✓	
Bal x 27,500,000 = 68,000	X	71.553 ?	=	48,656 ✓	\$406,762 ✓
$\Sigma = 500,000$					

*Oct 21/71
more realistic
view of ore reserve
+ dilution
- using Table 2, Forbes + Treasury each year separately*

Whatever resulting present worth was determined (in Canadian dollars) would have to be converted to U.S. dollars and subject to a value of 85% to reflect the 15% Canadian tax withholding requirement.

does not apply to capital pay-back.

If we do proceed with the transaction, the appraisal would also serve to support the valuation should the transaction be reviewed by the United States taxing authorities.

Before proceeding to authorize an appraisal, I would appreciate some indication as to the cost which might be involved.

Very truly yours,

Roy N. Figueroa
Treasurer

RNF:jm
Enclosure

Memo

from the desk of

W. C. DOUGLASS

No. 2

WILLIAM C. DOUGLASS

1411 - 26th Avenue East

Seattle, Washington 98102

Telephone EAst 2-0890

September 22, 1971

Memorandum for Files *from R.N.F. / Burden Investors Services Inc.*

Re: Visit to Toronto on Monday, September 20, 1971
by R.N.F. and Marvin Lyons

So that all parties may be informed, I thought it best to prepare this memorandum on the meetings which took place in Toronto between Arthur Buller, Marvin Lyons and myself and Arthur White, Graham Walkey and James Geddes.

Arthur Buller met Mr. Lyons and me at the airport and showed us an analysis which he had made of the August production which showed that approximately 30% of the ores which had been produced were of such low grade as to be "uneconomical". This matter is of utmost importance to all persons involved as it directly affects the net operating results of the mine. During the course of our meetings with the Kam-Kotia people, Graham Walkey also mentioned this same percentage of uneconomical ore and completely confirmed Art Buller's analysis. Apparently Graham Walkey is, and has been, aware of this and other problems but has not taken steps to have them rectified. Perhaps this situation is attributable in part to Walkey's other commitments for Kam-Kotia but does show that changes should be made in the operation of the mine. The new geologist should also help in this area. Arthur Buller has written directly to Bill Hogg on this subject so no further comments will be made in this memorandum as to the production of such uneconomic ores.

more ore selectively

- mill ore demand exceeding optimum output of mine.

Everyone at the meeting agreed that Bill Sharpe would be an excellent person to evaluate the production payment held by Burden Investors Services, Inc., as nominee for itself, W. C. Douglass, R. N. Figueroa and Helen E. Berger. The portion (approximately 90%) of the production payment of \$500,000 held by Burden Investors Services, Inc. for itself will be distributed on December 1, 1971 (or on some other date prior to the year end) to its shareholders. Marvin Lyons believes that a nominee arrangement can be worked out such that the owner of record can continue to be Burden Investors Services, Inc. for all owners of the production payment. Sharpe should be advised that the value which we wish him to determine is the price which a buyer would be willing to pay and a seller willing to receive for this right to receive the income from the property interests. What we want is a fair market value based upon the "known", "probable" and "possible" reserves and production, etc. This evaluation is private and confidential and prior to its finalization should be reviewed by us as well as by the Kam-Kotia people.

incl. consid. of assumed & probable ore reserves

involve assessment of risk factors related to obtaining purchase price of ore

The present status of the Silmonac shares, i.e., being in escrow, and the status of the acquisition of the Carnegie Mill were reviewed and the general consensus of opinion was to leave these matters in their present status. The Moneta interests definitely wish to dispose of their Silmonac shares. Although a valuation committee has been appointed to

Page 2 not received - but probably not relevant to my assignment.