

**CONTINENTAL MCKINNEY MINES LIMITED**  
(NON-PERSONAL LIABILITY)

November 6, 1968

Mr. P. M. Kavanagh  
Vice President, Exploration  
Kerr Addison Gold Mines Ltd.  
c/o Georgia Hotel  
Vancouver, B.C.

Dear Paul:

Re: Red Mountain Area - Rossland, B. C.

Herewith is data on the above properties as listed below.

Preliminary Evaluation of a Proposed Consolidated Operation, Scurry-Rainbow Oil Limited, Red Mountain Mines Ltd., Rossland, B. C., February 19, 1968 by Chapman Wood & Griswold Ltd.

Spread Sheet showing gross value of ore reserves and net value of ore reserves under three headings, Scurry-Rainbow, Torwest and Continental McKinney.

Backup notes for the Torwest calculation and also the Continental McKinney calculation.

It will be in order for you to zerox the Chapman Wood Report and return same at your early convenience for our files. You may retain the other data.

The St. Elmo, Golden Queen, Surprise, Novelty, Gertrude, Consolidated St. Elmo and Cliff mineral claims are held for practical purposes 70/30 by Scurry and McKinney.

Scurry have effective control of Cascade Molybdenum which owns the Giant and other mineral claims. Red Mountain owns the other claims set out on the Chapman Wood drawing.

November 6, 1968

We are also enclosing McKinney's 7th Annual Report which has a reasonable claim map of the area.

May I suggest you discuss this property with Mr. H. Brodie Hicks, Vice President, Operations of Consolidated Canadian Faraday Corporation who are the operators of Red Mountain.

Yours very truly,

CONTINENTAL MCKINNEY MINES LIMITED (N.P.L.)



President

JERW/m  
Enc.

KERR ADDISON MINES LIMITED  
44 KING STREET WEST  
TORONTO 1, ONTARIO

RED MT. FILE

RECEIVED  
NOV 14 1968  
KERR ADDISON MINES LTD.  
Per.....

COPY

November 13, 1968.

Mr. J. E. R. Wood,  
Continental McKinney Mines Limited,  
506 - 540 Burrard Street,  
Vancouver 1, B. C.

Dear Jerry:

Enclosed is the Chapman report which you wished me to return.

Since seeing you in Vancouver I have consulted with the Noranda Sales people re molybdenum, and I have had lunch with Brodie Hicks and John Cormie.

The Noranda Sales people are not happy about future molybdenum prices.

Brodie advised that one of the main obstacles to any revised arrangements re production from Red Mountain has been the unrealistic position taken by the Torwest people, who after all presently have 60% of Red Mountain.

John Cormie commented that more reserves could probably be developed in the Red Mountain property but he declined to give any definite order of magnitude. In this respect I remember you to say that Chapman was optimistic about more reserves, but I note that he makes no comment to that effect in his report. The picture he presents, using the known reserves, would have no attraction for us.

Having everything in mind, before we would consider whether or not to take any further interest in this proposition we would want to know what Torwest would consider its 60% worth in an overall amalgamation arrangement. Perhaps you could obtain that information for us and let me know.

It was good to be talking to you again.

Yours sincerely,



Paul M. Kavanagh  
Vice-President - Exploration.

PMK:br  
cc: W.M. Sirola

PRELIMINARY EVALUATION  
OF  
A PROPOSED CONSOLIDATED OPERATION

SCURRY-RAINBOW OIL LIMITED  
RED MOUNTAIN MINES LTD.

ROSSLAND, B. C.

February 19, 1968

## CONTENTS

Section		
I	INTRODUCTION	1
II	SUMMARY AND CONCLUSIONS	3
III	RESERVES, GIANT-NOVELTY AND GOLDEN QUEEN-ST. ELMO AREAS	5
IV	RESERVES, RED MOUNTAIN MINES LTD.	9
V	MINING, CAPITAL AND OPERATING COSTS	10
VI	MILLING, CAPITAL AND OPERATING COSTS	12
VII	MISCELLANEOUS CAPITAL COSTS	13
VIII	MISCELLANEOUS OPERATING COSTS	14
IX	ECONOMIC CONSIDERATIONS	15
Appendix		
	Preliminary Analysis of Haul Operating Costs	18
Drawings		
No. 937	Topographic Plan showing Drill Hole Locations and Pit Areas -	
	original scale	1" = 100'
	reduced scale	1" = 200'



## INTRODUCTION

At the request of Mr. Peter Abt, Executive Vice-President, Scurry-Rainbow Oil Limited, the firm of Chapman, Wood & Griswold Ltd. has made a preliminary evaluation of a proposed consolidated operation between Scurry-Rainbow and Red Mountain Mines Ltd. near Rossland, B. C.

Red Mountain Mines Ltd. commenced production from its properties in June 1966 at a milling rate of approximately 400 tons per day. As at the end of 1967 they have produced a reported 1,968,302 pounds of concentrate containing approximately 997,000 pounds of molybdenum. Gross metal sales are reported as approximately \$1,986,800 or about \$1.90 per pound.

The mineralized zones controlled by Scurry-Rainbow lie in two areas approximately 800 feet apart in a northeast trending line about 1000 feet east of the present Red Mountain pit operations (CW&G Ltd. Drawing No. 937). The Red Mountain mill and tailings pond is located about half a mile downslope to the north of the pit.

Our evaluation of the mineralized zones is based on results of drilling to date furnished by Mr. A. Allan of Scurry-Rainbow and Mr. J. M. Cormie of Metal Mines Ltd.

Messrs. G. M. Hurd and J. A. Wood of Chapman, Wood & Griswold Ltd. visited the Toronto office of Metal Mines Ltd. on January 24, 1968, at which time ore reserve data and production records of Red Mountain Mines Ltd. were made available by Mr. Cormie.

The purpose of this evaluation is to provide a basis for decision on the advisability of entering into negotiations which would consolidate under one operating entity the various molybdenum bearing mining properties in the Rossland area presently controlled separately by Scurry-Rainbow Oil Limited and Red Mountain Mines Ltd.

## II

### SUMMARY AND CONCLUSIONS

1. Preliminary evaluation indicates after-tax profits of \$3,504,800 from an assumed consolidated operation of Red Mountain Mines Ltd. and Scurry-Rainbow Oil Limited molybdenum properties near Rossland, B. C. over an operating period of six years.

This estimated profit does not provide for amortization of either capital investment to date by the interested parties nor of the additional investment of approximately \$1,800,000 which would be required to expand and consolidate the operations.

2. The derivation of profitability from such an operation is based on the following assumptions and controls:
  - a) Red Mountain continues to treat its own reserves at the existing rate of 400 tons per day (144,000 tons per year) until June 1, 1969.
  - b) Tax-free period for Red Mountain production ends June 1, 1969.
  - c) Consolidated operation starts June 1, 1969 at a rate of 1000 tons per day (360,000 tons per year). Mining during the subsequent three-year period would be 500 t.p.d. from a Red Mountain pit and 500 t.p.d. from Scurry-Rainbow's Giant-Novelty pit.
  - d) The tax-free period for Scurry-Rainbow ores is June 1, 1969 to June 1, 1972 applied to a production rate of 500 tons per day (180,000 tons per year).



- e) Sales price for molybdenite concentrate will remain constant at \$1.74 Canadian per pound of contained molybdenum.
- f) Capital investment required for expansion and consolidation of the operations is:

Mining equipment	\$ 600,200
Mill expansion	760,000
Water supply and tailings	85,000
Working capital (3 months)	<u>360,000</u>
Total	\$1,805,200

3. Our estimate of mineable reserves at January 1, 1968 is:

a) Red Mountain Mines	959,800 tons @ 0.338% MoS <sub>2</sub>
b) Scurry-Rainbow:	
Giant-Novelty	778,500 tons @ 0.340% MoS <sub>2</sub> , 0.058 oz/t Au
Golden Queen-St. Elmo	237,000 tons @ 0.273% MoS <sub>2</sub> , 0.002 oz/t Au
Total consolidated reserves	1,975,300 tons @ 0.331% MoS <sub>2</sub> , 0.023 oz/t Au

Respectfully submitted,

CHAPMAN, WOOD & GRISWOLD LTD.

*H. J. Toohy*  
H. J. Toohy,  
Geologist

*E. P. Chapman Jr.*  
E. P. Chapman Jr.  
President

February 19, 1968

### III

#### RESERVES

##### GIANT-NOVELTY AREA GOLDEN QUEEN-ST. ELMO AREA

Our preliminary estimate of mineable reserves is:

1. Giant-Noveltty Area  
778,500 tons grading 0.340% MoS<sub>2</sub>, 0.058 oz. Au/ton
2. Golden-Queen-St. Elmo Area  
237,000 tons grading 0.273% MoS<sub>2</sub>, 0.002 oz. Au/ton
3. Total mineable reserves  
1,015,500 tons grading 0.324% MoS<sub>2</sub>, 0.045 oz. Au/ton

The reserve estimate was derived from diamond core assays, plan of drill collar locations and drill collar elevations furnished by Mr. A. Allan of Scurry-Rainbow Oil Limited.

Geologic mapping indicates a relatively barren complex of diorite in the form of a north-south trending dike system comprising about 15% of the surface area. Core logging has not progressed to the point where a quantitative conclusion may be made as to the amount of this material that would be present in the sub-surface.

#### Methods and Controls

- a) Sections normal to the structural and outcrop trend were constructed to give the best mean fit between drill holes. Section intervals were limited to 40 to 60 feet to more closely coincide with general pattern of drill hole spacing.
- b) Projections of mineralized zones were limited to 25 feet beyond

the drill hole intercept in the horizontal plane except where there is strong indication of continuity between holes spaced more than 50 feet apart.

- c) Projections of mineralized zones between sections were carried to the half distance between sections; assuming better continuity of mineralization parallel with the dike trend.
- d) Mineralized zones were classified according to contained metals and grade related to an assumed mining and milling cost of \$3.75 per ton of ore.
- e) The grade cut-offs thus established are:

Mine and mill - 0.23% MoS<sub>2</sub> equivalent  
Mill if in pit path - 0.14% MoS<sub>2</sub> equivalent

- f) The classifications are:

<u>Class</u>	<u>Contained Metals</u>	<u>Description</u>
I	Mo, Au	Mine and mill at a profit
II	Mo, Au	Mill at a profit if in pit path
III	Mo, Au, Cu	Mine and mill at a profit if Cu is recovered
IV	Mo, Au, Cu	Mill at a profit if in pit path and Cu is recovered

TABULATION OF RESERVES

1. GIANT-NOVELTY ZONE

Class	Tons	MoS <sub>2</sub> %	Au oz/ton	Combined Metals \$/ton	Total Value in Place
I	642,500	.406	.043	7.83	
II	245,600	.165	.099	5.16	
Average		.340	.058	7.09	
Total	888,100				\$6,295,200
Less	109,600 (not in pit path)				417,900
Mineable	778,500				\$5,877,300
Waste	2,938,000 (incl. 15% contingency)				
	Ore to waste ratio 1:3.7				

2. GOLDEN QUEEN-ST. ELMO ZONE

Class	Tons	MoS <sub>2</sub> %	Au oz/ton	Cu %	Combined Metals \$/ton	Total Value in Place
I	147,000	.379	.001	.115	\$6.91	
II	88,000	.184	.001	.134	3.76	
III	5,400	.121	Tr.	.443	4.21	
IV	36,900	.087	.005	.268	3.90	
Average		.273	.002	-	4.61	
Total	277,300					\$1,277,200*
Less	40,300					109,700
Mineable	237,000					\$1,167,500
Waste	1,010,850 (incl. 15% contingency)					
	Ore to waste ratio 1:4.3					

\* Cu values deleted - assumed not economically recoverable

3. COMBINED

	Tons	\$ Value/ton	Total Value in Place
Ore	1,015,500	6.937	\$7,044,800
Waste	3,948,900		
Total	4,964,400 (to break, load and haul)		
	Overall ore to waste ratio 1:3.9, say 1:4		

TABULATION OF RESERVES

(continued)

4. PROJECTED TREATMENT RATE - 1,015,500 tons ore

1000 t.p.d. milled	350 days/year	-	2.9 years
500 t.p.d. milled	350 days/year	-	5.8 years



IV  
RESERVES  
RED MOUNTAIN MINES LTD.

1. Tabulation of Zones

Zone	Tons	MoS <sub>2</sub> %	\$ Value @ \$1.74/lb.
Main A	525,360	.379	\$3,323,000
Upper A	100,870	.331	558,000
Lower B	390,413	.320	2,086,800
C	176,957	.263	775,900
	1,193,600	.338	\$6,743,700

2. Production to end of 1967 - 233,805 tons milled
3. Reserves at end of 1967 - 959,795, say 959,800 tons

4. Projected mine life from January 1968

- a) at 1000 tpd milled, 350 days per year = 2.7 years
- b) at 500 tpd milled, 350 days per year = 5.5 years

5. Estimated value of reserves remaining at January 1968

0.338% MoS<sub>2</sub> (0.203% Mo)  
 (.203% Mo)(20 lb./ton)(80% Recovery)(\$1.74/lb.)  
 = \$5.65 per ton

959,800 tons @ \$5.65/ton = \$5,422,890, say \$5,422,900

6. Estimated production, January 1968 to June 1969

540 days @ 400 tpd milled = 216,000 tons

7. Estimated metal sales, January 1968 to June 1969 (@ \$1.74 Can./lb. Mo)

216,000 tons @ \$5.65/ton = \$1,220,400

8. Estimated reserves at June 1, 1969

743,800 tons at an assumed grade of .338 MoS<sub>2</sub>  
 743,800 tons @ \$5.65/ton = \$4,202,470.

## MINING

## CAPITAL AND OPERATING COSTS

Preliminary estimates of capital and operating costs have been prepared for a consolidated operation mining from two pits. The equipment specified is an estimate of requirements to operate one pit on the Red Mountain holdings and one pit on the Scurry-Rainbow holdings. We have assumed that hauling from both pits would be done by company-owned trucks.

Provision has been made for deferred acquisition of one front end loader and one utility pickup truck.

Truck purchase price would be subject to availability and condition. Our price is based on units presently available in Vancouver.

CAPITAL COSTS

1	Model ATD 3100 Air-Trac and PR 123 drill	\$ 28,000
1	600 cfm compressor	30,000
2	Model 988 front end loaders (5½ cu. yd. capacity) @ \$90,00 (1 unit deferred acquisition)	180,000
6	Used 35-ton Haulpak trucks @ \$36,000 (purchase or lease-purchase) (4 operating, 2 standby)	216,000
1	Cat D7E Dozer	58,000
2	Utility pickup trucks (¾ ton) @ \$3,600 (1 unit deferred acquisition)	7,200
1	1½-ton flat bed service truck with welding and miscellaneous repair equipment	7,000
1	Used motor grader	20,000
		<hr/> 546,200
	Contingency, 10%	54,000
		<hr/> \$600,200

OPERATING COSTS @ 1000 TPD MILLED

Our estimate of operating costs is based in part on present costs experienced at Red Mountain Mines Ltd., costs reported from similar operations and haulage by company-owned or leased trucks (see appendix).

	<u>Cost per ton ore</u>
Breaking, loading stockpile and waste, \$0.22/ton ore + waste	
<u>(4,964,350 tons ore + waste)(\$0.22)</u> 1,015,500 tons ore	\$1.075
Hauling	
<u>(4,964,350 tons ore + waste)(\$0.044)</u> 1,015,500 tons ore	<u>0.215</u>
Total, mining and hauling	\$1.290

## MILLING

## OPERATING AND CAPITAL COSTS

A detailed analysis of capital and operating costs to enlarge the present Red Mountain mill is not within the scope of this preliminary report.

We have therefore drawn largely upon studies by Stearns-Roger Canada Ltd., Kilborn Engineering Ltd., and a report by H. Brodie Hicks, P. Eng., Managing Director, Red Mountain Mines Ltd. dated February 21, 1967.

CAPITAL COSTS - EXPANSION TO 1000 TPD

A Comparison of Estimates		
Stearns-Roger	Hicks	Kilborn Engineering
\$939,100 @ 1500 tpd say \$750,000	\$925,000*	\$615,000

\*Extrapolated from an estimate by Wright Engineers Ltd., for increasing capacity from 400 to 600 tpd

It would appear that an average of the above estimates is reasonable to assume,

say \$760,000.

OPERATING COSTS - 1000 TPD

Stearns-Roger	Hicks	Kilborn Engineering
\$2.30	\$2.28*	\$1.82

\*Estimated by mine manager, Red Mountain Mines Ltd.

Here again an average would appear to be reasonable to assume,

say \$2.13 per ton ore.

## VII

## MISCELLANEOUS CAPITAL COSTS

## Water Supply

Present water supply is probably insufficient for an expanded operation. An addition to the present storage capacity of the city of Rossland would probably be required, say \$50,000

## Tailings Disposal

Present tailings pond and dam at Red Mountain Mines Ltd. probably not sufficient for an expanded operation, say 35,000

Total miscellaneous costs \$85,000



## VIII

## MISCELLANEOUS OPERATING COSTS

## 1. Present Costs @ 400 tpd

Marketing	\$0.02
General	0.56
Administration	<u>0.43</u>
Total	\$1.01 per ton of ore

## Projected to 1000 tpd

$$\frac{(1.01)(1.15\%)(400 \text{ tpd})}{1000 \text{ tpd}} = 0.4646$$

say 0.47 per ton of ore

## 2. Total Miscellaneous Operating Costs

\$0.47/ton ore milled @ 1000 tpd.

IX

ECONOMIC CONSIDERATIONS

1. Our analysis of profitability from a consolidated operation is based on the following assumptions:
  - a) Depreciable assets
    - Red Mountain - assumed \$1,200,000
    - Scurry-Rainbow - 100% of mine and mill capital costs to expand production to 1000 tpd milled
  - b) Preproduction expense
    - Scurry-Rainbow - \$150,000
  - c) Beginning date of consolidated operation - June 1, 1969
  - d) Tax-free period - Red Mountain Mines - June 1, 1966 to June 1, 1969
  - e) Tax-free period - Scurry-Rainbow - June 1, 1969 to June 1, 1972
  
2. The following are estimates used:
  - a) Operating and capital costs as outlined in sections V, VI, VII and VIII
  - b) Income from metal sales (Red Mountain) for the period January 1, 1968 to June 1, 1969 is estimated from present production rate and average grade
  - c) Recent revisions to the B. C. provincial tax on natural resources will increase total taxes on income by an amount which cannot be determined until detailed cash flow projections are possible. The probable approximate effect of this increase is included in our analysis.

- d) Molybdenum metal sales are estimated at \$1.74 Canadian per pound of Mo contained in a molybdenite concentrate. The recovery is estimated as 80%
- e) Gold metal sales are estimated at \$38.00 Canadian per ounce recovered from a molybdenite concentrate. Estimated recovery is 64% based on preliminary metallurgical tests.

3. Summary of operating and capital costs to expand present operation to 1000 tons per day mill capacity:

	<u>Operating Cost per ton ore</u>	<u>Capital Cost</u>
Mining	\$1.29	\$ 600,200
Milling	2.13	760,000
Water supply	0.03	50,000
Tailings disposal	0.10	35,000
Marketing )		
General expense )	0.47	
Administration )		
Working capital - 3 months	_____	<u>360,000</u>
Total	\$4.02	\$1,805,200

4. Red Mountain Mines - projection of profitability producing tax-free ores, June 1, 1966 to June 1, 1969:

June 1, 1966 to Dec. 31, 1966 (reported)		\$ 376,300
Jan. 1, 1967 to Dec. 31, 1967 (reported)		464,300
Jan. 1, 1968 to June 1, 1969 (estimated @ .338% MoS <sub>2</sub> )	\$1,220,400	
Less:		
production cost	\$864,000	
royalties	<u>60,600</u>	<u>924,600</u>
Total		<u>295,800</u>
		\$1,136,400

5. Combined Operation - projection of profitability producing tax-free ores from Giant-Novelty pit and taxable ores from Red Mountain pit, June 1, 1969 to June 1, 1972, and taxable ores from all pits June 1, 1972 to June 1, 1975:

	<u>Red Mountain</u>	<u>Scurry-Rainbow</u>
a) Gross metal sales	\$4,202,500	\$7,044,800
b) Cost of production	2,990,000	4,082,300
c) Operating profit	1,212,500	2,962,500
d) Taxable profit		
Depreciable assets	1,200,000	1,360,200
Preproduction expense	86,800	150,000
Total deductions	1,286,800	1,510,200
Net taxable profit		
For income	(-74,300)	722,800*
For Prov. Mining Tax	1,212,500	
e) Income plus mining tax	182,000	313,000
f) Profit after tax	1,030,500	2,649,500
g) Royalties (.20)(.85)(f)	175,200	
h) Net profit	855,300	2,649,500
i) Combined net profit	\$3,504,800	

$$* \frac{(36)(\$1,445,600)}{72} = \$722,800$$

APPENDIX

PRELIMINARY ANALYSIS OF HAUL OPERATING COSTS

1. By contract @ \$0.45 per ton ore (beginning June 1, 1969)

Scurry-Rainbow reserves, 1,015,500 tons @ \$0.45	\$457,000
Red Mountain reserves 743,800 tons @ \$0.45	334,700
Total haul cost to mine present reserves	\$791,700

2. By company owned 35-ton trucks

The optimum use and size of trucks is largely dependent on front end loader work capacity and truck haul distance. Analysis of these factors indicates that 2 35-ton trucks operating and 1 35-ton truck on standby would be required in each pit area to obtain maximum use of a 5½ yard capacity front end loader

- a) 5½ yard loader - effective tons per hour

(capacity) (fill factor) (material wt. /yd. <sup>3</sup> )	6.72 tons/bucket
(5.5) (.87) (1.4 tons)	
cycles to load 35-ton truck	5.21
cycles per hour	96
production (6.72 x 96) or 5160 tons/8 hr. shift	645 tons/hour

- b) 35-ton trucks - haul production

distance, one way	2600 feet
time:	
haul	1.5 minutes
return	1.0 minute
fixed time,	3.3 minutes
cycle time	5.8 minutes
trips per hour	10.34 trips
tons per trip	35 tons
Production - tons per hour:	
100% availability	362 tons per hour
87% availability	315 tons per hour
One loader - 645 tons/hr. —> Two 35-ton trucks - 630 tons/hr.	



c) Operating labor		
4 operators @ \$28.00 per day		\$112.00
d) Maintenance labor		
2 mechanics @ \$28.00 per day		56.00
e) Fuel, lubrication, tires, maintenance		
8 hours @ \$3.00 per operating hour		<u>24.00</u>
		192.00
Contingency, 15%		<u>28.00</u>
		\$220.00

Cost per ton waste + ore hauled (@ 5000 tpd) \$0.044

CONTINENTAL MCKINNEY MINES LIMITED (N.P.L.)

Possibility of Joint Venture, Red Mountain, Cascade & McKinney

	<u>SCURRY-RAINBOW OIL LIMITED</u>					<u>TORWEST</u>					<u>CONTINENTAL MCKINNEY MINES LIMITED (N.P.L.)</u>				
	<u>Tonnage</u>	<u>\$ P/Ton</u>	<u>\$ Value</u>	<u>Percentage</u> <u>By Ton By Value</u>		<u>Tonnage</u>	<u>\$ P/Ton</u>	<u>\$ Value</u>	<u>Percentage</u> <u>By Ton By Value</u>		<u>Tonnage</u>	<u>\$ P/Ton</u>	<u>\$ Value</u>	<u>Percentage</u> <u>By Ton By Value</u>	
<u>Gross Value of Ore Reserves</u>															
Red Mountain	892,300	\$5.52	\$ 4,925,496.	43.2	44.1	892,300	\$5.98	\$ 5,335,954.	46.8	48.2	892,300	\$5.98	\$ 5,335,954.	46.8	43.9
Giant - Novelty	934,726	\$5.57	5,203,551.	45.3	46.5	778,500	\$6.01	4,678,785.	40.8	42.3	778,500	\$7.42	5,776,470.	40.8	47.5
Golden Queen - St. Elmo	237,000	\$4.43	1,049,910.	11.5	9.4	237,000	\$4.43	1,049,910.	12.4	9.5	237,000	\$4.43	1,049,910.	12.4	8.6
	<u>2,064,026</u>		<u>\$11,178,957.</u>	<u>100.0%</u>	<u>100.0%</u>	<u>1,907,800</u>		<u>\$11,064,649.</u>	<u>100.0%</u>	<u>100.0%</u>	<u>1,907,800</u>		<u>\$12,162,334.</u>	<u>100.0%</u>	<u>100.0%</u>
 <u>Net Value of Ore Reserve</u>															
Red Mountain	892,300	\$1.50	\$ 1,338,450.		46.5	892,300	\$2.73	\$ 2,435,979.		59.7	892,300	\$2.73	\$ 2,435,979.		47.1
Giant - Novelty	934,726	\$1.55	1,444,943.		50.3	778,500	\$1.99	1,549,215.		38.0	778,500	\$3.40	2,646,900.		51.1
Golden Queen - St. Elmo	237,000	\$0.39	92,430.		3.2	237,000	\$0.39	92,430.		2.3	237,000	\$0.39	92,430.		1.8
	<u>2,064,026</u>		<u>\$ 2,875,823.</u>		<u>100.0%</u>	<u>1,907,800</u>		<u>\$ 4,077,624.</u>		<u>100.0%</u>	<u>1,907,800</u>		<u>\$ 5,175,309.</u>		<u>100.0%</u>

**CONTINENTAL MCKINNEY MINES LIMITED**  
(NON-PERSONAL LIABILITY)

82 F

attach to

NOV 18 1968

Previous

of Nov 68

November 15, 1968

RECEIVED  
NOV 28 1968  
KERR ADDISON  
MINES LTD.

WSR	
V.C.G.	
J.H.S.	✓
E.F.	
R.D.S.	
B.C.B.	
P.M.K.	✓
G.W.M.	
R.O.M.	
C.K.W.	
J.B.S.	
G.P.R.	
K.F.L.	
E.C.I.	

Dr. Paul M. Kavanagh  
Vice-President - Exploration  
Kerr Addison Mines Limited  
Suite 1600, 44 King Street West  
Toronto 1, Ontario

Dear Paul:

Thank you for your letter of  
November 13th with enclosure of the Chapman report on  
Red Mountain.

I have passed on the subject matter  
to Mr. Archie Hanna, Secretary-Treasurer and Chief Executive  
Officer of Torwest--will be seeing him next week and get  
back to you when there is something to report.

With best regards and thank you for  
considering this situation.

Sincerely,

CONTINENTAL MCKINNEY MINES LIMITED (N.P.L.)

President

JERW/m

Notes to Red Mountain Amalgamation Schedule

1. Operating Expenses

Figures used for costs are the same as those used by Torwest, being as follows for a 1,000 T.P.D. operation:

For Red Mountain

Stripping ratio	1 ore - 1 waste
Operating expense	
Mining	.52
Milling	2.13
General Expense	.47
Tailings, etc.	<u>.13</u>
Total	<u>\$3.25</u>

For Giant-Novelty

Stripping ratio	1 ore - 3.9 waste
Operating expense	
Mining	\$1.29
Milling	2.13
General Expense	.47
Tailings, etc.	<u>.13</u>
Total	<u>\$4.02</u>

2. Gross Value of Ore Reserves

The ore reserves used by McKinney are the same as used by Torwest in their calculations.

Value of ore reserves are calculated as follows:

Red Mountain

Grade	0.338% MoS <sub>2</sub>	(0.203% Mo)
Value	(.203% Mo) (29 lb./ton) (84.6% recovery)	
	(\$1.74/lb.) - \$5.98 per ton	

Giant-Novelty

Grade	0.340% MoS <sub>2</sub>	(0.204% Mo)
Value MoS <sub>2</sub>	(.204% Mo) (20 lb/ton) (84.6% recovery)	
	(\$1.74/lb.) = \$6.01 per ton	
Au	(.058% Au) (64% recovery) (38.00 p/oz.)	
	= \$1.41 per ton	
Total value	\$6.01 + 1.41 = \$7.42 per ton	

3. Scurry-Rainbow Oil Ltd.'s figures on the Giant-Novelty show total

ore reserves of 934,726, whereas the Chapman Wood Report and Torwest show 778,500 (a difference of 156,226 tons), indicating that an additional ore reserve tonnage has been obtained by additional exploration work since January 1, 1968, the date of Chapman Wood's Report.



### III

#### RESERVES

##### GIANT-NOVELTY AREA GOLDEN QUEEN-ST. ELMO AREA

Our preliminary estimate of mineable reserves is:

1. Giant-Novelty Area  
778,500 tons grading 0.340% MoS<sub>2</sub>, 0.058 oz. Au/ton
2. Golden-Queen-St. Elmo Area  
237,000 tons grading 0.273% MoS<sub>2</sub>, 0.002 oz. Au/ton
3. Total mineable reserves  
1,015,500 tons grading 0.324% MoS<sub>2</sub>, 0.045 oz. Au/ton

The reserve estimate was derived from diamond core assays, plan of drill collar locations and drill collar elevations furnished by Mr. A. Allan of Scurry-Rainbow Oil Limited.

Geologic mapping indicates a relatively barren complex of diorite in the form of a north-south trending dike system comprising about 15% of the surface area. Core logging has not progressed to the point where a quantitative conclusion may be made as to the amount of this material that would be present in the sub-surface.

#### Methods and Controls

- a) Sections normal to the structural and outcrop trend were constructed to give the best mean fit between drill holes. Section intervals were limited to 40 to 60 feet to more closely coincide with general pattern of drill hole spacing.
- b) Projections of mineralized zones were limited to 25 feet beyond

Trinity Reserve (1962) (1st)

June 25/67.

Probability of Joint Operation with ~~some~~ independent Property.

Gross Value of Ore Reserve

	Tonnage	\$/TON	Value	Percentage By Tonnage	Percentage By Value
Red Mountain Mine	892,300	5.98 <sup>①</sup>	5,335,954	46.8	48.2
East - Donnelly <sup>②</sup>	778,500	6.01 <sup>③</sup>	4,678,785	40.8	42.3
Soldan Queen - St. John <sup>④</sup>	237,000	4.43	1,049,910	12.4	9.5
	<u>1,907,800 tons</u>		<u>\$11,064,649</u>	<u>100.0%</u>	<u>100.0%</u>

Net Value of Ore Reserve

Assume:

Total Operating Cost, East - Donnelly, Soldan Queen - St. John  
= \$4.02 / ton<sup>⑤</sup>

Total Operating Cost Red Mountain  
= \$2.25 / Ton<sup>⑥</sup>

	Net \$ / Ton	Net \$ Value	Percentage By Value
Red Mt. Mine	2.73 <sup>⑦</sup>	2,435,979	59.7
East - Donnelly	1.99	1,549,215	38.0
Soldan Queen - St. John	.39	92,430	2.3
		<u>(4,077,624)</u>	<u>100.0%</u>

1000 TPD.

Rmt.

	<u>Operating</u>	<u>Expense.</u>	Ratio
Mining	1.52		1.1 rate
Milling	2.13		
Gen. expense	.47		
Taxins. etc	.13		
Total	\$ 3.25		

as per Chapman, W. H. D., General report.

2) Giant Novelty.

		Ratio
Mining	1.294	1.39 rate
Milling	2.13	26
Gen. exp	.47	
Taxins etc	.13	
Total	\$ 4.02	

① 0.338%  $M_{10}S_2$  (0.203%  $M_{10}$ )

(.203%  $M_{10}$ ) (20 lb/ton) (84.6% Rec.) ( $\$1.74/lb$ )  
= 5.98

② As per Chapman Word Summary Report - Feb 19/68

③ ~~738.50%  $M_{10}S_2$  (0.204%  $M_{10}$ )~~  
~~6.01~~

0.340%  $M_{10}S_2$  (0.204%  $M_{10}$ )

(.204%  $M_{10}$ ) (20 lb/ton) (84.6% Rec.) ( $\$1.74/lb$ )  
= 6.01

④ Accepted as per Sawyer - Rankin May 17/68 report