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WESTERN MINING & EXPLORATION CO. INC.

February 19, 1979

Re Vowell Creek, B.C.
(Placer U_3O_8 + Columbium)

I.D.B.
A.H.C.
P.S.C.
W.J.
~~D.A.L.~~
J.B.S.
FILE

Mr. David Lowrie
Vice President - Exploration
Kerr Addison Mines Limited
Commerce Court West
Toronto M5L 1C7 Canada

Dear Dave:

Thanks for your courtesy on my Friday phone call regarding Western Uranium Exploration's search for a joint venture partner.

I was fortunate in locating the President, George Monteith, at the office of his consulting geologist, Charlie Archibald, just before they left for lunch and George volunteered to deliver the geological report on this Columbium-Uranium project so you would receive it before you left.

The costs of the placer operations seem very low and the hand panned concentrates (p. 3) show exciting assay values. They have a great deal of material from former explorations by Quebec Metallurgical Industries Ltd., plus the results of their own drilling and testing last summer.

Before I called you I had just talked with Paul Kavanagh. He and I were on a gold panel a few years ago in Portland at the Pacific Northwest Metals and Minerals Conference and he gave the best evaluation of the grades of reserves of South African gold mines I had ever heard. He suggested I give you the first shot at Western Uranium's project. Western Mining and Exploration Co., Bill Rickenbacker's company, expects no fee from Kerr Addison as Bill and George Monteith have their own agreement.

The enclosed summary of the uranium outlook by the World Business Weekly is encouraging (also for gold), and columbium prices recorded new highs in 1978.

I hope Kerr Addison and Western Uranium can have a profitable venture on their interesting project. I enjoyed our discussion on Friday and wish you a successful trip.

Cordially,

Austin

C. Austin Barker
Financial Consultant

2 Hickory Drive
Rye, N.Y. 10580
Phone (914) 967-2472

cc: Dr. Paul Kavanagh

P.S. Bill R. is also Chairman of the National Tax-Limitation Committee which is actively promoting state and federal amendments to the constitutions to limit government spending. We prepared a final draft of the amendment to the U.S. Constitution on January 27-28 in Washington, D.C. It's an idea whose time has come if we are to save the country from its trend toward socialism. A pamphlet on NTLC is enclosed for your interest.

Iron ore producers are also continuing to have to live with a depressed steel industry. The Japanese, in particular, have taken advantage of the low level of demand to force reductions in iron ore prices, much to the resentment of Australian producers. With more than ample supplies of iron ore available, and huge known reserves, market conditions remain very competitive, with Brazil particularly seeking to build up its market share to earn much needed foreign exchange.□

URANIUM

Development of uranium tends to go in cycles as the ore is in and out of vogue. Right now, it's in. The energy crisis of 1973-74 started the wheels turning. In the U.S., for example, exploration expenditure in 1977 at $258 million was eight times higher than the amount spent in 1972.

But the extravagant hopes of four or five years ago have proved unfounded. The expected upsurge in nuclear power station building has not taken place and spot uranium oxide prices have been on a plateau at just over $40 a pound. There is a general expectation that prices will remain static until the mid-1980s, when they could rise sharply as more nuclear power stations come onstream.

For all that, the industry remains in an expansionist mood. Among the main producers, the U.S., South Africa, Namibia, and Canada, it is thought by the International Atomic Energy Agency that 1983 production will be more than double the 1977 level. In the same period, Australian production from the major deposits of its Northern Territory should start to flow.

However, there is no doubt that the most striking developments in the international industry over the last two years have been taking place in Canada. Up to $21 billion will be spent on uranium in Canada over the next decade. Australia's place on the world markets could be threatened not only by Canada, but also by expansion of the South African industry. There uranium is produced as a byproduct of gold, and the mines have been investing heavily in plant expansion with the aid of customer finance – largely, it appears, from Europe.

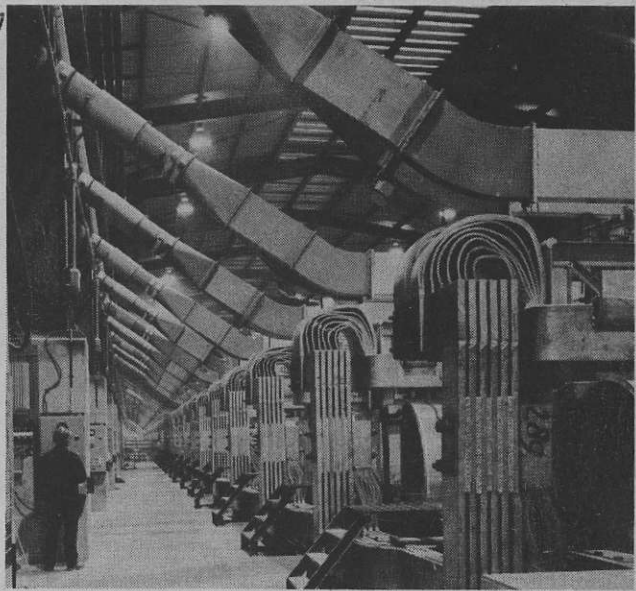
ALUMINUM

The figures on aluminum just don't balance out. In 1978, it is estimated, non-Communist world production rose by just over 2% while consumption went up by about 7%. That could spell shortage in the 1980s. But of more immediate concern is the steep rise in oil prices. Aluminum production requires a higher energy input than most other metals, notably copper. The rise in costs will mean further price increases that could well blunt a so-far successful drive by aluminum into new markets.

The entry of new, independent aluminum producers outside North America and other industrialized countries means that the big established producers are no longer able to control prices as well as in the past.

A new challenge to the producer price system for aluminum was launched by the London Metal Exchange with its first-ever aluminum futures contract unveiled in October. The market's importance as a price-fixing medium, reflecting trends in the free market, is likely to grow over the years, especially if over supply develops again. This seems unlikely for several years, but it is significant that two Eastern European aluminum producers already are reported to be using LME prices in their supply contracts.

Meanwhile, a significant development in pricing starts in 1979 with the decision by member countries of the International Bauxite Association to index bauxite at 2% of the average list price of aluminum ingot. That's where the index stays this year, but the association endorsed the objective of a bauxite price of 2.5% to 3% in normal conditions.



Molten aluminum being produced electrolytically at the Anglesey Aluminum reduction plant.

Australia, the world's single biggest producer of bauxite, objects to the pricing system. But nevertheless, the principle of indexing raw material supplies on the price of the manufactured product could have far-reaching implications.

TIN

Tin prices rocketed for the second year during 1978, with the cash price in London topping £8,000 ($16,000) per metric ton for the first time in November although by last week it had fallen back to £7,320. Among the topics dominating discussion in the tin market is the U.S. proposal to release tin from its stockpile. There is strong opposition from tin-producing countries, especially Bolivia, to stockpile releases. America has pledged that the tin would not be sold in a manner that would depress the market unduly below the price levels set by the International Tin Agreement.

At the same time, it is no longer so certain that stockpile tin is required to make up for a shortfall in production to demand. However, prospects for a further advance in 1979 are none too bright. A fall in prices could well be in the cards. A better idea of price trends for tin should become clearer when U.S. plans for stockpile releases are clarified. The administration has pledged that it will ask the new Congress to

over for Gold

try. Both lead and zinc could be boosted by the U.S. stockpile authorities deciding to replenish their supplies to the required level.

GOLD

The gold market had a particular interest in last fall's $30 billion package of measures to support the dollar. The most important for gold was the decision to double the monthly offerings by the U.S. Treasury of the "non-monetary" metal to 1.5 million ounces a month from December 1978. The bullion price subsequently fell to a little under $200. This monthly offering (which comes on top of the monthly sales of 470,000 ounces by the International Monetary Fund) is equal to a rate of 560 metric tons a year. That compares with South African production of just over 700 tons a year and annual Russian sales estimated at between 300 and 400 tons. However, the bullion market regained its aplomb following the first of these offerings when it was learned that bids were received for as much as 2.7 million ounces at prices between $199 and $217.

The strength of gold has been a direct reflection of the weakness of the dollar. In terms of strong currencies such as the Swiss franc and the Deutsche mark, the price of gold has risen very little over the past two years. Consequently there has been no falling off in the basic industrial demand for the metal as occurred in 1973-74 when jewelry manufacturers found themselves being priced out of the market. This is an important point in light of the fact that industrial demand accounts for some 1,200 tons a year – more than the combined production of South Africa and Russia.

Higher gold prices have not stimulated new production of the metal and many existing mines have taken the opportunity to work the lower grade ores which were previously uneconomic. Gold is clearly leading the dollar by several points, but the fight is not yet over. Any dramatic improvement in the world economy and the dollar could rebound to the disadvantage of the bullion price which last week hit $242.55.

Meanwhile, the metal continues to enjoy good industrial demand. Its monetary role, far from being ended, has been officially recognized in the European Monetary System. The EEC central banks will be able to mobilize part of their gold reserves, at a market-related price, to settle transactions among themselves.

PLATINUM

Last year's sharp recovery in platinum was due more to a sudden and still largely unexplained cessation of Russian exports of the metal than to currency hedging as with diamonds. Industrial demand picked up, but not to the extent that the two major Western producers, South Africa's **Rustenburg Platinum Mines** and **Impala Platinum**, were prepared to restore the cuts in production that had been made earlier.

Instead the South Africans, together with Canada's **Inco**, which produces the precious metal as a byproduct with nickel, were content merely to raise their selling prices. This they did in stages, the producer prices moving up from $180 per ounce at the beginning of 1978 to $300 at the end of the year. On the free market prices advanced from $185 to $354 in the same period.

As for the current outlook for platinum, much depends on how well the market will absorb Soviet supplies if and when they return in full strength. Otherwise, Rustenburg – which is now reinstating part of its capital development program – takes the view that demand from the U.S. auto industry is increasing. But it expects little further change in the near future in demand from industrial and jewelry users.

NICKEL AND IRON ORE

The news that **Falconbridge** is planning a modest increase in nickel output this year was a glimmer of hope for producers. But nickel remains a market depressed by huge surplus stocks and tough competition. Paradoxically, one reason for the slightly healthier undertone in the market is the four-month-old strike at **Inco**'s Sudbury, England complex, which provides the bulk of the group's production. Inco has had no difficulties satisfying customers by drawing on its massive stocks. Whatever adverse effects, the strike obviously reduced those stocks considerably. Whether the supply situation now calls for much-needed price increases is open to doubt.

The key to a real recovery in nickel sales must lie with trends in the steel industry, the main outlet for nickel. At present, consumption prospects don't look too bright, especially with the threatened downturn in the U.S. economy. But nickel producers, after the series of cuts in output, are in a healthier state to survive.

Hammersley's iron ore operations have had to cope with a steel recession and the Japanese.

over for uranium