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KERR ADDISON MINES LIMITED

(FOR INTER-OFFICE USE ONLY)

attached to previous letter of April 7th

To W. M. Sirola From G. M. Hogg

Subject Suquash Coal Prospect, Port Hardy Area, B.C. Date April 16, 1971

J.H.S.
F.M.K. ✓
Z.M.
R.D.S.
B.C.B.
I.D.B.
M.D.R.
J.H.F.
E.C.J.

As mentioned in our telephone conversation to-day, please advise M. J. Fitzgerald of Donaldson Securities that we are not inclined at the moment to become involved in the exploration of the coal licence areas in the Port Hardy area, B.C.

The proposition is frankly too speculative at present, and as you point out the profit margin is small even if the happiest of market conditions prevail.

Should additional favourable factors concerning prices and markets become evident, and bearing in mind that the character of the seams could improve in other locations within the basin, we would be willing to reconsider the matter further.

GMH:lfr

G. M. Hogg

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J.H.S. ✓
P.M.K. ✓
G.M.H.
R.D.S.
B.C.B.
I.D.B.
M.D.R.
J.H.F.
E.C.J.

To P. M. Kavanagh **From** G. M. Hogg

Subject Suquash Coal Prospect, Vancouver Island, B.C. **Date** April 12, 1971

The attached memoranda from W. M. Sirola deal with a proposition advanced by M. J. Fitzgerald of Donaldson Securities. It concerns a coal property in the Port Hardy area of Vancouver Island, B.C., and is frankly of speculative value depending on the local demand for coal required to fuel a possible steam generating plant in the Port Hardy area to supply power for Vancouver Island.

I am not too familiar with the economics of a coal operation, but I would strongly suggest that the underground mining of a high-volatile bituminous coal, and the obvious necessity for washing would involve considerably more than the suggested $7.00 to $8.00 per ton cost (Page 9 of M. J. Fitzgerald's report). It may also be noted that the $10.00 to $12.00/ton price suggested for the product F.O.B. mine site is in the realm of opinion, and that if B.C. Power did elect to establish a generating plant in the vicinity this price would be subject to some very hard bargaining.

I am inclined to agree with Bill Sirola's comment that the profit margin appears meagre in view of the capital outlay required, and do not recommend further consideration of the proposal.

I agree with negative recommendation.
PMK Apr. 12/71

GMH:lfr

G. M. Hogg

I also concur

APR - 8 1971

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J.H.F.
E.C.J.

To G.M. Hogg *From* W.M. Sirola

Subject SUQUASH COAL PROSPECT, VANCOUVER ISLAND, B.C. *Date* April 6, 1971.

Since my last memorandum on this subject I have heard the capital cost of Brameda's proposed Sukunka coking coal operation has been calculated to be 25.6 million dollars for a plant producing 2 million tons of coal annually. Coal preparation in this case would involve floatation and washing. **

Operating costs have been estimated to be:

labour	$ 3.83/long ton
materials and supplies	2.26
power	.15
royalty	.28
administration and sales	.15
insurance	.05
interest on capital and working capital	1.35
Total	$ 8.07

Since the anticipated sale price per long ton is estimated to be $15.00 f.o.b. the mine, the operating profit would be in the order of $7.00 per ton or 14 million dollars annually. In other words, the capital cost could be written off in two years.

To place the Suquash coal into perspective with this operation, and by assuming the same capital cost and the same operating cost, the operating profit per ton on coal that sells for $10.00 f.o.b. the mine would be $2.00 per ton or 4 million dollars annually.* The pay back period would be 6.4 years. *

It would appear that if one were interested in getting into the coal business, the coking coals have a very definite edge over high volatile steam coals.

Bill

WMS/jm W.M. Sirola.

** Estimated by Paul Weir and Company.

APR - 2 1971

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E.C.J.

To G.M. Hogg *From* W.M. Sirola

Subject SUQUASH COAL PROSPECT, Port Hardy Area, Vancouver Island, B.C. *Date* March 30, 1971.

The information on this prospect was submitted by M.J. Fitzgerald, who is a Geologist with Donaldson Securities of this city.

A number of people at Donaldson's formed a syndicate and applied for 16,211 acres (26 square miles) centered on the old abandoned hamlet of Suquash which is 12 miles southeast of Port Hardy on the northeast coast of Vancouver Island.

Apparently there is some doubt as to whether or not the B.C. Government would approve the coal licenses purely for the sake of launching a new company and an underwriting, but they would look favourably on the granting of licenses where a major company became involved with the applicants and agreed to a major work program. Accordingly, Donaldson's would agree to give Kerr 90% of the action in return for a stage one effort of $100,000. This would also entail ultimate financing to production if the project warranted such an expenditure.

For the moment this situation must be looked upon purely as an exploration bet. Being an ignoramus on the subject of coal, I can only state the pros and cons as I see them and would suggest that someone more knowledgeable in coal take it from there.

The favourable aspects are:

1. The ore reserves could be in the order of 200,000,000 tons of high volatile bituminous coal. Of this tonnage, however, only 15% may be open-pitable.

2. The deposit is on tide water on the leeward side of the island.

3. Vancouver Island is short of electricity and the Provincial Government recently announced that they would build a thermal plant at Port Hardy and one somewhere in the southern part of the island. The newspaper announcement indicated that these plants would use derivitives of propane and butane as fuel. I don't pretend to know what this means, but they may be thinking in terms of pentane+ or a natural gas condensate which is normally flared off at productive wells. In any case, it sounds better than burning coal, but I would not dismiss coal as a likely source of fuel.

4. With the construction lag in nuclear plants in the United States the demand for steam coal in that country would have increased materially.

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To G.M. Hogg *From* W.M. Sirola

Subject Suquash Coal Prospect - PAGE TWO *Date* March 30, 1971

5. The Suquash coal should be competitive in most coastal markets because there would be no rail freight costs involved.

The unfavorable aspects of Suquash coal are:

1. Nothing is known about the coking characteristics, and we would have to assume for the moment that it is not "coking type" coal.
2. The coal is dirty. The coal seams are 53 - 80.5 % usuable coal which may have to be cleaned by sink-float methods. I do not know whether this procedure always produces marketable coal.
3. The coal seams are relatively thin (4 to 8 feet).
4. 75% of the coal would have to be mined by underground methods.
5. A report written by Hope Engineers in 1953 mentions a fault which displaces the coal 6 feet vertically. The topographical map of the area suggests that there would be 2 or 3 northwesterly faults, the movement of which is unknown. The map also suggests that there would be northwesterly faults as well.

ECONOMICS

Based on 2,000,000 tons of coal production per annum a complete plant might cost $30,000,000.

Value of Product ----------$10.00/ton

Costs:	Production ----------	$ 6.00	
	Port handling ------	0.50	
	Interest ----------	1.20	
	Depreciation -------	0.75	(write-offs)
	Depletion ----------	0.10	
	G. & A. ----------	0.25	
		$8.80/ton	

Net Profit before taxes ----------$1.20/ton

Please realize that the $10.00/ton of product is largely speculation and costs should be checked at an actual operation either in Alberta or Nova Scotia.

CONCLUSION

The profit margin appears rather meager in view of the hefty capital outlay.

Bill

WMS/jm W.M. Sirola

FC 2nd page.