

830675  
82F/14

**REPORT  
on a  
PROPOSED EXPLORATION AND DEVELOPMENT PROGRAM  
on the  
SCRANTON MINE  
SLOCAN MINING DIVISION, BRITISH COLUMBIA  
for  
DAVID MINERALS LTD. (N.P.L.)**

**INTRODUCTION**

This report has been prepared at the request of Mr. Orval Gillespie for David Minerals Ltd. (N.P.L.). The writer spent three days at the property and, during the examination, remapped the geology of the 5700 and 5900 levels of the West Sunset workings and visited the mill. Mining is in progress on known reserves between the 5700 and 5900 levels at a rate of approximately 50 T.P.D., which is being treated in the mill at Ainsworth and the concentrate shipped to the Cominco Smelter at Trail, B.C.

The property has been reported on most thoroughly; the most recent report being that written by Messrs. D. R. Cochrane, P.Eng., and D. J. Griffith, B.Sc., dated 12 April, 1977, with an appendix report by F. E. Worthington & Associates Ltd., on the mill at Ainsworth. The report and maps by W. M. Sharp, B.Sc., the result of many years active association with the development of the Scranton property, were invaluable and all information was drawn heavily on in assessing the exploration and anticipated production potential of the property. The writer does not intend to present this information again, only as it pertains to the main objective of this report, which is to outline a proposal for phased exploration and development of the property, while, if possible, maintaining some production to the mill.

**SUMMARY AND CONCLUSIONS**

1. There are three main exploration and development targets which are accessible from the 5700 and/or 5900 levels of the West Sunset workings.
  - (a) West Sunset
    - (i) The up and down dip continuation of the existing ore shoots. Approximately 26,000 tons may be proven up by a program of raising and subdrifting between the present stope above the 5900 level and surface. This zone could contain the most readily available source of mill feed on which to resume or maintain continuous production.  
  
Some ore undoubtedly lies below the 5700 level stope, but until additional reserves, which may be present in the branch vein, referred to in (ii), are proven up, it is not considered economically feasible to rehabilitate the 5600 level and drive approximately 400 feet to the assumed location of this zone.
    - (ii) A vein branches into the hanging wall of the drift on the 5700 level, 35 feet southwest of the adit cross-cut and presumably re-enters the drift section 450 feet further to the southwest, at approximately the commencement of stoping. A series of short diamond drill or percussion holes would quickly indicate the mineralization characteristics of this section.
  - (b) Sunrise Basin-Grandview  
This zone lies approximately 600 feet southwest of the face of the West Sunset 5700 level, on projection 700 feet vertically from surface

trenching, shallow surface diamond drilling and stoped areas, and could be approximately 400 feet long. Establishing the presence and potential of this zone as a source of future production is placed in the longer term category, but drifting southwesterly should be commenced at an early date.

(c) S.W. Sunrise

This mineralized sector commences approximately 300 feet southwest of the Sunrise Basin and again its assumed position is determined by projecting about 700 feet vertically to the 5700 horizon from a drift at elevation 6467, which indicated mineralization over a length of 450 feet.

Due to the unknown variations in dip and plunge of the last two above-mentioned zones, it is anticipated that considerable diamond drilling and probably cross-cutting will be required to define these shoots, if indeed they do persist to the 5700 level. The potential of the intermediate sections should not be discounted and likewise will require at least lateral diamond drilling at regular intervals.

2. The grade of mill feed which may result from continued development of the West Sunset, and exploration of the Sunrise Basin-Grandview and S.W. Sunrise sectors, is tabulated below, but estimates are subject to confirmation by more detailed assay data.

SECTOR	oz/ton Gold	oz/ton Silver	%/ton Lead	%/ton Zinc	NET SMELTER RETURN \$/ton
WEST SUNSET	0.15	3.5	4.4	4.0	65.20
SUNRISE BASIN-GRANDVIEW	0.03	6.9	5.5	1.9	52.00
S.W. SUNRISE	0.05	1.9	5.2	2.9	37.25

3. The above estimated grades, although calculated on minimal information, indicate that, with careful mining practise, an economically feasible operation may result from the proposed exploration and development program

4. Proposed Exploration and Development Program

Phase I Time required 1.5 months

(a) Diamond drilling 5700 level 450 ft. @ 12.50/ft., including assaying	\$ 5,625.00
(b) Raise 5900 stope to 6040 level 150 ft. @ 60.00/ft.	9,000.00
(c) Sub-drift 6040 level 60 ft. @ 70.00/ft.	4,200.00
(d) Drifting 5700 level 150 ft. @ 63.40/ft.	9,510.00
(e) Overhead, camp operating 1.5 months	<u>16,050.00</u>
	\$ 44,385.00
Contingencies	<u>6,615.00</u>
TOTAL ESTIMATED COST Phase I	<u><u>\$ 51,000.00</u></u>

Phase II Time required 4.5 months

Scranton Mine

(a) Sub-drift 6040 level 300 ft. @ 70.00/ft.	\$ 21,000.00
(b) Raise 6040 level to surface 200 ft. @ 60.00/ft.	12,000.00
(c) Drifting 5700 level to Sunrise Basin-Grandview zone 850 ft. x 63.40	53,890.00
(d) Cross-cutting Sunrise Basin-Grandview zone 200 ft. x 63.40	12,680.00
(e) Diamond Drilling 4200 ft. @ 9.00/ft.	37,800.00
(f) Mill repair and maintenance - assay office	80,000.00
(g) Mill operating 3 months 4500 T @ 11.54/T	51,930.00
(h) Trucking 2000 tons at \$6.00/ton	12,000.00
(i) Mining 2500 tons at \$37.00/ton	92,500.00
(j) Assaying	11,000.00
(k) Overhead 4.5 months	48,150.00
	<u>\$432,950.00</u>
Contingencies 15%	63,050.00
	<u>\$495,000.00</u>
Less estimated revenue 4500 tons milled, net smelter return \$65.20/ton	<u>\$293,000.00</u>
Net estimated cost Scranton Mine	\$201,600.00
<u>Outside Properties</u> - Acquisition and exploration	<u>\$100,000.00</u>
Net Estimated Cost Phase II	<u>\$301,600.00</u>
TOTAL NET ESTIMATED COST PHASE I AND PHASE II	<u>\$352,600.00</u>

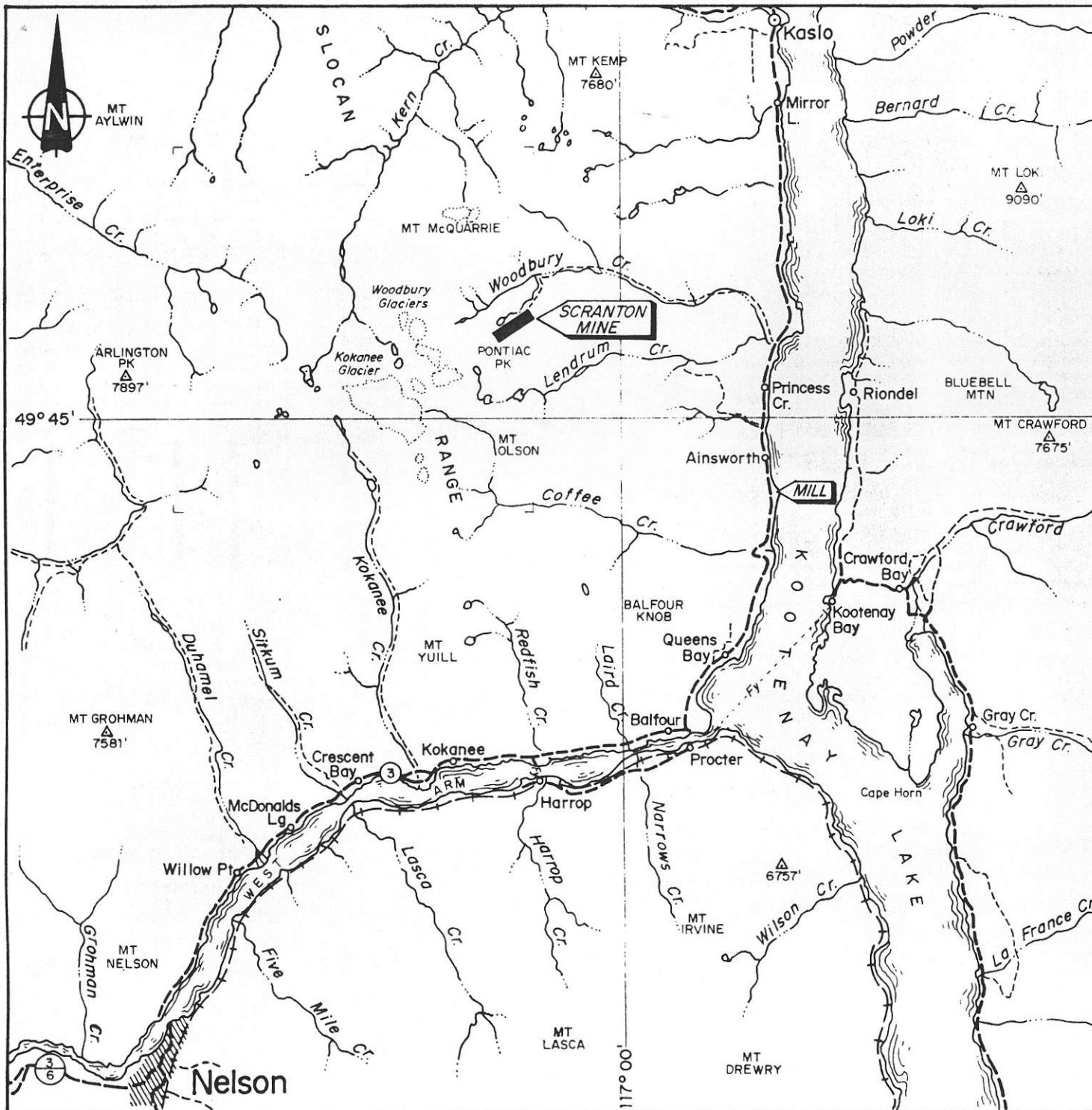
5. It will probably be necessary to shut down the mill from the commencement of Phase I until about the middle of the second month of Phase II, a period of 3.5 months.
6. Geological mapping of the 5700 and 5900 levels indicate two possible controls of economic mineralization.
  - (a) Flexure of the controlling shear structure from a strike of S55°W to S45°W, with dips flattening from 65° to approximately 55° southeasterly, which may be caused or influenced by
  - (b) Faults which strike S70°E, dip steeply southerly and cut the main vein shear structure. The points of juncture in some cases are at the commencement of mineralized shoots.
7. It does not appear that the short adit of the 6040 level is on the main vein structure.

RECOMMENDATIONS

It is recommended that the proposed, phased exploration and development program be implemented as soon as possible to lessen mill down time and resume a cash flow position.

PROPERTY, DESCRIPTION AND LOCATION

The property consists of 6 Crown Granted mineral claims and two located mineral claims approximately 30 miles by Hiway #3 from Nelson, B.C., and 10 miles by good gravel road to the mine site at elevation 5600 feet. The mill is located on the shore of Kootenay Lake, one mile south of Ainsworth, B.C., or 14 miles from the mine. The claims are within Kokanee Glacier Provincial Park, which is a



**D**  
**DAVID MINERALS LTD.**

**Scranton Mine Project**

Woodbury - Pontiac Cr. Area, Nelson M.D.  
 near Nelson, B.C. N.T.S. 82 F/14 E.

0 5 10km  
 1: 250,000 1 inch = 4 miles  
 Extracted from "Nelson" topo sheet. Oct. 78, B.A.C.

**Location Map Fig. 1**

Class B park, which allows mining operations to be conducted under a Park Use Permit.

#### HISTORY AND PREVIOUS PRODUCTION

The several mineral occurrences comprising the property were first located during the 1890's. Early production came from the Pontiac-Tecumseh and Sunset zones, which are not considered as exploration targets in this report. The 17,600 tons recorded production indicates an average grade, calculated from smelter head assays, of 0.16 oz/ton gold, 6.2 oz/ton silver, 6.8%/ton lead, 5.5%/ton zinc and 0.08%/ton cadmium.

Mining is currently in progress from the West Sunset workings at a rate of approximately 50 tons per day.

#### GEOLOGY AND MINERALIZATION

The host rock is predominantly a coarse grained granodiorite with large pink feldspar phenocrysts in a grey ground mass of hornblende, biotite, quartz and plagioclase feldspar. The controlling vein system is a multiple-stranded shear structure which strikes southwesterly and dips steeply to the southeast and has been traced intermittently for at least 7000 feet, with seven sectors showing appreciable gold, silver, lead and zinc mineralization. Approximately one half of the strike length remains unexplored and existing workings are near surface, leaving great scope for future exploration.

The shear system attains widths in excess of 25 feet, but individual mineralized strands range from 1.0 feet to 4 feet in width and average about 2.5 feet. Quartz and carbonate are the common gangue minerals, while galena, sphalerite and pyrite are the common sulphide minerals.

The grade of mineralization which may be anticipated can only be estimated from sketchy or incomplete data. There is some suggestion in the West Sunset workings that better grades are obtained at higher elevations.

#### (a) West Sunset

During its productive history, no sampling was carried out nor accurate record of tonnages maintained for the mine or mill, therefore any grade estimate must be based on concentrate head assays and tons delivered to the smelter, which of course gives no indication of mill through-put or percentage mill recovery. Recent mill head and tails assays from samples taken for six widely-separated day's production, suggest that mill recoveries are quite good.

The total production of 17,600 tons from the property during the years 1898 to 1976 indicates an average grade of 0.16 oz/ton gold, 6.2 oz/ton silver, 6.8%/ton lead, 5.5%/ton zinc and 0.08%/ton cadmium. Of this production, some 7200 tons came from the West Sunset sector during the period 1975-1976 with an indicated average grade of 0.14 oz/ton gold, 3.6 oz/ton silver, 4.7%/ton lead, 4.1%/ton zinc and 0.08%/ton cadmium.

Production in July and August 1977 amounted to approximately 1770 tons, which gave the following results:

	<u>oz/ton</u> <u>Au</u>	<u>oz/ton</u> <u>Ag</u>	<u>%/ton</u> <u>Pb</u>	<u>%/ton</u> <u>Zn</u>	<u>%/ton</u> <u>Cd</u>
Average 6 mill head assays	0.18	3.7	4.7	4.4	
Average Smelter head assays	0.16	2.7	3.5	3.4	0.07

From the above information, it is estimated that the average grade of mineralization for continued exploration and development of the West Sunset

zone will be approximately 0.15 oz/ton gold, 3.5 oz/ton silver, 4.4%/ton lead, 4.0%/ton zinc and 0.08%/ton cadmium, for a net smelter return at today's prices of approximately \$65.20/ton.

(b) Sunrise Basin-Grandview

W. M. Sharp has estimated the grade of this sector from intersections in five near-surface diamond drill holes at 0.03 oz/ton gold, 6.9 oz/ton silver, 5.5%/ton lead and 1.9%/ton zinc, over a 6.76 foot width, for a net smelter return at today's prices of approximately \$52.00/ton.

(c) S. W. Sunrise

The estimated grade based on drift sample assays, reported by W. M. Sharp, is 0.092 oz/ton gold, 3.27 oz/ton silver, 9.1%/ton lead and 5.1%/ton zinc over a 2.3 foot average width. Expanded to a 4 foot mining width, the average grade would be 0.053 oz/ton gold, 1.88 oz/ton silver, 5.2%/ton lead, 2.9%/ton zinc, for a net smelter return at today's prices of approximately \$37.25/ton.

PROPOSED EXPLORATION AND DEVELOPMENT PROGRAM

The program is divided into two phases with the objective of Phase I being to develop the presently known mineralized shoot above the 5900 level, in anticipation of providing mill feed at an early date, explore a potential branch structure of the main vein system on the 5700 level and commence the southwesterly drive on the 5700 level towards the Sunrise Basin-Grandview sector. Phase II will entail continued development above the 5900 level through to surface, exploration of the Sunrise Basin-Grandview sector by drifting, cross-cutting and diamond drilling and resumption of milling with attendant mining as required.

Phase I

- (a) On the 5700 level a mineralized branch of the main shear structure leaves the drift section 35 feet southwest of the adit cross-cut, presumably re-entering the drift 450 feet further southwest. A series of 18-25 foot diamond drill holes inclined at +30° are planned to test the width and grade of mineralization in this section. Future development will depend on results.

Total Footage	450		
Time to completion	1/2 month		
Cost	Labor, bits supplies, etc.	450 x \$9.00	\$4,050.00
	Assaying	90 x \$17.50	<u>1,575.00</u>
			\$ 5,625.00
Cost/foot	\$12.50		

- (b) A raise is to be driven from the southwest end of the stope above the 5900 level to the 6040 level at +50° for a distance of 150 feet. It is

assumed that approximately 50% of this advance will be in ore-grade material.

Total Footage 150  
 Time to completion One month  
 Ore to stock pile 300 tons

Cost - Based on one 6 foot round/shift; 5 ft. x 8 ft. cross-section:  
 23 tons per round

	Cost/ft. Advance	
Steel and Powder	\$19.50	
Labor	33.30	
Water, air & vent pipe and accessories	6.00	
Timber- ladders, etc.	1.20	
		\$60.00 x 150 = \$ 9,000.00

(c) Sub-drifting will be commenced at the 6040 level on completion of the raise

Total footage 60  
 Time to completion 1/2 month  
 Ore to stockpile 80 tons

Cost Based on one 6 foot round/shift; 4 ft. x 7 ft. cross-section;  
 16 tons per round  
 as per drifting plus 10% = 70.00/ft. x 60 4,200.00

(d) Drifting on the 5700 level southwesterly towards the Sunrise Basin-  
 Grandview mineralized zone will be commenced. No ore grade material  
 is anticipated during this advance.

Total Footage 150  
 Time to completion One month  
 Cost - Based on one 8 foot round/shift; 6 ft. x 7 ft. cross-section  
 32 tons per round

Cost/ft. Advance

Steel and Powder	21.00	
Labor	25.00	
Water, Air & Vent pipes and accessories	7.35	
Track	9.35	
Rock bolts, timber, etc.	.70	
		63.40 x 150 = \$ 9,510.00

(c) Overhead costs - detailed below

1.5 months @ \$10,700./month	\$ 16,050.00
	\$ 44,385.00
Contingencies	6,615.00
TOTAL ESTIMATED COST PHASE I	<u>\$ 51,000.00</u>

Total tonnage stockpiled for milling 380

#### Phase II

##### Scranton Mine

(a) Continuation of sub-drifting on the 6040 level, with a breakthrough to surface. It is unlikely that this heading will encounter the existing stub adit, as the latter does not appear to be on the main structure.

Total footage	300	
Time to completion	2.5 months	
Ore to stockpile	270 tons	
Cost	300 x \$70.00/ft.	\$ 21,000.00

(b) A raise through to surface is required to complete exploration of the mineralized zone above the 5900 and 6040 levels and provide ventilation. The raise will be driven at +50°.

Total Footage	200	
Time to completion	1.75 months	
Ore to stockpile	380 tons	
Cost	200 x \$60.00/ft.	\$ 12,000.00

- (c) Drift to the projected southwesterly limit of the Sunrise Basin-Grandview mineralized zone, which could have a length of approximately 450 ft.

Total Footage	850	
Time to completion	3 months	
Ore to stockpile	900 tons	
Cost - based on two 8 foot rounds per day 850 x \$63.40/ft.		\$ 53,890.00

- (d) Two 100 foot cross-cuts are planned northeast from the drift, 200 feet apart in the Sunrise Basin-Grandview sector to provide lateral exploration of the main shear structure and bases for diamond drilling

Total footage	200	
Time to completion	1 month	
Cost - based on two 8 foot rounds per day 200 x \$63.40/ft.		\$ 12,680.00

- (e) Diamond drilling is planned within the Sunrise Basin-Grandview sector at 100 foot centres along the drift, two 200 foot holes per section, one hole into each wall. Three inclined holes will be drilled from each cross-cut. In the intermediate

sector between the present drift face and the projected location of the Sunrise Basin-Grandview zone, three sections will be drilled at 200 foot intervals with one 200 foot hole in each wall.

The drilling may be summarized as follows:

Sunrise Basin-Grandview Sector

5 sections	400 ft./section	2,000 ft.
2 cross-cut sections	500 ft./section	1,000 ft.

Intermediate sector

3 sections	400 ft./section	<u>1,200 ft.</u>
------------	-----------------	------------------

Total diamond drilling	4,200 ft.
------------------------	-----------

Time to completion	2 months
--------------------	----------

Cost - based on 2 shifts per day; 35 ft. per shift 4200 x \$9.00/ft.	\$ 37,800.00
---	--------------

- (f) F. E. Worthington & Associates recommended repair and maintenance of the mill and installation of an assay office for a total cost of \$ 80,000.00

- (g) The mill will probably be shut down during Phase I, and for the first 1.5 months of Phase II to effect the work recommended in item (f). Mill operating should be resumed for the last three months of Phase II, treating development muck, estimated to aggregate 2000 tons, plus 2500 tons to be mined. F. E. Worthington & Associates estimate a milling cost of \$11.54/ton.



Operating time	3 months	
rate	50 tons per day	
Operating Cost	4500 x \$11.54/ton	\$ 51,930.00

(h) Trucking 2000 tons development muck to the mill  
2000 x \$6.00/ton \$ 12,000.00

(i) It will be necessary to mine 2500 tons during the last two months of Phase II to maintain the mill operation.

Production time	2 months	
rate	50 tons per day	
Cost		
<u>Item</u>	<u>Cost/ton</u>	
Labor	\$16.00	
Supplies	12.00	
Mine general	3.00	
Truck to mill	<u>6.00</u>	
Total	\$37.00 x 2500 =	\$ 92,500.00

(j) With the completion of the assay office at the mill, it is estimated that assay costs will be reduced to \$8/sample. During the milling period five mill samples per day will be assayed, plus 8 to 12 samples from the mine, depending on diamond drill results, which will probably average 15 samples per day. A total of 1375 samples has been estimated for Phase II at a cost of \$ 11,000.00

(k) Overhead. The monthly breakdown of costs is as follows:

Equipment operating - fuel lubricants, etc. & including portal heater	\$2,250.00	
Spare parts - maintenance	<u>1,250.00</u>	\$ 3,500.00
Cookery cost \$20. per man day		4,200.00
Expediting, transportation, other		500.00
Engineering	<u>2,500.00</u>	
		<u>\$10,700.00</u>
Cost for 4.5 months		\$ 48,150.00
		\$432,950.00
Contingencies 15%		\$ 63,050.00
		\$495,000.00
Less estimated revenue from 4500 tons milled at net smelter return of \$65.20/ton		\$293,400.00
NET ESTIMATED COST - SCRANTON MINE PROPERTY		<u>\$201,600.00</u>

(1) Examination acquisition and exploration of outside properties is planned in anticipation of supplementing mill feed from the property and ensuring a continuous milling operation. Expenditures may be for the supplying of engineering expertise, financial aid to leasers, or actual operation of other properties. During Phase II the estimated expenditure is \$100,000.00  
NET ESTIMATED COST PHASE II \$301,600.00  
TOTAL NET ESTIMATED COST OF PROGRAM \$352,600.00

Respectfully submitted

*Walter E. Clarke*  
WALTER E. CLARKE, B.Sc., P.Eng.  
Consulting Engineer

25 October, 1977

**PROGRESS REPORT  
SCRANTON MINE EXPLORATION & DEVELOPMENT  
PERIOD 1 MARCH-22 JULY, 1978**

To The President & Directors,  
David Minerals Ltd. (N.P.L.)  
315 - 850 West Hastings St.,  
Vancouver, B.C. V6C 1E1

INTRODUCTION

The following report summarizes the work performed during the period at the Scranton Mine property, in general following the recommendations in the writer's "Proposed Exploration & Development Program Report" dated 25 October, 1977.

In order to utilize available funds most effectively, portions of both Phase I and Phase II have been completed, the main objective being exploration for the downward extension of the Grandview/Sunrise Basin vein structures by drifting, cross-cutting and diamond drilling on the 5700 Level.

The property has been visited by the writer on a regular basis throughout the period, the latest examination being 20-22 July, 1978.

Attached maps are 1" = 20' scale Geology Plans and a 1" = 200' Composite Plan.

SUMMARY

Drifting southwesterly was commenced 19 March 1978 from the previous south face of the 5700 Level drift, approximately 1,000 feet from the portal. The drift has been advanced 727 feet, and for the last 270 feet has been within a zone of strong multiple shearing and faulting, alteration, mineralization and narrow quartz veining, believed to be the downward extension of the Grandview/Sunrise Basin vein structures.

Diamond drill stations have been cut at approximately 150 foot intervals along the drift and the 8300 crosscut has been extended 100 feet into the west wall, near the south face of the drift, as a drill base to permit diamond drill exploration of the zone above the level. The total drifting, cross-cutting and equivalent slashing footage is 958. Diamond drilling amounts to 1520 feet, with 9 holes completed and the 10th and last hole of the current program in progress.

The present south face of the drift is about 160 feet within the projected target area of the Grandview/Sunrise Basin zone and with the exception of diamond drill holes 78-7 and 78-9, another 300 feet to the southwest remains unexplored.

Funds available for the program amounted to \$251,952.00, of which approximately \$198,000.00 were spent on property operations to 30 June 1978, and \$44,618.00 on related administrative expenses for a total of \$242,618.00. Total direct and indirect property costs for drifting and cross-cutting were \$187.00/foot of advance, and for diamond drilling \$16.96/foot.

Economic mineralisation has not been encountered in the drifting, although several narrow sheared quartz veins, cutting the drift at low angles, were mineralized with pyrite, galena and sphalerite, and returned interesting values in gold, silver, lead and zinc. Investigation of these veins outside the drift section is warranted. The first 6 diamond drill holes checked for any parallelling structures up to 200 feet in the east and west walls over a distance of about 500 feet. A strong altered shear zone was intersected in the last 28 feet of hole 78-6, 136 feet east of the drift, but values were low, as were assays on lesser intersections in the

ther 5 holes. Hole 78-7, drilled from 8300 crosscut encountered the main structure 130 feet south of the present face and, within the 7.0 foot true width of zone, intersected a very well mineralized 3.1 foot core length (2.2 foot true width) which assayed 0.38 ounces/ton gold, 11.20 ounces/ton silver, 15.70%/ton lead and 20.60%/ton zinc. Hole 78-8 was directed to intersect the zone about 150 feet above the level on line with the crosscut, but poor ground conditions prevented completion of the hole and the main structure was not reached. Hole 78-9 intersected the main zone approximately 90 feet above hole 78-7. The structure is strong across a comparable width, with scattered pyrite, galena and sphalerite, but all assays were low. Hole 78-10 is currently being drilled to check the structure approximately 100 feet north of the crosscut and 150 feet above the level. On completion of hole 78-10, it is planned to resume drifting southwesterly to open up the vein intersected in hole 78-7.

#### CONCLUSIONS

Work to date has demonstrated the presence of a strong multiple stranded shear and fault system on the 5700 Level, which is presumed to be part of the regional structure that has been intermittently identified on surface for over 7000 feet. In the vertical plane, mineralization is now known to extend at least 800 feet below surface, with important gold and silver values associated with lead and zinc, a prerequisite for an economic operation on a narrow vein system. The attitude and continuity of individual fault strands and their control over mineralization is not clear. No ore shoot has as yet been developed, but opening up of the strong mineralization in diamond drill hole 78-7 by drifting, initially, is of the

utmost immediate importance to help determine mineralization controls and continuity. The results of this work will have a major influence on the conduct of future exploration in this area.

#### DRIFTING

A line drive S55°W was commenced from the south face of the 5700 Level, designed to intersect the downward extension of the Grandview/Sunset Basin vein structures. For the first 470 feet the heading was in relatively fresh granodiorite, moderately sheared and fractured, with some of the fractures quartz filled and sparsely mineralized. A marked increase in the fracture pattern from 300 to 425 feet suggested proximity to a major structure. At the 470 foot mark, a strong zone of shearing, faulting and accompanying alteration of the granodiorite entered the drift at a low angle from the west wall, dipping 65° easterly, and remained in the drift for approximately 120 feet, at which point it was terminated at a strong east-west fault, dipping 20° to the south. The strongest shearing varied from one to four feet wide, within an overall zone width of alteration in excess of six feet. Quartz veining and sulphide mineralization were variable, but in places amounted to 30 to 40% pyrite and lesser quantities of galena and sphalerite. The best assays were obtained from samples at the junction of the shear zone with the cross-fault and 25 feet north of the junction. The former assayed 0.078 ounces/ton gold, 38.10 ounces/ton silver, 0.28%/ton lead and 0.14%/ton zinc, while the latter assayed 0.13 ounces/ton gold, 30.42 ounces/ton silver, 0.50%/ton lead and 0.23%/ton zinc. For a 30 foot length and 2.4 foot width the average assays from four chip samples were 0.079 ounces/ton gold and 18.5 ounces/ton silver with low lead and zinc.

Beyond the cross-fault relatively fresh granite was encountered for the next 50 feet, at which point a strong steeply dipping shear and fault structure entered the drift section, again from the west wall, which gradually angled across the drift so that at the present face, 100 feet from the point of entry, it has almost passed out of the drift in the east wall. Within the zone, two mineralized quartz-filled shears, dipping 60° to 65° easterly, and striking across the drift at an angle of 20°, were exposed. The best assay on the first vein was 0.22 ounces/ton gold, 3.57 ounces/ton silver, 3.90%/ton lead and 0.03%/ton zinc, over a width of 0.5 feet, and on the second vein 0.12 ounces/ton gold, 3.20 ounces/ton silver, 16.65%/ton lead and 0.06%/ton zinc. Additional exploration on these shears into both walls and in the vertical plane is warranted.

In 8300 crosscut, a prominent shear was exposed after 18 feet of advance with a mineralized quartz filled shear a further 5 feet west. The latter vein shear assayed 0.15 ounces/ton gold, 2.00 ounces/ton silver and 2.24%/ton lead and may be related to the intersection in diamond drill hole 78-7.

#### DIAMOND DRILLING

The following tabulation summarizes the diamond drilling to date.

D.D.H. No.	FOOTAGE	LOCATION		BEARING DIP		REMARKS
		LATITUDE	DEPARTURE			
78-1	209.0	9101 N	8781 E	S35°11'E	+1°31'	Nothing of interest.
78-2	190.0	9124 N	8770 E	N24°13'W	+0°49'	Nothing of interest.
78-3	186.0	9037 N	8647 E	N36°30'W	+0°42'	Altered zone to 30 feet. Main Zone? No values.
78-4	167.0	8946 N	8523 E	N31°41'W	+1°42'	Nothing of interest.
78-5	95.0	8924 N	8533 E	S21°01'E	+1°23'	Weak zone 68-74. No values.
78-6	164.0	8822 N	8392 E	S30°51'E	+1°10'	Shear zone at 82 and 125 feet. Alteration & fault zone 136 to 164 feet. No values.
78-7	203.0	8848 N	8249 E	S15°22'W	+0°51'	Main zone 153-166 feet. See assays below.
78-8	106.0	8851 N	8252 E	S39°49'E	+66°29'	Fault zone 94-106. Hole abandoned. Main zone not reached. No values.
78-9	200.0	8850 N	8249 E	S11°38'W	+46°09'	Main zone 111-121 feet. No values.
Total	1520.0					

D.D.H.	78-7	ASSAYS						REMARKS	
		Footage From	Footage To	Core Length	Gold oz/ton	Silver oz/ton	Lead %/ton		Zinc %/ton
		153.2	154.5	1.3	0.015	0.23	0.13	0.10	
		154.5	157.6	3.1	0.380	11.20	15.70	20.60	True width 2.2 feet
		157.6	164.3	6.7	0.036	0.41	N/A	N/A	7.5% core recovery
		164.3	165.8	1.5	0.009	0.39	0.80	0.84	

12.6 - True width 7.0 feet

COSTS

PROPERTY OPERATING

Footage for period	DRIFTING & CROSS-CUTTING		DIAMOND DRILLING		TOTAL EXPENDITURE
	958		1114		\$
	EXPENDITURE	COST/FOOT	EXPENDITURE	COST/FOOT	
	\$	\$	\$	\$	
Direct					
Contract	87,709.00	91.55	11,247.00	10.10	98,956.00
Cost Plus					
Labor	20,205.00	21.09			20,205.00
Materials	15,069.00	15.73			15,069.00
Overhead	7,471.00	7.80			7,471.00
Sub Total Cost Plus	<u>42,745.00</u>	<u>44.62</u>			
Assaying	<u>643.00</u>	<u>0.67</u>	<u>592.00</u>	<u>0.53</u>	<u>1,235.00</u>
TOTAL DIRECT	131,097.00	136.84	11,839.00	10.63	142,936.00
Indirect					
Room & Board	3,300.00	3.45	484.00	0.44	3,784.00
Power & Air	17,219.00	17.97	2,528.00	2.27	19,747.00
Transportation, Equipment, Rentals	11,176.00	11.67	1,641.00	1.47	12,817.00
Repairs	4,725.00	4.93	693.00	0.62	5,418.00
Insurance, Taxes	<u>11,631.00</u>	<u>12.14</u>	<u>1,707.00</u>	<u>1.53</u>	<u>13,338.00</u>
TOTAL INDIRECT	48,051.00	50.16	7,053.00	6.33	55,104.00
TOTAL PROPERTY OPERATING	<u>179,148.00</u>	<u>187.00</u>	<u>18,892.00</u>	<u>16.96</u>	<u>198,040.00</u>

ADMINISTRATIVE EXPENSES 44,618.00

in the latter 250 feet of advance which required extensive back and wall support. Further cost escalation was in the negotiated contract price per foot for drifting and cross-cutting, partially as the result of inflationary pressures in labour and material costs. For similar reasons indirect costs for power and air were higher than anticipated. Breakdowns increased the equipment repair and rental items and mill insurance had to be borne by this phase of the operation.

Respectfully submitted,

*Walter E. Clarke*

WALTER E. CLARKE, B.Sc., P.Eng.

25 July, 1978.

The above property operating costs are about 40% higher than estimated in the writer's October 1977 report. The most unpredictable cost item is in the area of "cost plus" work and this was higher than anticipated due to heavy ground conditions

**PROGRESS REPORT  
SCRANTON MINES EXPLORATION DEVELOPMENT  
PERIOD 23 JULY-23 OCTOBER, 1978**

The President & Directors,  
David Minerals Ltd. (N.P.L.)  
315 - 850 West Hastings St.,  
Vancouver, B.C. V6C 1E1

INTRODUCTION

This report summarizes the work performed during the above-noted period at the Scranton Mine property as per the recommendations in the writer's report "Proposed Exploration & Development Program" dated 1 August 1978. The drifting and cross-cutting and 40% of the diamond drilling on the 5700 Level, planned in Phase I, have been completed to date. Diamond drilling is currently in progress, with one drill on a two-shift basis.

The property has been visited by the writer at regular intervals throughout the period, the latest examination being 23 October, 1978.

Attached maps are - Assay Plan - scale 1" = 20', and Vertical Longitudinal Projection - scale 1" = 200'.

SUMMARY

1. Drifting and Crosscutting

Drifting southwesterly on the 5700 Level was resumed 2 August, 1978 and continued for a total of 239 feet. After 65 feet of advance a strong, shear-controlled, vein zone entered the drift section from the west wall,

possibly the continuation of the vein exposed in 8300 crosscut. The well mineralised vein was drifted on for a length of 95 feet, at which point an east-west striking cross structure cut off the hangingwall portion of the vein, and the footwall shear swung into the west wall. A 69.0 foot section of the vein assayed 0.27 ounces gold, 5.64 ounces silver, 7.56% lead and 9.17% zinc per ton, over an average width of 4.2 feet. The remaining advance was in granodiorite, with no veining of note.

Crosscuts were driven into both walls of the drift close to the southwest face to provide drill stations for diamond drill testing of the Grandview-Sunrise Basin zone above and below the 5700 Level. 8145 N.W. crosscut was extended 122 feet into the west wall and encountered a strong vein zone after 20 feet of advance, which assayed 0.10 ounces gold, 0.26 ounces silver, 0.14% lead and 0.08% zinc per ton over an average width of 3.7 feet. The two crosscuts into the east wall of the 5700 Level, 140 feet and 820 feet southwest of the portal, have been completed to permit checking the downward extension of the mineralised shoots previously developed on and mined above the 5700 Level.

DRIFTING & CROSSCUTTING SUMMARY

HEADING	FOOTAGE
Southwest Drift	239
8145 N.W. X-cut	123
8145 S.E. X-cut	60
9045 S.E. X-cut	77
9520 S.E. X-cut	76
	575
Drift & diamond drill Station slash - Equivalent feet	106
TOTAL	681

3. Test Holing

A vein structure branching into the east wall of the 5700 Level 180 feet southwest of the portal was checked by 7 - 30 foot percussion test holes at approximately 50 foot intervals, over a length of about 300 feet. All assays were low.

4. Property Operating Costs

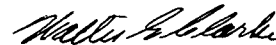
From 1 July 1978 to 15 October 1978, property operating costs are estimated at approximately \$158,000.00, in line with budgeted expenditures.

CONCLUSIONS

The 69 foot mineralized shoot on the 5700 Level demonstrates the presence of high grade mineralization in the area of the downward extension of the Grandview-Sunrise Basin vein system. Exploration to date has not determined the limits of the several vein strands which have been encountered over a north-south distance of over 500 feet, although assays of interest have been encountered in each of the veins. Completion of the diamond drilling program and either raising or test stoping of the above-noted shoot will be of assistance in a better understanding of the potential of this area.

The decision to proceed with all or part of Phase II of the proposed exploration and development program will be largely dependent on the final results of this work.

Respectfully submitted.



WALTER E. CLARKE, P.Eng.

28 October 1978

2. Diamond Drilling

D.D.H. 78-10 was the last hole to be completed in the initial drill program. It was drilled from 8300 crosscut to a depth of 188 feet and intersected a vein zone 90 feet above the level, of which 1.2 feet assayed 0.38 ounces gold, 3.89 ounces silver, 5.23% lead and 3.18% zinc per ton. This is probably the same vein structure as was exposed in 8300 crosscut and in which the 69 foot mineralized shoot mentioned above is located.

The present diamond drilling program commenced 21 September 1978 and to date 8 holes have been completed for a total of 1231 feet. Assays have only been received for three holes. Two flat holes, 78-11 and 78-12 were drilled to check for the southwesterly extension of the vein zone exposed in 8145 N.W. crosscut. In hole 78-11 a mineralized quartz vein in a 17 foot wide alteration zone was intersected 65 feet southwest of the crosscut. Actual vein width is uncertain due to lost core but may be as much as 6 feet. Assays are unavailable. Hole 78-12 encountered a weak zone, approximately 200 feet southwest of the crosscut, but it is possible that the hole was not deep enough to reach the main vein structure. Another flat hole is planned midway between these two holes.

Three up holes have been completed from 8145 N.W. crosscut to test approximately 100 feet above the 5700 Level over a length of about 175 feet. All three holes encountered veining at the expected locations. Hole 78-13 above the crosscut intersected the best mineralization which assayed 0.046 ounces gold, 5.60 ounces silver, 2.60% lead and 1.96% zinc per ton over a 3.9 foot core length. Hole 78-14 was drilled over the mineralized shoot on the level and while veining was strong over a 4 foot width, assays were low. Hole 78-15 intersected three zones

of alteration and quartz veining over core lengths of up to 10 feet, 80 feet south of the crosscut, but assays were low.

Two down holes have been completed from 8145 S.E. crosscut to check approximately 100 feet below the 5700 Level. Hole 78-16 intersected a 4 foot wide vein zone containing sulphides, below the crosscut. Assays are not available. Hole 78-18 tested the downward extension of the mineralized shoot on the level 75 feet north of the crosscut and encountered two zones of alteration and quartz veining, with short core lengths of interesting sulphide mineralization. Assays are unavailable.

One flat hole was drilled easterly from the face of 8145 S.E. crosscut to check the southerly extension of a strongly altered shear zone encountered in hole 78-6, 275 feet to the north. Ground conditions prevented the hole reaching its target depth and the zone was not tested.

DIAMOND DRILL SUMMARY


DDH No.	FOOTAGE	LOCATION	BEARING	DIP	REMARKS
78-10	188	8300 X-cut	N83°35'E	+46°	Previous Program
78-11	125	8145 N.W.X-cut	S 9°34'E	0°	
78-12	208	8145 N.W.X-cut	S23°12'W	0°	
78-13	137	8145 N.W.X-cut	S39°13'E	+67°	
78-14	145	8145 N.W.X-cut	N79°45'E	+46°	
78-15	200	8145 N.W.X-cut	S22°30'W	+45°	
78-16	136	8145 S.E.X-cut	N37°30'W	-76°	
78-17	103	8145 S.E.X-cut	S57°30'E	0°	
78-18	177	8145 S.E.X-cut	N44° E	-45°	

1419



ACCOUNTANT'S COMMENTS

I have prepared the accompanying balance sheet as at 30th June, 1978 and the statements of changes in financial position and exploration and administrative expense for the period then ended from the records of David Minerals Ltd. (N.P.L.) and from other information supplied to me by the company. In order to prepare these financial statements I made a review, consisting primarily of enquiry, comparison and discussion, of such information. However, in accordance with the terms of my engagement, I have not performed an audit and consequently do not express an opinion on these financial statements.



BRENDAN P. HIGGINS

CHARTERED ACCOUNTANT

North Vancouver, B.C.  
19th July, 1978.

# DAVID MINERALS LTD. (N.P.L.)



# DAVID MINERALS LTD. (N.P.L.)

BALANCE SHEET AS AT 30TH JUNE, 1978.  
(With Comparative Figures as at 30th June, 1977)

<u>ASSETS</u>	<u>June 1978</u>	<u>June 1977</u>
<u>CURRENT ASSETS</u>		
Cash in bank	62,566.08	2,625.93
<u>MINERAL CLAIMS (Note 1A)</u>	37,500.00	37,500.00
<u>SCRANTON PROPERTY (Note 1B)</u>		
Claims	6,000.00	
Equipment	27,500.00	
Camp	15,000.00	
Mill	100,000.00	
Improvements	<u>229,000.00</u>	377,500.00
<u>DEPOSIT ON PROPERTIES</u>	-	4,521.40
<u>EXPLORATION AND ADMINISTRATIVE EXPENSE (Note 1C)</u>	<u>454,123.53</u>	<u>61,113.49</u>
	<u>\$931,689.61</u>	<u>\$105,760.82</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Bank loan	-	10,000.00
Accounts payable	28,899.87	14,102.40
Directors' advances	-	<u>37,070.30</u>
	<u>28,899.87</u>	61,172.70
<u>DEBENTURE PAYABLE</u>		
Reesor Investments Ltd. (Note 2A)	220,000.00	-
<u>SHAREHOLDERS' EQUITY</u>		
Share capital -		
Authorized -		
5,000,000 shares of \$1 par value each		
Issued and fully paid (Note 4)		
2,587,001 shares	864,302.62	226,101.00
Deficit - unchanged	<u>(181,512.88)</u>	<u>(181,512.88)</u>
	<u>\$931,689.61</u>	<u>\$105,760.82</u>

APPROVED ON BEHALF OF THE BOARD:

Director *[Signature]*  
Director *[Signature]*

Subject to the accompanying comments of Brendan P. Higgins, Chartered Accountant, dated 19th July, 1978.

## STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30TH JUNE, 1978.

(With Comparative Figures for the Corresponding Period of the Previous Year)

	<u>June 1978</u>	<u>June 1977</u>
(Unaudited)		
<u>SOURCE OF FUNDS</u>		
Proceeds from sale of shares - 1,010,000	<u>\$481,951.62</u>	<u>-</u>
<u>FUNDS APPLIED</u>		
Exploration expense	255,401.17	8,434.64
Administrative expense	44,617.74	4,399.37
Deposit on Scranton property	-	4,521.40
Debenture retired	<u>55,000.00</u>	<u>-</u>
	<u>\$355,018.91</u>	<u>\$ 17,355.41</u>
<u>INCREASE (DECREASE) IN WORKING CAPITAL</u>	126,932.71	(17,355.41)
<u>WORKING CAPITAL (DEFICIT) BEGINNING OF PERIOD</u>	<u>(93,266.50)</u>	<u>(41,191.36)</u>
<u>WORKING CAPITAL (DEFICIT) END OF PERIOD</u>	<u>\$ 33,666.21</u>	<u>\$ (58,546.77)</u>

# DAVID MINERALS LTD. (N.P.L.)



# DAVID MINERALS LTD. (N.P.L.)

## STATEMENT OF EXPLORATION AND ADMINISTRATIVE EXPENSE

FOR THE SIX MONTHS ENDED 30TH JUNE, 1978.

(With Comparative Figures for the Corresponding Period for the Previous Year)

	(Unaudited)	
	June 1978	June 1977
<u>EXPLORATION EXPENSE</u>		
Assay	1,091.80	-
Engineering	20.80	8,353.64
Equipment purchases	83,278.00	-
Equipment operating	(1,280.59)	-
Insurance	6,745.60	-
Power	1,000.00	-
Staking and recording	-	60.00
Taxes, fees and licences	2,593.13	-
Travel	-	21.00
Contract - Hem Mines Ltd.	161,952.43	-
	<u>\$255,401.17</u>	<u>\$ 8,434.64</u>
<u>ADMINISTRATIVE EXPENSE</u>		
Audit and legal	7,273.72	3,990.00
Office	2,780.58	125.63
Accounting	8,599.70	-
Fees	3,750.00	-
Interest	19,718.49	37.85
Transfer agent	237.69	245.89
Corporation capital tax	1,057.56	-
Publicity	1,200.00	-
	<u>\$ 44,617.74</u>	<u>\$ 4,399.37</u>
<u>TOTAL FOR PERIOD</u>	<u>300,018.91</u>	<u>12,834.01</u>
<u>BALANCE AT BEGINNING OF PERIOD</u>	<u>154,104.62</u>	<u>48,279.48</u>
<u>BALANCE AT END OF PERIOD</u>	<u>\$454,123.53</u>	<u>\$ 61,113.49</u>

## NOTES TO THE FINANCIAL STATEMENTS

AS AT 30TH JUNE, 1978.

### 1. Values

- A. Mineral claims - \$37,500 being value ascribed to 375,000 of the company's shares. Additional claims included with "Scranton Properties" were allocated a cost of \$6,000 (see 1B).
- B. In December 1977 the Scranton Property consisting of claims, mill, equipment and improvements were acquired for \$240,000 cash and 550,000 treasury shares. The treasury shares were allocated a value of 25¢ each which made the total acquisition cost of this property \$377,500. The aggregate cost of the acquisition was allocated to specific items so as to reflect their values as a going concern.
- C. Exploration and administrative expenses are shown at cost which includes 75,000 shares issued at 25¢ per share as part consideration for finder's fees incurred.

These amounts are not intended to represent present or future values.

### 2. Agreements

- A. In order to finance the purchase of the Scranton Mine, mill and mining equipment the company borrowed \$275,000 from Reesor Investments Ltd. The loan of \$275,000 is secured by a debenture dated 21st December, 1977. The debenture is repayable in 18 months with interest at 12%. The debenture is convertible in whole or in part into shares of the company at 50¢ per share. Should any part of the debenture be so converted the interest is only payable on the balance less \$55,000. Interest is payable monthly in advance. On 2nd May, 1978 Reesor Investments Ltd. converted 20% of the debenture into shares.
- B. At an extra-ordinary general meeting of David Minerals Ltd. (N.P.L.) held on 24th June, 1977 the company approved the purchase of mining equipment from Hem Mines Ltd. for 150,000 treasury shares. This agreement was completed on 11th January, 1978.  
  
Hem Mines Ltd. was licenced to operate the Scranton mine for four months commencing 1st June, 1977. This licence was extended to 9th January, 1978 and subsequently to 28th February, 1978. Hem Mines Ltd. was to pay the property owners 15% of the profit earned by operating the mine. Hem Mines Ltd. reported a profit of approximately \$128,000 from net smelter returns of \$346,471 for the period June to December, 1977 and no profit from net smelter returns of \$35,578 for the months of January and February, 1978. David Minerals Ltd. (N.P.L.) authorized Hem Mines Ltd. to use the share of profits accruing to David to carry out improvements on the property. David Minerals Ltd. (N.P.L.) is satisfied these improvements exceeded 15% of net profits earned by Hem Mines Ltd.

# DAVID MINERALS LTD. (N.P.L.)



# DAVID MINERALS LTD. (N.P.L.)

C. By an agreement dated 2nd March, 1978 Hem Mines Ltd. has been engaged to undertake development work at the Scranton Mine at the direction of and on behalf of David Minerals Ltd. (N.P.L.).

### 3. Options

- A. By an agreement dated 31st August, 1973 Lucy W. Day was granted an option to purchase the company's placer lease for \$100,000 plus a 3-3/4% royalty. To date \$25,000 has been received on the option. A further payment of \$75,000 is due on or before 31st August, 1978.
- B. David Minerals Ltd. (N.P.L.) entered an agreement with Rio Plata Silver Mines Ltd. on 25th August, 1977 under which Rio is to conduct exploration work on the Aspen Grove property. The amount to be expended, the period from the effective date when the work is to be performed and the non-assessable carried interest to be earned by Rio are as follows:

Year from effective date	Amount to be expended	Carried interest earned - %
a) 1st year	\$ 50,000	nil
b) 2nd year	50,000	5
c) 3rd year	100,000	10
d) 4th year	100,000	15
e) 5th year	100,000	60

Upon the expenditure of \$400,000 Rio will have earned a 60% interest. In that event Rio and David agree to incorporate a company in which Rio will receive 60% of the issued shares and David will receive 40%. In the event the optionee shall have earned a 60% interest it is granted a further option to acquire an additional 10% interest for \$500,000. cash to be paid to the optionor so that the shares issued by the new company shall be held 70% and 30% respectively.

### 4. Share capital

As at 30th June, 1978 shares issued, commissions and discounts related thereto were as follows:

Consideration	Shares \$1 par value	Commissions and discounts	Net
Cash	1,363,001	805,448.38	557,552.62
Mineral claims and properties	1,149,000	861,000.00	288,000.00
Services	<u>75,000</u>	<u>56,250.00</u>	<u>18,750.00</u>
	<u>2,587,001</u>	<u>\$1,722,698.38</u>	<u>\$864,302.62</u>

During the six month period ended 30th June, 1978 the company issued the following treasury shares:

- A. To creditors and other persons to retire liabilities; 400,000 shares at 25¢ each.
- B. To Hem Mines Ltd. to complete the agreement whereby the company purchased mining equipment from Hem; 150,000 shares at a prescribed price of 50¢ each.

C. A public underwriting of 350,000 shares which netted the treasury \$251,951.62.

D. To Reesor Investments Ltd.; 110,000 shares at a prescribed price of 50¢ each being conversion of 20% of debenture (item 2A).

The company may have to issue up to 440,000 additional shares on conversion of the debenture (item 2A).

### 5. Remuneration

There has been no remuneration paid to the company's directors for the period to 30th June, 1978.

### 6. Subsequent events

Subsequent to 30th June, 1978 Reesor Investments Ltd. has converted an additional \$55,000 principal of its debenture into shares at 50¢ each.

# DAVID MINERALS LTD. (N.P.L.)



# DAVID MINERALS LTD. (N.P.L.)

BALANCE SHEET AS AT 31ST DECEMBER, 1977.

(With Comparative Figures as at 31st December, 1976)

<u>CURRENT ASSETS</u>	<u>ASSETS</u>	
	1977	1976
Cash in bank	3,483.22	224.00
<u>MINERAL CLAIMS (Note 1A)</u>	37,500.00	37,500.00
<u>SCRANTON PROPERTY (Note 1B)</u>		
Claims	6,000.00	
Equipment	27,500.00	
Camp	15,000.00	
Mill	100,000.00	
Improvements	229,000.00	377,500.00
<u>EXPLORATION AND ADMINISTRATIVE EXPENSE (Note 1C)</u>	154,104.62	48,280.00
	<u>\$572,587.84</u>	<u>\$ 86,004.00</u>
<u>CURRENT LIABILITIES</u>	<u>LIABILITIES</u>	
Bank loan (Note 4)	10,000.00	-
Accounts payable	43,805.72	12,212.00
Directors' advances	42,944.00	29,203.00
	96,749.72	41,415.00
<u>DEBENTURE PAYABLE</u>		
Reesor Investments Ltd. (Note 2A)	275,000.00	-
<u>SHAREHOLDERS' EQUITY</u>		
Share capital -		
Authorized -		
5,000,000 shares of \$1 par value each		
Issued and fully paid (Note 5)		
1,577,001 shares	382,351.00	226,101.00
Deficit - unchanged	(181,512.88)	(181,512.00)
	<u>\$572,587.84</u>	<u>\$ 86,004.00</u>

APPROVED ON BEHALF OF THE BOARD:

Director 

Director 

This is the balance sheet referred to in the report of Brendan P. Higgins, Chartered Accountant, dated 3rd April, 1978.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED 31ST DECEMBER, 1977.

(With Comparative Figures for the Corresponding Period in 1976)

	1977	1976
<u>SOURCE OF WORKING CAPITAL</u>		
Proceeds of debenture	275,000.00	-
Shares issued (Note 2A) 625,000 shares @ 25¢ each	156,250.00	-
Option payment placer lease	5,000.00	5,000.00
Hem Mines Ltd. - allocation of profits to capital improvements (Note 2B)	30,333.22	-
	<u>\$466,583.22</u>	<u>\$ 5,000.00</u>
<u>APPLICATION OF WORKING CAPITAL</u>		
Scranton Property -		
Claims	6,000.00	
Equipment	27,500.00	
Camp	15,000.00	
Mill	100,000.00	
Improvements	229,000.00	377,500.00
Exploration expense	46,744.92	9,903.00
Property improvements - Hem Mines Ltd.	30,333.22	-
Administrative expense	20,330.22	23,058.00
Finder's fees	43,750.00	-
	<u>\$518,658.36</u>	<u>\$ 32,961.00</u>
<u>DECREASE IN WORKING CAPITAL</u>	52,075.14	27,961.00
<u>WORKING CAPITAL DEFICIENCY - Beginning of year</u>	41,191.36	13,230.00
<u>WORKING CAPITAL DEFICIENCY - End of year</u>	<u>\$ 93,266.50</u>	<u>\$ 41,191.00</u>

# DAVID MINERALS LTD. (N.P.L.)



# DAVID MINERALS LTD. (N.P.L.)

## STATEMENT OF EXPLORATION AND ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED 31ST DECEMBER, 1977.

(With Comparative Figures for the Corresponding Period in 1976)

	<u>1977</u>	<u>1976</u>
<u>EXPLORATION</u>		
Engineering	21,957.48	5,364.00
Equipment operating	4,446.06	-
Equipment purchases	4,493.00	-
Insurance	12,936.00	-
Staking and recording	1,347.50	4,099.00
Travel	21.00	40.00
Taxes, fees and licences	1,543.88	400.00
	<u>\$ 46,744.92</u>	<u>\$ 9,903.00</u>
<u>PROPERTY IMPROVEMENTS (Note 2b)</u>		
Camp - water system	4,576.94	
Mill - liners replaced	14,576.77	
Mine - retimbering etc.	<u>11,179.51</u>	-
	<u>\$ 30,333.22</u>	
<u>ADMINISTRATIVE</u>		
Audit and legal	13,584.15	20,780.00
Accounting and office	3,059.42	1,314.00
Interest	2,678.83	64.00
Transfer agent fees	1,007.82	900.00
	<u>\$ 20,330.22</u>	<u>\$ 23,058.00</u>
<u>FINDER'S FEE RE FINANCING ARRANGEMENT</u>		
	<u>\$ 43,750.00</u>	-
<u>TOTAL</u>		
	141,158.36	32,961.00
Less: Option payment Hem Mines Ltd.	5,000.00 <u>30,333.22</u>	<u>5,000.00</u>
	105,825.14	27,961.00
<u>BALANCE AT BEGINNING OF YEAR</u>	<u>48,279.48</u>	<u>20,319.00</u>
<u>BALANCE AT END OF YEAR</u>	<u>\$154,104.62</u>	<u>\$ 48,280.00</u>

## NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 1977.

### 1. Values

- A. Mineral claims - \$37,500 being value ascribed to 375,000 of the company's shares. Additional claims included with "Scranton Properties" were allocated at cost of \$6,000 (see 1B).
- B. The Scranton Property consisting of claims, mill, equipment and improvements were acquired for \$240,000 cash and 550,000 treasury shares. The treasury shares were allocated a value of 25¢ each which made the total acquisition cost of this property \$377,500. The aggregate cost of the acquisition was allocated to specific items so as to reflect their values as a going concern.
- C. Exploration and administrative expenses are shown at cost which includes 75,000 shares issued at 25¢ per share as part consideration for finder's fees incurred.

These amounts are not intended to represent present or future values.

### 2. Agreements

- A. An agreement dated 29th April, 1977 has been completed whereby the company purchased the Scanton mine, mill and other equipment from Blue Star Mines Ltd. (N.P.L.), Silver Star Mines Ltd. (N.P.L.) and the Star Syndicate for \$240,000 cash plus 550,000 shares of David Minerals Ltd. (N.P.L.).

In order to finance the purchase the company borrowed \$275,000 from Reesor Investments Ltd. The loan of \$275,000 is secured by a debenture dated 21st December, 1977. The debenture is repayable in 18 months with interest at 12%. The debenture is convertible in whole or in part into shares of the company at 50¢ per share. Should any part of the debenture be so converted the interest is only payable on the balance less \$55,000. Interest is payable monthly in advance except that interest for the first 90 days is payable at the end of the 90 day period.

The company paid Sunset Gardens Ltd. for arranging the loan by Reesor Investments Ltd. a finder's fee of \$25,000 plus 75,000 shares.

- B. At an extra-ordinary general meeting of David Minerals Ltd. (N.P.L.) held on 24th June, 1977 the company approved the purchase of mining equipment from Hem Mines Ltd. for 150,000 treasury shares. This transaction was completed in 1978.

## DAVID MINERALS LTD. (N.P.L.)



## DAVID MINERALS LTD. (N.P.L.)

Hem Mines Ltd. was licenced to operate the Scranton mine for four months commencing 1st June, 1977. This licence was extended to 9th January, 1978 and subsequently to 28th February, 1978. Hem Mines Ltd. was to pay the property owners 15% of the profit earned by operating the mine. Hem Mines Ltd. reported a profit of approximately \$128,000 from net smelter returns of \$346,471 for the period June to December 1977 and no profit from net smelter returns of \$35,578 for the months of January and February, 1978. David Minerals Ltd. (N.P.L.) authorized Hem Mines Ltd. to use the share of profits accruing to David to carry out improvements on the property. David Minerals Ltd. (N.P.L.) is satisfied these improvements exceeded 15% of net profits earned by Hem Mines Ltd.

### 3. Options

- A. By an agreement dated 31st August, 1973 Lucy W. Day was granted an option to purchase the company's placer lease for \$100,000 plus a 3-3/4% royalty. To date \$25,000 has been received on the option. A further payment of \$75,000 is due on or before 31st August, 1978.
- B. David Minerals Ltd. (N.P.L.) entered an agreement with Rio Plata Silver Mines Ltd. (N.P.L.) on 25th August, 1977 under which Rio is to conduct exploration work on the Aspen Grove property. The agreement is to take effect (effective date) when approved by the Vancouver Stock Exchange. The amount to be expended, the period from the effective date when the work is to be performed and the non-assessable carried interest to be earned by Rio are as follows:

Year from effective date	Amount to be expended	Carried interest earned - %
a) 1st year	\$ 50,000	nil
b) 2nd year	50,000	5
c) 3rd year	100,000	10
d) 4th year	100,000	15
e) 5th year	100,000	60

Upon the expenditure of \$400,000 Rio will have earned a 60% interest. In that event Rio and David agree to incorporate a company in which Rio will receive 60% of the issued shares and David will receive 40%. In the event the optionee shall have earned a 60% interest it is granted a further option to acquire an additional 10% interest for \$500,000. cash to be paid to the optionor so that the shares issued by the new company shall be held 70% and 30% respectively.

### 4. Bank loan

The bank loan is guaranteed by certain of the company's directors.

### 5. Share capital

As at 31st December, 1977 shares issued, commissions and discounts related thereto were as follows:

Consideration	Shares	Par value	Commissions and discounts	Net
Cash	503,001	503,001	352,400	150,601
Mineral claims and properties	999,000	999,000	786,000	213,000
Services	75,000	75,000	56,250	18,750
	<u>1,577,001</u>	<u>\$1,577,001</u>	<u>\$1,194,650</u>	<u>\$382,351</u>

During the year there were 550,000 shares issued for properties acquired and 75,000 as finder's fee at an ascribed value of 25¢ each. See item 2A.

The company is committed to issue 150,000 shares to Hem Mines Ltd. (item 2B) and may have to issue up to 550,000 shares on conversion of the debenture (item 2A).

### 6. Remuneration

There has been no remuneration paid to the company's directors for the year to 31st December, 1977.

### 7. Material items

The proceeds of the debenture and shares issued were allocated as follows:

Proceeds		
Proceeds of debenture		275,000
Shares for properties - 550,000		137,500
Shares as finder's fees - 75,000		18,750
		<u>\$431,250</u>

### Allocation

Scranton property		
Claims	6,000	
Equipment	27,500	
Camp	15,000	
Mill	100,000	
Improvements	<u>229,000</u>	377,500
Expense - legal fees	9,600	
miner's licence	<u>400</u>	10,000
Finder's fees		<u>43,750</u>
		<u>\$431,250</u>

### 8. Subsequent events

By an agreement dated 2nd March, 1978 Hem Mines Ltd. has been engaged to undertake development work at the Scranton mine at the direction of and on behalf of David Minerals Ltd. (N.P.L.).