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

830676
Scranton
82F/14

June 28, 1978.

To the Shareholders:

Primary objective of the underground line drive, started by the company on the Scranton Mine in mid-March of this year, has been intersected and is encouraging.

The line drive was planned to explore the ore making potential of the downward extension of mineralization located over an 800 foot length on surface and in a series of five surface diamond drill holes in what is called the Sunrise Basin and Grandview areas of the mine. The grade in these holes was estimated at 0.03 oz. gold per ton, 6.9 oz. silver per ton, 5.5% lead, 1.9% zinc over a width of 6.76 feet, for a net smelter return of approximately \$52.00 per ton.

What the company did to open this downward extension of the mineralization was, starting in mid-March, to enter the 5,700 foot elevation adit level and drive it ahead to the south from the face at about 1,000 feet from the portal, some 690 feet. When the mineralization was entered in the 5,700 level, the level was some 800 feet below the surface mineralization and some 600 feet below the deepest diamond drill hole intersection. The company's consulting geologist stated that the level has been in quartz with pyrite, fractures and mineralized stringers for some 450 feet and that the latest 200 feet of the level has opened more frequent and interesting mineralization. The important mineralized intersection was made within a few feet of the engineering projection. The drift encountered mineralized shearing between 490 feet and 570 feet from the start of the drive. Grab samples from this area gave encouraging results with the best sample returning 38 oz. silver per ton, plus approximately 0.1 oz. gold per ton.

Now that the major downward extension of the mineralized structures has been established, it is intended to continue drifting along the mineralized structure and drive crosscuts every 100 feet for drill stations. In each station it is intended to drill fans of at least three holes to check the mineralization above and below the level. This drilling will be the next step in establishing a series of ore shoots in the shear zone. The most recent intersection was about two feet of massive sulphides in the drift at approximately 690 feet from the start of the drive. This section assayed 0.22 oz. gold per ton, 3.57 oz. silver per ton, 3.9% lead, 1.3% zinc.

The Scranton Mine is located in Kokanee Glacier park, at elevation 5,600 feet, six miles northeast of Ainsworth, 30 miles north of Nelson, B.C. near the west shore of Kootenay Lake.

There are a number of mineralized zones on the property with the Sunrise Basin-Grandview area of most immediate interest. Additional exploration work is to be undertaken later this season on two other zones, the West Sunrise and the S.W. Sunrise, each of which holds good potential for the development of mining grade silver-lead-zinc ore shoots.

The B.C. Minster of Mines reports show the property has been an intermittent producer since 1890 with an estimated total production of 17,600 tons grading: 0.16 oz. gold per ton, 6.2 oz. silver per ton, 6.8% lead, 5.5% zinc and 0.08% cadmium.

The controlling vein system is a multiple stranded structure which strikes southwesterly and dips steeply to the southeast and has been traced intermittently for a least 7,000 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 foot to 4 feet in width and average about 2.5 feet.

In his October 1977 report on the property Walter E. Clarke, P.Eng., consultant estimated that the grade of mill feeds which might result from continuing development of the property are:

<u>Mine Area</u>	<u>Oz./Ton</u> <u>Gold</u>	<u>Oz 'Ton</u> <u>Silver</u>	<u>%</u> <u>Lead</u>	<u>%</u> <u>Zinc</u>	<u>Net Smelter</u> <u>Return \$/Ton</u>
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

It is the opinion of the management of the company that a profitable mining operation will result from the exploration and development program now underway at the mine.

The company also has a concentrator plant, with a rated capacity of 180 tons per day, associated with the mine and located about 14 miles southeast of the mine on the lake shore. It has operated at about 50 tons per day from July 1977 to February 1978 and treated more than 4,200 tons at a profit for the lessee of \$128,000. David Minerals Ltd. had agreed with the operator of the short term mining lease to accept 15% of the net mine operating profit as its share. The mine operator, Hem Mines Ltd., carried out property and concentrator improvements which were accepted by David Minerals as its share of the profits in lieu of cash.

While the accounting practise adopted for these improvements shows \$30,000 as the value of these improvements, a more realistic figure would be close to \$90,000. The \$30,000 was the material and parts cost with in excess of \$60,000 labour and machinery cost expended in the installation.

The immediate objective of the current program is the detailing of ore shoots within the shear system in the Sunrise Basin area and the mining of these shoots for processing in the concentrator plant. The timing on the resumption of mining and milling is dependant upon the degree of success in the drifting and drilling program now underway but the objective is to have full operation underway in the early fall.

The acquisition of the Scranton Mine and concentrator plant, together with the substantial mining equipment and the financing of the whole project has involved a series of sometimes complex corporate dealings. The more important contracts have been summarized and simplified below.

The mine and concentrator plant were acquired for a total consideration of 550,000 treasury shares and a cash payment of \$240,000. To secure the funds to make the cash payment the company sold an 18 months convertible debenture in the amount of \$275,000 which can be converted into 550,000 treasury shares of David Minerals until June 21, 1979. The company paid a finders fee on this debenture of 75,000 shares and \$25,000. Mining equipment was purchased for 150,000 treasury shares and 400,000 shares were sold at 25¢ each to settle loans and advances of \$100,000.

In all, the new replacement value of all of the machinery and equipment, surface and underground, concentrator, truck, grader, warehouse, bulldozer, parts inventory, tailing disposal facility is estimated at in excess of \$2,500,000.

The shares of the company were called for trading on the Vancouver Stock Exchange on April 18, 1978, and a few days later the company offered through its agent, West Coast Securities Ltd. 350,000 shares to the public and received \$251,901 net proceeds, approximately 72¢ per share. Following all of these transactions there are 2,477,001 shares issued of the 5,000,000 shares authorized. It is the funds from the public offering which are being used in the property program.

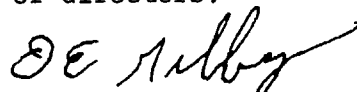
The company also holds other properties, a copper property near Aspen Grove, B.C., which has been optioned to Rio Plata Silver Mines Ltd. and a placer gold prospect near Atlin, B.C. which has also been optioned out.

Officers and directors of the company are; Orval E. Gillespie, president, Roy G. McKay, secretary, and Hans Haveroen.

Consultants to the company are; Walter E. Clarke, P. Eng., F.E. Worthington & Associates Ltd. and D.R. Cochrane, P.Eng.

With the company now well funded, the underground program underway and with mineralization in the face, further important progress reports are expected to be available in the near future.

Submitted on behalf of the board of directors.



O. E. Gillespie

President