

January 19, 1987

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MEMORANDUM

TO: Ian Thompson

FROM: Robert Pease

RE: Visit to Houston Metals Corp.'s Silver Queen Property

As to our phone conversation of Thursday last, I will note some of my impressions of the current work programme on the above property.

On Friday January 16, myself, accompanied by Equity's mine manager Dick Zandee, and engineering supervisor Bob Baase, toured the property. Our guide was a Mr. Web Cummings P. Eng, Houston Metal's project manager.

Recent work on the property by Houston Metals has included; rehabilitation of the 2600 level cross-cut and drift (which I understand has consumed much of their budget), slightly extending the 2600 level drift to the north and south, and driving a short adit into and along the No. 5 (portal) vein.

North End of 2600 Drift

They have developed access to the No. 2 vein. Our guide was somewhat vague about what their intentions were in this area. It would appear they are planning to mine a "bulk sample", and not do any drilling. I observed a structure approximately 20 feet true width, with abundant stringers and veins of sphalerite-rhodochrosite up to 10 inches wide. No assays were provided, but our guide commented that this vein contained "high" rare earths, and low precious metals. He also stated they believe the rare earths are associated with the carbonate species rather than the sulphides. The sulphide-carbonate veins carry gallium and germanium values, as well as the carbonate only veins which tend to envelope the sulphide-rich veins. Therefore, the "rare earth ore" may have a greater extent than the "sulphide ore".

South End of 2600 Drift

Their intention is to drift south-eastwards towards the NG3 vein (approx. 1000 ft.), establish drill stations, and complete some diamond drilling. The drifting had just commenced at the time of our tour. This vein contains higher precious metals, but is believed to be metallurgically refractory. No comment was made of the rare earth potential.

No. 5 Vein Adit

The purpose of driving this 80 foot adit along the vein would appear to be promotional, as no significant reserve could be delineated. The sphalerite-chalcopyrite-carbonate vein averages 3.5 ft wide, and values of 1 to 5 ppm gallium and 50 to 100 ppm germanium were obtained. No more work is planned in this programme.

Summary

The programme appears to be technically well-managed. It is being funded by a 1986 flow-through share issue, and therefore must be completed by the end of February 1987. In my opinion, the drifting and diamond drilling in the southern NG3 vein cannot be completed within this time. Therefore, the programme will have resulted in the rehabilitation of the 2600 level workings (a significant accomplishment), but little information will have been gained on the geology and ore reserves (actual or potential) of the deposit. However, the property will be in good shape for future underground sampling and drilling to evaluate the deposit.

Mr. Cummings indicated the main exploration targets were the No. 2 vein to the north, and the NG3 vein to the south. He also stated they plan to explore the old Bulkey Silver (Coles Lake) showings located some 2000 feet to the east. One possibility is to extend the 2600 level cross-cut 2000 feet to the east, or drive a decline closer to the showings. No mention was made of additional exploration of the No. 3 vein below the 2600 level, which in my opinion (with limited knowledge) has good potential for additional reserves.

Regards,

R. Fease
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EQUITY SILVER MINES LTD.