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# **E.S.P. EXPLORATION INC.**

## **MURDERER'S GULCH PROJECT**

### **REPORT**

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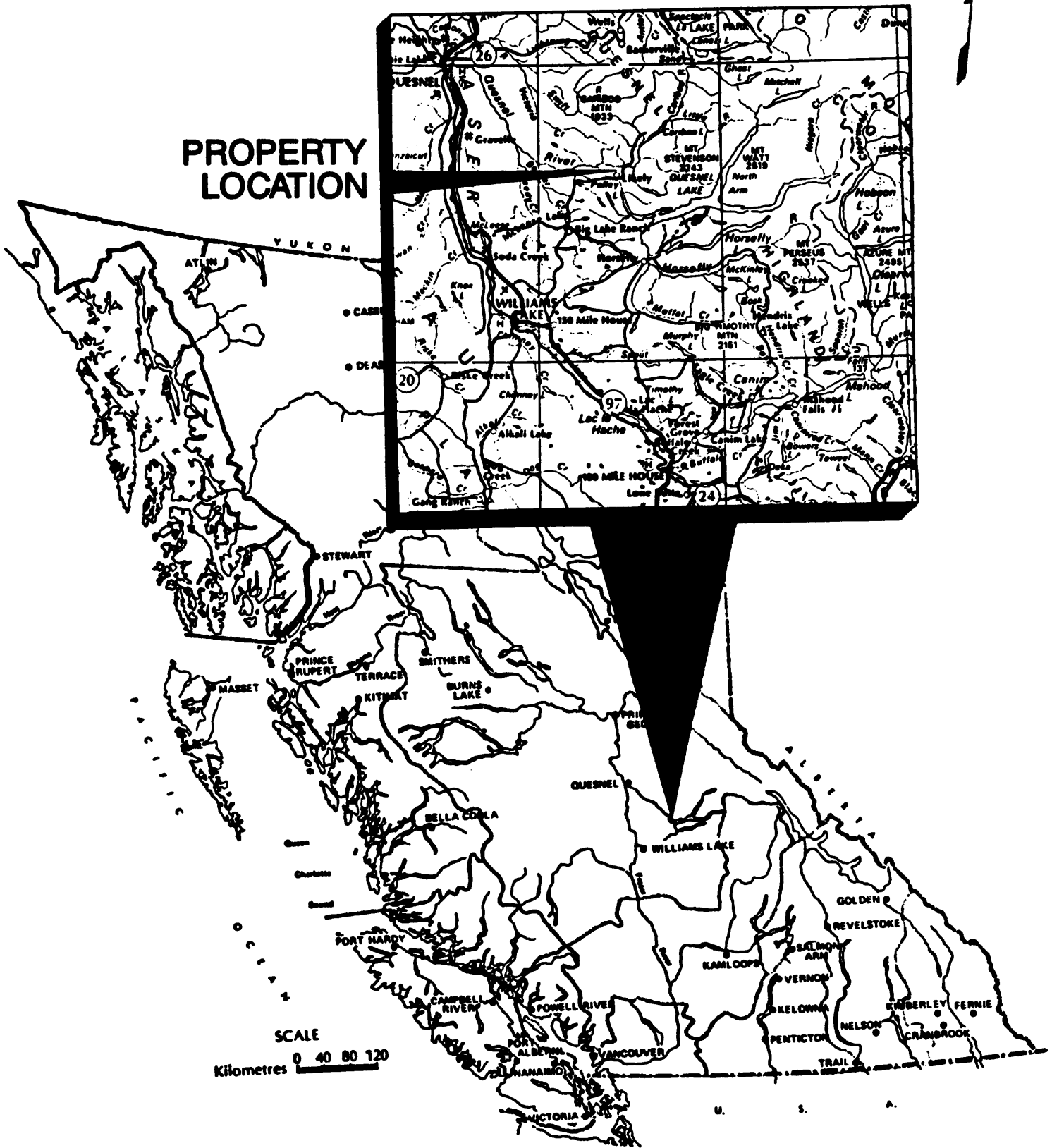


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# MURDERER'S GULCH PROJECT



## PROPERTY LOCATION



**MURDERER'S GULCH PROJECT**

**TABLE OF CONTENTS**

<b><u>Title</u></b>	<b><u>Page</u></b>
INTRODUCTION	1
DEFINITIONS	2
Placer Gold Mining	2
Placer Lease	2
Overburden	2
Pay Gravel	2
Ancient Channel	3
Bedrock	3
Tailings	3
Gold Separation Plant	3
Settling Ponds	3
Bulk Testing	4
Mining Season	4
Escrow Shares	4
MURDERER'S GULCH PROPERTY	6
THE SECOND BENCH	6
PROPERTY PURCHASE	7
1984 MINING SEASON	8
E.S.P. EXPLORATION INC. (ESP)	9
1985 - THE ANCIENT CHANNEL	9
1986 - SPANISH MOUNTAIN PROJECT	10
1987 - MURDERER'S GULCH MINING PROGRAM	11
CONCLUSION	12

## **INTRODUCTION**

The discovery of placer gold in the mid-eighteen hundreds in the river gravel at Quesnel Forks led to the Cariboo gold rush, the greatest gold rush in the history of British Columbia, a contributing factor in the British Government's decision to form the Crown Colony of British Columbia. Gold came out of the Cariboo literally by the ton. Since 1858 half of all the placer gold mined in the province has come from the creeks and rivers of the Cariboo.

The Cariboo is where in 1980 my partner Konrad Egilson and I began our search for a placer gold property that would support a viable mining operation. We began by purchasing a camp on a ten acre parcel of land about seven miles east of Quesnel Forks. Using this as our base camp to live and store our machinery we set about searching for, prospecting and testing properties. Then in 1984 we purchased the Murderer's Gulch property.

This report is about that property and the events that have taken place over the past three years while we have been working to establish a mining operation on it.

### **\* NOTE**

All prices quoted in this report are with gold valued at \$400 U.S. per troy ounce.

## DEFINITIONS

### PLACER GOLD MINING (pronounced PLASTER without the T)

It is believed that gold once deep down inside the earth's molten mass was and still is carried up to the surface by the effects of volcanic and geothermal activity. There it becomes trapped in cracks and fissures in the earth's crust. These deposits are referred to as lodes and the mining of them is known as lode mining, or more commonly referred to as hardrock mining. Over millions of years these lodes were acted upon by large amounts of erosion from heat and cold, animals and vegetation, rain, wind, snow, ice, glaciers and their resulting runoffs. The deposits which are formed when gold has been eroded and washed away from its original lode and re-deposited in rivers or streambeds are called "placer deposits", and the mining of gold from these deposits is known as Placer Gold Mining.

### PLACER LEASE

Refers to a parcel of land 500 meters wide by 1000 meters long whose dimensions can be smaller but never larger. This parcel of land is leased from the B.C. government and gives the holder the right to mine all minerals contained in the earth and gravel it encompasses from the surface down to bedrock.

### OVERBURDEN

Is the term miners use to refer to the barren or poor paying ground which must be penetrated or removed to get at the richer paying ground lying beneath it.

### PAY GRAVEL

Refers to a layer of gravel in which high values of gold are obtained, also referred to as pay dirt.

### ANCIENT CHANNEL

Miners use this term to describe any former or original course or channel of a creek or river. Considerable effort and expense is often expended in attempting to find ancient channels in placer gold regions as they sometimes contain very rich deposits of gold.

### BEDROCK

Bedrock is the rock mass which makes up the earth's crust. When placer miners refer to bedrock they mean the layer of rock in a river or creek bed that water will not penetrate. As gold moves down a river or creek it works its way down to this layer. Sometimes layers of clay, hardpan, or hard packed sand will act as that impervious layer. Where this occurs these layers are referred to as false bedrock. "Bedrock" is one of the most important words in placer mining. It is on this impervious layer where well over 90% of all the placer gold in British Columbia has been recovered.

### TAILINGS

Pay gravel which has been mined and discarded.

### GOLD SEPARATION PLANT

The machinery used to wash the pay gravel and separate the gold from it.

### SETTLING PONDS

These are the ponds used to store the water for washing the pay gravels. In most placer operations this water is recirculated through a series of settling ponds to allow the solids to settle out, and then re-used to wash more gravel.

### BULK TESTING

Refers to tests made by processing through a gold separation plant a minimum of twenty-five or more cubic yards of material per test. When a grid is laid out over a deposit and systematic bulk tests are made using the grid, the value obtained from the average of those tests will give a very accurate estimate of the value of that deposit. Bulk testing carried out in this manner is the only way to accurately determine the value of a deposit.

### MINING SEASON

It becomes impractical and expensive to placer mine when frost sets in the ground you are working. The mining season in the Cariboo usually begins in April and lasts until mid November.

### ESCROW SHARES

"Escrow shares" is a term for those shares issued to the person who has founded or organized the company, directors and senior officers as an incentive. These shares provide this group with a measure of voting control over the company so that work on taking the company public may proceed in an orderly fashion.

Under the current rules, a maximum of 750,000 common shares may be issued by the company, for a minimum cash consideration of one cent per share to the promoter, directors and senior officers. These shares are held in trust by the company's transfer agent, under an agreement commonly referred to as an "escrow agreement".

Although escrow shares have the same voting rights as all other common shares, they cannot be traded, transferred or dealt with in any manner without the prior approval of the appropriate securities' regulatory authority. If a company is listed on the Vancouver Stock Exchange (VSE), escrow releases will be governed by VSE policy. Otherwise the Superintendent of Brokers will have authority.

Shares are generally released from escrow if the company progresses in an orderly fashion which meets with the approval of the regulatory authorities. This approval is traditionally based on the satisfactory operating performance of the company. Escrow share-release policies are set out in detail in the Listing Department Policies of the VSE. The prescribed escrow agreement forms are set out in the Securities Act Regulations and in a Superintendent of Brokers Local Policy Statement. The escrow mechanism is a powerful incentive to directors and managers to create a successful public company.



### MURDERER'S GULCH PROPERTY

Our property is situated on the south bank of the Cariboo River about six miles up stream from Quesnel Forks, the confluence of the Quesnel and Cariboo Rivers. It can be reached via a dirt road about a mile long off the Keithly Creek gravel road, seven miles from Likely, which is about 50 miles by paved road from the village of 150 Mile House on Highway 97 North.

The property covers an area of about 875 acres and is made up of four placer leases, three partial and one full. It rises from the Cariboo River approximately 600 feet in elevation. The major part of the three lower leases covers a semi-circular indentation in the river bank which extends some 3000 feet from the river. The fourth lease lies on the ground overlooking this indentation. As the property rises it forms three giant steps: two main benches forming the first and second steps and the top edge of the indentation forming the third.

### THE SECOND BENCH

The second bench is covered by a layer of river silt, a mixture of clay and sand, which contains virtually no gold. As one moves further up the bench in a southerly direction, this silt ends and is replaced by a glacial gravel which seems to have sloughed down from over the top edge of the property. This glacial gravel contains very fine gold and initial testing indicates values of \$5.00 per cubic yard. Our cost of extraction would be approximately \$3.00 per cubic yard.

The river silt varies from a depth of ten feet to twenty feet. Directly beneath this silt is a layer of river-washed pay gravel which extends the full width and length of the bench. This layer varies in thickness from two feet on the far eastern side of the bench to fifteen feet on the far western side. The pay gravel lies directly on top of a bed of blue clay which lies tight against bedrock. This blue clay rises up like the edge of a shallow bowl to form a berm at the northern edge of the bench holding the pay gravel behind it. The clay berm also

holds back water which seeps out of springs located further up the hillside. The layer of pay gravel contains an average value of \$12 per cubic yard.

\* NOTE This second bench represents only 5% of the total area of this property. There are some very interesting showings in other locations on this property, which are mentioned in two separate engineering reports that cover this ground. The reports recommend carrying out a comprehensive test program of the entire property. This has yet to be done.

### PROPERTY PURCHASE

We purchased the Murderer's Gulch property from Gavex, A Resource Corporation. Gavex was a public trading company listed on the Vancouver Stock Exchange. As well as mining they were involved in real estate development.

In 1982 the price of gold fell to \$320 U.S. per troy ounce. During this time the real estate market in B.C. was in a boom phase. Gavex made the decision to put their mining program on hold and to expand their real estate holdings. In September of 1983 we approached them about selling the Murderer's Gulch property to us. The real estate market had become shaky and they were still holding a lot of properties. The price of gold was low, so they were motivated to sell. We were able to purchase from them an option giving us the right to first test the property before buying it. Our testing proved the following:

- A. All the tailings left by the previous operators could be profitably re-mined.
- B. The pay seam of river gravel that had been mined from 1973 to 1981 was still intact on the third lease, and extended into the hillside under a small mountain of glacial gravel.
- C. Initial testing of the glacial gravel indicated values of \$5 per

cubic yard, all very fine gold, which could be profitably mined with the right operation.

These results proved to us that we had finally found the property for which we had been searching and early in 1984 we bought from Gavex the two lower leases. Then in January 1985 the two adjoining upper leases came open and we staked them for ourselves.

#### 1984 MINING SEASON

We began by searching through all available public records we could obtain on the previous operation. We also talked to all three operators who had previously mined the property, and the people who worked for them on those operations. From these conversations four interesting facts emerged.

1. The three operators all agreed that the most easily accessible ground had been mined. They also all agreed that the best ground remained unmined.
2. After we had purchased our option the second operator had approached Gavex with a proposal to buy back the property.
3. The first two operators intersected an ancient channel which produced between one and two ounces of gold per cubic yard. The second operator mined it over a distance of some two hundred feet to the boundary of the lower lease and had to stop because at the time he did not own the upper lease into which it extended.
4. The third operator was not even aware that the channel existed.

After buying the leases our finances were limited and it was not until late in the season that we could afford to continue.

On a shoestring budget we set up to wash a tailings pile on the lower lease. In order to keep operating we needed to generate a cash flow immediately. No sooner had we started than our large earth mover

developed mechanical problems requiring about \$30,000 to repair. This we could not afford, so we shut down for the season.

### E.S.P. EXPLORATION INC. (ESP)

Our personal finances were exhausted and in order for us to continue to develop this property we had to enlist the support of investors. To do this we incorporated ESP using a format that would allow us to take it public. Konrad and I purchased the 750,000 escrow shares, sharing them equally between us. Then we vended into E.S.P. the Murderer's Gulch property.

We had five main objectives we wanted to fulfill. They were:

1. To keep control of the company amongst all the founding shareholders.
2. To raise the necessary financing required to begin a pilot mining program which would double as a testing program to accurately determine the property's potential.
3. To keep the risk to the founding shareholders to a minimum.
4. To keep the profit to the founding shareholders at a maximum.
5. To keep the ability of ESP to raise venture capital at a maximum.

After carefully considering the options available to us in order to meet our objectives, we have chosen to go public with ESP and have it listed on the V.S.E. This offers us the greatest number of alternatives to obtain the necessary financing and also offers the founding shareholders the greatest security and liquidity for their investments.

### 1985 -THE ANCIENT CHANNEL

The best ground on which to establish our pilot mining operation would be that of the ancient channel. Rediscovering it was our first

priority. So in April of 1985 we began by selling enough shares to finance the search. As soon as the papers came back from Victoria giving E.S.P. ownership of the two upper leases, we began searching for the Ancient Channel. We were able to relocate it from the directions given to us by the second operator.

It lies at a depth of thirty feet beneath the surface of the second bench. To prepare it for mining a ten foot layer of overburden was stripped off and the digging of a drainage ditch from the edge of the bench to the channel was begun. The channel is covered by ten feet of ground water which has to be drained before mining can begin. As work on this drainage ditch progressed we were surprised to uncover a second channel running diagonally from the direction of the first.

Initial testing with a gold pan of both these channels produced coarse and nugget gold. No bulk testing was possible as the drainage ditch was only half completed when freeze up occurred.

#### 1986 -THE SPANISH MOUNTAIN PROJECT

When we first began prospecting and testing properties we met Peter and Virginia McKeown, a couple who had moved from Ontario to B.C. to prospect for gold. Over the years we have become good friends. In 1982 they began work on a group of six placer leases situated on Spanish Mountain, some six miles southeast of our Murderer's Gulch property. By the end of 1985 they had obtained an agreement to purchase the six leases, and had proven by systematic bulk tests the existence of an ore body with reserves of over 200,000 troy ounces of placer gold. Work on their project had exhausted their resources and because of this they agreed to sell us an option to acquire a 50% interest in their project. From test information supplied to us by the McKeown's a cash flow projection was prepared. It projected a profit to E.S.P. of \$30 million before taxes over a five year period. This was an opportunity not to be missed, so Konrad and I borrowed personally to purchase this option for E.S.P. To exercise this option we were required to raise the necessary funds to put the Spanish

Mountain Project into large scale production.

This option agreement also gave us the tool we needed to raise the finances for both projects, and this we were able to do through Swiss contacts. However, the McKeowns became involved in litigation with the original owners of their leases. We informed our financial backers of this and they immediately withdrew their support until the litigation was resolved.

We tried several other alternatives to raise the necessary financing but were unable to do so because of the litigation. This required so much of our time and energy, that we did not accomplish any work on our own project during the 1986 mining season.

We were not able to fulfill the conditions of the option agreement because of the litigation and at this time we no longer have an agreement.

#### 1987 MURDERER'S GULCH MINING PROGRAM

1. We are currently selling shares in ESP. The minimum purchase is a block of 2000 shares for \$1000. It is our goal to have raised a minimum of \$100,000 by mid October 1987.
2. This money will be spent on the following:
  - A. Establishing a small pilot mining program on our property.
  - B. Begin laying down a grid on the property for testing purposes.
  - C. Having a qualified mining engineer prepare a report on our property and operation.
  - D. Preparation of a prospectus on the company and its operation.
  - E. Acquiring a public listing on the V.S.E.
  - F. Paying legal and accounting fees for going public.
3. We expect to be in operation and mining the channel by October

4. As mining progresses and a cash flow is created we will begin to test other areas of the property in a systematic program using the grid.

### CONCLUSION

The success of any mining project, including ours, depends on many factors. The proven viability of the property in its current stage of development is a major plus in our favour. With continued responsible management and the addition of adequate capital we will be able to complete a comprehensive test program to determine the property's full potential. This, plus a properly planned and engineered operation supported by modern recovery methods will assure the success of the project.

We are committed to making this project a success. All the shares we own are held in escrow and will not be released until our commitment has been met. When this happens we will also be given a large block of shares for having vended into E.S.P. a property of proven value. The amount of shares will be determined by a decision from the Superintendent of Brokers. We invested our money in proving and developing this property and now the only way for us to profit from it is by creating a successful placer gold mine.

If you require further information please contact me by telephone at (604) 688-9918 or at my business, W. Braeuer Ltd.(604) 736-4505.

Wolfgang Braeuer  
President



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Secretary

