

# MEMORANDUM

*Bethlehem Resources (1996) Corporation*

886760

VGS → WILLA  
→ GOLDSTREAM  
→ SPIRE  
→ RAIN

Date: October 23, 2004  
To: Mark Brown, Gerry Carlson, Ron Coombes  
From: John Chapman  
Re: **Progress Report – Advancing Toward Production**

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Following is a point form update on progress toward development on ORS and Bethlehem properties:

- (1) The Willa property has been the focus of many activities in 2004, including:
- (a) NAD83 survey control was established on surface and underground, bringing all maps to modern standards;
  - (b) A 5,284m underground infill and step-out core drill program was completed in September. The resulting data is being entered into the Willa deposit digital model (Surpac) from the NI43-101 resource report completed by Geospectrum Engineering in March 2003 (posted on Sedar). The resource prior to the 2004 drill program was: 1.83 million mt grading 4.8gpmt gold, 0.7% copper and 9.2gpmt silver at a 2.5gpmt gold cut-off or 996,600mt grading 6.3gpmt gold, 0.8% copper and 10.8gpmt silver at a 3.5gpmt gold cut-off;
  - (c) Preliminary work has been started on stope design to outline the development of the highest grade ore to be produced in the first two years of production. Final design awaits the model update and some definition drilling which is scheduled to commence in mid November;
  - (d) Hatch has completed a study for surface infrastructure and ore haulage from an underground transfer station on the 1025 Level, within the ore zone, to surface. This is considered as Plan A with modern trackless development;
  - (e) Steve Phillips, Dave Makepeace and John Chapman are developing a Plan B using the existing track and 1025 Level adit for ore transport to the same surface transfer stockpile described in Hatch's Plan A. This Plan B will have substantially lower capital costs than Plan A, but will result in higher operating costs;
  - (f) The 1100 Level portal is undergoing rehabilitation to provide underground ventilation and an emergency escape for miners. The portal work will be completed in early November;
  - (g) Two surface lots, totaling 27.38 acres have been purchased (deal closes on November 15th) on Highway 6, near Willa, for transferring underground ore onto highway trucks;
  - (h) The Rush and Margie mineral claims are presently being legally surveyed as a first step toward their conversion to mining leases. The other Willa property claims have had a CAD filing extending their expiry to 2014;
  - (i) A Notice of Work has been filed for improvement of surface access at Willa;
  - (j) Underground equipment (jeep and electrical switchgear) has been transferred from Goldstream to Willa;
  - (k) Steve Phillips and John Chapman are meeting with local Mines Inspectors on October 26, 2004 to initiate application for a 10,000mt bulk sample permit and a ~75,000mtpy small mine permit;

- (l) Owner operators, with tridem tractors and quad K-Line trailers will be utilized on the Willa to Goldstream ore haul. Silverton Transport Ltd. will manage the haul. Advertising for owner operators will be conducted in January;
  - (m) An open house meeting has been scheduled for November 10<sup>th</sup> in Silverton to update the public on Willa development (proposed May 1, 2005 startup). The last local meeting was held in the same location in February 2003 (see meeting results on ORS Website);
  - (n) Regular monthly reports for Willa and LH from Discovery Consultants and Steve Phillips have been circulated to Board Members and Team Members for information purposes.
- (2) During 2004 the LH property, adjoining the Willa, has been explored on surface with prospecting, soil geochemical surveys and IP surveys. Gold has been discovered in outcrops at high elevations in rugged terrain on Congo Creek but no surface drilling has been conducted due to very difficult access and approaching winter conditions. A 1,000m nearly flat core hole is currently being drilled from surface at the Willa deposit under the mountain toward Congo Creek - there are low-grade sulfides visible in the core with associated silicification, but no assays have been received to date.
- (3) Verbal reports from Ron Coombes indicate potential on the Rain property for the development of an economic resource. Given the mineralogy (zinc, lead and silver), Teck Cominco may be interested in making a private placement in ORS toward the advancement of the Property. The Trial smelter is in desperate need of local lead and zinc concentrate feed as presently almost all of the feed comes from expensive off-shore sources. Russ Babcock, Smelter Manager has made presentations to the local mining community stressing Teck Cominco's need for local concentrates. I have recommended to Ron that preliminary metallurgical work be done on the Alfie and Lynes showings to fast track interest by the public and by Teck Cominco (I have not seen the showings personally but have been told that the mineralization is coarse grained which probably indicates good separation and recovery characteristics). I have also recommended to Ron that Steve Phillips visit Rain to determine the best locations to develop the Alfie and Lynes showings by underground entry – this knowledge could be useful if a bulk sample Notice of Work is warranted. Exploration and development at Rain will be low-risk due to its proximity to the Goldstream plant. No written progress report has been received from either Ron Coombes or Gordon Gibson for several months - a report ASAP would be helpful to the Board and the Team in understanding the situation at Rain, Spire and Boutwell.
- (4) The Goldstream plant and infrastructure is undergoing continuing feasibility work (with related minor preproduction expenditures where necessary) as follows:
- (a) Merit Consultants' preliminary report (Phase One review) dated November 2002 outlined the capital cost and schedule to restart the Goldstream plant (posted on Sedar). The report set out the general plant and infrastructure condition at Goldstream. The report estimated that it would take approximately \$4.4 million in capital costs (excluding reagents, spare parts and working capital) and four months of time to bring the mill to operating condition. A Phase Two program was planned to bring capital cost estimates into the +/- 15% range;
  - (b) In April 2004, Art Winckers (former Senior Metallurgist Teck Cominco) completed a professional report on the processing of Willa ore in the Goldstream mill (posted on Sedar);
  - (c) On October 4, 2004 Klohn Crippen completed a feasibility study on the expansion of the surface tailings facility. The study concludes that the existing Goldstream Tailings facility, as permitted originally, can adequately store all the Willa tailings generated by five years operation at 500dmtpd. The existing facility can also be raised and/or extended to the west to expand the storage capacity in excess of what is needed to accommodate an additional 15 years of operations at 1,000dmtpd. Moreover, an additional potential

impoundment site located on the Old Goldstream Creek channel is identified for future consideration;

- (d) Hatch Limited has commenced a study related to the disposal of tailings in the Goldstream underground adjacent to the plant. If feasible, this method would substantially reduce start-up and operating cost for several years. I have personal experience with this technique that was used successfully at Keystone Gold in Manitoba;
- (e) Merit consultants are now on the job at Goldstream executing a Phase Two program. They have available reports from the 1991 restart as well as the knowledge of Red Daley former Concentrator Superintendent who was present for the 1991 plant startup. The program includes fine tuning the Phase One estimate by bringing in a small team of experts under Merit's leadership to examine and catalogue in detail the work to be done for plant restart. This detailed examination phase includes millwright, electrical, electronic, mechanical, welding, piping and process expertise as well as purchasing/inventory skills. Besides examining all mechanical, electrical and building systems Merit would catalogue (digitally) the spare parts inventory and tools which are presently spread among some five locations at the Goldstream site. The insurance underwriter will also attend to the fire water systems requirements to bring the system up to industry standards. Phase Two is scheduled to be completed by the end of November and the resulting report will contain more precise capital costs and schedule to restart the plant as well as general arrangement drawings for construction;
- (f) Jeff Sato, Manager, Rates and Connections BC Hydro has been contacted regarding a May 2005 plant restart. Jeff has forwarded the latest Electricity Supply Agreement for the Goldstream Plant - it is dated November 10, 1999;
- (g) On September 25th Butterfield Mineral Consultants Ltd. completed a marketing study for proposed Willa concentrates as defined in work done by Winckers & PRA in 2003 as well as prior metallurgical work done by Lakefield Research for Northair in the 1980s. A digital copy of the report was distributed to Board Members and to Team Members;
- (h) The land adjacent to the west side of the Goldstream Concentrator has been cleared to facilitate surveying and geotechnical testing for design of facilities for ore transfer, ore stockpiles and ore crushing;
- (i) On October 6th, Jack Stanley, consultant, delivered his report on the proposed analytical laboratory at the Goldstream plant;
- (j) One long delivery item, a Larox pressure filter, has been identified and an option payment of US\$25,000 is being made to hold the unit at the McCoy/Cove mine (Newmont) until February 15, 2005 when a final payment of US\$175,000 will be due in order to close the purchase. At this time, there is no other long delivery item identified by the Team that could cause a delay for a May 1, 2005 commissioning;
- (k) Art Winckers and John Chapman met with MEM officials in Kamloops on October 21st to request an amendment to the Goldstream operating permit M-147 to facilitate custom mineral processing at the rate of 1,000dmtpd from various sources of ore. The meeting was positive with the government officials suggesting that they should be able to review and approve the request within 60 days of formal submission (November 15th).

If the Board can decide upon a date for a general meeting with consultants it would be wise to have a meeting in the next three weeks. A meeting would provide a forum to bring all of the management and Project Team members up to date.

We are continuing toward completing all elements of the Feasibility Study by the last week of November. Dave Makepeace and John Chapman will then combine the independent reports into one Feasibility Study

Document and add an Executive Summary, for submission to the ORS Board of Directors by December 6th.

In order to achieve a May 1, 2005 start-up of Goldstream and of Willa, construction will need to commence no later than February 1, 2005. Hence, it will be of critical importance to obtain permitting and financing before February 1, 2005.

*John A. Chapman*