

## High Grade Silver At Adams Lake Means New Growth For Rea Gold



*Reginald W. Ogden, B.A.,  
Canarim Investments  
Corporation Inc.*

(REO) - T.S.E. & V.S.E.  
(ROGF) - NASDAQ  
(12 month range - \$.40 - \$.90)

Ever since the Hunt Brothers' aborted attempt to corner the world silver market collapsed, interest in silver has been at a low ebb. The high price of silver led to a large melting down of silver antiques and jewelry. For the past five years recycled

silver has caused a surplus of supply over demand. 1987 will be the first year that silver supply and demand will be in rough equilibrium. Primary supply (new mine production) has been in decline due to the closing of several large base metal mines world-wide. Silver coinage was once a large user of silver and appears to be on the rebound with several countries such as Japan and the U.S.A. issuing silver coins along with gold coin issues.

When an investor is looking for straight silver producers he has very limited choices. United Keno, long a favourite of silver followers has lost money for the past two years and faces dwindling reserves coupled with high exploration costs. Equity Silver, a thin trader, is finally showing signs of profitability after years of heavy capital investment. Its open pit reserves however are close to being mined out. Terra Mines was never really profitable.

The Minnova-Rea Gold Samatosom property has made a dramatic change in this scenario. This high-grade open pitable silver discovery near Kamloops in Southeastern British Columbia has focused worldwide attention on both companies. While many mining companies have given up on grass roots exploration to acquire

large low grade properties from major companies and have raised large sums of equity funding to place them in production, Minnova has concentrated on exploring for small high-grade polymetallic sulphide deposits. Most of these projects require limited capital investment, but promise fast paybacks and high profitability. The company should have five to six of these projects on stream before 1990, increasing cash flow from \$1.50 to \$9.00 per share. The most notable of these is the Rea-Gold Kamloops project. Many of the large-scale, low grade, heavy capital investment projects cannot justify debt financings but can be financed by equity due to the high P/E Ratios afforded precious metal stocks.

The Adams Lake Rea Gold discovery is the most significant of Minnova's high grade discoveries. The project has a 4-6 month payback period. Rea Gold has a 30% working interest in the project plus a 5% net smelter royalty which gives the company an approximate 38% interest overall.

At the centre of the deposit is a high-grade core of 300-400,000 tons. The core is twice the average grade of the deposit and is amenable to open pit. Large sections will average over 60 ounces which is equivalent

to open pitting one ounce gold. The deposit contains significant amounts of copper, zinc, lead and gold. By-product revenue should cover the cash costs of production and mill processing during the open pit phase.

Minnova has estimated undiluted in situ reserves of 616,000 tons of 32 oz. silver, .05 oz. gold, 3.5% zinc, 1.7% lead and 1.2% copper. These estimates are extremely conservative especially in the estimation of mining dilution. A major drill program of 33,000 feet that could be extended to 50,000 with three rigs is now underway. The potential exists for more lenses down dip and along strike as these types of deposits have a habit of repeating themselves. Some of the drilling will be to further delineate the known structure and some of it aimed at other anomalies on the same property. Rea Gold also owns interests in several mining properties and owns 1,100,000 shares of Midland Energy which along with Rayrock is planning a major open pit gold mine in Costa Rica.

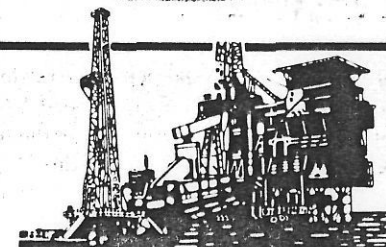
Present reserves on the Adams Lake Project should be sufficient for seven years of production at 500 T.P.D. during the open pit phase and 400 T.P.D. during the underground phase. Further reserves could occur down dip and along strike as well as zones of secondary enrichment. Production could easily be accomplished by late 1988. As most of the silver occurs with the lead and not the zinc it is not surprising that metallurgical test work has indicated ex-

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## CANADIAN OIL



X-Cal Resources, which trades on the Toronto Stock Exchange, (trading symbol: XCL) is planning a drill program to test the new showings on the Tyax Property.

## Abermin Laramide Underground on Vancouver Island

Abermin Corporation (65%) and Laramide Resources (35%) recently announced that site preparation is underway for a decline to explore the Coronation Zone, prior to final feasibility and a production decision on their Lara Project near Duncan on Vancouver Island. Roger Taylor, President of Abermin said the decline will provide access to the ore zone on three levels. This will allow assessment of ground conditions in order to determine future mining methods and provide a bulk sample for metallurgical testing to finalize mill design. It is also expected to prove the underground continuity and extent to the high grade massive sulphide traced by 8 diamond drill holes over a strike length of 530 feet. This ore had an average thickness of 11 ft. and a weighted average grade of 0.238 oz/t gold; 6.71 oz/t silver; 14.91% zinc, 3.07% lead and 1.48% copper.

## High Grade Silver

from Page 38

cellent recoveries with a relatively clean concentrate. Operating costs have been estimated at \$50 per ton during the open pit phase and \$75 per ton during the underground phase. Unit costs per ounce of silver produced (net of by-product revenue) are estimated at an incredibly low \$.30 per ounce during the open pit phase and at \$3.00 per ounce for underground mining.

This makes Rea Gold the lowest cost silver producer in North America. Earnings per share are estimated at \$1.25 with each \$1.00 U.S. increase in the price of silver adding \$.20 a share to earnings. At these earnings Rea Gold trades at less than six times estimated earnings per share versus 38 and 20 times respectively for Equity Silver and United Keno. At a silver price of \$7.50 U.S. cash flow per share will be \$1.70 - higher than either Equity Silver or United Keno. Rea Gold has a fully diluted asset value of \$5.00 per share. United Keno and Equity Silver trade at approximately 2.5 times their estimated asset value. A similar multiple for Rea Gold would give the company a share price of \$12.50. Given the fact that Rea Gold should attain payback within 4-6 months, that the net smelter interest increases Rea Gold's project interest

if silver prices fall, and that, unlike Equity Silver and United Keno, it is profitable at low silver prices - a similar multiple for Rea Gold is not unreasonable.

At these prices the investor is not paying any premium for future exploration success on the property. If we compare Rea Gold's market capitalization of \$35.00 per annual ounce of production to Equity Silver's \$75.00 and allow for Rea Gold's much lower production cost, we see substantial room for price appreciation.

The historical ratio of gold/silver (1970/86) was 37 - at present it is close to 60. If the ratio were restored, which it could easily do now that demand and supply are close to equilibrium, then Rea Gold could earn over \$2.00 per share given a probable price range of \$25.00 to \$35.00 per share. If a similar discovery were to be made on the property a price over \$50.00 would be reasonable.

The shares are trading at a low potential cash flow and projected earnings multiple primarily because investors have very few similar situations to which the company can be compared. Low capital cost, open pit, high grade silver mines (or gold mines) are rare occurrences in the mining world.

## Granges Exploration

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back up to 15 again. We were up to 23 million tons by the time we did our feasibility study and we based our financing on that figure. Now we're up to about 33 million tons and it's still growing.

legal problems with the Lewis Mine deal?

Muzyłowski - There were a few problems with the lease agreement on the Lewis Mine but those have all been resolved in our

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## EXPLORATION

### Jascan Progress

Jascan Resources Inc. and joint venture partners Novamin Resources Inc. have completed eight diamond drill holes totalling 1,240 m on the Dufferin mine gold project in Nova Scotia. Visible gold has been identified in five of the seven holes logged to date. These holes are part of an in-fill drilling programme in a gold-bearing zone identified in the first round of drilling. This zone is adjacent and on strike with the former Dufferin mine, last mined around the turn of the century.

On the Muyup property in Indonesia, a 2,400 m drilling programme is now underway on the Upping prospect. Exploration to date indicates the presence of a gold-bearing epithermal system measuring 1,000 m by 400 m. The Muyup property is currently the site of intensive mining activities by about 6,000 locals who are extracting near surface vein material and retrieving gold with about 20 hand made wooden stamp batteries.

Jascan has committed to spend \$1,125,000 on the Muyup property over a 30 month period from June to earn a 25% interest. Joint venture partners are Jason Mining Ltd. (35%) and Pancontinental Mining Ltd. (30%) with Indonesian nationals owning the remaining 10% interest.

### Chesbar/Kerr Addison Venture

Chesbar Resources Inc. has intersected good values from a deep hole drilled on its joint venture property in the Yukon. The hole assayed 14.7 g/t gold over 1.6 m at a depth of 54 m. The property involves 169 claims in the Carmacks area and is owned by Kerr Addison Mines which will retain a 50% interest once Chesbar and States Exploration Ltd. have each earned their 25% interest. Chesbar is operator.

### Mexican Involvement for Terramar

Terramar Resource Corp. reports that the two private Mexican companies in which it has a 30% equity interest, Compania Minera El Pavo Real and Compania Minera Agua Prieta, have recently completed an aerial topographic survey of their properties in the Bacoachi area, Sonora State. The maps will provide a base for future geological surveys of El Pavo's four mining exploration conces-

sions and Agua Prieta's Las Coloradas placer prospecting concession. Agua Prieta has completed the first phase of the exploration evaluation of Las Coloradas and has commissioned the second phase of the programme. Three areas covering 310 ha are to be pitted and trenched. This will provide a 3,000 m<sup>3</sup> bulk sample for gravity separation tests.

Terramar has also reached an exploration agreement with Mexican partners to explore the La Saucedo and Mina Elisa gold prospects in the Carbo area of Sonora. Terramar can earn a 49% interest in these properties which have heap leaching potential.

### Forrest Belle Drilling

Atlas Pacific Gold NL has completed a seven hole diamond drilling programme on its Forrest Belle gold prospect, 90 km northwest of Menzies in Western Australia. Results have defined an extension of the ore zone and also enabled the company to upgrade the gold values. Results included 23.6 m at 7.1 g/t from 1.4 m depth, 2.5 m at 7.9 g/t from 27 m depth, 7 m at 5.2 g/t from surface and 10.3 m at 3.3 g/t from 8 m depth.

### Noranda/Selco on Duck Pond

Noranda Exploration Co. Ltd. reports that additional drilling on its Tally Pond-Duck Pond project in central Newfoundland has continued to intersect significant base and precious metal values. The property lies about 142 km southwest of Gander. The project is operated by Noranda as a joint venture with Selco Division — BP Resources Canada Ltd., which has a 40% participating interest in the property.

Drilling to date has outlined the mineralized zone over a minimum strike length of 300 m and a width of 150 m. The zone remains open in all directions. Current drilling indicates that the deposit is located between 300 and 450 m below surface, has an average thickness of some 20 m and plunges 35° in a southerly direction. Six drills are currently operating on the zone and four more drills will be moved onto the site by mid-October. Pre-feasibility studies are being carried out to evaluate the economic potential.

### Moline Project Gathers Speed

The partners in the Moline gold project situated about 200 km south of Darwin near Pine Creek in Australia's Northern Territory are conducting a feasibility study and are expected to release ore reserve figures within the next few weeks.

It is thought they may have outlined 3 Mt of ore grading about 3 g/t gold. Cyprus Minerals Australia Co. has spent about \$A1.8 million on exploration to earn a 50% interest from Greenbushes Ltd.

The partners are examining various options to bring the mine into production, which include purchasing an established plant in the area belonging to Pacific Goldmines or designing their own plant or a carbon-in-pulp and heap leach combination.

### Hollister Hopes for Cornucopia

Cornucopia Resources Ltd. has recently expanded its Ivanhoe land position in the Carlin gold belt in Nevada to about 34,400 ha. By September 10, the company had completed a total of 96 holes since the drilling programme commenced in April. Of the 50 holes drilled with the objective of extending the USX zone, a total of 45 holes showed mineralization. Based on nominal 122 m centres, the initial resource contained in the Hollister deposit is as follows: 15.4 Mt of oxide ore in the North, Central and South (USX) zones averaging 1.2 g/t gold and 9.1 Mt of sulphide ore grading 1.7 g/t in all three zones. The deposit is open in all directions.

The company's short term objective is the development of the Hollister deposit, which will necessitate follow-up drilling on 60 m centres and accelerated metallurgical work to enable final reserve calculations and preliminary pit design for inclusion in a feasibility study. This work will be run in conjunction with surface exploration work on the remainder of the Ivanhoe property, where there are 12 additional promising targets.

### Samatosum Definition for Minnova/Rea

REA GOLD

Minnova Inc. has set into motion an extensive exploration programme on the Adams Lake massive sulphide property about 100 km north of Kamloops in British Columbia (*MJ*, July 18, 1986, p.43). The programme includes 10,000 m of diamond drilling mostly to define the Samatosum high grade silver deposit as well as exploration drilling, geochemical and environmental studies, bulk sampling, metallurgical and engineering work. The companies will then prepare a study on the feasibility of placing the deposit into production.

Rea Gold Corp., which owns the property, has decided to contribute its 30% of the above expenditure prior to the feasibility study being delivered to facilitate rapid progress of the project. Rea has a 30% interest in the project plus a 5% net smelter return. Minnova is the operator.

The June in-fill drilling programme confirmed the existence of the Samato-

sum zone within an area about 210 m long and 40 m wide with an average thickness of 4.8 m. Much of it lies within 60 m of surface. Undiluted *in situ* reserves are estimated to be 600,000 t averaging 1,100 g/t silver, 1.8 g/t gold, 3.5% zinc, 1.7% lead and 1.2% copper. Within the wider joint venture area, reserves are estimated at about 1.0 Mt of ore grading 730 g/t silver, 1.4 g/t gold, 2.9% zinc, 3.2% lead and 1.1% copper.

#### Dewatering Programme for Bendigo

Bendigo Mining NL is continuing its dewatering programme at the 410 m deep Central Deborah gold mine shaft in Bendigo, Victoria State, Australia. The project will continue until the water level has been lowered to a depth of about 220 m. This will provide access to one of the principal levels which interconnects the three main shafts on the Deborah line of reef at Bendigo.

Bendigo Mining is using the Central Deborah shaft to gain access to target areas within the 1.6 km strike length of the Deborah structure where relatively high grade ore reserves have been indicated (*MJ*, September 19, 1986, p.201).

#### Climax Expands Fiji Orebody

Climax Mining Ltd. of Sydney has completed a programme of reverse circulation percussion drilling at Faddys prospect on the Mistry project in Fiji and results have shown a significant gold-bearing zone located 150 m west of the previously announced resource (*MJ*, February 13, p.111). The best intercepts from three separate holes were 56 m grading 3.4 g/t gold (including 30 m at 5.7 g/t), 40 m grading 2.1 g/t and 24 m grading 1.6 g/t, with all holes terminating in gold mineralization.

Preliminary metallurgical testing on a section of sulphide mineralization returned high gold recoveries (+90%) with low cyanide consumption. Climax's exploration programme will be continued in an effort to bring the project to the development stage.

#### U.S.S.R. Looks at Nicaraguan Gold Mine

The monthly Brazilian publication, *Minerios*, reports that the Soviet Union is considering plans to re-open the El Limon gold mine in Nicaragua. Previously owned by Noranda, the mine operated up to 1956 and produced an estimated 8.0 t of gold before a breakthrough caused the workings to flood. Noranda subsequently relinquished ownership and the mine was nationalized at the time of the Sandinista Revolution in 1979.

The mine is located 40 km northeast of Leon and it appears that the Soviet Union is considering an investment programme worth some \$5.6 million. Ini-

tially, five exploratory drill-holes are planned with provision for a further 90 holes to depths of 800 m.

## DEVELOPMENT

#### Botswana Gold Project

Phelps Dodge Corp. and Falconbridge Explorations (Botswana) (Pty.) Ltd. are to jointly develop the Map Nora gold mine situated near Francistown in the Republic of Botswana. Initial investment is estimated at about Pula 15 million (\$US1 = P1.68). In 1986 the two companies reached an agreement in principle with the government for the grant of a mining lease to a company owned 15% by the Botswana Government and 42.5% each by Phelps Dodge and Falconbridge.

#### Progress at Bellevue

Joint venture partners Queen Margaret Gold Mines and Spargos Exploration have started underground production from the Bellevue gold project 40 km north of Leinster in Western Australia and full production is expected in October. A new \$A1.2 million crushing plant is due to be commissioned shortly. Output this year is estimated at about 25,000 oz rising to 55,000 oz in 1988. The average grade of the development ore has been in excess of 20 g/t gold.

#### RP's Gallium Moves

Rhone Poulenc has appointed Crooks Mitchell Peacock Stewart Pty. Ltd. (CMPS) as consulting engineers and construction managers for the development of its gallium extraction plant at Pinjarra in Western Australia (*MJ*, January 23, p.59). CMPS will work with French engineering consulting firm Krebs and Cie SA, which is responsible for all technology and process design work. Engineering work on the project has started and site works are due to start in November. The plant will be operational by end-1988.

The company also plans to build a rare earths processing plant using mineral sands mined in W.A. as a feedstock. Subject to environmental approvals, the rare earths plant could be in production by June 1989. Rhone Poulenc will spend between \$A100 and \$A150 million to develop the two plants which will have a permanent workforce of some 100.

#### Norwegian Mining Venture

A new mining company has been formed in Norway called Vesteralen Bergindustri AS (Vesteralen Mining Industries Inc.). It is owned by Ofoten Invest (45%), Johannes Soyland (35%) and Ernst Jensen (20%). The company owns

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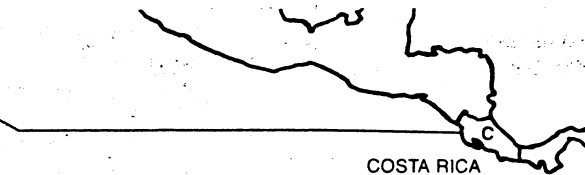
**EXPLORATION**

6) Bick Claims - Thurlow Island  
Gold/Silver

**DEVELOPMENT**

B) CK - Clearwater  
Zinc, Lead, Silver

VALUE: \$393 MILLION CANADIAN.



**Rea Gold Corporation**

Issued Shares: 6,280,619

Ticker Symbols: REO.V, REO.T, NASDAQ-REOGF

ADAMS LAKE (6000 acre poly metallic property located 45 Km northeast of Kamloops, B.C.)

Rea has a 100% interest in the 20 acre discovery zone with Corporation Falconbridge Copper ("CFC") having a 10% carried interest after all paybacks to Rea. The discovery zone has drill proven reserves of 267,720 tons averaging:

Tons	Au oz./T	Ag oz./T	Zn%	Pb%	Cu%
267,720	.190	2.14	2.25	2.14	.57

Total metal value is in excess of \$46 million dollars Canadian.

The company has a 30% interest with CFC having a 70% interest in the balance of the property. Drilling over the past year has identified a significant body of mineralization known as the "Silver Zone" which has a strike length of 425 meters, a dip length of 200 meters and an average width of 3 meters. The deposit is open in all directions. Drill indicated potential ore reserves in the zone have been calculated by Rea to contain 1,120,000 tons averaging:

Tons	Au oz./T	Ag oz./T	Zn%	Pb%	Cu%
1,120,000	0.42	21.22	2.89	3.20	1.16

CASA BERARDI, QUEBEC GOLD CAMP (located 14 miles south of the Inca Golden Knight Ore body)

Rea has a 50/50 interest with Midland on the 1,100 acre Quebec Gold Property. The property contains a large electromagnetic high as well as two coincident 2 channel geophysical targets identified by aerial surveys.

TILLICUM PROPERTY (2,400 acre gold silver property located 13 miles south of Nakusp, B.C.)

Geophysical and geochemical work in 1984 identified scattered mineralization in several multi-metal anomalies.

**Verdstone Gold Corp.**

Issued Shares: 1,603,500

Ticker Symbol: VGC.V

CK PROPERTY (50% Verdstone/50% Rea) Zinc, Lead and Silver property located 29 miles NE from Clearwater, B.C.

The 22,000 acre property contains 20 miles of mineralized strike length and is a stratabound Massive Sulphide property containing high grade zinc. Drill indicated reserves on the New Showing are:

Tons	Zn%	Pb%	Ag (oz/ton)
1,643,000	8.6	1.4	.25

Recent work on the property has identified three new zones along strike to the south with value ranging up to 25% zinc, 5% lead, and .50 oz./ton silver.

Reserves as they are known have a metal value of \$199,000,000 Canadian at current prices.

BICK CLAIMS - Thurlow Island (This 100% owned Gold/Silver property is located at Shoal Bay, 40 miles northeast of Campbell River, B.C.)

The property is situated on a major shear zone which extends for a distance of 15 miles along which are located a large number of precious metal prospects and at least a potential for two producing mines, the Doratha Morton and Alexandra prospects. Banded quartz veins on the property range from a few inches to 35 feet wide and samples taken from the old dump have assayed from .06 to .90 oz./ton gold.

**Midland Energy Corporation**

Issued Shares: 5,587,873

Ticker Symbol: MDY.V

BELLAVISTA/MONTEZUMA (Midland/Rayrock - 60%; Westlake - 40%)

This 19 square kilometer property is located approximately 80 miles northwest of Costa Rica's capital city of San José. Puntarenas, the country's major Pacific port, is 17 miles to the west by road. The property is named for its two separate deposits, Bellavista and Montezuma. Both are systems of gold-bearing quartz veins in altered andesite and andesite breccia. Ore reserves for the Bellavista/Montezuma have been calculated at 2,150,000 tons of drift-proven and probable ore grading .136 oz./ton gold and .23 oz./ton silver (80% of the reserves are in the open-pit category). Another 2,530,000 tons of .145 oz./ton ore has been inferred.

Total Tons	Au oz./T	Ag oz./T
4,680,000	.143	.23

Total metal content is 679,000 ozs of gold and 1,074,000 oz. of silver having a total value of \$393 million (Cdn) at current prices, ore value is \$60/U.S. per ton.

Feasibility studies have indicated proven recoveries of 96% in gold and 70% in silver.

For some time the property has been recognized as having considerable potential for the discovery of additional reserves and it is with this in mind that recent negotiations have been made with Rayrock Yellowknife Resources Inc. ("Rayrock") to enter into the existing joint-venture. An agreement between Rayrock & Midland has been reached whereby Rayrock can earn half of Midland's 60% interest by funding 100% of Midland's obligations at a cost of \$1.5 million.

In addition to Rayrock's earn-in rights, Rayrock has unconditionally agreed to purchase 530,303 shares of Midland at 66¢ per share by way of a private placement with a warrant to purchase an additional 530,303 shares at 76¢ per share for up to one year. This private placement is subject to a one year hold period.

Rayrock has further option rights subject to regulatory and shareholders' approval to purchase Midland treasury shares at prices ranging from \$1.20 to \$1.70 per share over four years which, if exercised, will give Rayrock the majority interest in Midland for approximately \$9.5 million.

For further information please contact **LARRY W. REAUGH, President**  
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