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 January 29, 1988.

ENERGY, MINES AND
 PETROLEUM RESOURCES
 FEB 3 1988
 MINISTER'S OFFICE

Dear Shareholder:

Re: Lang Bay Project, British Columbia

Since the previous report on November 27, 1987, the following work has been undertaken on the Lang Bay project:

- resistivity and magnetometer surveys have been completed and a report issued;
- preliminary beneficiation analysis of kaolin clays by our processing consultant has been completed and a report issued;
- whole-rock analysis for the various kaolin clay horizons within the Lang Bay deposit has been completed and evaluated by a major cement company;
- arrangements have been made for the next stage of exploration drilling at Lang Bay which will commence February 4, 1988.

Resistivity and Magnetometer Surveys

During December, resistivity and magnetometer surveys were carried out by Foundex Geophysics, Inc., of Vancouver.

The objective of the resistivity survey was to determine whether sufficient resistivity contrasts existed within the deposit to distinguish the kaolin formation from the overburden and bedrock. The study was based on the premise that the kaolin would be somewhat less resistive (i.e. more conductive) than the other materials present.

The results of this survey were positive as three near-surface conductive zones were delineated, one of which was centered around the "Discovery Hole" (87-7). A very large conductive zone was also located about 1 km. to the south-east of the previous drilling area. This zone is thought to have excellent potential for the discovery of further kaolin reserves. However, this theory will have to be tested by drilling in this area. It should be noted that the horizons depicted in the resistivity survey seem to correlate very well with those from the previously conducted seismic survey. Within the area where drill information is available, areas of high resistivity were coincident with areas of thick overburden and as noted above, drilling in the "Discovery Hole" area corroborates the existence of near-surface kaolin in a conductive zone.

Core drilling will be carried out through the conductive zones to prove the correlation with resistivity and seismic data. Should the results meet our expectations, the selection of future drilling targets will be delineated by resistivity surveys.

The objective of the magnetometer survey was to determine whether magnetic anomalies within the deposit could be used to augment resistivity and seismic geophysical techniques in delineating areas of higher grade kaolin. In addition, it was felt that this technique would assist in predicting the location of structural features such as faults.

The most prominent feature outlined by the magnetometer survey was a north-westerly striking lineament separating high magnetic susceptibility material to the northeast from low susceptibility to the southwest. It is felt that this feature is most likely a fault. In addition, a north-south trending fault has also been confirmed by this survey.

The usefulness of the magnetometer method as a kaolin detection tool will be more apparent after correlation drilling has been completed.

Beneficiation Testing

Our processing consultant, Mr. Frank Sutton of Cornwall, England, has completed the initial stage of beneficiation testing for four separate kaolin clay horizons from the Lang Bay deposit.

1. Lang Bay Kaolin as a Mineral Filler for the Paper Industry

Mr. Sutton has conducted tests to determine whether Lang Bay kaolin could be used as a filler in the paper industry. In terms of abrasiveness and particle size distribution, this material is very suitable. While the raw brightness is on the low side at 70, it is felt that this material would still be an acceptable substitute for wood fibre in newsprint.

Tests by Mr. Sutton have succeeded in increasing the brightness of the product but as yet nothing has been discovered which would be cost-effective on a commercial scale. However, it is felt that high-gradient magnetic separation does hold promise for this deposit. This process has been successful in substantially increasing the brightness of some of the Georgian kaolins. Further to this, it is planned to carry out a test on a pilot-scale high-gradient magnetic separator.

2. Lang Bay Kaolin as Ceramic Material

Mr. Sutton feels that at the very least, Lang Bay clays could be used for the production of sanitary-ware due to the fact that the colour of the finished product is supplied by thick, opaque and often highly coloured glazes. It was also noted that magnetic separation would probably improve the fired brightness of the clays, a fact which would greatly increase the number of ceramic applications in which it could be used.

Whole Rock Analysis by Cement Manufacturer

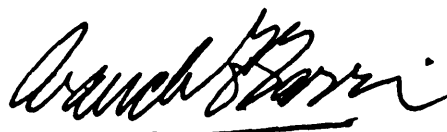
A major cement company has recently performed whole-rock analysis on a number of geological horizons within the Lang Bay deposit ranging from the overburden through all the kaolin clay horizons. From a preliminary discussion, it looks as though the Brown Bed material would definitely interest them and possibly the overburden as well. The main point to consider here is that if the waste material can be sold even at a breakeven level, it decreases the stripping ratio of the deposit and thus enhances its viability.

Proposed Drilling Program

On February 4, 1988, a core drilling program will commence designed to provide a correlation between the geophysics and geological strata. The initial program will consist of approximately 3000 feet of drilling contained in 9 holes. Providing that this program is successful, the drill will remain on the property drilling geophysical anomalies until sufficient ore reserves are delineated to proceed with a feasibility study.

The next quarter will be important to Fargo's ongoing development planning and shareholders will be advised as results become available.

Respectfully submitted,



Lauch F. Farris
President