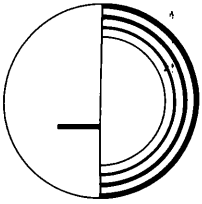
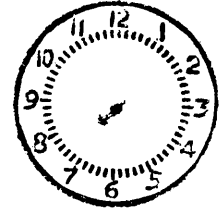


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**SILVANA MINES INC.**

Suite 1402-390 Bay Street Toronto M5H 2Y2  
(416) 361-0402 Telex 06-22016



January 4, 1979 **DEPT. OF MINES  
AND PETROLEUM RESOURCES**

Mr. W. R. Bacon,  
Co-ordinator, A.M.D. Program,  
Ministry of Mines & Petroleum Resources,  
Room 409, Douglas Building,  
617 Government Street,  
Victoria, B. C.,  
V8V 1X4.

Dear Mr. Bacon:

Bill Hogg has told me of your letter to the Northern Miner referring to the story on Silvana in the December 21, 1978 issue of the Northern Miner. He also mentioned your comments on the copy of your letter sent to him at New Denver.

I hope that you realize that I have no control over what is printed in the Northern Miner. I have talked to Mr. M. R. Brown, Editor of the Miner, since being told of your letter, and asked him if he would publicize the fact that the Provincial Government, through the A.M.D. program, had agreed to provide up to \$200,000, of which \$151,358 had been advanced by December, 1978.

In regard to the December 21 article, Brown asked me how much the program on the 4,000 level had cost to date, and I said about a million dollars, by the end of 1978.

Mr. Brown was aware of the fact that Silvana had qualified for a grant from the Provincial government under the A.M.D. program, to the amount of \$200,000.

In regard to the intersection itself, this news was released via a release to Dow Jones and Canadian Wire Service, and, subsequently, Mr. Brown asked for more detail for a story, which I gave in a 10 minute period in order to meet the issue deadline. The comments in the article on financing are all Mr. Brown's based on Northern Miner files. The paragraph dealing with the Royal Bank loan states "none of this (\$750,000) has been drawn on nor is it likely that it will be necessary", is, in error. This bank loan will be drawn on to the extent of about \$250,000 by the end of January, 1979, (all drawn in January) and we will continue to draw on the loan for the next several months unless the warrants outstanding (375,000 warrants convertible to shares at \$2.00 per share) are exercised in part or total and this won't be known until February 6, 1979, the last date for conversion.

In point of fact, for 1978, while the 4,000 level project has cost about \$1,000,000, additional exploration and development has cost about \$600,000. It is a fact that the grant under the A.M.D. program encouraged us to move much faster than we had planned and this required spending more money for equipment and materials plus more wages, than we had planned. This, of course, was the purpose of the A.M.D. program and, Silvana has certainly met the criteria established for the grant.

January 4, 1979.

Exploiting the success we have had to date is going to be very expensive and, our ability to generate cash very limited, until the new zones are made available for mining. The Financing plan was based on costs estimated in 1977, and since then costs have increased dramatically, and we have spent faster to accelerate the program. You realize I hope, that we have a responsibility to the shareholders who purchased treasury shares in the February 28, 1978 public offering and thus, really, made the program possible.

I, personally, as well as the other Silvana directors, fully appreciate the help provided by the Provincial Government, and the funds supplied certainly were used to accelerate exploration and development programs at Silvana.

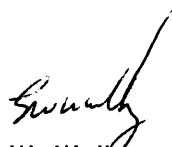
I assure you that I will make every possible effort to see that the government's financial assistance under the A.M.D. program is well publicized in any reports to shareholders, or the public generally, in the future, over which I have any control. I regret that the December 21, 1978 Northern Miner article on Silvana did not give the government the credit it was entitled to and, although I don't believe it was my fault, I apologize for the omission.

One last item, in your letter to the Editor, you refer to the government supplying \$300,000. Bill Hogg has told me that you advised him that, while the original grant was for \$200,000, additional funds might be available. However, according to Bill Hogg, no specific figure was mentioned, nor was a commitment made for funds in addition to the \$200,000.

I can assure you that an additional grant would be used to continue the pace of exploration and maintain the current level of employment for several more months.

Yours very truly,

SILVANA MINES INC.



G. W. Walkey,  
President.

GWW/rk