

REA GOLD CORPORATION (REQ-V,T; REOGF-Nasdaq)
SAMATOSUM MINE PROJECT REVIEW -Larry Reaugh, CEO, provides a project review of the

Samatosum mine located near Kamloops, B.C., a joint venture between Minnova Inc. and Rea Gold Corp. Rea Gold acquired the property and carried out the initial exploration retaining a 30% working interest and a 5% net smelter royalty. Minnova, 70% interest, continued the exploration, designed, constructed and now operates the mine. Within the first half of 1990 Rea Gold repaid its operating loan of \$2,500,000; has no debt and had net earnings of \$1,600,000 irrespective of the negative impact of a low silver price and a high Canadian dollar. The Samatosum high grade polymetallic mine began production in May 1990 ahead of schedule and on budget. The mine and mill were designed to operate at 422 tonnes per day, but at times have operated at over 500 tonnes per day and has consistently operated at 480 tonnes per day, which to some extent offsets the variance in the silver price and exchange rate. The current silver price is US\$4.80/oz. and the exchange rate is 1.16 compared to the feasibility projections of US\$6.90 and 1.25 respectively.

Mill startup went well with the plant attaining rated capacity with a minimum of startup problems. Metallurgical recoveries for silver, gold, copper and lead have consistently been according to plan. Zinc recovery is off plan but this hasn't had a significant impact on revenues. The mill produces three concentrates which are sent to four smelters in four different countries. Development of the open pit to production went well also, as stripping started only a couple of months before mill startup and the pit has supplied ore at above planned rates to the mill from the start. Ledcor, the mine contractor mobilized sufficient equipment to start the stripping quickly in wet spring conditions in March 1989 and gradually reduced the equipment as stripping was completed for Phase 1 and is now ahead of schedule for Phase 2. Stripping has been on plan except for removal of extra waste from a recent slide caused by a cross fault in the pit wall which is now under control. Mining of ore is done with extreme care due to the high grades of small ore shoots and the erratic nature of the narrow veins. Ore benches are mined in 2.5-metre lifts only on day shift and under strict geological control. The operating cost was slightly over plan in 1989 as it was deemed prudent to accelerate waste stripping to permit a smooth transfer from Phase 1 to Phase 2 in the pit in the spring of 1990 as a few benches of lower grade ore and less ore than planned was encountered during the changeover. The operating cost for 1990 has been slightly below plan.

The drill indicated, diluted ore reserve at startup in May of 1989 was 774,000 tons at 831 grams silver/ton, 1.6 grams gold/ton, 1.0% copper, 2.9% zinc and 1.4% lead. After operating in 1989, the ore reserve at year end was 711,000 tonnes at 831 grams silver/ton, 1.5 grams gold/ton, 1.0% copper, 2.6% zinc, 1.4% lead. Exploration for 1990 is still in progress. Results to date indicate that the NW pit reserve will be larger than expected and may be mineable as a Phase 3 pit; a reserve considered uneconomic at the bottom of the pit in Phase 1 may now be economic, and a block of ore in the underground reserve can be upgraded from probable to proven. The Samatosum and Rea geological horizons have been successfully extended by surface drilling with

mineralization present but no economic deposits encountered to date. Exploration to find new reserves on the Samatosum property continues at a cost of \$1,000,000 per year. In the last 2 months, grades and tonnes in the Phase 2 benches mined have been lower than expected due to lack of continuity projected from one thick high grade diamond drill intersection. The remaining ore tonnage has actually been a bit more than planned but is lower grade due to high dilution associated with mining thin veins.

Reconciliation of all mining to date suggests a 40% dilution rate as against a 30% dilution rate in feasibility planning as the narrow veins at the top and bottom of the deposit are highly diluted to avoid losses. The milling rate has been boosted 10% to accommodate this. The open pit which was scheduled to be completed by the end of 1992 is now projected to be completed sooner due to aforementioned ore losses and earlier startup. If the Phase 3 pit studies prove it is economic, open pit life will be as planned originally, before the underground operation begins.

The open pit will be completed ahead of schedule because of the early startup and higher milling rate. Total metal production from the pit is expected to be close to initial projections as some of the ore losses to date have been offset by recent exploration.

McLennan Property

The 4,100-acre McLellan copper property, 12 miles north of the Samatosum mine, was acquired in June. Assays from grab samples in the initial showing averaged between 4.25% and 8.65% copper and 0.58 to 1.0 ounce per ton silver, with traces of gold, lead and zinc. The showing is near the contact of Baldy Batholith granites with Eagle Bay Formation volcanics. Phase 1 of the \$150,000 program, a 31-km soil sampling program conducted in August, indicates a 1,000 x 3,000-foot zone, anomalous in gold and zinc, to the north, and a 2,500 by 3,500-foot area anomalous in copper to the south. A program of geophysical surveys and trenching followed by diamond drilling is planned for the fall.

Flap Property

On the 30,000-acre Flap property, in south central B.C., soil samples were collected over 160 km of grid on 15,000 acres. More assays are pending, but preliminary results are encouraging. Regional geology consists of Nicola Group volcanics and sediment intruded by granitic rocks of the Okanagan Batholith. Previous sampling and limited diamond drilling in 1988 of the initial 14,500 acres delineated numerous gold targets, including a quartz stockwork zone of 800 by 1,200 feet with drill assays of up to 1.614 ounces of gold per ton and 7.79 ounces of silver per ton over 3 feet. (SEE GCNL No.179, 17Sep90, P.) FOR INTERIM REPORT)

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