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Stephen

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ASH PEAK MINE

PROGRESS REPORT

1. SUMMARY

The author visited the mine for four days between 31 October and 4 November 1988. There have been major developments in several areas since the author's last visit at the end of August. These include significantly increased reserves, much wider veins and access to deep levels, all of which bodes well for increased production over the near term. Two areas continue to give problems at the mine; slow payment by the smelters and competition from other suppliers of flux - principally Echo Bay Mines.

On the 1st November Bob Lavoie, an investment advisor from New Hampshire, visited the property. He has been a strong supporter of CanaMin over the past year. He appeared to be favourably impressed with the deposit and its economic potential. It is expected that he will continue to sponsor the company.

2. PRODUCTION

Production is slowly climbing towards 1,000 tons per week with 600-700 tons produced over each of the past three weeks. This production has been coming from a combination of development on the 200 East level and development/stopping on the 350 East level.

200 LEVEL

As indicated in the last progress report, the author recommended investigating the Ash Peak Vein on the east side of the shaft. Currently the drift has reached 190 feet east of the shaft and the vein has proven to be very wide. The drift is being slashed out to the full width of the vein which is currently indicated to be 35 feet (based on test holes). The grade is fairly low (6-7 oz/ton) but this will be more than compensated for by lower mining costs for such a wide vein. Continuity upwards is indicated by a Phelps Dodge drill hole approximately 40 feet above the drift and a Phelps Dodge stope on the 85 level, approximately 100 feet above the 200 level. Developed reserves are conservatively estimated at 44,000 tons of which approximately 50% is mineable, leaving a pillar to protect the shaft and another to protect the 85 level.

At an indeterminate depth between the 200 and 300 the 35 foot wide vein on the 200 level pinches down and is only 3-4 feet wide on the 300 level. An examination of the shaft suggests there is an abrupt change in width 20 feet above the 300 level. This is currently being investigated by test drilling. It is expected that an additional 15,000-20,000 of mineable reserves will be developed between these levels.

Meanwhile drifting is continuing around the shaft, in the vein, where it is expected that a similar quantity of ore will be developed between the 300 and 85 levels (i.e. an additional +/- 40,000 tons) on the west side. This expectation is based on examination of the 85 level, drilling between the 85 and 200 levels and extensive stoping on a strong vein reaching up to the 350 level.

350 LEVEL

As noted above, stoping is proceeding on the 350E stope in the Hanging Wall Vein. This is the downward continuation of the stope mined by us from the 300E level up to the 200 level. It has been mined up to 350 level by Inspiration. The vein is 12-15 feet wide and is of higher than average grade (10 oz/ton +). Waste material from this level is being used to fill a collapsed area between the Ash Peak and Hanging Wall Veins and then extraction of the Ash Peak Vein can commence on this level. Each of the two veins is expected to yield +/- 5,000 tons over the near future, leaving pillars to protect the shaft and levels above.

Drifting is continuing around the shaft where it is expected the +/- 5,000 tons will be developed above a 180 foot long stope in the Ash Peak Vein (mined from the 500 level to the 360 level) and below the 300 level.

3. MINING METHODS

On the 3rd November 1988 Neil Pacey of Redpath Engineering visited the mine. Pacey is an expert in the selection and implementation of mining methods. After an examination of the mine, it was agreed that Billingsley's suggestion of long hole stoping was the best method. However, Pacey suggested that we could further increase productivity by drilling up and down from the 200 level, reducing the development work required and increasing productivity from the current 10 tons per man shift to 30-35 tons per man shift. Pacey will present Billingsley with a detailed lay-out of blast holes, hole sizes, hole spacing, etc. Pacey suggested that we may wish

to contract out the drilling to ensure it is done correctly and to allow our miners to learn this new method of mining.

Simply, the method involves drilling the full width of the vein 60-70 feet above the 200 level and 70 feet below the 200 level on a 4 ft X 6 ft grid. Each 6 ft slab above and below the 200 level will be taken in a single blast dropping 2,000 tons at once. All the broken ore will drop right through to the 300 level where it will be slushed to pocket on the 300 level.

Work is progressing to implement this mining method, including slashing the 200 drift to the full width of the vein to allow drilling to commence. This pre-production development is yielding over 5,000 tons of ore on an on-going basis. Stopping is expected to commence by the end of the month.

4. OTHER MATTERS

The smelters continue to be a slow pay. Generally payments run eight weeks behind. This problem is accentuated by the on-going competition from Echo Bay whose flux, being very high grade, is more profitable to the smelters. As a result, they use Echo Bay's flux in preference to ours, further delaying payments. Currently accounts receivable stands at approximately US \$100,000 and is expected to build up to perhaps US \$200,000 within two to three months. The receivables are likely to be maintained at that level for the foreseeable future, unless there is a fundamental change in the flux business. Arizona Flux Mines does not have the capital to carry this accounts receivable and require assistance. In addition, the demand for fines at the Phelps Dodge smelters is weak at present because most of Echo Bay's flux is being crushed to fines by the smelters.

Steps are also being taken to find alternate markets where we would not be competing with Echo Bay. Asarco has been approached and has expressed an interest in a 1,000 ton test shipment of fines. If this is followed through, shipments will be cut back to Phelps Dodge and Chino Mines until they use up their stockpiles of flux. Should this route fail, Magma Copper has also approached us for flux and we have also approached Phelps Dodge in El Paso. These exploratory discussions are proceeding cautiously, since we do not want to be unable to meet the demand after offering to sell them flux.

In the area of locating technical personnel for the mine, Redpath has been of some assistance. Richard Ackermann is a Mining Engineer experienced in shrinkage and long hole stoping mining methods in underground mines. Telephone discussions with him suggest he would fit in to the operations at the mine and greatly assist in optimizing and increasing our production.

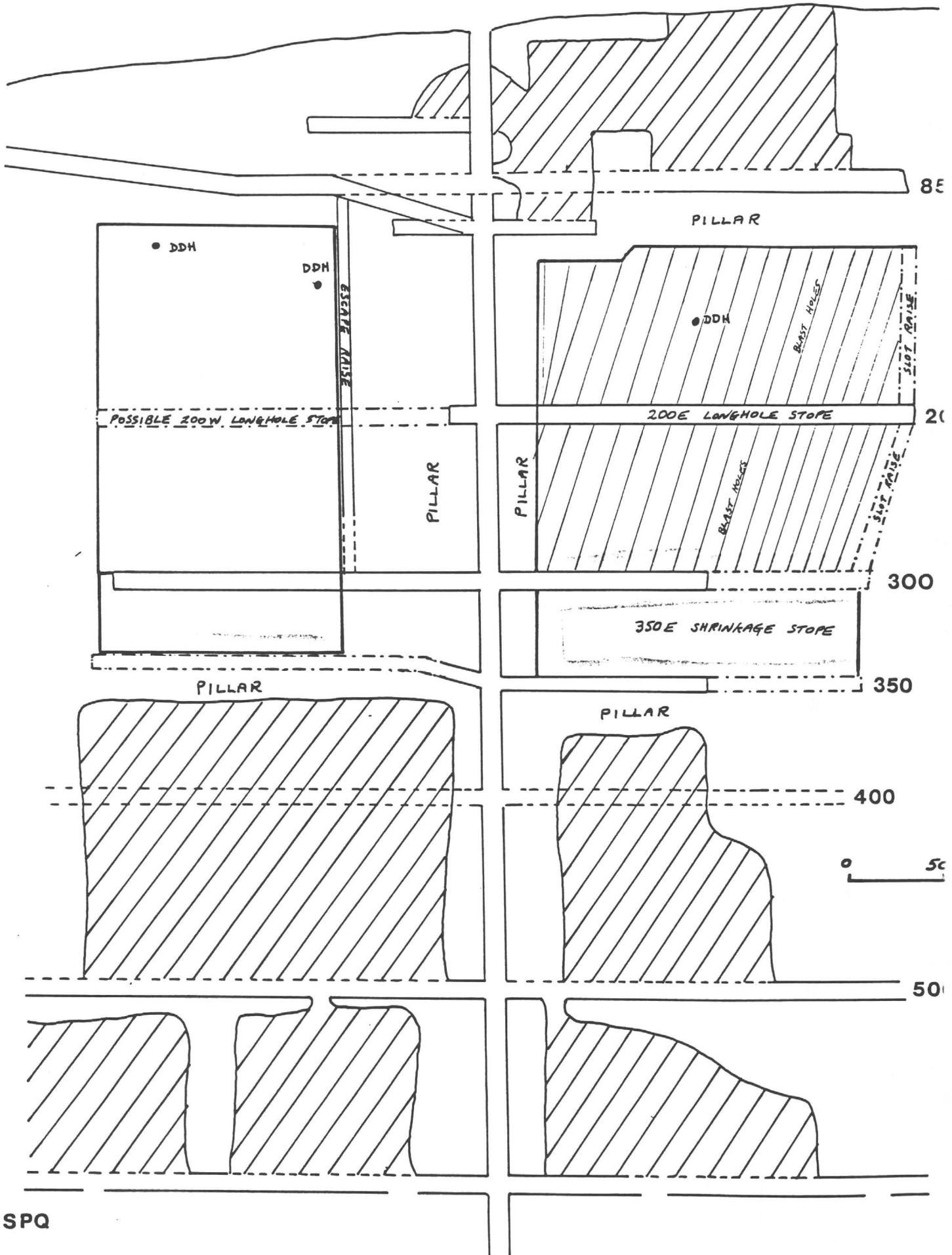
5. CONCLUSIONS

The mine is getting better and better all the time. If we can now get over the hurdle of 200 tons per day, we will have a highly profitable operation. A new mining method and much wider veins ensure that this target is attainable in fairly short order, provided we can carry the working capital requirements of such an operation.

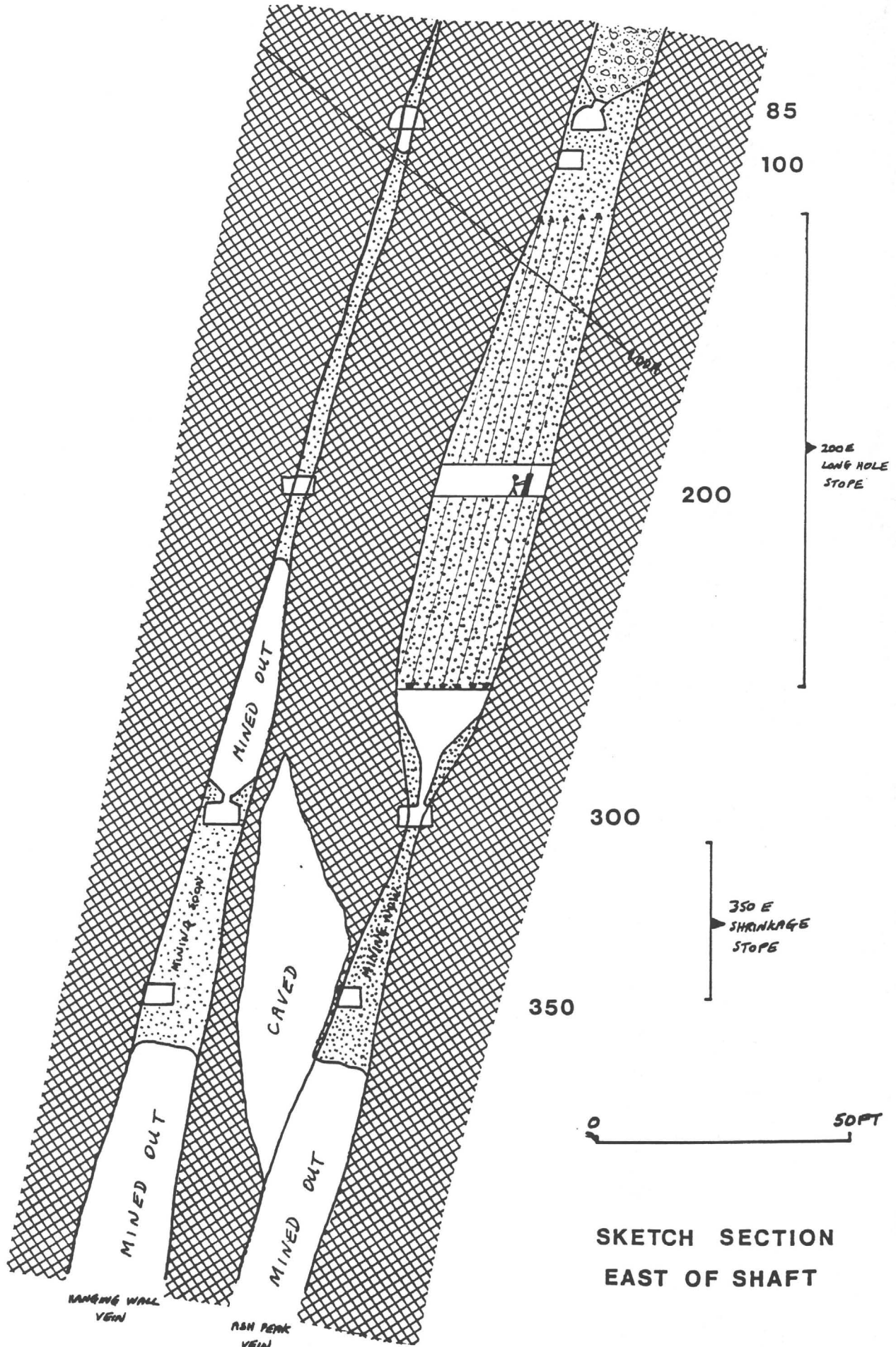
Stephen P. Quin
Tuesday, 8th November 1988

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SKETCH SECTION ALONG ASH PEAK VEIN

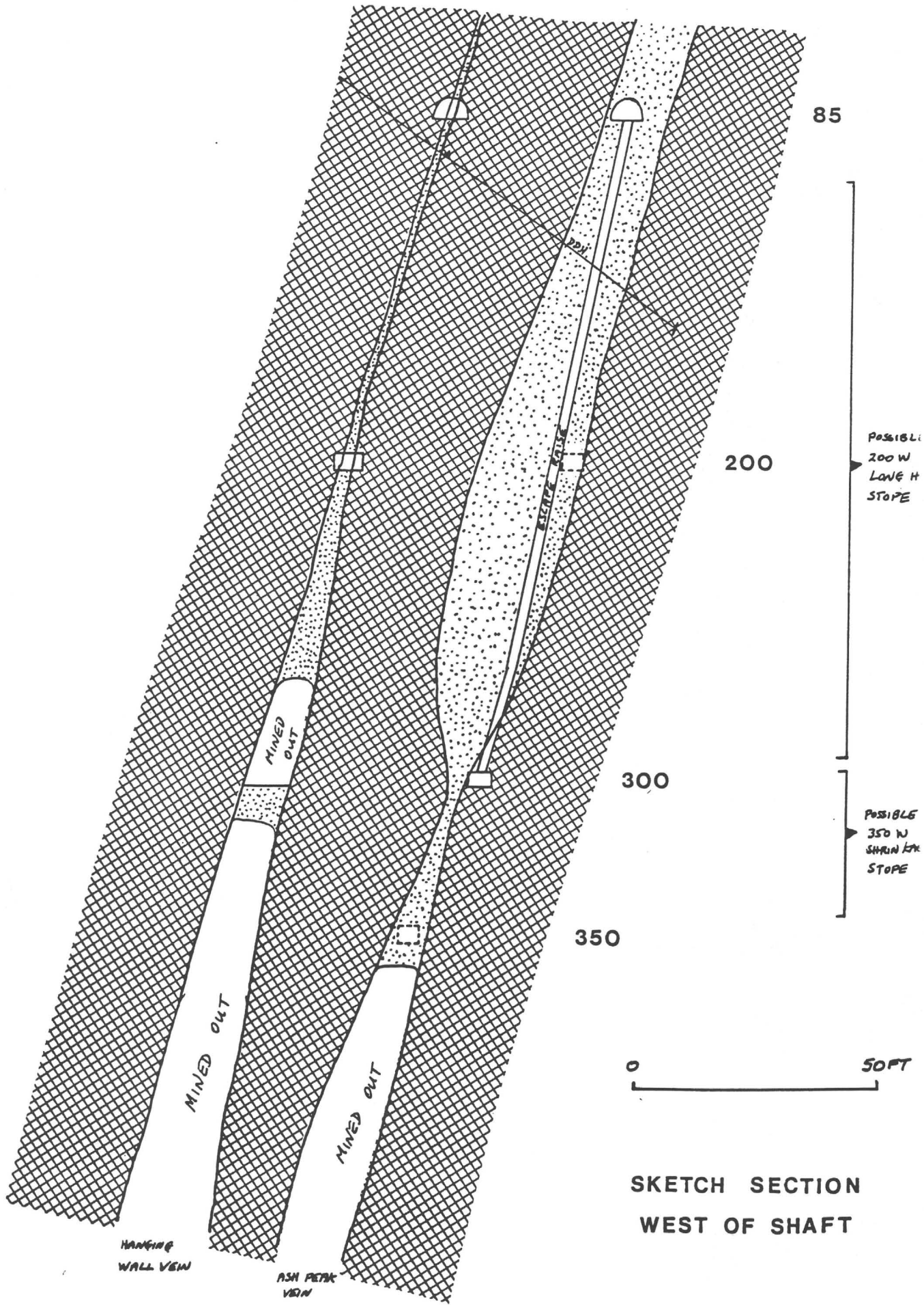


SPQ



SKETCH SECTION
EAST OF SHAFT

SPQ



SKETCH SECTION
WEST OF SHAFT

SPQ

Historical Report on Operations of the Ash Peak Mines - Page 2.

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No information was given on the width of the vein other than it was very wide, nor on the values of these long hole drill holes. According to Smith the Veta Mines operation used the Shamrock shaft below the 600 ft. level to "gob" their waste rock and the shaft is, therefore, filled up below this point and Inspiration never cleaned it out.

In May of 1962 additional information was obtained from the offices of Inspiration Copper Company from the retiring chief geologist, Mr. E. F. Reed, and at this time various maps were inspected and a copy of their vertical projection was obtained. From this it was determined that most of the ore developed by Goldfield Consolidated above the 700 ft. level has been mined out as well as one stope on the 800 ft. level and two stopes on the 975 ft. level. The lower workings were undoubtedly mined out by Veta Mines, Inc. Inspiration did not mine any of the ore below the 500 ft. level in the Hanging Wall vein; so it can be assumed that the Hanging Wall vein is definitely proved for a length of 1000 feet and a height of 100 feet from the 600 ft. to the 500 ft. levels. Width and value are unknown. There has been no mining of the Hanging Wall vein below the 500 ft. level and, therefore, exploration might prove a considerable tonnage.

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Historical Report on Operations of the Ash Peak Mines - Page 3.


<u>Company</u>	<u>Production</u>				
	<u>Tons</u>	<u>Gold</u> <u>Total Oz.</u>	<u>Oz/Ton</u>	<u>Silver</u> <u>Total Oz.</u>	<u>Oz/Ton</u>
Veta Mines Inc.					
Mill	173,382	4,404	.025	1,212,693	7.0
Mill Tails	173,200	1,732	.01	433,000	2.5
Calculated Mill Heads	173,382	6,136		<u>1,645,693</u>	<u>9.5</u>
Commerce Dump					
Direct Shipping Ore	6,551	193	.029	50,074	7.6
Inspiration Consolidated Copper					
Direct Shipping Ore	<u>123,393</u>	<u>4,388</u>	<u>.035</u>	<u>1,139,201</u>	<u>9.2</u>
Total and Average	303,226	10,717	.035	2,834,968	9.3

Base metal production is minor and only the Veta Mines concentrates were assayed. Records show a total production from 173,282 tons of ore of 55,000 pounds of copper or .02%, and 118,000 pounds of lead or .03%.

Respectfully submitted,

A. George Setter, E.M.

HISTORY OF THE ASH PEAK MINES



The Ash Peak Mining Claims known as the Great Eastern, Commerce, Fraction, Summit, and Homestead Lodes are located in Sections 2, 3, 10, and 11 Township 8 South, Range 30 East G&S.R. M. and were surveyed June thru August 1913 MINERAL SURVEY NO. 3076 A&B.

The Ash Peak mines were developed by Gold Fields Consolidated before World War I by sinking the Shamrock shaft, a single compartment shaft with manway to the 800 ft level and driving drifts along the vein in both directions in the ore body at 100 ft intervals. The Commerce shaft located approximately 2000 feet South-East of the Shamrock shaft along the outcrop of the vein was sunk to the 500 foot level with drifts at 100 ft intervals along the vein in both directions. Extensive sampling was done by Goldfields but no ore was extracted.

On January 1, 1936 Veta Mines Inc with Robert H. Sayre as General Manager leased ~~the patented Ash Peak~~ claims from Arthur D. Murphy, and the unpatented claims from Joe Hardy, and simultaneously started to re-open and retimber the Shamrock, Commerce, and 500-ft Hardy shafts. A contract was awarded to Stearns-Roger to build a 200 ton flotation mill and a 1200 KW Diesel power plant. Inasmuch as several thousand tons of ore was blocked out no development work was done by Veta Mines other^{wise} to sink the Shamrock shaft to the 975 foot level in a desperate search for mill water and to start a connection from the 600 foot level of the Shamrock with a raise 200 feet to the 500 foot level of the Commerce. This raise was completed late in 1937 and no assay or sampling records are available. It is known however that all development muck was milled as the mill commenced operation in late 1937.

Veta Mines was unable to develop sufficient water to operate the mill (85 gpm) from the Shamrock 975 and the Murphy wells so they installed a 4" pipe line 7 miles in length from the Gila River and pumped water against a 1200 foot head with a Diesel driven triplex pump.

On January 1, 1938 President Franklin Roosevelt cut the Treasury price of silver from 77¢ per ounce to 64½¢ which eliminated the profit margin and forced Veta Mines to shut down the operation after milling all of the broken ore from the shrinkage stopes.

HISTORY OF THE ASH PEAK MINES



The mine and mill equipment were sold to Morse Brothers and the leases with Arthur D. Murphy were terminated. Veta Mines mined and milled 173,282 tons of ore averaging .035 ounces Gold, and 9.5 ounces of silver and left approximately 379,000 tons of tailings which averaged 2.5 ounces of silver which in later years was sold to Phelps Dodge.

At the start of World War II Inspiration Copper Co leased the patented claims from Arthur D. Murphy and opened up the Commerce shaft to produce silica flux for the Inspiration Smelter, at the rate of 80 tons per day.. After mining all of the useable ore in the Commerce they re-opened the Shamrock shaft to the 600 foot level, and mined all of the developed ore left by Veta Mines. The only development work done by Inspiration was to drive a 26 foot crosscut into the hanging wall on the 400 foot level which opened up a parallel vein to the Ash Peak vein. Inspiration developed the hanging wall vein on the 400 and 500 foot levels and mined in at a grade comparable to the Ash peak vein. Inspiration drove crosscuts to the hanging wall on the 600 foot level and drill holes at intervals for a length of 1200 feet but no data is available on the assay values. No mining was done below the 500 foot level on the hanging wall vein..

Inspiration found a copper-silica mine nearer to their smelter and closed down the Ash Peak property, after shipping 23,393 tons, Au.035 Ag 9.2

On May 2, 1963, Robert H. Sayre Jr., and A. George Setter negotiated a lease with option to purchase the patented claims with Arizon Title & Trust Co, Agents for the Arthur D. Murphy Estate. They also located the former Joe Hardy claims and 10 other unpatented claims. During 1964 George Morehouse and John Chapman became partners with Sayre and Setter and the claims were held by them until leased to E.E. Lewis Inc in 1968. E.E. Lewis, a subsidiary of Beaver Mesa Exploration, did considerable sampling along the outcrop of the vein between the Commerce and the Shamrock shafts which resulted in a small open pit operation which produced _____ tons of ore over a width of _____ feet which averaged _____ ounces per ton. This ore was shipped to the Phelps Dodge Morenci smelter.

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Page 3 HISTORY OF THE ASH PEAK MINES



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During 1978 Robert H. Sayre deeded his 10% interest in the partnership to A. George Setter. George Morehouse and John Chapman also deeded their interest (45%) to A. George Setter for a small carried interest.

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<u>Company</u>	<u>Tons</u>	<u>Production</u>		<u>Total Oz.</u>	<u>Oz/Ton</u>	<u>Silver</u>	
		<u>Total Oz.</u>	<u>Oz/Ton</u>			<u>Total Oz.</u>	<u>Oz/Ton</u>
Veta Mines Inc.							
Mill	173,382	4,404	.025	1,212,693		7.0	
Mill Tails	173,200	1,732	.01	433,000		2.5	
Calculated Mill Heads	173,382	6,136		<u>1,645,693</u>		<u>9.5</u>	
Commerce Dump							
Direct Shipping Ore	6,551	193	.029	50,074		7.6	
Inspiration Consolidated							
Copper							
Direct Shipping Ore	<u>123,393</u>	<u>4,388</u>	<u>.035</u>	<u>1,139,201</u>		<u>9.2</u>	
Total and Average	303,226	10,717	.035	2,834,968		9.3	

Base metal production is minor and only the Veta Mines concentrates were assayed. Records show a total production from 173,282 tons of ore of 55,000 pounds of copper or .02%, and 118,000 pounds of lead or .03%.

Respectfully submitted,

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HISTORY OF THE ASH PEAK MINES



The Ash Peak Mining Claims known as the Great Eastern, Commerce, Fraction, Summit, and Homestead Lodes are located in Sections 2,3, 10, and 11 Township 8 South, Range 30 East G&S.R. M. and were surveyed June thru August 1913 MINERAL SURVEY NO. 3076 A&B.

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On January 1, 1936 Veta Mines Inc with Robert H. Sayre as General Manager leased the patented Ash Peak claims from Arthur D. Murphy, and the unpatented claims from Joe Hardy, and simultaneously started to re-open and retimber the Shamrock, Commerce, and 500-ft Hardy shafts. A contract was awarded to Stearns-Roger to build a 200 ton flotation mill and a 1200 KW Diesel power plant. Inasmuch as several thousand tons of ore was blocked out no development work was done by Veta Mines otherth to sink the Shamrock shaft to the 975 foot level in a desperate search for mill water and to start a connection from the 600 foot level of the Shamrock with a raise 200 feet to the 500-foot level of the Commerce. This raise was completed late in 1937 and no assay or sampling records are available. It is known however that all development muck was milled as the mill commenced operation in late 1937.

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The mine and mill equipment were sold to Morse Brothers and the leases with Arthur D. Murphy were terminated. Veta Mines mined and milled 173,282 tons of ore averaging .035 ounces Gold, and 9.5 ounces of silver and left approximately 379,000 tons of tailings which averaged 2.5 ounces of silver which in later years was sold to Phelps Dodge.

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Page 3 HISTORY OF THE ASH PEAK MINES



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Historical Report on Operations of the Ash Peak Mines - Page 2.

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Historical Report on Operations of the Ash Peak Mines - Page 3.

<u>Company</u>	<u>Production</u>				
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**HISTORICAL REPORT ON OPERATIONS
of the
ASH PEAK MINES**

January, 1968

Report on Ash Peak Mines, Greenlee County, Arizona
TS 8S, R 30E, Sections 2, 3, 10, 11
Mineral Survey No. 3074 A 4, 5

The Ash Peak Mines were discovered in 1880 and five claims were patented October 14, 1913. The history of the early development work done by Goldfield Consolidated is documented in the Preliminary Report on the Ash Peak Mines of October 4, 1935, and Supplementary Report of December 27, 1935, by Robert H. Sayre, Sr.

Following is a summary of the history of this property after that time:

On January 1, 1936, Veta Mines, Inc. took over the operation of the Ash Peak Mine and the Hardy Group of claims. The Commerce, Shamrock, and Hardy shafts were rehabilitated. The Commerce and Hardy shafts were equipped with gasoline powered hoists, the Shamrock shaft was equipped with an electric hoist. The shaft was reconditioned and a M39 with approved safety guides was installed to the 800 ft. level. Stearns Leger Manufacturing Company were awarded a contract to build a 200 ton flotation mill and a 1000 KW power plant. Development work was started to drive the 600 ft. level of the Shamrock toward the Commerce and the 500 ft. level of the Commerce toward the Shamrock. These two levels were eventually connected by means of a raise, and ventilation established. Stoping was started on the 600 ft. level, and the mill went into production about September, 1936, and operated continuously on a 200 ton per day basis until January, 1938. The property was shut down due to a drop in price of silver from \$0.775 to \$0.645. The mining and milling equipment was sold and the entire property was dismantled. Veta mined 173,282 tons of ore during this period as shown on U. S. Bureau of Mines records.

On June 24, 1941, the property was re-opened as a lead-zinc mine by Inspiration Consolidated Copper Company, under the direction of Clifton H. Smith, and a lease was given to the Inspiration Consolidated Copper Company, Arizona, to operate the property. The ore was trucked to Safford, Arizona, and then shipped by rail to the Inspiration smelter at Miami, Arizona. It is estimated that during this period of time, 50,000 tons of ore were mined from the Shamrock workings above the fifth level and 74,000 tons from the Commerce shaft above the 5th level. The U. S. Bureau of Mines records show a total of 124,917 tons were mined from 1946 thru 1953.

The following data on the 1951 operation was furnished to me by Harold Ford, Superintendent and ore buyer of the Inspiration Consolidated Copper Company on March 1, 1966:

Tons Mined-----	19,842
Values: Gold-----	\$32,000.00
Silver-----	\$1,000.00
Mining Costs-----	\$139,031.00
Trucking to Solomon-----	23,029.00
Royalty to Arthur Murphy-----	12,444.00

Royalty was based on \$0.50 per ton mined or 5% on values over \$10.00.

Historical Report on Operations of the Ash Peak Mines - Page 2.

Harold Foard stated that this was a typical year toward the latter part of the operations which was finally closed down in June of 1954 and has remained idle ever since.

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