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Item #64

San Francisco, California
February 3, 1930

Mr. Brace Carter,
San Francisco, California.

Dear Mr. Carter:

I am herein submitting pro forma balance sheet after giving effect to this financing, the active operating management of the Company, the schedules and plans of operation in detail, as follows:

The Gray Mining Company ore bodies are opened up by various cuts on the surface, one tunnel 300 feet from the surface on the fault, and by a main working tunnel 2300 feet in length through solid rock, requiring no timbering, which cut the fault running along the course of the mountain from the Mammoth to the Old Abe claim, and the quartzite fissure, which crops for a distance of more than 5,000 feet through the Mammoth group 2200 feet in from the portal of the tunnel. This ore was cut at a vertical depth of 805 feet and on the pitch 1050 feet.

Considerable drifting has been done on both the quartzite and the fault fissure, and while not technically blocked out by raises and cross cuts, sufficient work has been done in these drifts, intermediate levels and surface sampling to indicate a tonnage above the tunnel level of 2,327,815 tons of ore between the tunnel level and the surface on the quartzite fissure, of an average grade of 3.45 per cent copper, and 2,232,185 tons of ore on the fault, carrying 3.3 per cent copper, \$4.785 in gold and 2.417 ounces of silver per ton, or a total estimated tonnage of 4,560,000 tons of ore of an average grade of 3.4 per cent copper which would give us 308,520,000 pounds of copper and \$16,075,000.00 in gold and silver.

It is planned to work both the fault and the fissure by driving a main raise at the intersection of the two ore bodies from the tunnel level to the surface, for the purpose of handling men, tools and such timber as is required. Another level, 35 feet above the tunnel, drifts on the ore will be driven, and raises equipped with chute mouths will be driven up on the two ore bodies at a distance of 50 feet apart. The ore will then be broken down, and a sufficient amount of broken ore will be pulled through these chutes to give room for stoping until the ore is broken to the surface. This broken ore will be the reserves from which ore for the plants can be drawn at a uniform level, and as the walls are hard lime, little, if any, timber will be required in operation.

TREATMENT

Considerable testing of the ores from both the fault and the fissure has been done at the mine laboratory. These tests have shown a recovery by concentration by flotation methods of better than 80 per cent of total contents, and a smelter recovery of 95 per cent of all values in the concentrates. But small tests are many times misleading and do not give the desired information necessary in working out a flow sheet for a large plant of 1,000 tons and upward, and the company plans to construct a small pilot plant at the mouth of the tunnel, where ample water is available, and test

the ores thoroughly. This pilot mill should give the information desired in from four to six months' time on the ore bodies above the tunnel level, and can then be used for testing the other ore bodies on the company holdings.

The foregoing estimates as to tonnage and grade of ore, treatment and marketing charges give conditions as they are on the ground, and based on available data, I am of the opinion that a 1,000 ton per day concentrator, making a 78 per cent recovery, with a smelter recovery of 90 per cent saving, will show the following profits, based on 14 and 15 cent copper.

QUARTZITE FISSURE

Crude ore	1000 tons at 3.45% Cu.	69,000 lbs.
Concentration loss at 78% recovery		15,180 lbs.
Smelting loss at 90% recovery		5,382 lbs.
Pig copper		48,438 lbs.

Receipts

Copper Sales	48,438 lbs. at 14 cents	\$6,781.32
Copper Sales	48,438 lbs. at 15 cents	7,265.70

Fault

Crude ore	1000 tons at 3.3% Cu.	66,000 lbs.
Concentration Loss at 78% recovery		14,520 lbs.
Smelting Loss at 90% recovery		5,148 lbs.
Pig copper		46,332 lbs.

Receipts

Copper Sales	46,332 lbs. at 14 cents	\$6,486.48
Gold and silver values		5,055.80
	Total	\$11,542.28
Copper sales	46,332 lbs. at 15 cents	6,949.80
Gold and silver values		5,055.80
	Total	\$12,005.60

Expenses

Nevada Administration	1000 tons at \$.25	\$ 250.00
Mining	" " " 1.10	1,100.00
Concentrating	" " " .75	750.00 (Ratio 10 to 1)
Tramming	" " " .15	150.00
Flotation Royalty	" " " .15	150.00
Smelting	" " " .70	700.00
Freight on Pig copper to East	" " " 1.60	1,600.00
Refining and Selling	" " " .25	250.00
Taxes and Insurance	" " " .05	50.00
	Total	\$ 5,000.00

Profit per day from Quartzite Fissure on 14¢ Cu.	\$ 1,781.32
Profit per day from Quartzite Fissure on 15¢ Cu.	\$ 2,265.70

Profit per day from Fault on 14¢ Cu.	\$ 1,486.48
Profit per day from Fault on gold and silver	\$ 5,055.80
Profit per day from Fault on total at 14¢ Cu.	\$ 6,542.28

Profit per day from Fault	on 15¢ Cu.	\$1,949.80
Profit per day from Fault on gold and silver		5,055.80
Profit per day from Fault on total	at 15¢ Cu.	<u>\$7,005.60</u>

In preparing for such a production, future financing will not be forthcoming from the issuance of treasury stock, but rather on a basis of 10 year convertible debentures, the convertible privilege of the first three years calling for conversion of each \$1,000.00 debenture into 50 shares of Gray Mining Company stock at \$20.00 per share, and graduating to 10 shares at \$100.00 per share in the last convertible years.

Vivian Tunnel, control of which is vested in the Gray Mining Company, is similar in operation to the Sutro Tunnel under the Comstock Lode, should be a large factor in creating additional earnings for Gray Mining Company shares, which should steadily advance as our program of production advances.

In figuring on the first 1,000 ton plant for the Nevada Consolidated Copper Company, which included concentrator, smelter, power house and all machinery necessary for reducing crude ore to pig copper, the first 1,000 ton section was figured at \$975,000.00 so arranged that each additional 1,000 ton section could be equipped for \$500,000.00. Allowing for the increased cost of labor and material since this plant was installed, I would estimate a plant capable of treating 1,000 tons of ore per day at present wage and supply prices at \$1,225,000.00. The first cost of the plant is not figured in the following annual profit tables, as given below, but \$100,000.00 per year is deducted from the profits, as shown, for new construction and renewals of the old.

Annual Profits.

Case 1 - Quartzite Fissure - 1,000 tons of ore per day.

Copper at 14 cents	\$1,781.32 per day for 365 days	\$649,181.80
New Construction and Renewals		<u>100,000.00</u>
		\$549,181.80
Copper at 15 cents	\$2,265.70 per day for 365 days	\$826,980.50
New Construction and Renewals		<u>100,000.00</u>
		\$726,980.50

Case 2 - Fault - 1,000 tons of ore per day.

Copper at 14 cents	\$1,486.48 per day for 365 days	\$542,565.20
Gold and silver	5,055.80 per day for 365 days	<u>\$1,845,367.00</u>
Total		\$2,387,932.20
New Construction and Renewals		<u>100,000.00</u>
		\$2,287,932.20
Copper at 15 cents	\$1,949.80 per day for 365 days	\$ 711,677.00
Gold and silver	5,055.80 per day for 365 days	<u>1,845,367.00</u>
Total		\$2,557,044.00
New Construction and Renewals		<u>100,000.00</u>
		\$2,457,044.00

In conclusion, I am of the firm conviction that the
as now proposed by the operating management, which I consider
e experience in copper and thoroughly capable, will be carried
and the profits as above shown realized.

Yours truly,

GRAY MINING COMPANY,

By

C. F. Gray
President.

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