

3860 0070

Ug. J. in Peak
(101)

MID-CONTINENT URANIUM CORP.

URANIUM CENTER BUILDING
GRAND JUNCTION, COLORADO

item 13

SPECIAL REPORT TO THE STOCKHOLDERS

November 1, 1964

In a Special Report to the Stockholders dated April 15, 1964, Mid-Continent's management reported on the progress of the exploration and development of the Nevada silver-gold properties owned and controlled by your company. At this time your management is very happy to report a major development in Mid-Continent activities that should place this company in an excellent earning position for many years.

At the last annual stockholders meeting, held in Denver, December 14, 1963, it was stated that the Nevada exploration and development program, then six months along, had tremendous geologic possibilities, and management recommended an all-out policy in continuing the program. This, of course, meant a certain gamble on the part of management in that Mid-Continent's financial position was inadequate to carry the program through to the production stage, and it was pointed out that its ultimate success would depend on being able to interest some major company in our program.

As discussed in the Special Report to the Stockholders, dated April 15, 1964, a complete engineering and geological report was prepared by Mid-Continent, outlining in detail a program of exploratory diamond drilling of the Mohawk mine, as well as a program of diamond drilling, drifting, and cross-cutting at the Sixteen-to-One mine. This report, outlining an exploration expenditure of \$201,000, was submitted along with an application for financial assistance to the Office of Minerals Exploration in April, 1964. Although the program was approved by the O.M.E., the application was later withdrawn by Mid-Continent due to the policy of the Government to tie the various separate properties into one contract. Thus, if one property was successful in establishing commercial ore reserves, it would have the burden of paying off the exploratory costs of the other properties under the same contract. Management firmly believed the individual properties should stand on their own potentials, especially considering that ownership of the various properties was held by different persons.

During the spring and summer of this year, with the unanimous support of Mid-Continent's board of directors, the Nevada program was accelerated and carried to the stage where the potential of the Sixteen-to-One and the Mohawk mines was evident. During this same period Mid-Continent received several proposals from major companies for participation in further exploration and development of the Nevada properties, but the terms and conditions were, in each case, unfavorable to Mid-Continent. In August Mid-Continent was able to interest Sunshine Mining Company of northern Idaho in jointly acquiring the Nivloc mine approximately two miles east of Mid-Continent's Sixteen-to-One property. After the purchase of the Nivloc property, Sunshine agreed to finance the further exploration and development of the Sixteen-to-One mine, the Mohawk mine, and complete the investigation of the Nivloc mine.

As the majority of Mid-Continent stockholders may be unfamiliar with the background of the Sunshine Mining Company, the following is a brief resume' of the company:

The Sunshine Mining Co., organized in 1918, has been the nations' leading producer of silver for the past 25 years. The company owns 16 claims on Big Creek, Shoshone County, Idaho, where the famous Sunshine mine is located. Sunshine also owns 50% interest in 49 patented and 149 unpatented adjoining claims. The company carries on all operations on the Chester vein, and operates under working agreements the properties of the Metropolitan Mines Corporation, and Sunshine Consolidated, Inc. In recent years Sunshine has acquired oil and gas holdings in Alberta, Canada.

Sunshine, incorporated for 3,000,000 shares, has 1,543,000 shares outstanding, with its stock listed on the New York Stock Exchange. Current assets as of December, 1963 were listed at \$5,260,000, with current liabilities of \$500,000. From 1950 through 1963 the average earnings per share, for the 14-year period, was \$0.49 per year. The company's operations produce silver, lead, copper and antimony. Ore reserves in 1962 were estimated at 355,000 tons, with an average content of silver in excess of 30 ounces per ton. The market value of Sunshine's stock has increased from a low of \$10.00 per share to over \$30 per share during 1964.

An abstract of the Mid-Continent Uranium Corp. - Sunshine Mining Company working agreement, which became effective September 16, 1964, is as follows:

1. Mid-Continent and Sunshine jointly purchased 100% interest in the Nivloc Mine, and the 32 Nivloc claims, located in Esmeralda County, Nevada.
2. Mid-Continent is the owner of a lease and option to purchase, dated March 27, 1963, on the Sixteen-to-One Mine and the four Sixteen-to-One mining claims; and is the owner of a lease and option to purchase, dated October 1, 1963, on the Mohawk Mine and the 15 Mohawk mining claims, all located in Esmeralda County, Nevada.
3. Mid-Continent and Silver Dollar Company jointly own the Liberty Mine and the five Liberty patented mining claims in Nye County, Nevada.
4. Mid-Continent owns the 28 unpatented Cliff claims, and the six Silver Apex claims, all located in Esmeralda County, Nevada.
5. Mid-Continent has spent approximately \$175,000 in the acquisition, exploration and development of the Nevada silver-gold properties.
6. Beginning September 16, 1964 Sunshine assumed the expense of a continuing program of exploration and development of the Mohawk, Sixteen-to-One, and the Nivloc mines. This work will consist initially of cross-cutting and diamond-drilling at the Mohawk; drifting, cross-cutting, raising and diamond-drilling at the Sixteen-to-One; rehabilitation, sampling and mapping at the Nivloc.
7. At such time as Sunshine shall have spent the sum of \$350,000 in exploration and development of the properties, the necessary deeds and conveyances will be executed by both parties to the end that the above mentioned Nevada properties now owned by Mid-Continent and/or Sunshine will then be owned one-third by Mid-Continent and two-thirds by Sunshine.
8. Should Sunshine abandon the program before the expenditure of \$350,000, the ownership of all the properties would remain with Mid-Continent, except Sunshine's half-interest in the Nivloc. Sunshine, in any event agrees to spend under the agreement a minimum of \$250,000 on the properties.

9. Initially, and until some substitute arrangement is agreed to by the parties, Mid-Continent will conduct the exploration and development program and will be entitled to charge the salaries of Norman E. Ebbley and resident engineer, Jack O. Jones, to the project while their time is exclusively devoted to the project.
10. The program of exploration and development is to be carried out at a rate of expenditure of approximately \$20,000 per month.
11. Following the conveyance of the two-thirds interest in the properties to Sunshine, Sunshine will carry Mid-Continent for its one-third of the additional expense necessary to place the properties in production and recover same from the initial production from the properties before Mid-Continent shares in the net income.
12. Sunshine shall have the right to convey one-half of its interest in the proposed agreement to a third party of its choice.
13. Sunshine agrees to assume all minimum royalty and periodic property payments due on the Sixteen-to-One and Mohawk properties, while this agreement is in effect. After the completion of the initial program, royalty payments will be considered as operating costs.

The program as planned is essentially as follows: (Please refer to the enclosed map showing the relative locations of the various properties.)

Mohawk Mine

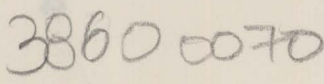
The Mohawk mine, originally known as the Argentite mine, was discovered prior to 1920. In 1921 a Canadian company sank the inclined shaft on the vein to the present 500 Level. Production records are unavailable for this period. From 1954 to 1961 the mine produced approximately 40,000 tons by various operators having an average grade of 25.2 ounces of silver per ton.

Present reserves above the 500 Level are estimated at 37,000 tons having an average grade of 21 ounces of silver per ton. The diamond drilling program to explore the known ore shoots below the 500 Level, if successful, is anticipated to block out an additional 127,000 tons of ore estimated to average 20 ounces of silver per ton. Holes are designed to explore the vein first at depths of 200 feet and then at 400 feet below the 500 Level. If this program is successful in extending the ore shoots to the above depth, it would then be feasible to drive the 7,500-foot crosscut tunnel under the mountain range to develop this ore. It is evident from promising looking surface exposures that the proposed cross-cut tunnel would cut additional vein structures between the Sixteen-to-One mine and the Mohawk mine.

The diamond drilling contract has been awarded to the Sprague & Henwood Drilling Company, and the necessary hangingwall cross-cuts and drill stations will be completed by Mid-Continent in early November.

Sixteen-to-One Mine

Mid-Continent became interested in the Red Mountain Mining District in Nevada during the early spring of 1963. Initial interest was confined to the Sixteen-to-One property which was staked in the late 1920's by Olof Olson, who completed most of the relatively shallow workings on the vein prior to 1940. During 1961 and 1962 Callahan Mining Company, under lease and option, completed five diamond drill holes to test the vein structure at depths, as much as 1,000 feet below the outcrop. Under an assignment of a lease and option on the property, Mid-Continent drove a 1,030-foot cross-cut tunnel under contract from the surface to intersect the vein structure at depths of from 350 to 500 feet below the outcrop.



While this work was in progress Mid-Continent's technical staff examined and sampled other accessible mines and prospects in the Red Mountain area, endeavoring to ascertain the average overall tonnage of possible mill grade ores. As a result of this work, Mid-Continent acquired leases and options on the Mohawk and the Sanger Mines as well as staked claims covering other unexplored but potential surface exposures in the immediate district. Mid-Continent staked the Cliff group of 28 claims covering all the intervening ground between the Sixteen-to-One property on the east slope of the Silver Peak Range and the Mohawk property on the west side of the range. This group of mining claims now owned or controlled by Mid-Continent form a contiguous group of 67 claims (Refer to Map), from the Sixteen-to-One property to the Mohawk and Sanger properties.

During 1964 Mid-Continent continued development work on the Sixteen-to-One vein system, driving a total of 415 feet of drifts and mucking machine draw points. Calculations of "Probable Ore", based upon the diamond drill holes and the underground workings, indicate 256,000 tons of ore having an average value of \$25.60 per ton. However, the ore body has not been delineated either along the strike or at depth.

Further exploration and development of the Sixteen-to-One vein will consist of driving northeast and southwest along the strike of the vein to the extremities of mineralization. In addition, a raise approximately 400 feet high will be driven from the main cross-cut tunnel to the surface. The main cross-cut tunnel will be extended approximately 500 feet northwesterly to intersect a foot-wall vein that is exposed on the surface, and a diamond drilling program of five holes is contemplated to further explore the vein along the strike and at depth. The estimated cost of the above program is \$105,000.

Nivloc Mine

Although discovered in 1907, the principal operation of the Nivloc mine began in 1938 under the direction of Braylorne, Ltd., of Canada. Operating under the name of Desert Silver, Inc., the mine is reported to have produced over 400,000 tons of ore until 1943 when the mine plant and mill were scrapped because of rising costs and war-time restrictions on labor and strategic supplies. A report made in 1948 by a reputable engineer for a major mining company estimates an ore reserve of 680,857 tons of "mill grade" ore. The Nivloc vein has been developed along the strike for a distance of 3,700 feet and to a depth of 1,100 feet.

Present plans are to replace the old wooden head frame with one of steel, and to repair the collar sets of the vertical shaft. A diesel-generator, hoist, and ventilation equipment will be installed prior to the rehabilitation of the shaft and underground workings.

General Discussion

In the event the overall exploration and development program of the three properties works out as anticipated, the ideal location for a mill to process all the ores would be at the Nivloc mine. The Mohawk and Sixteen-to-One ores would be hauled through the Sixteen-to-One tunnel and conveyed to the Nivloc, probably by a gravity motivated aerial tramway. Water for milling would be piped from the ample supply at the Sixteen-to-One to the Nivloc.

Naturally, at this stage of the program it is impossible to estimate future earnings with any degree of accuracy. Upon the completion of the present program sufficient information should be available to formulate expected yearly income to Mid-Continent. A million tons of ore would keep a 500-ton-per-day mill operating for seven years. At this rate, the weighted average grade of ore as indicated by sampling of the three properties should show a net operating profit of \$800,000 annually at the present price of \$1.293 per ounce for silver. The present potential of the properties is such that several million tons of ore may very possibly be blocked out within the next 18 to 24 months. In this case consideration would naturally be given to the construction of a larger capacity mill.

The time required to complete the exploration and development work planned under the Mid-Continent - Sunshine agreement will be from 14 to 16 months. With the construction of a mill the properties could be placed in production within 24 months from now. Manage-

ment feels that, with the development of these three major properties under the joint venture with Sunshine, the future of Mid-Continent is indeed bright, and that the stockholders can look forward to many years of substantial income from the Nevada silver-gold properties.

The Future of Silver

Very likely, every Mid-Continent stockholder during the past year or so has read many articles in financial papers and magazines regarding the serious shortage of silver. The prediction one year ago, that the U. S. Treasury supplies of silver would be sufficient to fill the production deficit for at least 15 years, has now changed to less than four years. At the present time the August 1965 future delivery price of silver has reached \$1.3850 an ounce. At this price all our coins would be worth as much for the silver they contained as they are for money.

The new uses for silver in supersonic jets, solid fuel rockets, new type batteries, plus the conventional strategic uses, clearly mean only one thing - any domestic shortage of silver will be a serious threat to national security. Both Congress and the Treasury have recently evidenced keen concern over the impending silver shortage. The Department of Interior has initiated action to increase domestic production. The Office of Minerals Exploration has been directed to increase the percentage of Federal assistance in exploration for silver from a maximum of 50% to 75% of the total cost. Recently, Secretary Udall stated, "We intend to make every effort to insure a silver supply adequate to the Nation's needs. Developments are being watched closely and the Department is giving top priority to all aspects of the silver situation."

The breach between supply and demand is increasing steadily, and the consensus of opinion within the industry is that an increase in price is a certainty within the next year or so - predictions ranging from \$2.00 to \$3.00 an ounce. In line with this firm belief, many of the major silver producers are planning to utilize the next 12 to 24 months in exploration and development of potential silver properties, rather than producing the metal now at the present price of \$1.293 an ounce.

Other Activities and Operations

Mid-Continent's two uranium mines, near Grants, New Mexico, the Barbara J. No. 2 and the Barbara J. No. 3, have been closed down because of lack of ore. These two properties have been the principal source of income to the company for the past five years.

At the present time Mid-Continent has two active uranium leases operating, one in Utah and one in Colorado. The Ella claim in the LaSal Creek area, Utah, is being operated by Shumway and Dade Mining Co., and the Hamm Canyon claims in Colorado are being developed by Strategic Minerals, Inc. Both of these properties qualify under the Atomic Energy Commission's category of a small mine and are eligible to produce 10,000 pounds of U_3O_8 each six-month period.

Union Carbide Corporation's Nuclear Division recently completed 3,245 feet of rotary sample drilling on Mid-Continent's Utah State School Lease. A total of 16 holes were completed, of which four were considered as penetrating ore grade material. An endeavor will be made to obtain a lessee to reopen the old incline on this property.

Notices of the annual meeting of stockholders, scheduled to be held in Denver, Colorado, December 12th, will be mailed the latter part of November along with a current financial statement. At the annual meeting management will discuss in more detail the Nevada program. Your president and general manager sincerely hopes every stockholder will make an effort to be present at this meeting.

For the board of directors,



Norman E. Ebbley, President