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To the Board of Directors
Silver Divide Mines Company
Tonopah, Nevada

Gentlemen:

The following is a preliminary report on your San Pedro Quicksilver property in northwestern Nye County, Nevada; and is based on a three day visit to the property, August 6, 7, and 8th.

SUMMARY & CONCLUSIONS:

The property is situated in the Union Mining District and is about four miles airline from the old Ione Quicksilver Camp which produced for many years.

The San Pedro is a virgin prospect, having been discovered in July, 1941; so that the only work done on it to date has been in the nature of prospecting. However, an open cut in the ore has cross cut it for 25 feet to a depth of 12 feet, with ore on all sides and in the bottom. The weighted average of my five cut samples across the bottom of this cut was .92% which is 18.4 pounds of quicksilver per ton; or \$43.24 with the metal at \$190.00 per flask.

No size can be estimated for the particular ore body which is being developed; but from the work which has been done, several thousand tons are definitely assured; and it is quite likely that it will make as much as the one which made the Ione Cinnabar; and possibly more. This was 30,000 tons. It can be said with practically a certainty that \$150,000 is in sight now; and there is a fair possibility of this developing into a million dollars, gross value at the current price of quicksilver.

The practical thing to do is to continue development, as you are doing now; and ship the ore to a custom furnace until some idea of the ore body can be had, so that a plant of the proper capacity can be installed. Furthermore, your intention of getting a power shovel on the ground should be carried out as soon as possible, for with only two or three feet of overburden to strip off, you will get the cheapest and quickest information possible.

It has been suggested that I take charge of the operation; and I would welcome the opportunity of developing into a paying venture a prospect which I am so sure will make a mine.

LOCATION:

The property is located in the Union Mining District in northwestern Nye County, Nevada. It is about four miles west of Grantsville, an old silver camp; is four miles southeast of the quicksilver areas of the Ione district; and is two miles west of Warner's Ranch on the Tonopah-Austin road, 68 miles north of Tonopah. This road is maintained; but

might be impassable for two months of the year where it crosses Indian Valley which is at an elevation of 8,000 feet.

However, with a little improvement, the road through Grantsville and across the Ione Valley into Mina could be kept open throughout the year except during extreme weather.

PROPERTY:

The property consists of three claims held by possessory title; and since it is under option from the original discoverers and locators there is no question of possible title involvement.

The claims are at the head of the canyon leading from Grantsville, at what is called the Reese River--Grantsville Summit, in the Shoshone range of mountains, at an elevation of 7,500 feet.

HISTORY:

The history of the property is in the making now. It was discovered by three prospectors who were panning in the canyon. By carefully watching the results, they traced the deposit to the vicinity where they have started the present development out. This was in July of this year.

ORE DEPOSIT:

The ore is found in a shear or crushed zone in rhyolite. As has been said the open cut which is being dug across this is 25 feet across it now, with no indication of either foot or hanging wall. /The shear zone undoubtedly strikes with the wash, and as there are no croppings of rock nearby, it is impossible to say what width or length the zone will have. There are two or three feet of soil overburden on top of the shear zone; and even this pans possibly three pounds of Quicksilver per ton over a considerable area.

The shear zone is filled with rocks and boulders which are fault drag, and in addition to the rhyolite, pieces of limestone, shale, andesite and even one of granite were noted in the open cut. The Quicksilver had deposited in the interstices between these, and in the case of the more porous ones has penetrated into the fragments themselves. Seams of cinnabar are also found in the gouge of the crushed rock. The cinnabar occurs in distinct and sometimes large crystals and also massive, with no crystallization apparent.

I would prefer to wait until more ground has been opened up to predict where the source is; but I will say that where the "dam" gouge is found on the hanging wall side of the deposit, a much richer concentration of the mineral will be found.

The geology is typical of most of the Nevada Quicksilver Mines; and conditions are right to make a large orebody.

I have examined the Ione Cinnabar property, and some of the similarities between it and the San Pedro are what make me so confident that the latter will make a real mine.

ECONOMIC POSSIBILITIES:

The development cut is 25 feet across the deposit at present, with ore in both ends, so if we allow only five feet more on each end it gives a width of 35 feet. If we assume a depth of 25 feet, which is only taking it 13 feet deeper than the cut is now; and a length of only 50 feet, we have a block of 3620 tons of ore worth \$42.00 per ton or a gross of \$152,000; and it can be said that this will be a minimum. If we figure a block 35x50x50 feet deep, which is quite reasonable to expect, there are 7300 tons, or \$306,000 in it. In a shear zone as strong as this, it is even likely to have an ore body 200 or more feet long; and a block 35x50 feet deep x 200 feet would contain 29,000 tons, or \$1,218,000, and I would predict that this will be closer to what it will mine out than the first two estimates. Even this is not necessarily a limit to the possibilities; as there are quite likely to be other ore bodies than the one which is now being developed.

If we allow a mining cost of \$2.50, treatment \$3.50 and royalty \$4.00 per ton (based on 10% of \$40.00 recoverable value) we have a total cost of \$10.00 per ton; or an operating profit of \$30.00 with a 25 ton per day plant this would indicate a monthly profit of \$22,500.00. (which allows enough for additional development).

RECOMMENDATIONS:

The development cut from which you are taking ore should be pushed as fast as possible, both to determine the width and depth of the orebody.

You should also, by means of the power shovel which you propose to put on the ground, start stripping and trenching at regular intervals on each side of the present cut, to determine the length of the deposit. I would say to make a cut 50 feet on each side of the present one, and make them 50 feet apart as long as they are in ore. As soon as some more definite idea of the tonnage possibilities can be had, you can plan on installing a rotary furnace of suitable size on the ground.

The San Pedro is the best-looking prospect of any kind that I have ever examined.

Very truly yours,

H. H. Hughes, Jr.

August 8th, 1941