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CALAVERAS NATURAL RESOURCES

REGULAR MEETING OF THE BOARD OF DIRECTORS

MAY 16, 1979

A regular meeting of the Board of Directors of Calaveras Natural Resources was held at 10:00 A.M. in the Conference Room of the Wilbur-Ellis Company, 320 California Street, San Francisco, California, on Wednesday, May 16, 1979.

Directors Present

Frank M. Brown, Jr., Gordon A. Coats, James E. Frank, Carroll F. Peterson and Carter P. Thacher.

Others Present

Reginald V. Grady, Vice-President; Daryl Larsen, Treasurer; and Edward Hart, Mine Superintendent.

Presiding Officer

Gordon A. Coats, President.

Minutes of the Previous Meeting

Reading of the minutes of the Regular Meeting held February 28, 1979, a copy of which had been mailed to each director, was dispensed with and, on motion duly made and seconded, the minutes were unanimously approved.

By-Laws and Partnership Agreement

It was noted that amended by-laws were adopted at the last meeting. The revised partnership agreement will be submitted to the partners for approval and execution in the near future.

Class Action Law Suit

The Chairman stated that he has written to the Company's insurance carrier's legal counsel requesting that the Company be dismissed from the law suit. Response has not yet been received. He further reported that the Company was served notice of a new class action suit; the insurance carrier has accepted defense of this suit; and the Chairman has again requested that the Company be dismissed.

1978 Audit

The certified statements for Calaveras Asbestos Ltd. were reviewed and accepted. Copies of the auditor's report to management were distributed. In part, it concludes that there are certain supplies and repair parts items which are in excess of normal use and that there may be obsolete or unuseable inventory.

1978 Audit (continued)

Management reported that they are in the process of establishing better controls, including a cardex system; they are reviewing the entire supply and parts inventory and, in their opinion, necessary adjustments will be minor; consideration is being given to depreciating certain large replacement items over the remaining life of the applicable equipment.

Tax Returns

The Chairman reported that the partnership's tax returns are available for review. Mr. Peterson stated that San Luis has a "tentative" copy which appears in order. Mr. Brown advised that Wilbur-Ellis has not yet received a copy of the return.

Current Production and Sales

The Chairman reported that profits were substantially over budget for the month of April as a result of very good grade ore.

A warranty reserve for transmission repairs totaling $80,000 was recorded in April. Claims have been made against the manufacturer and it is hoped that this amount will be recovered.

The ore prep plant is operating on two shifts per day; one shift has been allocated to maintenance, primarily of the air system.

The substantial inventory of fiber at the end of April consists primarily of 5-grade fiber. Sales to the Far East are lagging somewhat; however, it is anticipated that the current slack will be made up in the late fall.

Referring to fuel supplies, the Chairman stated that there is a tightening of supplies but operations should not be hampered. After discussion, it was agreed that a 10,000-gallon storage tank should be acquired.

The Chairman then reported on fiber allocations and sales to distributors through April.

Discussion then included: discounts--about $90,000 to date; fiber prices--large producers may increase prices in July, however there may be no impact to the Company because of continued devaluation of the Canadian dollar; insurance on fiber inventory--management is reviewing the policy to determine adequate coverage; and future operations--the Chairman is hopeful that operating profits will substantially exceed budget over the next four months.

Jaw Crusher

The Chairman reported that repairs to the jaw crusher were completed and it was back in full operation by early March. Down time for repairs, which cost approximately $25,000, was seventeen days. The repair and rehabilitation work has improved the crusher's overall performance. He added that substantial waste was removed during the crusher's incapacity.

Cash Distribution

After discussion and review of the partnership's financial condition, it was the consensus that $200,000 be distributed to the partners in May.

Mine Exploration Program

The Chairman referred to the mine geological report prepared by Johns-Manville which had previously been distributed. He noted that the report outlines several alternate mining plans and addresses the reserves from a geological standpoint--a separate economic review must be done. He stated that Mr. Couzens, mining consultant, is reviewing the report and will have an appraisal and recommendation in about four weeks.

He then stated that management recommends adoption of mine program "3A" as outlined in the report.

The Chairman then requested approval for the purchase of a front end loader, three 50-ton trucks, a hydralic shovel, and a rotary drill, for a total estimated cost of $1,750,000. Trade-in value of old equipment would approximate $300,000.

Management then reviewed the alternate mining plans, equipment costs, and cash flow projections. Discussion ensued and, on motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that management be authorized to negotiate for and purchase one front loader and three 50-ton trucks, at a total cost of approximately $1,010,000, to be financed under terms acceptable to management, and
>
> FURTHER RESOLVED, that commitment to a mining plan be deferred until Mr. Couzens' report and an economic evaluation report have been received and fully evaluated.

It was the consensus of the directors that revised operating and cash flow budgets for 1979 be prepared to reflect the increased costs and haulage capacity and submitted to the directors for approval.

Miscellaneous

Assistant to the General Manager

The Chairman reported that a qualified mining engineer has been hired to assist him in the operations.

Union Negotiations

The Chairman reported that negotiations for a new union contract have commenced. He is hopeful that a new contract will be signed prior to the expiration of the existing contract on July 31.

Future Meeting

On motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the next regular meeting of the Board of Directors of Calaveras Natural Resources shall be called by the President.

Adjournment

There being no further business, on motion duly made and seconded, the meeting was adjourned at 2:45 P.M.

Carroll F. Peterson
Secretary