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## FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2000

Commission file number: 0-20430

AZCO MINING INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>84-1094315</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<u>2068 Main Street, Suite C, P.O.Box 1895 Ferndale, WA</u>	<u>98248</u>
(Address of corporate office)	(Zip Code)

Registrant's telephone number, including area code: (360) 380-4467

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
<u>Common Stock, \$.002 par value</u>	<u>The Toronto Stock Exchange</u>
<u>Common Stock, \$.002 par value</u>	<u>The American Stock Exchange</u>

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. {x}

The number of shares of the Company's Common Stock outstanding as of September 25, 2000 is 29,887,121.

Aggregate Market Value of Stock held by Non-Affiliates as of September 25, 2000:  
\$ 25,670,906 (U.S.)

Documents incorporated by reference: None.

## PART I

Statements contained in the annual report that are not historical facts are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from estimated results. Such risks and uncertainties are detailed in filings with the Securities and Exchange Commission, including, without limitation, in Item 1. "BUSINESS", Item 2. "PROPERTIES" and Item 7. "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" below.

### Item 1. BUSINESS

Azco Mining Inc. ("AZCO" or the "Company") is a U.S. mining company with a general business strategy to acquire and develop mineral properties amenable to low cost production. The Company is currently focused on producing high quality Muscovite Mica from its 100% owned Black Canyon Mica project located in Arizona. The Company, with its 30% interest, has established a strategic partnership with Phelps Dodge Corporation on the Piedras Verdes copper project located in Sonora, Mexico. The business strategy on large exploration projects has been focused on establishing partnerships with major companies. This strategy generally reduces financial risk and offers the opportunity to participate in major mineral projects.

Prior to the sale of the majority of its copper assets the Company was dedicated to the development and production of low-cost copper utilizing solvent extraction-electrowinning or the SX-EW process. AZCO's principal mineral property was the Sanchez porphyry copper project ("Sanchez Project") located about 10 miles northeast of the City of Safford in southeastern Arizona. The Company also had interests in two other porphyry copper properties, the Piedras Verdes and Suaqui Verde properties located in Sonora State, Mexico. On July 27, 1995 the Board of Directors of AZCO (the "Board") signed definitive agreements with Phelps Dodge Corporation ("Phelps Dodge" or "PDC") to sell a substantial portion of the Company's copper assets. AZCO's shareholders approved the sale of 100% of the Sanchez Project and 70% of the Piedras Verdes project for gross consideration of \$40 million.

A predecessor of AZCO was incorporated on July 13, 1988 under the laws of Colorado to acquire the mining rights to the Sanchez Project, as well as certain other mineral properties. On August 27, 1991 the predecessor was merged into AZCO, a newly incorporated Delaware corporation. In October 1991 AZCO acquired all of the shares of Filton Enterprises Limited, a Gibraltar corporation ("Filton"), in return for the issuance of 3,650,000 common shares. At that time Filton owned rights in two mining properties located in Mexico, the Suaqui Verde project located in southeastern Sonora and the Piedras Verdes project located in southern Sonora. Filton was dissolved effective February 14, 1994 with its Mexican interests being distributed to the Company.

On July 31, 1992 AZCO merged with AZCO Mining Inc., a Wyoming corporation ("AZCO (Wyoming)"), with AZCO being the survivor of the merger (the "Merger"). At the time of the completion of the Merger AZCO (Wyoming) had 3,946,550 shares issued and outstanding and the Company had 12,633,822 common shares issued and outstanding. One common share of the Company was issued in exchange for each

share of AZCO (Wyoming) in connection with the Merger. AZCO (Wyoming) was formerly a British Columbia corporation, which was incorporated under the laws of the Province of British Columbia on August 20, 1981 under the name 241145 B.C. Ltd. 241145 B.C. Ltd. changed its name to Canarex Resources Inc. on June 22, 1983, to International Baron Resources Ltd. on January 25, 1988 and finally to AZCO Mining Inc. on February 20, 1992. AZCO (Wyoming) was continued under the laws of Wyoming effective May 13, 1992 prior to merging with AZCO.

On March 9, 1999 the Company completed the acquisition of Arizona Mica Properties, Inc., an Arizona corporation ("Arizona Mica"), which owned the rights to develop 43 unpatented lode-mining claims located in Yavapai County, Arizona. This acquisition was accomplished through the merger of Arizona Mica with and into the Company's wholly owned subsidiary, Sanchez Mining Inc., a Delaware corporation ("Sanchez"), with Sanchez being the surviving corporation in the merger. Sanchez has subsequently changed its name to AZCO Mica, Inc. In connection with the merger the Company issued an aggregate of 4,500,000 shares (the "Shares") of its common stock to the three shareholders of Arizona Mica, Messrs. Lawrence G. Olson, John O. Rud and Floyd R. Bleak, with each such shareholder receiving 1,500,000 Shares of the Company's common stock. The Shares were issued as "restricted securities", as that term is defined in Rule 144 promulgated under the U.S. Securities Act of 1933, as amended (the "Act"), and the certificates representing the Shares bore a restrictive legend permitting transfer only pursuant to registration or applicable exemption under the Act.

#### **Significant Developments in Fiscal 2000 and Subsequent Events**

During the fourth quarter of fiscal 2000 initial production commenced at the Company's 10,000-ton per year wet ground mica processing facility located in Glendale, Arizona. Construction and installation of the crushing circuit, at the mine-site near Black Canyon City, Arizona, is near completion with crushing expected to start in September of 2000. The concentrator currently being commissioned at the Glendale plant-site is expected to be relocated and operational at the mine-site in the second quarter of fiscal 2001.

Samples of the Company's mica products have been distributed to potential customers since it has become available. Feedback on the initial products from potential customers has initiated production changes that have enhanced the quality of the products. While these improvements to the production circuits have delayed production and the resultant sales, it is the Company's goal to produce the highest quality product possible before introducing it to the market. Initial production of the enhanced products is expected in second quarter of fiscal 2001.

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On July 10, 2000 the Company notified Minera Cortez Resources Ltd. that it had elected to terminate the mineral option agreement on the La Adelita property located in Sonora, Mexico.

The Company continues to control the Silverado and the Alamos claims, which surround the La Adelita property. In an effort to limit financial exposure it is the Company's intention to attract a joint venture partner to help further explore these claim blocks.

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On May 9, 1996 the Company signed an agreement with West Africa Gold & Exploration Ltd., Eagle River International Limited ("Eagle") and Lion Mining Finance Limited ("Lion") (the "Mali agreement") that provided for the establishment of a joint venture holding company, Sanou Mining Corporation ("Sanou"). Sanou is the sole beneficial owner of a Malian subsidiary headquartered in Bamako and called Western African Gold and Exploration Company S.A. ("WAG"), which has a 100% working interest in the Medinandi and Dandoko concessions located in the Kenieba Gold Mining District of western Mali. Eagle, the original principal concession owner through a Malian subsidiary, has caused that subsidiary to convey the concessions to WAG.

Effective August 9, 1996 WAG entered into a debenture agreement with AZCO thereby acknowledging itself indebted to and promising to pay AZCO, in consideration of financial advances and services then made, or thereafter made, the aggregate principal sum of \$4,000,000. All advances AZCO has made to date under the debenture agreement are also evidenced by promissory notes from Eagle.

On September 3, 1997 AZCO served notice to Eagle stating that, due to the fact that the work commitment for the license on the Mali project was unacceptable, AZCO was declaring default of its May 9, 1996 agreement with the same. In regard to the Mali agreement, among West African Gold & Exploration Ltd., Eagle, Lion and AZCO, AZCO gave notice of default to its joint-venture partners. This dispute is still outstanding and the Company is currently trying to resolve it. Eagle is currently bankrupt as indicated in Item 3. "LEGAL PROCEEDINGS".

On April 6, 1998 the Company entered into an agreement with Lines Overseas Management Ltd. ("Lines"). Under the terms of the Mali agreement Lines had originally advanced \$500,000 and 125,000 shares of the Company's common stock owned by it to Eagle for payments to Guefest and other parties. The Company issued 375,000 shares to Lines in consideration for assigning and quitclaiming to the Company all advances and any other benefit or claim of Lines related to the Mali agreement.

The Company is currently in the third year of a joint venture with Randgold Resources Limited ("Randgold") whereby Randgold has the right to earn up to 75% of the Company's interest in WAG. To earn this interest Randgold has agreed, over a 36-month period, to conduct exploration on the WAG property concessions at a minimum cost of \$2 million, with the aim of establishing whether there is a viable economic gold resource, as defined in the joint venture agreement, of at least one million ounces. Thereafter Randgold shall prepare a bankable feasibility study on any such resource for WAG within a further 12 months in order to earn its interest therein. The Company realized \$277,500 of other income, in conjunction with the joint venture agreement with Randgold, when the exploration camp assets were sold.

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The Company elected to not exercise its option to purchase the Benitoite Gem Mine located in San Benito County, California. The option expired on January 1, 2000.

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Effective on August 9, 1999 the Company entered into an "Agreement in Principle" (the "AIP") with each of Thomas Ford and Calgem, Inc., a company wholly-owned by Mr. Ford (collectively, "Calgem"), pursuant to which Calgem therein granted the Company an option to purchase all of the issued and outstanding shares of Calgem and/or business assets of Calgem. Calgem is a company that auctions colored gemstones on television. In accordance with the terms and conditions of the AIP, as now expired, the Company had advanced, by way of a loan to Calgem (the "Loan"), an aggregate of \$250,000. The Loan, together with interest accruing thereon at the rate of ten percent per annum, was to be secured by way of a senior fixed and floating charge on all of the assets of Calgem (the "Security"). The Company wrote-off the Loan during the current fiscal year due to the fact that it had not been successful in establishing either repayment terms or Security for the Loan. The Company, in discussions with counsel and Calgem, is currently considering its course of action against Calgem.

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On May 22, 1998 the Company entered into an agreement to purchase a \$1,500,000 convertible debenture in and to Oro Argentina Limited ("OAL") for the purpose of financing the first phase of the Chigue White Bentonite project and the option payments of OAL as required thereby. OAL had an option to acquire a 50% interest in this Bentonite project that is located in San Juan, Argentina, pursuant to an agreement dated February 2, 1998 between OAL and Pierre Matre. The debenture bears interest at 12% per annum and was due on September 1, 2000. On September 1, 1999 OAL defaulted on the interest payment due under the terms of the debenture agreement and the decision was made by the Company to expense, in fiscal 1999, all costs related to this project. As a result of considering its alternatives under the debenture agreement, in January of 2000 OAL voluntarily delivered to the Company all of its interest in and to Port Velmond S.A. which then held all of OAL's interests in and to Port Velmond S.A. which then held all of OAL's interests in and to the Bentonite project.

#### **Exploration and Development**

During fiscal 2000 the Company received \$277,500 in conjunction with the Randgold joint venture agreement and the sale of exploration assets.

Exploration expense of \$384,300 was incurred as the Company funded its 30% share of the Piedras Verdes project.

During fiscal 2000 AZCO incurred \$33,852 of exploration expense on the Mali project. Randgold successfully completed its second year commitment under the

joint venture agreement on the Mali project and has indicated to the Company that it intends to continue with the third year of commitments under the agreement.

The Company incurred exploration expense of \$70,557 on its gemstone initiative before it was terminated. The Company incurred \$58,135 in general exploration expense during the fiscal year.

Exploration expense of \$150,544 was allocated to the La Adelita property and the Silverado and Alamos claims in fiscal 2000.

### **Employees**

As of August 15, 2000 there were 29 full-time employees of AZCO. None of these employees are represented by a labor union contract or a collective bargaining agreement.

### **Laws and Regulations**

AZCO's interests in its projects will be subject to various laws and regulations concerning development, production, taxes, labor standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities could have a material adverse impact on AZCO.

### **Foreign Countries and Regulatory Requirements**

AZCO has mineral interests located in foreign countries including Mexico, Indonesia and Mali. Mineral exploration, development and mining activities on its property interests may be affected in varying degrees by political stability and the policies of other nations in respect of these countries. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations, including those with respect to export controls, expropriation of property, employment, land use, water use, environmental legislation and mine safety. Operations may be also affected in varying degrees by political and economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation.

### **Seasonability**

The mine and concentrator located at the Black Canyon Mica project are accessed by crossing a ford in the Agua Fria River. This ford is unusable at times due to high runoff from streams and snowmelt. From past records the maximum duration that the ford is unusable is approximately 30 days. To overcome possible interruptions to production due to weather a one to two month stockpile of mica concentrate is expected to be inventoried at the Glendale process plant once the crushing and concentration facilities are fully operational at the mine.

It is not anticipated that AZCO's Mexican property interests in the State of Sonora will be of a seasonable nature. The Company is aware of the fact that

circumstances in other parts of the world, such as Mali and Indonesia, do make exploration, mining and mineral processing a seasonal endeavor.

### **Competitive Conditions**

Many companies are engaged in the exploration and development of mineral properties. Since many of these companies have substantially greater technical and financial resources than the Company the Company may be at a disadvantage with respect to some of its competitors.

The marketing of minerals is affected by numerous factors, many of which are beyond the control of the Company. Such factors include the price of the mineral in the marketplace, imports of minerals from other nations, the availability of adequate refining and processing facilities, the price of fuel, electricity, labor, supplies and reagents and the market price of competitive minerals. In addition, sale prices for many commodities are determined by world market forces or are subject to rapid and significant fluctuations that may not necessarily be related to supply or demand or competitive conditions that in the past have affected such prices.

### **Environmental**

In connection with its future mining and processing operations, the Company will be required to comply with various federal, state and local laws and regulations pertaining to the discharge of materials into the environment. The Company will also be required to maintain various permits and licenses necessary for its operations from appropriate regulatory agencies. Apart from capital expenditures associated with the construction and maintenance of facilities required for usual mining and processing activities, the Company does not anticipate that compliance with environmental laws will have a material adverse effect upon the capital expenditures, earnings and competitive position of the Company for the remainder of the current fiscal year, the next fiscal year or in subsequent periods deemed material by the Company. AZCO is not currently subject to any material proceedings arising under environmental laws and regulations.

In light of the nature of its business the Company could face significant exposure from potential claims involving environmental matters. These matters could involve alleged soil, air and water contamination and personal injuries or property damage allegedly caused by toxic materials handled or used by the Company in connection with its mining activities. The Company's policy is to accrue environmental and cleanup costs when it is probable that a liability has been incurred and the amount of such liability is determinable. However, future environment-related expenditures cannot be reasonably quantified in many circumstances due to the speculative nature of remediation and cleanup costs, estimates and methods, the imprecise and conflicting data regarding the characteristics of various types of materials and waste, the unknown number of other potentially responsible parties involved, the extent to which such costs may be recoverable from insurance and changing environmental laws and interpretations. As a result the Company believes its future environment-related expenditures could potentially become material at some point, but the amount of such expenditures are uncertain at this time.

**Item 2. PROPERTIES**

**BLACK CANYON MICA PROJECT**

On March 9, 1999 the Company completed the acquisition of Arizona Mica, which owned the rights to develop 43 unpatented lode-mining claims located in Yavapai County, Arizona. This acquisition was accomplished through the merger of Arizona Mica with and into the Company's wholly owned subsidiary, Sanchez, with Sanchez being the surviving corporation in the merger. Sanchez has subsequently changed its name to AZCO Mica, Inc. ("AZCO Mica").

AZCO Mica has staked 226 additional claims adjacent to the original property and has defined, through two drill programs, a deposit of 1,366,645 tons of muscovite mica ore. In the fourth quarter of fiscal 2000 production commenced at the Company's 10,000-ton per year wet ground mica processing facility in Glendale, Arizona. Construction and installation of the crushing circuit, at the mine-site near Black Canyon City, Arizona, is near completion with crushing expected to start in September of 2000. The concentrator currently being commissioned at the Glendale plant-site is expected to be relocated and operational at the mine-site in the second quarter of fiscal 2001.

Through June 30, 2000 the Company has incurred the following capital costs in relation to the mica project:

Acquisition of mineral properties	\$2,219,996
Mining and processing plant and equip.	4,669,266
Development costs	919,481
Deferred reclamation costs	190,400
Inventories	1,000,778
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Total	\$8,999,221

During fiscal 2000 the following expenses were incurred in relation to the mica project:

Start-up costs	\$1,371,798
Depreciation	63,234
Reclamation	2,052
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Total	\$1,437,084

**PIEDRAS VERDES PROJECT**

The Piedras Verdes property is leased by Cobre del Mayo, S.A. de C.V. ("Cobra del Mayo"), a Mexican corporation that is owned 30% by AZCO and 70% by Minera Phelps Dodge Mexico S. de R.L. de C.V. ("MPDM"), a subsidiary of Phelps Dodge. The property consists of approximately 640 hectares and is located in southern Sonora State, Mexico.

Prior to the sale of a 70% interest in Cobre del Mayo to MPDM, 242 reverse circulation holes totalling 26,815 meters had been drilled. Since the sale of

the 70% interest in Cobre del Mayo to MPDM 217 holes totaling 47,869 meters have been cored. In addition, the geologic mapping has been expanded, metallurgical testing has been advanced and a geological and ore deposit model has been prepared. A pre-feasibility report has been prepared and a \$3,600,000 work budget advancing the project towards bankable feasibility has been approved and initiated.

The Company estimates that the Piedras Verdes property contains a 316 million ton deposit grading .37% copper or 2.34 billion pounds of contained copper (at a .2% cut-off). There are no proven or probable reserves at the Piedras Verdes property at this time.

#### **SUAQUI VERDE PROJECT**

Cobre de Suaqui Verde, S.A. de C.V., a Mexican corporation that is owned 99.97% by AZCO, leased the Suaqui Verde copper property. Effective July 31, 1999 Cobre de Suaqui Verde, S.A. de C.V., under the direction of the Company, terminated the June 17, 1991 Suaqui Verdi agreement with Mrs. Maria Dausinger and has transferred the mineral concessions to Mrs. Dausinger.

#### **MALI GOLD CONCESSIONS**

On May 9, 1996 the Company signed the Mali agreement with West Africa Gold & Exploration Ltd., Eagle and Lion that provided for the establishment of a joint venture holding company, Sanou. Sanou is the sole beneficial owner of a Malian subsidiary headquartered in Bamako and called WAG, which has a 100% working interest in the Medinandi and Dandoko concessions located in the Kenieba Gold Mining District of western Mali. Eagle, the original principal concession owner through a Malian subsidiary, has caused that subsidiary to convey the concessions to WAG.

Effective August 9, 1996 WAG entered into a debenture agreement with AZCO thereby acknowledging itself indebted to and promising to pay AZCO, in consideration of financial advances and services then made, or thereafter made, the aggregate principal sum of \$4,000,000. All advances AZCO has made to date under the debenture agreement are also evidenced by promissory notes from Eagle.

On September 3, 1997 AZCO served notice to Eagle stating that, due to the fact that the work commitment for the license on the Mali project was unacceptable, AZCO was declaring default of its May 9, 1996 agreement with the same. In regard to the Mali agreement among, West African Gold & Exploration Ltd., Eagle, Lion and AZCO, AZCO gave notice of default to its joint-venture partners. This dispute is still outstanding and the Company is currently trying to resolve it. Eagle is currently bankrupt as indicated in Item 3. "LEGAL PROCEEDINGS".

On January 21, 1999 the Company announced that it had entered into a joint venture with Randgold whereby Randgold acquired the right to earn up to 75% of the Company's interest in WAG. To earn this consideration Randgold has agreed, over the next 36 months, to conduct exploration on the WAG concessions at a minimum cost of \$2 million, with the aim of establishing whether there is a viable economic gold resource, as defined in the agreement, of at least one

million ounces. Thereafter Randgold is required to prepare a bankable feasibility study on any such resource for WAG within a further 12 months in order to earn its interest therein. There are no proven or probable reserves at the Mali properties at this time.

#### **PONGKOR PROPERTIES**

The South and West Pongkor properties adjoin the claim block containing the 3 million ounce Pongkor Gold Mine in the Bayah Dome area of Western Java in Indonesia. AZCO does not own any interest in the Pongkor Gold Mine. There are no proven or probable reserves at the Pongkor properties at this time.

On November 30, 1999 the Company entered into a joint venture agreement with Havilah Resources NL ("Havilah") to explore the Pongkor West property. Havilah, under the terms of the agreement, was entitled to a 60% interest in the joint venture by completing a \$360,000 exploration program over 3 years. On August 25, 2000 Havilah informed the Company that it had decided to withdraw from the West Pongkor joint venture immediately. In light of the Havilah withdrawal the Company is currently assessing the merits of the Pongkor properties.

#### **Item 3. LEGAL PROCEEDINGS**

On January 22, 1999 the trustee (the "Petitioner") in bankruptcy proceedings against Eagle served a petition, in the Quebec Superior Court, District of Hull, upon the Company in order to recuperate assets from the Company. The Petitioner alleges that the Company owes an accounting to the Petitioner for certain stock in its subsidiary and other alleged assets which, the Petitioner has alleged, represent hypothetical values that may aggregate, if one accepts the Petitioner's claims of private stock values, up to \$3,400,000. The Company considers the Petitioner's claims to be without merit and has engaged counsel that is disputing the matter vigorously on behalf of the Company. To the knowledge of the Company it is also the largest creditor of Eagle (a claim has been made in excess of \$4,000,000) and, therefore, it is ultimately the Company's and Canadian counsel's view that the Petitioner will be primarily accountable to the Company for any assets recovered, whether such should be through the Company or any other party.

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**PART II**

**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The Company's common shares are listed for trading on The Toronto Stock Exchange in Canada and The American Exchange in the U.S. under the stock symbol "AZC". The approximate number of registered shareholders of record for the Company, as of September 25, 2000, was 1,003.

Shown below are high and low sale prices of the common stock of the Company on The Toronto Stock Exchange and The American Stock Exchange for the fiscal periods indicated.

<u>Quarter Ended</u>	<u>Toronto Stock Exchange</u> <u>(Canadian \$)</u>		<u>American Stock Exchange</u> <u>(U.S. \$)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<u>1998</u>				
09/30/98	1.13	0.70	0.75	0.44
12/31/98	0.95	0.70	0.63	0.44
<u>1999</u>				
03/31/99	1.30	0.75	0.75	0.56
06/30/99	1.80	0.80	1.31	0.63
09/30/99	1.62	1.11	1.00	0.81
12/31/99	1.44	0.95	1.00	0.69
<u>2000</u>				
03/31/00	1.80	1.05	1.38	0.75
06/30/00	2.24	1.35	1.56	1.06

**Dividend Policy**

AZCO has not paid any dividends on its common shares to date. AZCO does not anticipate paying any dividends in the foreseeable future.

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial information regarding the financial position and operating results for the Company. For each of the years ended June 30 the selected financial information has been derived from the Company's consolidated financial statements. This information should be read in conjunction with Item 7. "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" included below.

For the year ended June 30

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues	\$ 592,190	\$ 917,391	\$ 1,061,398	\$ 1,368,753	\$ 26,893,607
Net income (loss)	(3,899,486)	(4,528,006)	(3,044,112)	(8,155,700)	17,127,455
Per share	\$ (.13)	\$ (.17)	\$ (.12)	\$ (.32)	\$ .67
Weighted Avg. # Of common shares & common equiv.	29,846,839	26,787,226	25,646,449	25,787,247	25,554,322
Balance Sheet:					
Mineral Properties	\$ 8,181,582	\$ 2,219,997	\$ nil	\$ nil	\$ nil
Total Assets	13,872,311	17,353,717	19,486,669	22,345,247	30,033,118
Notes Payable	Nil	nil	nil	nil	nil
Total Liabilities	566,028	387,984	299,061	337,050	58,217
Total Stock-holders' equity	\$ 13,306,283	\$ 16,965,733	\$ 19,187,608	\$ 22,008,197	\$ 29,974,901

**Item 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

All material revenues received during fiscal 2000 and 1999 were a result of interest earned on the proceeds of the sale of assets to Phelps Dodge with the exception to \$277,500 received in fiscal 2000 in conjunction with the Randgold joint venture agreement and the sale of exploration assets. All funds raised prior to fiscal 1996 were used in the exploration and development of the Company's various mineral properties.

**Results of Operations**

**Twelve Months ended June 30, 2000 Compared to Twelve Months ended June 30, 1999**

AZCO had a net loss of \$3,899,486 in fiscal 2000 compared to net loss of \$4,528,006 in 1999. The decrease in net loss for the year ended June 30, 2000 is the result of a decrease in exploration expense of \$2,343,787 for the current period offset by production startup costs of \$947,511 and an inventory write-down of \$424,287.

Exploration expense in fiscal 2000 was \$697,388 as compared to \$3,041,175 in 1999. Exploration expense for the current period was greatly reduced from that of last year due to the fiscal 1999 write-off of \$1,241,359 in advances and accrued interest under the OAL debenture agreement. The Company's joint venture with Randgold on the Mali property and its decision to drop its gemstone initiative also reduced exploration costs in the current period.

General and administrative expense decreased in fiscal 2000 to \$1,027,582 from \$1,301,590 in fiscal 1999. This decrease was due to reduced activities in investor relations and corporate development as well as related travel costs in fiscal 2000.

Amortization and depreciation expense increased from \$14,904 in fiscal 1999 to \$133,174 in fiscal 2000 due to the commencement of the depreciation of assets associated with the mica project.

**Twelve Months ended June 30, 1999 Compared to Twelve Months ended June 30, 1998.**

AZCO had a net loss of \$4,528,006 in fiscal 1999 compared to net loss of \$3,044,112 in 1998. The increase in net loss for the year ended June 30, 1999 was the result of a provision for income tax benefit booked in fiscal 1998.

The Company's provision for income tax benefit in fiscal 1998 was \$2,109,237 compared to \$4,186 for fiscal 1999 due to federal income tax refunds received as a result of taxes paid on the sale of assets in fiscal 1996.

Exploration expense in fiscal 1999 was \$3,041,175 as compared to \$3,261,405 in fiscal 1998. Exploration expense for fiscal 1999 includes \$1,241,359 representing advances and accrued interest under the OAL debenture agreement. The decision to expense all costs related to this project was made after OAL defaulted on its interest payment due on September 1, 1999.

Legal settlement costs in fiscal 1998 resulted from the \$400,000 payment to AIOC Corporation ("AIOC") as full and final payment of all matters and claims between AIOC, AZCO and Sanchez.

**Liquidity and Capital Resources**

For the fiscal year ended June 30, 2000 the Company met its capital requirements through the proceeds of the sale of assets to Phelps Dodge in 1996.

At June 30, 2000 and June 30, 1999 the Company had cash and cash equivalents of \$4,324,886 and \$12,106,173, respectively, and working capital of \$4,883,713 and \$11,821,537, respectively. Total liabilities at June 30, 2000 were \$566,028 as compared to \$387,984 on June 30, 1999.

The Company feels that its current cash position, along with anticipated mica revenues, is strong enough to fund all cash requirements in fiscal 2000. In the event that a production decision is made in regards to the Piedras Verdes project it is the Company's intention to raise additional capital to fund its share of the construction costs. Funding approximately \$4.1 million in potential pre-production royalties on the Piedras Verdes project over the next 10 years is expected to come from either the Company's treasury or from potential joint venture partners. In the event that is not possible additional funding will be sought to fund the advance royalties on the Piedras Verdes project if the Company chooses to retain its interest in that project.

**Item 7a. QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK**

Not applicable.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this item is submitted as a separate section at the end of this report beginning on page F-1 of this Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS**

Not applicable.

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS**

The following table lists the names and positions of the executive officers and directors of the Company as of September 25, 2000. All executive officers and directors have been elected and appointed to serve until their successors are elected and qualified. Additional information regarding the age, business experience, and length of time served in each capacity and other matters relevant to each individual is set forth below in the table.

<u>NAME</u>	<u>POSITION HELD</u>
Alan P. Lindsay	President, Chairman, Chief Executive Officer and Director
Anthony R. Harvey	Vice Chairman of the Board, Director, Executive Vice President and Secretary
Paul A Hodges	Director of the Company
Dr. Ian M. Gray	Director of the Company
Lawrence G. Olson	Director of the Company
Ryan A. Modesto	Vice President Finance
Gary L. Simmerman	Vice President Operations

All of the directors and officers of the Company have held their principal occupations as set out above, except as follows, during at least the last five years:

Mr. Lindsay, aged 50, one of the Company's founders, has been responsible for arranging the financing, the corporate development and the building of the organization important to the success of the Company. Mr. Lindsay has an extensive background in business management and marketing. Mr. Lindsay has been involved in the mining business for the past ten years and since 1989 has been devoted to AZCO's business. From 1982 to 1989 Mr. Lindsay was the Manager of the Financial Services Division of the North American Life Assurance Company in Vancouver.

Mr. Harvey, aged 66, one the Company's founders, has been associated with the Company since July 13, 1988. Mr. Harvey has been a full-time employee since May 18, 1989, prior to which he spent 30 years with Wright Engineers Limited, where he gained extensive experience in the mining industry in various management positions, including mine construction and ore extraction, bulk handling and processing, project management and corporate marketing and development, in many countries including the U.S. As a senior project manager Mr. Harvey was responsible for the overall management and direction of many mining projects worldwide, including the Copper Flat Project 15,000 ton per day copper/moly open pit mining and processing plant located in New Mexico, for Quintana Minerals Corporation, and a 3,000 tpd underground copper mine rehabilitation expansion located in Ireland, for Avoca Mines Limited.

Mr. Hodges, aged 73, a director, has a degree of Engineer of Mines from the Colorado School of Mines and is a Registered Professional Engineer in Arizona. Mr. Hodges has over 40 years experience in the mining industry covering exploration, operations, project startup, management and financing and has worked for Anaconda, Asarco, RTZ and St. Joe. Mr. Hodges was the Chief Engineer worldwide for open pit mining for RTZ and was the President of Anamax Mining Company at Twin Buttes. Most recently Mr. Hodges was the President of Compania Minera El Indio. Mr. Hodges was a director of Lac Minerals Limited, a publicly traded company acquired by American Barrick in late 1994. Mr. Hodges joined the Board of the Company in August 1993.

Dr. Gray aged 64, a P.Eng. of Ontario, Canada, and a Fellow of the Society of Economics Geologists, became a director of the Company on September 4, 1996. Dr. Gray, a Mining Geologist from the Royal School of Mines in London, UK, has spent over 40 years in the international mining industry. Dr. Gray's experience ranges from mineral exploration through project development to mine production for a wide variety of minerals throughout North, Central and South America, Australia, East and Southeast Asia and Central and Southern Africa. During his career Dr. Gray has held senior positions with major mining companies such as Inco Ltd. and BP Minerals International Ltd., followed by considerable experience in the formation and general management of Canadian based junior mining public companies. Notable achievements include important roles in the development of the huge Olympic Dam copper, uranium and gold production complex in South Australia and the 370,000 ounce per year Fort Knox gold mine located near Fairbanks Alaska.

Mr. Olson, aged 63, became a director of the Company on March 15, 1999 in connection with the acquisition of Arizona Mica (see Item 13 "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" pursuant to which Mr. Olson became a director). Mr. Olson has owned and operated his own business, Olson Precast of Arizona Inc., since 1973. In 1998 Olson Precast of New Mexico, Inc., a company

controlled by Mr. Olson, was liquidated under bankruptcy laws in proceedings in the U.S. Bankruptcy Court for the District of New Mexico. Mr. Olson received a B.S. in Civil Engineering from the University of Southern California in 1959.

Mr. Simmerman, aged 50, joined the Company in September 1992 as Chief Engineer of the Sanchez Project, and in October of 1998 was appointed Vice-President of Operations. Mr. Simmerman, a Mining Engineer from the University of Arizona, has been working in the mining industry since 1974, and has been involved in exploration, development and production operations in gold, silver, copper, cobalt, coal and uranium. For the five years prior to joining the Company Mr. Simmerman was Chief Engineer for Santa Fe Pacific Gold's Rabbit Creek Mine and was involved in the original determinations of the ore reserves and the feasibility stage through startup, production and expansion to a 200,000-ton per day operation.

Mr. Modesto aged 45, Vice President Finance since October 26, 1998, joined the Company in June of 1994 as Controller of the Sanchez Project. Mr. Modesto served as the Company's Corporate Controller and Principal Accounting Officer from January of 1996 to October of 1998. Mr. Modesto earned a B.S. in Accounting from the University of Utah in 1977 and has 23 years of accounting and administrative experience in the mining industry. For the six years prior to joining the Company Mr. Modesto was the Controller for Corona Gold Inc.'s Santa Fe Mine located in Nevada.

#### **Compliance with Section 16(a) Beneficial Ownership Reporting Compliance of the Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended June 30, 2000, all filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

#### **Item 11. EXECUTIVE COMPENSATION**

The following table summarizes the total compensation of the Chief Executive Officer and the other most highly compensated executive officers (collectively, the "Named Executive Officers") of the Company earning in excess of \$100,000 for the year ended June 30, 2000, as well as the total compensation paid to each such individual for the Company's three previous fiscal years:

Summary Compensation Table  
(As at year ended June 30, 2000)

Name and Principal Position	Year	Annual Compensation			Long Term Compensation
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Underlying Options/SARs Granted (#)
Alan P. Lindsay President, Chairman of the Board and CEO	2000	192,938 <sup>(1)</sup>	9,413	9,000 <sup>(3)</sup>	0
	1999	183,750 <sup>(1)</sup>	9,000	9,000 <sup>(3)</sup>	200,000
	1998	139,169 <sup>(1)</sup>	5,500	7,250 <sup>(3)</sup>	0
Anthony R. Harvey Vice Chairman, Exec. Vice President, Secretary	2000	192,938 <sup>(2)</sup>	9,413	9,000 <sup>(3)</sup>	0
	1999	183,750 <sup>(2)</sup>	9,000	9,000 <sup>(3)</sup>	200,000
	1998	139,169 <sup>(2)</sup>	5,500	7,250 <sup>(3)</sup>	0
Ryan A. Modesto Vice President Finance	2000	116,664	5,583	0	0
	1999	109,084	5,500	0	70,000
	1998	97,200	4,800	30,000 <sup>(4)</sup>	13,000
Gary L. Simmerman Vice President Operations	2000	158,824	7,750	0	50,000
	1999	115,973	7,500	30,000 <sup>(5)</sup>	155,000
	1998	96,000	4,800	0	30,000

- (1) These amounts were actually paid to Alan Lindsay and Associates Ltd., a management company under the control of Mr. Lindsay, pursuant to management agreements dated May 1989 and February 1998 with the Company.
- (2) These amounts were actually paid to ARH Management Ltd., a management company under the control of Mr. Harvey, pursuant to management agreements dated May 1989 and February 1998 with the Company.
- (3) These amounts were paid as reimbursement of medical insurance premiums.
- (4) Mr. Modesto was granted a \$30,000 relocation allowance in conjunction with the move of the Company's corporate office from Solomon, Arizona, to Ferndale, Washington.

- (5) Mr. Simmerman was granted a \$30,000 relocation allowance in conjunction with the Company's establishment of its Glendale office to oversee the Black Canyon Mica project.

#### OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (Cdn \$/Sh)	Expiration Date	Potential Realized Value (Cdn \$) at Assumed Annual Rates of Stock Price Appreciation For Option Term	
					5%	10%
Gary L. Simmerman	50,000 <sup>(*)</sup>	56%	0.95	December 13, 2004	13,123	28,999

- (\*) These options are exercisable from the date of grant (December 13, 1999).

#### AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTIONS VALUES

Name	Number of Securities Underlying Unexercised Options at FY-End		Value of Unexercised In-The-Money Options at FY-End (\$) <sup>(*)</sup>	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Alan P. Lindsay	500,000	0	273,363	0
Anthony R. Harvey	500,000	0	273,363	0
Gary L. Simmerman	315,000	0	165,305	0
Ryan A. Modesto	170,000	0	93,955	0

- (\*) Based on the closing price of \$1.1875 of the Company's common stock as quoted on The American Stock Exchange on June 30, 2000.

#### Compensation of Directors

The Company pays a fee to its outside, non-officer directors of \$1,500 per month. The Company also reimburses its directors for reasonable expenses incurred by them in attending meetings of the Board of Directors. During fiscal 1999 non-officer directors received a total of \$1,750 in consulting fees.

#### Employment Contracts and Change in Control Arrangements

Effective February 1, 1998 the Company entered into a management agreement with Alan Lindsay and Associates, Ltd. ("Associates"), a British Columbia corporation owned and controlled by Mr. Lindsay, the Company's Chief Executive Officer. This new agreement replaces an original May 1, 1989 agreement in its entirety. This agreement requires all salary amounts otherwise payable by the Company to Mr. Lindsay to be paid to Associates. Associates is therein provided with a base fee of \$180,000 annually and an allowance for equivalent benefits

enjoyed by Company personnel. The base fee may be renegotiated annually at the request of either party. In the event that the parties cannot agree then the base fee is to be increased by the greatest of 5% or the amount of the cost of living index as published by the Canadian Federal government. The term of this agreement is for a period of 36 months and renews automatically for subsequent one-year periods unless either party gives the other party notice of non-renewal at least 90 days prior to the end of any term. In the event that the agreement is terminated, or fails to renew due to failure of agreement after the issuance of a non-renewal notice, Associates will receive a termination fee equal to either the sum of the buy-out of any outstanding stock options for a price equal to the average market price of the Company's shares on The Toronto Stock Exchange multiplied by the number of shares under option and less the exercise price thereof or, at the election of Associates and subject to regulatory approval, extension of the option for a year after termination, plus the greater of, (i) the aggregate remaining base fee for the unexpired remainder of the term and (ii) the then annual base fee plus one month of base fee for each year, or portion thereof, served after the effective date. In the event that Associates is unable to provide the services due to protracted disability or sickness or the death of its principal (Mr. Lindsay) it may, at any time, declare such to the Company and may terminate the agreement as a without fault termination and the termination fee shall be payable. The Company may elect to effect such termination, and shall pay the termination fee, in the case of death of Associates' principal or in the event that sickness or disability has continued for a period in excess of 120 days. It is the Company's estimation that if the agreement with Associates was terminated effective September 6, 2000 Associates would be due \$500,063 as a termination fee. This fee represents \$252,000 (Cdn.\$375,000) for the buyout of outstanding stock options on September 6, 2000 and \$248,063 representing 15 months of base fee.

Effective February 1, 1998 the Company entered into a management agreement with ARH Management Ltd. ("Management"), a British Columbia corporation owned and controlled by Mr. Harvey, the Company's Vice Chairman. This new agreement replaces an original May 1, 1989 agreement in its entirety. This agreement requires all salary amounts otherwise payable by the Company to Mr. Harvey to be paid to Management. Management is therein provided with a base fee of \$180,000 annually and an allowance for equivalent benefits enjoyed by Company personnel. The base fee may be renegotiated annually at the request of either party. In the event that the parties cannot agree then the base fee is to be increased by the greatest of 5% or the amount of the cost of living index as published by the Canadian Federal government. The term of this agreement is for a period of 36 months and renews automatically for subsequent one-year periods unless either party gives the other party notice of non-renewal at least 90 days prior to the end of any term. In the event that the agreement is terminated, or fails to renew due to failure of agreement after the issuance of a non-renewal notice, Management will receive a termination fee equal to the sum of the buy-out of any outstanding stock options for a price equal to the average market price of either the Company's shares on The Toronto Stock Exchange multiplied by the number of shares under option and less the exercise price thereof or, at the election of Management and subject to regulatory approval, extension of the option for a year after termination, plus the greater of, (i) the aggregate remaining base fee for the unexpired remainder of the term and (ii) the then annual base fee plus one month of base fee for each year of portion thereof, served after the effective date. In the event that Management is unable to provide the services due to

protracted disability or sickness or the death of its principal (Mr. Harvey) it may, at any time, declare such to the Company and may terminate the agreement as a without fault termination and the termination fee shall be payable. The Company may elect to effect such termination, and shall pay the termination fee, in the case of death of Management's principal or in the event that sickness or disability has continued for a period in excess of 120 days. It is the Company's estimation that if the agreement with Management was terminated effective September 6, 2000 Management would be due \$500,063 as a termination fee. This fee represents \$252,000 (Cdn.\$375,000) for the buyout of outstanding stock options on September 6, 2000 and \$248,063 representing 15 months of base fee.

Effective August 15, 1994 management agreements were provided to both Messrs. Harvey and Lindsay that are effective in the event of a change in control of the Company. Similar management agreements (collectively, the "Management Agreements") were provided to each of Mr. Modesto, on November 19, 1996, and Mr. Simmerman, on October 23, 1998. The Management Agreements provide for a lump sum distribution in an amount (taking into account all other applicable change in control payments by the Company) not to exceed 299% of the base amount as defined in IRC Section 280G(b) upon a change in control of the Company. Such "base amount" is generally equivalent to the applicable person's average annual compensation from the Company includable in his gross income over the preceding five years. Change of control is therein defined to include only the following circumstances:

- (i) the acquisition (whether direct or indirect) of shares in excess of 20 percent of the outstanding shares of common stock of the Company by a person or group of persons, other than through a public equity offering by the Company;
- (ii) the occurrence of any transaction relating to the Company required to be described pursuant to the requirements of item 6(e) of Schedule 14A of Regulation 14A of the SEC under the Securities and Exchange Act of 1934; or
- (iii) any change in the composition of the Board of Directors of the Company resulting in a majority of the present directors not constituting a majority; provided, that in making such determination directors who were elected by, or on the recommendation of, such present majority, shall be excluded.

Effective August 15, 1994 for Mr. Hodges, and effective November 19, 1996 for Dr. Gray, director's agreements (collectively, the "Director's Agreements") were provided to each of the above that are also effective in the event of a change in control of the Company. These Director's Agreements provide for a lump sum distribution not to exceed \$100,000 upon a change in control of the Company. Change in control has the same definition as set forth above in connection with the Management Agreements.

#### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ending 2000 Mr. Hodges, Mr. Olson and Dr. Gray acted as the Company's Compensation Committee.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below sets forth information, as of September 25, 2000, with respect to the beneficial ownership of the Company's common stock by each person known by the Company to be the beneficial owner of more than five percent of its outstanding common stock, by each director of the Company, by each Named Executive Officer and by all officers and directors of the Company as a group. Unless otherwise noted each shareholder has sole investment and voting power over the shares owned.

Name and Address Of Beneficial Owner	Type of Ownership	Number of Shares	Percent of Class
Alan P. Lindsay 999 W. Hastings, Ste 1250 Vancouver, BC, Canada V6C 2W2	Record and Beneficial	1,178,569 <sup>(1)</sup>	3.89%
Anthony R. Harvey 999 W. Hastings, Ste 1250 Vancouver, BC, Canada V6C 2W2	Record and Beneficial	653,252 <sup>(2)</sup>	2.15%
Paul A. Hodges 4536 N. Via Bellas Catalinas Tucson, AZ 85718	Record and Beneficial	113,000 <sup>(3)</sup>	*
Dr. Ian M. Gray Copper Hill House, Buller Hill Redruth, Cornwall U.K., TR16 6SR	Record and Beneficial	151,000 <sup>(4)</sup>	*
Lawrence G. Olson 3045 S. 35 <sup>th</sup> Avenue Phoenix, AZ 85009	Record and Beneficial	1,754,000 <sup>(5)</sup>	5.85%
Ryan A. Modesto PO Box 1895 Ferndale, WA 98248	Record and Beneficial	175,000 <sup>(6)</sup>	*
Gary L. Simmerman 1211 W. Crystal Palace Place Oro Valley, AZ 85737	Record and Beneficial	315,000 <sup>(7)</sup>	*
Officers & Directors As a Group (7 persons)	Record and Beneficial	4,339,821	13.85%

\* indicates less than 1%

(1) Includes 605,308 shares owned by a corporation controlled by Mr. Lindsay. Includes options to acquire 300,000 shares at an exercise price of CDN \$1.05 per share and 200,000 shares at an exercise price of CDN \$0.80 per share.

(2) Includes 122,224 shares owned by Mr. Harvey's wife. Includes options to acquire 300,000 shares at an exercise price of CDN \$1.80 per share and 200,000 shares at an exercise price of CDN \$0.80 per share.

(3) Includes options to acquire 50,000 shares at an exercise price of CDN \$1.05 per share and 50,000 shares at an exercise price of CDN \$0.70 per share.

- (4) Includes options to acquire 100,000 shares at an exercise price of CDN \$1.05 per share and 50,000 shares at an exercise price of CDN \$0.70 per share.
- (5) Includes an option to acquire 100,000 shares at an exercise price of CDN \$1.05 per share.
- (6) Represents options to acquire 120,000 shares at an exercise price of CDN \$1.05 per share, 20,000 shares at an exercise price of CDN \$0.70 per share and 30,000 shares at an exercise price of CDN \$0.80 per share.
- (7) Includes options to acquire 210,000 shares at an exercise price of CDN \$1.05 per share, 25,000 shares at an exercise price of CDN \$0.70 per share, 30,000 shares at an exercise price of CDN \$0.80 per share and 50,000 shares at a price of CDN \$0.95 per share.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On March 9, 1999 the Company completed the acquisition of Arizona Mica, which owned the rights to develop 43 unpatented lode-mining claims located in Yavapai County, Arizona. This acquisition was accomplished through the merger of Arizona Mica with and into the Company's wholly owned subsidiary, Sanchez, with Sanchez being the surviving corporation in the merger. Sanchez has subsequently changed its name to AZCO Mica, Inc. In connection with the merger the Company issued an aggregate of 4,500,000 shares (the "Shares") of its common stock to the three shareholders of Arizona Mica, Messrs. Lawrence G. Olson, John O. Rud and Floyd R. Bleak, with each such shareholder receiving 1,500,000 Shares of the Company's common stock. The Shares were issued as "restricted securities", as that term is defined in Rule 144 promulgated under the U.S. Securities Act of 1933, as amended (the "Act"), and the certificates representing the Shares bore a restrictive legend permitting transfer only pursuant to registration or applicable exemption under the Act.

As part of the merger transaction Messrs. Olson, Bleak and Rud also entered into a Voting Agreement (the "Voting Agreement") with the Company, Arizona Mica and Messrs. Alan P. Lindsay and Anthony R. Harvey, who are officers, directors and shareholders of the Company. The Voting Agreement has a term of five years commencing March 9, 1999 and the principal provisions of the Voting Agreement are as follows:

1. Messrs. Olson, Rud and Bleak each grant to the management of the Company, as such may exist from time to time, the right to vote their Shares in favor of the nominees to the Company's Board of Directors proposed by management at any meeting of shareholders of the Company. This provision is implemented through the grant of an irrevocable proxy by Messrs. Olson, Rud and Bleak to such member of the Board of Directors of the Company as the Board of Directors may specify from time to time;
2. The Company agrees to appoint one nominee (the "Nominee") of Messrs. Olson, Rud and Bleak to the Company's Board of Directors and agrees to include the Nominee in the management's slate of director's nominees at any meeting, of the Shareholders of the Company;

3. Messrs. Olson, Rud and Bleak are permitted to sell, assign or otherwise transfer the Shares covered by the Voting Agreement provided that such transfers comply with applicable securities laws. Any Shares so transferred will no longer be subject to the terms of the Voting Agreement;

Lawrence G. Olson, a non-officer director of the Company since March 15, 1999, is the owner of Olson Precast of Arizona Inc. ("Precast"). Precast, through a closed bidding arrangement, was awarded the concrete contract on the Company's Glendale, Arizona, mica processing facility. Precast was compensated a total of \$141,385 for the contract.

#### PART IV

#### Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8K

(a) 1. Financial Statements - Reference is made to the Financial Statements appearing on Pages F-1 through F-22.

2. Financial Statement Schedules - Reference is made to the Financial Statement Schedules on page F-22.

3. Exhibits

- 3.1 Registrant's Certificate of Incorporation dated August 8, 1991<sup>(1)</sup>
- 3.2 Articles of Amendment to the Certificate of Incorporation dated December 5, 1991.<sup>(1)</sup>
- 3.3 Registrant's Amended By-laws.<sup>(2)</sup>
- 3.4 Rights Agreement dated July 19, 1995 between the Registrant and Montreal Trust Company of Canada.<sup>(2)</sup>
- 4.1 Specimen stock certificate.<sup>(3)</sup>
- 10.1 Agreements for Suaqui Verde property.<sup>(1)</sup>
- 10.2 Agreements for Piedras Verdes property.<sup>(1)</sup>
- 10.3 Purchase Agreement dated July 27, 1995 between the Registrant, Sanchez and Phelps Dodge.<sup>(2)</sup>
- 10.4 Memorandum of Agreement between West Africa Gold & Exploration Ltd., Eagle, Lion and the Registrant.<sup>(4)</sup>
- 10.5 Management Agreement dated February 1, 1998 between the Registrant and ARH Management Ltd.<sup>(5)</sup>
- 10.6 Management Agreement dated February 1, 1998 between the Registrant and Alan Lindsay and Associates, Ltd.<sup>(5)</sup>

- 10.7 Option to Purchase Agreement, for the Benitoite Gem Mine, dated December 1, 1997 between the Registrant and William C. Forrest, Hilda F. Forrest and Elvis L. Gray. <sup>(5)</sup>
- 10.8 Debenture Agreement dated May 22, 1998, where Registrant purchases a \$1,500,000 convertible debenture of Oro Argentina Limited. <sup>(5)</sup>
- 10.9 Right of First Refusal Agreement dated June 18, 1998 between the Registrant and Minera Cortez Resources Ltd. <sup>(5)</sup>
- 10.10 Mineral Property Option Agreement dated July 21, 1998, for the La Adelita property, between the Registrant and Minera Cortez Resources Ltd. <sup>(5)</sup>
- 10.11 Change in control Management Agreements between the Registrant and each of Messrs. Lindsay, Harvey and Modesto. <sup>(5)</sup>
- 10.12 Change in control Director's Agreements between the Registrant and each of Mr. Hodges and Dr. Gray. <sup>(5)</sup>
- 10.13 Cobre del Mayo, S.A. de C.V. Shareholders' & Operator's Agreement. <sup>(5)</sup>
- 10.14 Agreement and Plan of Merger of Arizona Mica into Sanchez dated March 10, 1999. <sup>(6)</sup>
- 10.15 Shareholder's Agreement between the Registrant, Sanou, WAG and Randgold dated March 31, 1999. <sup>(7)</sup>
- 10.16 Mineral Property Option Agreement dated May 20, 1999, for the Silverado property, between the Registrant and Minera Cortez Resources Ltd. <sup>(7)</sup>
- 10.17 AIP dated August 9, 1999 between the Registrant Mr. Thomas Ford and Calgem. <sup>(7)</sup>
- 21.1\* Subsidiaries of the Registrant.
- 23.1\* Consent of PricewaterhouseCoopers.
- 27.1\* Financial Data Schedule.

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<sup>(1)</sup> Exhibit nos. 3.1, 3.2, 10.4 and 10.5 are incorporated by reference from exhibit nos. 3.1, 3.2, 10.10 and 10.11, respectively, from the Registrant's Registration Statement on Form S-4 (File No. 33-45162).

<sup>(2)</sup> Exhibit nos. 3.3, 3.4 and 10.3 are incorporated by reference from exhibit nos. 3.3, 3.4 and 10.20, respectively, from the Registrant's Annual Report on Form 10-K(a) for the fiscal year ended June 30, 1995.

<sup>(3)</sup> Exhibit no. 4.1 is incorporated by reference from exhibit no. 1 from the Registrant's Registration Statement on Form 8-A that was filed with the SEC on July 21, 1992.

- (4) Exhibit no. 10.4 is incorporated by reference from exhibit no. 10.10 from the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1996.
- (5) Exhibit nos. 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11, 10.12 and 10.13 are incorporated by reference from exhibit nos. 10.7, 10.8, 10.9, 10.10, 10.12, 10.13, 10.15, 10.16 and 10.17, respectively, from the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
- (6) Exhibit no. 10.14 is incorporated by reference from exhibit no. 1 from the Registrant's Form 8K filed with the SEC and dated March 9, 1999.
- (7) Exhibit no. 10.15, 10.16 and 10.17 are incorporated by reference from exhibit no. 10.15, 10.16 and 10.17 from the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999.

\* Filed herewith.

(b) Reports on Form 8K:

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AZCO MINING INC.

Date: September 27, 2000 By: /s/ Alan P. Lindsay  
Alan P. Lindsay  
President, Chairman of the Board and  
Chief Executive Officer

Date: September 27, 2000 By: /s/ Ryan A. Modesto  
Ryan A. Modesto  
Vice President Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Alan P. Lindsay</u> Alan P. Lindsay	President, Chairman of the Board and Chief Executive Officer	September 27, 2000
<u>/s/ Anthony R. Harvey</u> Anthony R. Harvey	Vice Chairman, Executive Vice President, Secretary and Director	September 27, 2000
<u>/s/ Paul A. Hodges</u> Paul A. Hodges	Director	September 27, 2000
<u>/s/ Dr. Ian M. Gray</u> Dr. Ian M. Gray	Director	September 27, 2000
<u>/s/ Paul A. Hodges</u> Paul A. Hodges	Director	September 27, 2000

# **Azco Mining Inc. (Delaware)**

Form 10-K

Item 8, Item 14(a) (1) and (2)

Index to Financial Statements and Supplemental Schedule

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The following financial statements required to be included in Item 8 are listed below:	
Report of Independent Accountants	F-2
Consolidated Balance Sheets as at June 30, 2000 and 1999	F-3
Consolidated Statements of Loss for the fiscal years ended June 30, 2000, 1999 and 1998	F-4
Consolidated Statements of Stockholders' Equity for the fiscal years ended June 30, 2000, 1999 and 1998	F-5
Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2000, 1999 and 1998	F-6
Notes to Consolidated Financial Statements	F-7
The following financial statement schedule of the Registrant is included in Item 14(a)(2):	
Schedule II - Valuation and Qualifying Accounts for the fiscal years ended June 30, 2000, 1999 and 1998	F-23

Schedules other than the one listed above have been omitted since they are either not required or not applicable, or since the required information is shown in the financial statements or related notes.

August 11, 2000

## **Auditors' Report**

**To the Shareholders of  
Azco Mining Inc. (Delaware)**

We have audited the consolidated financial statements and the financial statement schedule of **Azco Mining Inc. (Delaware)** and its subsidiaries listed in the index on page F-1 of this Form 10-K. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Azco Mining Inc. (Delaware) and its subsidiaries as at June 30, 2000 and 1999 and the consolidated results of their operations and their cash flows for the each of the three years in the period ended June 30, 2000 in conformity with United States generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**Azco Mining Inc. (Delaware)**  
**Consolidated Balance Sheets**  
**As at June 30, 2000 and 1999**

	2000 \$	1999 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,324,886	12,106,173
Prepays and other	124,077	103,348
Inventories (note 5)	1,000,778	-
<b>Total current assets</b>	<b>5,449,741</b>	<b>12,209,521</b>
<b>Property and equipment</b>		
Mineral properties, plant and equipment (note 7)	7,933,857	5,076,969
Capital assets (note 8)	247,725	16,639
	8,181,582	5,093,608
<b>Restricted cash (note 4)</b>	<b>190,400</b>	<b>-</b>
<b>Investment and advances (note 6)</b>	<b>50,588</b>	<b>50,588</b>
<b>Total Assets</b>	<b>13,872,311</b>	<b>17,353,717</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	566,028	387,984
<b>Contingencies and commitments (notes 9 and 14)</b>		
<b>Stockholders' Equity</b>		
<b>Capital stock</b>		
Authorized 100,000,000 common shares with a par value of \$0.002 per share		
Issued and outstanding 29,887,121 (1999 - 29,832,121) common shares	59,774	59,664
<b>Additional paid-in capital</b>	<b>28,537,487</b>	<b>28,297,561</b>
<b>Deficit</b>	<b>(15,290,978)</b>	<b>(11,391,492)</b>
	13,306,283	16,965,733
<b>Total Liabilities and Stockholders' Equity</b>	<b>13,872,311</b>	<b>17,353,717</b>

The accompanying notes are an integral part of these financial statements.

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**Azco Mining Inc. (Delaware)**  
**Consolidated Statements of Loss**  
**For the years ended June 30, 2000, 1999 and 1998**

	2000 \$	1999 \$	1998 \$
<b>Revenue</b>			
Interest income - net	314,690	905,891	1,052,516
Gain (loss) on sale of assets	-	1,500	(970)
Other income (note 9)	277,500	10,000	9,852
	<u>592,190</u>	<u>917,391</u>	<u>1,061,398</u>
<b>Operating expenses</b>			
Salaries	1,009,682	1,091,914	1,007,740
General and administrative	1,027,582	1,301,590	1,523,552
Exploration (notes 6 and 9)	697,388	3,041,175	3,263,405
Write-off of investment (note 6)	250,000	-	-
Depreciation and amortization	133,174	14,904	20,050
Production start-up costs (note 16)	1,371,798	-	-
Legal settlement costs (note 14)	-	-	400,000
Reclamation	2,052	-	-
	<u>4,491,676</u>	<u>5,449,583</u>	<u>6,214,747</u>
<b>Loss before income taxes</b>	(3,899,486)	(4,532,192)	(5,153,349)
<b>Income tax benefit (note 11)</b>	<u>-</u>	<u>4,186</u>	<u>2,109,237</u>
<b>Loss for the year</b>	<u>(3,899,486)</u>	<u>(4,528,006)</u>	<u>(3,044,112)</u>
<b>Basic loss per common share (note 12)</b>	<u>(0.13)</u>	<u>(0.17)</u>	<u>(0.12)</u>
<b>Diluted loss per common share (note 12)</b>	<u>(0.13)</u>	<u>(0.17)</u>	<u>(0.12)</u>
<b>Weighted average number of common shares outstanding</b>	<u>29,846,839</u>	<u>26,787,226</u>	<u>25,646,449</u>

The accompanying notes are an integral part of these financial statements.

**Azco Mining Inc. (Delaware)**  
**Consolidated Statements of Stockholders' Equity**  
**For the years ended June 30, 2000, 1999 and 1998**

	<u>Common shares</u>		<b>Additional paid-in capital \$</b>	<b>Retained earnings (deficit) \$</b>	<b>Total \$</b>
	<b>Number of shares</b>	<b>Amount \$</b>			
<b>Balance - June 30, 1997</b>	25,579,834	51,160	25,776,411	(3,819,374)	22,008,197
Stock options exercised	59,572	119	54,174	-	54,293
Issued for exploration property interests	41,091	82	49,918	-	50,000
Stock option compensation	-	-	119,230	-	119,230
Loss for the year	-	-	-	(3,044,112)	(3,044,112)
<b>Balance - June 30, 1998</b>	25,680,497	51,361	25,999,733	(6,863,486)	19,187,608
Stock options exercised	50,000	100	34,917	-	35,017
Issued for exploration property interests	405,000	810	261,690	-	262,500
Issued for acquisition (note 7)	4,500,000	9,000	2,280,388	-	2,289,388
Repurchase of Company's shares	(803,376)	(1,607)	(465,767)	-	(467,374)
Stock option compensation	-	-	186,600	-	186,600
Loss for the year	-	-	-	(4,528,006)	(4,528,006)
<b>Balance - June 30, 1999</b>	29,832,121	59,664	28,297,561	(11,391,492)	16,965,733
Stock options exercised	55,000	110	38,026	-	38,136
Stock option compensation (note 10)	-	-	201,900	-	201,900
Loss for the year	-	-	-	(3,899,486)	(3,899,486)
<b>Balance - June 30, 2000</b>	29,887,121	59,774	28,537,487	(15,290,978)	13,306,283

**Azco Mining Inc. (Delaware)**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2000, 1999 and 1998**

	2000 \$	1999 \$	1998 \$
<b>Cash flows from operating activities</b>			
Loss for the year	(3,899,486)	(4,528,006)	(3,044,112)
Items not affecting cash			
Depreciation and amortization	133,174	14,904	20,050
Stock option compensation expense (note 10)	201,900	186,600	119,230
Issuance of common stock for property interest	-	262,500	50,000
Loss (gain) on sale of furniture and equipment	-	(1,500)	970
Loss on write-down of refundable deposits	-	-	370,505
Loss on write-down of investment (note 6)	250,000	1,241,359	-
Net change in assets and liabilities			
Prepays and other	(20,729)	105,438	(120,168)
Refundable deposits	-	-	244,750
Income taxes receivable	-	782,000	(302,272)
Accounts payable and accrued liabilities	178,044	45,923	(37,989)
Inventories	(1,000,778)	-	-
Deposit	-	-	4,000,000
	<u>(4,157,875)</u>	<u>(1,890,782)</u>	<u>1,300,964</u>
<b>Cash flows from investing activities</b>			
Investment in Calgem, Inc.	(250,000)	-	-
Purchase of capital assets	(298,974)	(7,485)	(2,900)
Proceeds from sale of furniture and equipment	-	1,500	5,102
Purchase of Minera Cortez Resources Ltd. shares	-	(16,533)	(34,055)
Purchase of investment in OAL	-	(1,140,636)	(100,723)
Purchase of mineral properties, plant and equipment	(2,922,174)	(2,744,581)	-
Restricted cash	(190,400)	16,165	17,941
	<u>(3,661,548)</u>	<u>(3,891,570)</u>	<u>(114,635)</u>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of stock options	38,136	35,017	54,293
Purchase of treasury stock	-	(467,374)	-
	<u>38,136</u>	<u>(432,357)</u>	<u>54,293</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(7,781,287)	(6,214,709)	1,240,622
<b>Cash and cash equivalents - Beginning of year</b>	12,106,173	18,320,882	17,080,260
<b>Cash and cash equivalents - End of year</b>	<u>4,324,886</u>	<u>12,106,173</u>	<u>18,320,882</u>

The accompanying notes are an integral part of these financial statements.

# **Azco Mining Inc. (Delaware)**

## **Notes to Consolidated Financial Statements**

### **June 30, 2000, 1999 and 1998**

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#### **1 Nature of operations**

Azco Mining Inc. (Delaware) (the Company) is a U.S. mining company with a general business strategy to acquire mineral properties. The Company plans to supplement its core assets, the 100% owned Black Canyon Mica Project in Arizona and a 30% interest in the Piedras Verdes Project, through its acquisition of other mineral properties.

Construction of the crushing and concentration equipment needed to process mica ore from the Black Canyon Mica Project is near completion, with production expected to commence in September 2000. Start-up costs related to the project during the period from April 1, 2000 to June 30, 2000 have been expensed. During the period from April 1, 2000 to June 30, 2000, samples of the Company's mica products have been issued to potential customers for testing.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

#### **2 Significant accounting policies**

##### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries.

##### **Cash and cash equivalents**

The Company considers all liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost which approximates market value.

##### **Mineral properties, plant and equipment**

Mineral properties, plant and equipment are recorded at cost.

Depletion of mineral properties, plant and equipment and deferred reclamation costs are to be provided on the unit-of-production method, based on proven and probable ore reserves.

##### **Exploration properties**

The Company expenses prospecting and exploration costs and capitalizes costs directly attributable to the acquisition of mineral properties, pending determination as to their commercial feasibility (to contain a viable mineral deposit). Gains or losses resulting from the sale or abandonment of mineral properties are included in operations. Proceeds from sales of properties in which the Company has retained an economic interest are credited against property costs, and no gain is recognized until all costs have been fully recovered.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**Property evaluation**

Recoverability of investments in operating and non-operating properties is evaluated periodically. Estimated future net cash flows from each property are calculated using estimates of proven and probable ore reserves, estimated future prices (considering historical and current prices, price trends, and related factors), operating capital, and reclamation costs on an undiscounted basis. Where property costs are not recoverable reductions in the carrying value of each property are recorded to the extent the remaining investment exceeds the estimate of fair value. Changes in the geological and engineering interpretations of the Company's ore bodies, mica prices and operating costs may change the Company's estimate of proven and probable reserves. It is reasonably possible that the Company's estimate of proven and probable reserves will change in the near term resulting in additional charges for depreciation, amortization and reclamation in future reporting periods.

**Environmental and reclamation costs**

Estimated costs of decommission and reclamation associated with mineral properties, plant and equipment, as well as revised regulatory requirements, are accrued over the life of the mine through periodic charges to earnings using the unit-of-production method.

**Capital assets**

Land, buildings, furniture, equipment and vehicles are carried at cost. Replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed. Major renewals and improvements are capitalized. Upon retirement, sale or other disposition, the cost and accumulated amortization are eliminated from the accounts and the gain or loss is included in operations.

Buildings are amortized on a straight-line basis over their estimated useful lives. Furniture, equipment and vehicles are amortized over their estimated useful lives (3 - 5 years) using the straight-line method.

**Revenue recognition**

The Company recognizes the sale of mica on shipment of the goods from its premises.

**Inventories**

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs in bringing the inventory to its present location and condition. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for the cost of realization.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**Income taxes**

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Income taxes and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Stock-based compensation**

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123), which defines a fair value based method of accounting for employee (including directors) stock options. However, it also allows an entity to continue to account for these plans according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB No. 25), provided pro forma disclosures of net income and earnings per share are made as if the fair value based method of accounting defined by SFAS No. 123 has been applied. The Company has elected to continue to measure compensation expense related to employee stock options using APB No. 25. The fair value of options granted to non-employees is expensed as compensation when options are granted, and the corresponding amount is credited to stockholders' equity.

**3 Concentrations of credit risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company invests its cash and cash equivalents in high quality issuers. The Company, in the normal course of business, maintains cash balances in excess of the Federal Deposit Insurance Corporation's insurance limit. At June 30, 2000 and 1999, cash equivalents of \$4,200,000 and \$11,800,000, respectively, were invested with one bank's trust and institutional portfolio department.

**4 Restricted cash**

As part of the reclamation deposit for the Black Canyon Mica property, the Company has restricted cash of:

- a) \$50,000 held on deposit for the Arizona State Treasurer in a one-year automatically renewable short-term investment.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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- b) \$140,400 in an irrevocable letter of credit to the U.S. Bureau of Land Management which expires on October 25, 2002.

Both of the amounts will be held until all terms and conditions of the reclamation agreement have been fulfilled or a satisfactory replacement bond has been accepted.

**5 Inventories**

	\$
Broken ore	839,146
Work-in-process	123,033
Finished goods	38,599
	1,000,778

**6 Investment and advances**

**Investment**

On June 18, 1998, the Company entered into an agreement with Minera Cortez Resources Ltd. (Cortez), a public company which trades on the Canadian Venture Stock Exchange, whereby the Company was granted a right of first refusal for a period of five years to acquire all or any of the property interest that Cortez decides to either joint venture, option, or dispose of. In consideration, the Company subscribed for 200,000 common shares of Cortez at Cdn. \$0.25 per share. The Company was also granted a right of first refusal for the same period to provide up to 100% of any private or public equity or debt financing that Cortez proposes to obtain, on similar terms as any third party is willing to provide. In the year ended June 30, 1999, the Company purchased an additional 100,000 shares at Cdn. \$0.25 per share bringing the carrying value of the shares to \$50,588. The fair value of the shares at June 30, 2000 was \$50,588.

Effective on August 9, 1999, the Company entered into an "Agreement in Principle" (the AIP) with each of Thomas Ford and Calgem, Inc., a company wholly-owned by Mr. Ford, (collectively, Calgem), pursuant to which Calgem therein granted the Company an option to purchase all of the issued and outstanding shares of Calgem and/or business assets of Calgem. Calgem is a company that auctions coloured gemstones on television. In accordance with the terms and conditions of the AIP, as now expired, the Company had advanced, by way of a loan to Calgem (the loan), an aggregate of \$250,000. A senior fixed and floating charge on all of the assets of Calgem was to be pledged as collateral for the loan together with interest accruing thereon at a rate of 10% per annum. The Company wrote off the loan during the year ended June 30, 2000 because it had not been successful in contacting Calgem to discuss either repayment terms or the establishment of the security for the loan. The Company, in discussions with counsel, is currently considering its course of action against Calgem.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**Advances**

On May 22, 1998, the Company entered into an agreement to purchase a \$1,500,000 convertible debenture of Oro Argentina Limited (OAL) for the purpose of financing the first phase of the Chiqua White Bentonite Project and the option payments of OAL. OAL had an option to acquire a 50% interest in the Bentonite Project located in San Juan, Argentina, pursuant to an agreement dated February 2, 1998 between OAL and Pierre Martre. The debenture bears interest at 12% per annum and was due on September 1, 2000. On September 1, 1999, OAL defaulted on the interest payment due under the terms of the debenture agreement, and the Company decided to expense, in fiscal 1999, all costs related to this project, resulting in a charge to exploration expense of \$1,241,359. In January 2000, OAL voluntarily delivered to the Company all of its interest in Port Velmond S.A., which held all of OAL's interest in the Bentonite Project.

**7 Mineral properties, plant and equipment**

	2000 \$	1999 \$
Mineral properties	2,219,996	2,219,996
Mining and processing plant and equipment	4,669,266	2,075,508
Development costs	1,109,881	781,465
Accumulated amortization	(65,286)	-
	7,933,857	5,076,969

**Black Canyon Mica Project**

On March 10, 1999, the Company announced that it had acquired Arizona Mica Properties, Inc. (AMPI) through a merger with the Company's subsidiary, Sanchez Mining Inc. AMPI is the owner of the Black Canyon Mica Project, a source of high-quality mica and a pilot processing plant situated near Phoenix, Arizona.

The acquisition has been accounted for by the purchase method, and the results of AMPI have been reflected in the Company's results of operations from March 10, 1999. The Company issued to the principals of AMPI 4,500,000 shares of the Company's common stock (subject to certain trading and voting trust restrictions) with a value of \$2,289,388, in exchange for all the outstanding shares of AMPI. Details of the net assets acquired are as follows:

	\$
Net assets acquired	
Mineral properties	2,219,996
Development costs	112,392
Lease obligation	(43,000)
Deferred income tax liability	(754,800)
Recognition of deferred income tax asset	754,800
	2,289,388

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

The issuance of the Company's shares to acquire shares of AMPI is a non-cash investing and financing activity, and accordingly, the transaction is not reflected in the Consolidated Statement of Cash Flows.

**8 Capital assets**

	<b>2000</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	<b>\$</b>
Land and buildings	152,521	7,626	144,895
Furniture and equipment	139,809	85,647	54,162
Vehicles	81,146	32,478	48,668
	<u>373,476</u>	<u>125,751</u>	<u>247,725</u>
			<b>1999</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	<b>\$</b>
Furniture and equipment	74,502	57,863	16,639

**9 Exploration Properties**

**a) Piedras Verdes Project**

The Piedras Verdes Project is located in southern Sonora, Mexico. During the year ended June 30, 1996, the Company sold 70% of its interest in the Piedras Verdes Project to Phelps Dodge Corporation (Phelps Dodge).

Under the terms of the sales agreement with Phelps Dodge, all assets and commitments related to this project were transferred to a separate company incorporated as Cobre del Mayo, S.A. de C.V. (Cobre). The Company maintains a 30% interest and Phelps Dodge a 70% interest in Cobre. Under the terms of the Shareholders' and Operator's Agreement among Phelps Dodge, Cobre del Mayo, Inc., the Company, and Cobre, the Company committed to provide up to \$3,000,000 for costs required to bring the Piedras Verdes Project to the feasibility stage. As at June 30, 2000, the Company has advanced \$4,293,884 towards the project. The Company also committed to funding its 30% of expenditures incurred in the feasibility stage. The Company is expensing all costs related to the project.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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On March 4, 1997, Cobre entered into a mining exploration and exploitation agreement with Compania Minera Serrana, S.A. de C.V. This agreement superseded the pre-existing lease. Under the terms of this agreement, Cobre has the following commitments to be funded 70% by Phelps Dodge and 30% by the Company:

- i) \$10,000 per month from the execution of the agreement until production begins;
- ii) three payments of \$299,035 due on the date of execution and on the first and second anniversaries of the date of execution;
- iii) royalties equal to 3% of the net value of mineral production; and
- iv) advance royalties of \$1,000,000 on the third through fifth anniversaries of the date of execution, and \$1,500,000 on the sixth through eleventh anniversaries if commercial production is not met by those anniversary dates, provided the average copper price is above \$0.90 per pound for eight of the previous 12 months, otherwise the advanced royalty is reduced by 75%.

In the year ended June 30, 2000, Cobre made advanced royalty payments of \$250,000. These amounts are not recoverable if Cobre does not proceed with the project.

Following the results of a pre-feasibility study carried out by Phelps Dodge and announced in November 1998, Phelps Dodge has approved and initiated a \$3,600,000 work budget advancing the project towards a bankable feasibility. Under the terms of the agreement, the Company is responsible for funding 30% of this work.

**b) Suaqui Verde Project**

On June 20, 1996, the Company entered into a Mineral Exploration and Option to Form Company Agreement with Minera Phelps Dodge Mexico (MPDM) for the mineral exploration and evaluation of the Suaqui Verde mineral concessions in Sonora, Mexico. Under the terms of the agreement, MPDM could earn a 70% interest in the concessions by incurring exploration expenditures of \$2,000,000 on the project over three years, funding the completion of a comprehensive feasibility study, and paying the Company \$25,000 annually.

During the year ended June 30, 1998, MPDM terminated the option agreement with the Company.

On July 17, 1999, the Company decided to terminate the agreement with the property owners and made the final payment due under the agreement. The Company paid the mineral duties on the concessions until December 31, 1999.

**Azco Mining Inc. (Delaware)**  
Notes to Consolidated Financial Statements  
June 30, 2000, 1999 and 1998

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**c) La Adelita Property**

On July 21, 1998, the Company entered into an option agreement with Cortez whereby the Company was granted an option to earn up to 70% interest in the La Adelita property in Sonora, Mexico under the following terms:

- i) by subscribing to 100,000 common shares of Cortez at Cdn. \$0.25 per share;
- ii) by making option payments and paying finder's fees on behalf of Cortez totalling \$165,000 over the next five years; and
- iii) by incurring exploration expenditures on the property totalling \$500,000 over the next three years.

During the year ended June 30, 1999, the Company has expended \$228,256 on the La Adelita property, thus completing its first year's commitment to the property.

On June 10, 1999, the Company acquired 100% interest in the Silverado property, which surrounds the La Adelita property, from Cortez for \$20,000 and 30,000 of the Company's shares.

On July 10, 2000, the Company notified Cortez that it had elected to terminate the option agreement.

**d) Mali Project**

On May 9, 1996, the Company entered into a Memorandum of Agreement with West African Gold and Exploration, Ltd. (WAG); a British Virgin Islands company, Eagle River International Limited (Eagle River), a Vanuatu corporation; and Lion Mining Finance Limited (Lion Mining), a United Kingdom corporation. Eagle River has purchased properties in Mali, Africa from Guefest, a Russian mining consortium. Under the terms of this agreement, the properties were transferred to West African Gold (Mali) Inc. (WAG (Mali)) on July 7, 1997. Shares in this corporation have been transferred to Chaplin Holding Ltd., a Bahamian company, which has changed its name to Sanou Mining Corporation (Sanou). The Company currently holds a 100% interest in Sanou.

On May 17, 1996, under the terms of the above agreement, the Company issued an irrevocable standby letter of credit in the amount of \$1,000,000 to guarantee the development of certain mineral concessions in Mali. The Company, on behalf of Eagle River, Lion Mining, and WAG, had guaranteed \$1,000,000 of development by May 15, 1997 to keep the properties in good standing. During the year ended June 30, 1997, the Company funded \$4,052,316 for operating costs on the Mali Project, which exceeds the required expenditures. The operating costs are included in exploration costs in the accompanying Consolidated Statement of Loss.

**Azco Mining Inc. (Delaware)**  
Notes to Consolidated Financial Statements  
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On September 3, 1997, the Company served notice to Eagle River that it was declaring default of the Mali agreement as the work commitment for the licence on the Mali Project was unacceptable. Under the terms of the agreement, Eagle River and Lion Mining have to repay all advances made by the Company towards the Mali Project. These advances were collateralized by promissory notes from Eagle River and debentures from Societe Olifer de Falome (SOF) and WAG (Mali) in the amount of \$4,000,000. The Company is in the process of foreclosure on these securities and, as a consequence, takes the position that it is the 100% owner of the mining concessions through its subsidiaries WAG and Sanou and will pursue Eagle River and SOF for any value shortfall.

On November 18, 1997, the Company entered into an agreement with Lion Mining forming a joint venture called the Kingfisher Venture created to pursue profitable exploitation of mineral opportunities located by Lion Mining. Pursuant to the terms of the agreement, Lion Mining will seek and make available to the venture mineral opportunities coming to them in which they are capable of participating, and the Company has the right of first refusal on these opportunities. The term of the venture is the longer of three years or the payout of the Negative Balance plus six months, expiring on December 31, 2010. The Negative Balance is equal to the total expenditures related to the Mali agreement less all recoveries. Lion Mining has also assigned to the Company all its rights and interests in the Mali agreement and has agreed to cooperate fully with the Company in pursuit of any remedies against Eagle River. The Company has released and discharged Lion Mining of all suits, debts, and claims related to the Mali agreement. The Company plans to foreclose on the promissory notes of Eagle River.

On December 18, 1997, WAG (Mali) was granted a renewable exploration agreement on the Mali Project by the Mali Ministry of Mines and Energy. The agreement ran through December 1998 and has a work commitment of \$3,360,000 assigned to it. As of June 30, 1998, this work commitment had been fulfilled.

On April 6, 1998, the Company entered into an agreement with Lines Overseas Management Ltd. (Lines). Under the terms of the Mali agreement, Lines had originally advanced \$500,000 and 125,000 shares of the Company owned by it to Eagle River for payments to Guefest and other parties. The Company agreed to issue 375,000 of its shares to Lines in consideration for assigning and quitclaiming to the Company all advances and shares and any other benefit or claim of Lines related to the Mali agreement. These shares were issued on September 17, 1998.

On January 22, 1999, the trustee (Petitioner) in bankruptcy proceedings against Eagle River served a petition, in the Quebec Superior Court, District of Hull, upon the Company in order to recuperate assets from the Company (see note 14).

On March 31, 1999, the Company announced that it had entered into a joint venture with Randgold Resources Ltd. (Randgold) whereby Randgold acquired the right to earn up to 75% of the Company's interest. To earn this consideration, Randgold has agreed, over the next 36 months, to conduct exploration on the WAG concessions at a minimum cost of \$2,000,000, with the aim of establishing whether there is a viable economic gold resource, as defined in the agreement, of at least one million ounces. Thereafter Randgold shall prepare a Bankable Feasibility Study on any such resource for WAG within a further 12 months in order to earn its interest therein.

The Company realized a gain on sale of assets of \$277,500 in conjunction with the agreement with Randgold when the exploration camp assets were sold.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**e) Benitoite Project**

On December 1, 1997, the Company entered into an agreement whereby it was granted an option to purchase the Benitoite mineral property in San Benito County, California for a purchase price of \$1,500,000. The Company could exercise the option on or before February 1, 1999. Pursuant to the terms of the agreement, the Company made a non-refundable payment of \$20,000 to the property owners.

On March 18, 1999, the Company made an additional payment of \$20,000 to extend the option to January 1, 2000.

On January 1, 2000, the Company's option to acquire the Benitoite gem mine in San Benito County, California expired. The Company has no intention to pursue the acquisition of the property any further.

**10 Stock options**

The Company has elected to follow APB No. 25 and related interpretations in accounting for its stock-based employee compensation arrangements. Under APB No. 25, as the exercise price of the Company's stock options is equal or less than the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company has a Stock Option Plan (the Plan) dated July 24, 1989, as amended, for the granting of options to purchase common stock. The board of directors may grant options to key personnel and others as it deems appropriate provided the number of options does not exceed 5,950,424. There are no vesting requirements under the Plan. The options are exercisable over a maximum term of five years.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock option plan under the fair value based method of SFAS No. 123. The fair value of these options was estimated at the date of grant using a Black-Scholes options valuation model with the following weighted-average assumptions for fiscal 2000: risk-free interest rate from 6.01% to 6.69%, no dividend, volatility factor of the expected market price of the Company's common stock of 0.62, and an expected life ranging from two to five years.

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options that have no vesting or trading restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company's employee stock options have characteristics significantly different from those of traded options. Changes in the subjective assumptions can materially affect the fair value estimate.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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For the purposes of pro forma disclosure, the estimated fair value of the options of \$34,870 (1999 - \$303,580; 1998 - \$59,141) is expensed when the options are granted as the options are fully vested when granted. Additional fair value of the options of \$nil (1999 - \$269,760; 1998 - \$nil) was expensed when certain options were repriced during the year. The Company's pro forma information for fiscal 2000, 1999 and 1998 is as follows:

	2000 \$	1999 \$	1998 \$
Pro forma net loss	(3,934,356)	(4,831,586)	(3,103,253)
Pro forma basic loss per share	(0.13)	(0.18)	(0.12)
Pro forma diluted loss	(0.13)	(0.18)	(0.12)

The estimated fair value of options granted to non-employees of \$201,900 (1999 - \$186,600; 1998 - \$119,230) has been credited to paid-in capital and shown as a charge to salaries in the Consolidated Statement of Loss.

Plan activity for the years ended June 30, 2000, 1999 and 1998 was as follows:

	Number of shares	Weighted average exercise price Cdn. \$
Balance - outstanding at June 30, 1997	2,264,572	2.06
Granted	252,000	1.71
Cancelled	(297,500)	2.17
Exercised	<u>(59,572)</u>	1.30
Balance - outstanding at June 30, 1998	2,159,500	2.03
Granted	1,580,000	1.09
Cancelled	(175,000)	2.11
Exercised	<u>(50,000)</u>	1.05
Balance - outstanding at June 30, 1999	3,514,500	1.32
Granted	390,000	1.46
Cancelled	(300,000)	2.12
Exercised	<u>(55,000)</u>	1.02
Balance - outstanding at June 30, 2000	<u>3,549,500</u>	1.28

At June 30, 2000 and 1999, 838,424 and 928,424 shares of common stock, respectively, were reserved for future grants of options.

Of the 3,549,500 stock options outstanding at June 30, 2000, 2,105,000 stock options were issued to directors, employees or key advisors of the Company.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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Stock options exercisable at June 30, 2000 include the following:

Price range of options	Number of shares	Weighted average exercise price Cdn. \$	Weighted average remaining life
Cdn. \$0.70 to Cdn. \$1.05	2,315,000	0.96	44 months
U.S. \$1.00 to Cdn. \$1.80	691,500	1.63	17 months
U.S. \$1.25 to U.S. \$1.75	443,000	2.08	9 months
Cdn. \$2.65 to U.S. \$3.00	100,000	2.65	20 months
	<u>3,549,500</u>		

**11 Income taxes**

The income tax benefit is as follows:

	2000 \$	1999 \$	1998 \$
Current			
Federal	-	4,186	2,109,237
State	-	-	-
Total tax benefit	<u>-</u>	<u>4,186</u>	<u>2,109,237</u>

The income tax benefit differs from the amount computed by applying the U.S. federal income tax rate to net income before income taxes, as shown:

	2000 \$	1999 \$	1998 \$
Tax benefit at the federal statutory rate	1,325,825	1,524,583	1,803,678
State tax	194,974	403,566	257,668
Change in valuation allowance	(1,471,093)	(1,133,208)	162,463
Deferred tax asset recognized	(77,700)	(754,800)	-
Other	27,994	(35,955)	(114,572)
Tax benefit	<u>-</u>	<u>4,186</u>	<u>2,109,237</u>

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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The components of the deferred tax asset and deferred tax liability at June 30, 2000 and 1999 are as follows:

	2000	1999
	\$	\$
Deferred tax asset		
Federal net operating loss carryforward	1,875,540	844,060
State net operating loss carryforward	984,400	819,000
Foreign mineral properties	1,943,300	1,772,080
Inventories	164,970	-
Other	43,583	27,860
Valuation allowance	(4,179,293)	(2,708,200)
Net deferred tax asset	832,500	754,800
Deferred tax liability		
Mineral properties, plant and equipment	(832,500)	(754,800)
	-	-

At June 30, 2000, the Company had net operating loss carryforwards for Arizona income tax purposes of approximately \$12.2 million (1999 - \$9.1 million). These losses expire in the amount of \$5.3 million on June 30, 2002, \$2.3 million on June 30, 2003, \$1.5 million on June 30, 2004 and \$3.1 million on June 30, 2005.

At June 30, 2000, the Company had net operating loss carryforward for federal income tax purposes of approximately \$5.6 million (1999 - \$2.5 million). These losses expire between June 30, 2019 and June 30, 2020.

## 12 Earnings (loss) per share

Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding. Diluted EPS reflects potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following is the reconciliation of EPS for fiscal 2000, 1999 and 1998:

	2000	1999	1998
Loss applicable to basic and diluted loss per share	\$ (3,899,486)	\$ (4,528,006)	\$ (3,044,112)
Weighted average number of common shares assuming no dilution	29,846,839	26,787,226	25,646,449
Weighted average common shares applicable to income per common share	29,846,839	26,787,226	25,646,449
Weighted average number of common shares assuming full dilution	29,846,839	26,787,226	25,646,449
Basic loss per common share	\$ (0.13)	\$ (0.17)	\$ (0.12)
Diluted loss per common share	\$ (0.13)	\$ (0.17)	\$ (0.12)

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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Stock options that are anti-dilutive have not been included in the computation of diluted loss per common share.

**13 Segmental information**

The Company has one operating sector, mica production and the exploration and development of mineral properties and geographical segments information is as follows:

	USA \$	Other \$	Total \$
June 30, 2000			
Property and equipment	8,127,420	54,162	8,181,582
June 30, 1999			
Property and equipment	5,076,969	16,639	5,093,608

**14 Contingencies and commitments**

**Eagle River International Ltd.**

**Litigation**

On January 22, 1999, the trustee (Petitioner) in bankruptcy proceedings against Eagle River served a petition, in the Quebec Superior Court, District of Hull, upon the Company in order to recuperate assets from the Company (see note 9(d)). It is the understanding of the Company and its Canadian legal counsel that the Petitioner alleges that, through the Company's involvement with Eagle River in the Mali Project, the Company is guilty of contractual breaches in excess of \$3,400,000. In management's opinion this claim is unfounded; although, the eventual outcome of the case is not yet determinable.

**Copper Purchase Agreement**

The Company had formerly entered into a Copper Purchase Agreement relating to the copper output of the Sanchez Project. After sale of the Sanchez Project, the Company was informed that it was in alleged violation of this agreement. A lawsuit was filed against the Company by AIOC Corporation (AIOC). The Company agreed to binding arbitration with AIOC and received a dismissal of the lawsuit on February 8, 1996, under terms of the Stipulation and Order of Compromise and Dismissal.

Under the terms of the Company's Stipulation and Order of Compromise and Dismissal with AIOC, the Company placed \$4,000,000 into escrow to satisfy any award in the arbitration. During the year ended June 30, 1998, the Company settled the dispute and paid \$400,000 to AIOC. This amount has been recorded as a legal settlement cost.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**Employment agreements**

The Company has entered into agreements with four officers and three directors. The agreements provide that if there is a change in control of the Company and the officer leaves the employment of the Company, for whatever reason (other than discharge for cause, death, or disability) within six months after such acquisition of control, the officer shall receive a lump sum cash payment pursuant to certain limitations of the Internal Revenue Code. In addition, the officers will continue to be covered by all of the Company's medical, health, life, and dental plans for 24 months after such change of control. The directors shall receive a lump sum cash payment in the amount not to exceed \$100,000.

In addition, the Company has entered into separate management agreements with its President and its Executive Vice-President. These agreements were effective February 1, 1998 for a term of 36 months, and provide that in the event of termination or failure to renew, the officer will receive a termination fee equal to the sum of:

- a) buy-out of any outstanding stock options at the average market price of the Company's shares and less the exercise price, or at the officer's election and subject to regulatory approval, extension of the option for a year after termination
- b) greater of the aggregate remaining base fee for the unexpired remainder of the term, or an annual base fee plus one month of base fee for each year of service after the effective date of the agreement.

During the year ended June 30, 2000, the Company paid \$490,200 (1999 - \$403,500) in management fees to companies controlled by directors. This amount has been recorded as salaries expense.

**Lease commitments**

The Company is obligated under long-term operating leases for its office space in Vancouver, British Columbia and for mining equipment. The aggregate annual commitments under the leases are as follows:

	\$
2001	201,210
2002	193,719
2003	93,502
2004	55,311
2005	-
	<hr/>
	543,742
	<hr/>

Rental expense for the Company's office space, net of sublease income, for the years ended June 30, 2000, 1999 and 1998 was \$78,697, \$60,732 and \$60,514, respectively.

**15 Fair value of financial instruments**

The carrying amounts of cash and cash equivalents and restricted cash approximated fair values as of June 30, 2000 and 1999 because of the relatively short maturity of these instruments.

**Azco Mining Inc. (Delaware)**  
**Notes to Consolidated Financial Statements**  
**June 30, 2000, 1999 and 1998**

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**16 Fourth quarter charges**

During the fourth quarter of fiscal 2000, the Company recorded a compensation expense of \$201,900 relating to the accounting for stock options granted to non-employees under SFAS No. 123 in the third quarter of fiscal 2000. In addition, the Company wrote down inventory by \$424,287 to its expected recoverable value, which was charged to production start-up costs.

**17 New pronouncements**

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company is currently assessing the impact of this statement for fiscal years beginning after June 15, 2000.

**Azco Mining Inc. (Delaware)**  
**Schedule II - Valuation and Qualifying Accounts**  
**For the years ended June 30, 2000, 1999 and 1998**

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Col. A	Col. B	Col. C	Col. D	Col. E
Descriptions	Balance at beginning of year \$	Additions \$	Deductions \$	Balance at end of year \$
Valuation allowance for deferred tax asset <sup>(1)</sup>				
June 30, 2000	2,708,200	1,548,793	77,700	4,179,293
June 30, 1999	1,574,992	1,888,008	754,800	2,708,200
June 30, 1998	1,737,455	-	162,463	1,574,992

<sup>(1)</sup> For further information, refer to note 11, Income Taxes, in the Notes to the Consolidated Financial Statements included in Form 10-K.



NOT SKANNED

Mica Mule file

**OFFICIAL STATEMENT**

**NEW ISSUE**

*In the opinion of Bond Counsel, interest on the Bonds is exempt from all present Federal income taxes, except when held by a substantial user of the Project or related persons, and from State of Arizona personal income taxes, all as set forth in the Official Statement.*

**\$1,200,000**

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY  
OF YAVAPAI  
INDUSTRIAL DEVELOPMENT REVENUE BONDS  
(MUSCOVITE MICA PROJECT)**

**Issue of 1978**

Dated: March 1, 1978

Due September 1, as shown below

Interest will be payable semiannually on March 1 and September 1, beginning September 1, 1978. Principal and interest will be payable at the principal office of the Trustee, California First Bank, San Diego, California, or at the office of a duly appointed successor Trustee. The Bonds are to be issued as coupon bonds in the denomination of \$1,000 each.

**MATURITY SCHEDULE**

**All Bonds Offered @ 106**

<u>Year of Maturity September 1</u>	<u>Amount</u>	<u>Coupon %</u>	<u>Year of Maturity September 1</u>	<u>Amount</u>	<u>Coupon %</u>
1980.....	\$ 35,000	8.875	1988.....	\$ 75,000	8.875
1981.....	40,000	8.875	1989.....	80,000	8.875
1982.....	45,000	8.875	1990.....	85,000	8.875
1983.....	50,000	8.875	1991.....	95,000	8.875
1984.....	50,000	8.875	1992.....	105,000	8.875
1985.....	55,000	8.875	1993.....	110,000	8.875
1986.....	60,000	8.875	1994.....	120,000	8.875
1987.....	65,000	8.875	1995.....	130,000	8.875

The Bonds are subject to redemption prior to maturity as described under "Optional Redemption of Bonds Prior to Maturity" and "Extraordinary Redemption of Bonds Prior to Maturity."

The Bonds are limited obligations of the Authority and are being issued under an Indenture of Trust and Pledge, dated as of March 1, 1978, by and between the Authority and California First Bank, San Diego, California, as Trustee (the "Indenture"). The Bonds are payable solely from revenues derived or resulting from a Loan Agreement between the Authority and G. M. S. Company, Inc., dated as of March 1, 1978 (the "Loan Agreement"). The Bonds are secured by a security interest in the personal property comprising the Project. See "Security for the Bonds."

*The Bonds are being offered, subject to prior sales and withdrawal of such offer without notice, when, as and if issued by the Authority, subject to the receipt of the approving legal opinion of Richards, Watson, Dreyfuss & Gershon, Bond Counsel, Los Angeles, California, and certain other conditions. It is expected that the Bonds in definitive form will be available for delivery on or about June 1, 1978, in Phoenix, Arizona.*

**The date of this Official Statement is March 1, 1978.**

**UNDERWRITER**  
**PHIL YOUNG SECURITIES, INC.**  
**301 West Indian School Road**  
**Phoenix, Arizona 602-263-8311**

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY STATE TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH STATE. EXCEPT WHERE OTHERWISE INDICATED, THIS OFFICIAL STATEMENT SPEAKS AS OF THE DATE HEREOF. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CORPORATION SINCE THE DATE HEREOF.

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THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(a)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY  
OF THE COUNTY OF YAVAPAI**

Yavapai County Courthouse  
Prescott, Arizona 86301

To Whom It May Concern:

The purpose of this Official Statement is to furnish information regarding \$1,200,000 principal amount of The Industrial Development Authority of the County of Yavapai, Industrial Development Revenue Bonds (Muscovite Mica Project), Issue of 1978 to be issued by The Industrial Development Authority of the County of Yavapai, Arizona, to assist in financing certain facilities to be owned by G. M. S. Company, Inc.

The material contained in this Official Statement was prepared by G. M. S. Company, Inc., for the information of all who might become holders of the Bonds described herein.

All of the following summaries of the Loan Agreement, the Indenture, the Note, and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith. The covenants of the Authority are fully set forth in the Indenture and the Loan Agreement, and this Official Statement does not constitute a contract with the purchasers of the Bonds. Any statements herein involving matters of opinion or estimates, whether or not so designated, are to be construed as provisional rather than factual.

All legal matters incident to the authorization, issuance and sale of the Bonds by the Authority are subject to the approval of the Bond Counsel firm of Richards, Watson, Dreyfuss & Gershon, Los Angeles, California.

The execution and delivery of this Official Statement have been authorized by the Authority.

H. W. SMITH

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Vice President

The Industrial Development Authority of the  
County of Yavapai

## OFFICIAL STATEMENT

**\$1,200,000**

### **THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YAVAPAI INDUSTRIAL DEVELOPMENT REVENUE BONDS (MUSCOVITE MICA PROJECT)**

**ISSUE OF 1978**

#### **INTRODUCTORY STATEMENT**

The Industrial Development Authority of the County of Yavapai, Arizona (the "Authority") is issuing its Industrial Development Revenue Bonds (Muscovite Mica Project), Issue of 1978, in the aggregate principal amount of \$1,200,000 (the "Bonds"), pursuant to an Indenture of Trust and Pledge, dated as of March 1, 1978, by and between the Authority and California First Bank, San Diego, California (the "Trustee").

Prior to the issuance of the Bonds, the Authority will enter into a Loan Agreement, dated as of March 1, 1978 (the "Loan Agreement") with G. M. S. Company, Inc., a corporation duly organized and existing under the laws of the State of Nevada (the "Corporation"), and in good standing and authorized to transact business in the State of Arizona as a foreign corporation. The Authority is obligated, pursuant to the Loan Agreement, to lend the Bond proceeds to the Corporation for the purpose of financing the costs of acquisition, construction, and equipping a facility for the processing, milling, distribution and sale of mica and other minerals (the "Project"). See "The Project".

As evidence of such loan, the Corporation is obligated, pursuant to the Loan Agreement, to execute and deliver to the Authority its promissory note, dated as of March 1, 1978 (the "Note"), in the principal amount of \$1,200,000, maturing in installments of principal in such amounts, on such dates and bearing interest from its date at such rate per annum payable on such dates as will provide the Authority with revenues sufficient to pay when due the principal of, premium, if any, and interest on the Bonds.

The obligations of the Corporation pursuant to the Loan Agreement are additionally secured by a security interest in the personal property comprising the Project. See "Security for the Bonds".

The Bonds will be issued pursuant to and in full compliance with the Constitution and laws of the State of Arizona, particularly, *Chapter 11 of Title 9, consisting of Articles 1 to 5, inclusive, of the Arizona Revised Statutes, added by laws 1968, Chapter 204, Section 2, as from time to time amended*, and resolutions of The Industrial Development Authority of the County of Yavapai and the Board of Supervisors of the County of Yavapai.

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE REVENUES DERIVED OR RESULTING FROM THE LOAN AGREEMENT AND THE NOTE. THE BONDS AND ANY INTEREST COUPONS APPERTAINING THERETO SHALL NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE AUTHORITY OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.**

The Note and all of the Authority's right, title, and interest in and to the Loan Agreement with respect to the Loan will be pledged and assigned to the Trustee under the Indenture as security for the payment of the Bonds.

Brief descriptions of the Project, the Bonds, the Corporation, the Authority, the Loan Agreement, the Indenture and the Note are included in this Official Statement. All references herein to the Loan Agreement, the Note, the Indenture and the Security Agreement are qualified in their entirety by reference to the information with respect thereto included in the aforesaid documents, all of which are available for inspection in the offices of Phil Young Securities, Inc. (the "Underwriter"). References herein to the Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture and the information with respect thereto in the aforesaid documents. All capitalized terms used in this Official Statement which are not herein defined are defined in the Loan Agreement or the Indenture. All information included herein regarding the Corporation, its properties, operations, and financial position and the Project has been furnished by the Corporation in connection with this offering.

The Loan Agreement, the Note, the Indenture, and the Security Agreement will be entered into and the legal opinions referred to herein will be delivered on the closing date.

### **THE PROJECT**

The proceeds of the Bonds will be used to pay costs of acquisition, construction, and equipping of a facility for the processing, milling, distribution and sale of muscovite mica and other minerals.

The Corporation will develop as Lessee a surface mining operation on certain unpatented mining claims situated in Yavapai County, Arizona, and a mill operation on an unpatented mill claim situated in Maricopa County, Arizona, approximately five miles from the site of the mining claims. Both the mine site claims and the mill site claim are owned by Harrison Mining and Exploration, Inc., Phoenix, Arizona, and leased to the Corporation pursuant to a Lease dated as of October 10, 1977. The Lease is for a period of ten (10) years, beginning October 10, 1977, renewable at the option of the Corporation, for the economic life period of the mine claims, and provides for rental payments by the Corporation equal to twelve percent (12%) of the gross sales proceeds from the sale of all mica f.o.b. the mine or mill site. The mine site consists of forty-eight (48) contiguous unpatented lode mining claims located on Federal land and administered by the U. S. Bureau of Land Management. Both the mill site and the mine site are herein collectively referred to as the "Site".

The proceeds of the Bonds will be used for Site improvements, for the improvement of existing roads leading to the Site, but located on Federal land in which the Corporation has no interest, leasehold or otherwise, for the acquisition of the equipment necessary in the processing and milling of mica, and to pay the costs of acquiring, installing, constructing, and preparing the Project for operation.

#### **Site Location**

The Mica Mule Mining claims to be developed by the Corporation as Lessee, which constitute the mine site, are located in the County of Yavapai, approximately two and one-half (2½) miles due west of Rock Springs and Black Canyon City, Arizona, in the Tip Top mining district.

The mine site is currently accessible by any durable vehicle, except during the rainy season when 4-wheel drive is required. The present access road into the mine area connects with Interstate 17 at the Table Mesa Interchange, 22 miles north of Phoenix. A county maintained road connects the Table Mesa Interchange with the Agua Fria River at Gillette, 5.6 miles distant. It is an additional 8.6 miles from the Agua Fria River to the southern boundary of the Mica Mule Mining Claims along the existing Tip Top Road. However, with the completion of the Project, this distance is expected to be shortened by 3 miles.

The claims area is situated in the foothills of the Bradshaw Mountains in gently rolling terrain. Several drainage channels present the only minor topographic obstacles to development of the Mica Mule Mining claims. This portion of the Bradshaw Range is a semi-arid desert which receives some 12 to 14 inches of rainfall annually. Periodic flooding could hinder access to the mine site for brief

periods during some months of the year. Such rainfall should be sufficient to charge a small reservoir to provide water for the mine site. In addition, springs exist that could be developed to provide a steady water flow.

### **Property and Legal Status**

The Mica Mule Mining claim block consists of forty-eight (48) contiguous unpatented lode mining claims located on Federal land administered by U. S. Bureau of Land Management. The claim block is rectangular in outline, eight (8) claims across and six (6) claims long, covering in excess of 960 acres. Each claim is 600 feet wide and 1500 feet long with extra lateral rights. The claims are in good standing and held by virtue of annual assessment work as specified by Arizona mining law. The Corporation has leased the claims from the owner, Harrison Mining and Exploration Company, Inc., pursuant to the terms of a Lease dated as of October 10, 1977, for a period of ten (10) years, renewable at the option of the Corporation for the economic life period of the mine claims.

### **History**

During the late 1960's and early 1970's the Mica Mule Mining claims were staked by Herman Harrison and Associates of Phoenix, Arizona. In 1971 the Harrison Mining and Exploration Company, Inc. ("Harrison Corporation") was incorporated under the laws of the State of Arizona. The forty-eight (48) Mica Mule Mining claims were then assigned to Harrison Corporation. Following assignment, a program of sampling and trenching was undertaken by Harrison Corporation and an extensive road network was established to provide needed access. As a result of this exploratory effort it was concluded that a large body of high quality muscovite mica of sufficient size to support a moderate mining and milling operation existed on the property. At that time, Harrison Corporation management made plans to establish a mine and mica mill to process the high grade muscovite mica and undertook a series of feasibility studies to establish the optimum mining and milling rate to provide the greatest economic return.

A feasibility on mill size, milling flowsheet, milling characteristics of the mica, and general milling economics was completed by P. S. Hoyt, consulting mining geologist and economist, Phoenix, Arizona, in June 1972. Hoyt concluded that the Mica Mule Mining claims muscovite would produce a scrap mica product "of superlative quality as to white color, brightness and inherent sheen and brilliance." See Appendix 1 for complete text of Hoyt's report.

### **Ore Reserves**

A total ore reserve analysis and projection of the total on all forty-eight (48) claims projects a maximum tonnage ranging between six million tons at fifty (50) foot depth and sixty-one million tons at five hundred (500) foot depth. Assumptions for this Project have been based upon a one hundred (100) foot mining face in an area called the "north pit" which projects tonnage reserves for four hundred fifty thousand tons or adequate to supply thirty-six thousand tons per year for the planned ten year mining program. If at that time or prior to that time the market supports additional tonnage, further feasibility and expansion can be initiated. Attached as Appendix 2 is "A Feasibility Report on the Geology, Mining, Milling and Marketing of Ground Mica Products from Pegmatite Deposits of Yavapai County, Arizona, prepared by Joe Wilkins, Geologist-Geophysicist, in April, 1973. See Appendix 2 for method of calculation and complete text of Wilkins' report.

Quartz and feldspar are by-products of the crushing and screening operation to separate the mica. These products may also be marketable by the Corporation, however, the financial projections are limited to the recovery of mica.

### **Market, Usage and Applications**

The principal use of scrap mica is the production of ground mica. The ground mica in various mesh screen sizes, is used extensively as a filler and surface coating for roofing materials, roll roofing

and asphalt shingles, as a filler in wall board and joint cements, and as an ingredient in paints, drilling muds, plastics, pipe line enamels, welding rods, tires and other rubber products, well drilling muds, and moulded electrical insulation.

There currently is no production source of mica in the western United States and since the current sources of mica for industry in the western United States is the eastern United States, the Project would enjoy an estimated sixty (60) to seventy (70) dollar/ton advantage on freight rates in addition to providing a product of higher quality than is currently available. It is anticipated that the mica from the Project would sell in the neighborhood of \$120.00 to \$150.00 per ton f.o.b. plant site, and based upon reviews of potential market, 3,000 tons per month capacity is projected.

### Estimated Planning and Construction

Based upon the projected schedule for construction and plant and equipment acquisition time, the Project could be operational at the end of six (6) months after funds are available. The monthly breakdown expenses necessary to bring the Project into operation are estimated to be as follows:

First Month.....	\$238,000.00*
Second Month.....	159,100.00
Third Month.....	128,100.00
Fourth Month.....	202,300.00
Fifth Month.....	102,400.00
Sixth Month.....	134,600.00**
	<u>\$964,500.00***</u>

\* Does not include one year's funded interest from Bond proceeds in the amount of \$106,500 and fees relating to the issuance of the Bonds in the amount of \$108,000.00 and allowance for bond discount in the amount of \$132,000.00.

\*\* Does not include September 1, 1978, interest payment on the Bonds.

\*\*\* Approximately \$853,500 of this total will be obtained from Bond proceeds.

The Corporation anticipates initial sales at the end of the seventh month following initiation of construction.

Cost estimates, projected cash flow and net return have been discounted from 3,000 tons per month to 1,500 tons per month and again discounted on a ten month year which reflects an 83% overall plant efficiency. The initial plant investment prior to start up has been depreciated over ten years on the assumption that the escalation of operation cost would be absorbed by escalation on the net sale price of the finished product, and this assumption reflects a 20% return on investment. On the basis of 3,000 ton design capacity and a ten month year as indicated above, the return on projected investment is indicated to be as high as 80%. These figures do not take into account royalties on the maximum and the minimum calculations. The royalty consideration would effect the net return by as much as 25% using maximum calculations and 10% using the minimum calculations.

### The Developer

The developer, G. M. S. Company, Inc., is a Nevada Corporation and has carried on residential construction activities and equipment management business in the State of Arizona for the past three years, and its principals have twenty-five years of practical experience in the heavy construction industry as related to this activity and the proposed production and marketing of materials of a similar nature.

The initial activity of the Corporation was the shipping, overhaul and disposition of plant and equipment shipped from the Nambe Falls Dam near Santa Fe, New Mexico, and belonging to G. M.

Shupe, Inc. This activity required six months of major overhaul and disposition of approximately \$1,000,000 in equipment and was completed in early 1976.

The Corporation then acquired real estate in Paradise Valley, Arizona, and constructed two large single family homes having a sales value of approximately \$750,000. Both of these properties have been disposed of. Plans for two additional single family homes with a sales price of \$400,000 each are underway.

The Corporation is also currently involved in a joint venture known as Wasatch Energy Company with a mining group affiliated with the University of Utah. The joint venture has an interest in two large coal properties in central Utah, but involves no capital outlay on the part of the Corporation. The Corporation has a fifty percent (50%) interest in the joint venture.

The Corporation also holds an investment interest in certain real property to be developed as recreational vehicle parks.

The Corporation also currently provides fee type consulting services to a group of attorneys in Boise, Idaho, who represent fifty (50) insurance companies involved in major losses on the Teton Dam failure near Idaho Falls, Idaho.

**Employment**

During the initial plant construction and startup period of six months, it is expected that employment will reach a peak of fifty with a daily employment after nine months of twenty. Yearly peaks during quarry operation are expected to require thirty-nine employees for a three month period.

Total annual revenue from the Project is expected to range between \$1.5 million and \$3.0 million at current prices.

**Estimated Use of Proceeds**

Proceeds from the sale of the Bonds will be used approximately as follows:

Primary and secondary crushing and screening plant, pulverizer plant, other site facilities and equipment.....	473,000
Improvements to roads and bridges, site preparation, expenses in connection with construction, acquisition, and installation of Project.....	380,500
Funded Interest (one year).....	106,500
Costs of Issuance (including Financial Consulting, Legal, Bond Printing, Trustee Fees, and miscellaneous costs of issuance).....	108,000
Subtotal.....	<u>\$1,068,000</u>
Underwriting Discount (11%).....	<u>132,000</u>
TOTAL.....	<u>\$1,200,000</u>

**Construction**

Construction on the facility is expected to commence on June 1, 1978. The estimated date for completion of construction is December 1, 1978. The Corporation will handle construction, acquisition, installation, and operation of the Project.

**THE AUTHORITY**

The Authority is a political subdivision and a public corporation duly organized and existing under the laws of the State of Arizona and located in Yavapai County, Arizona (the "County"). An application for permission to incorporate the Authority was filed with the Clerk of the Board of Super-

visors of the County on February 22, 1977. On March 14, 1977, the Board of Supervisors of the County adopted a Resolution, authorizing the incorporation of the Authority. The Authority was incorporated on April 26, 1977.

The Authority is authorized under the provisions of the Constitution and laws of the State of Arizona, including particularly Chapter 11 of Title 9, consisting of Articles 1 to 5, inclusive, of the Arizona Revised Statutes, added by laws 1968, Chapter 204, Section 2, as from time to time amended (the "Act"), to issue the Bonds to loan the proceeds of such Bonds to the Corporation to be applied to the costs of acquiring, constructing, and equipping the Project, and to secure the Bonds by a pledge of the payments to be received by the Trustee from the Corporation for the account of the Authority pursuant to the Loan Agreement. The issuance of the Bonds and the execution of the Loan Agreement, the Indenture of Trust and Pledge and the Security Agreement was authorized by Resolution of the Authority, adopted on March 17, 1978. The issuance of the Bonds by the Authority was approved by the Board of Supervisors of the County pursuant to a Resolution, adopted on March 27, 1978. A Notice of Intent to Issue Bonds, together with certain documents, was filed with the Office of the Attorney General of the State of Arizona pursuant to Section 9-1171(F), Arizona Revised Statutes, on April 3, 1978, with a request for an opinion as to whether the proposed issuance of the Bonds was in conformity with the Act. An opinion dated April 18, 1978, has been received by the Authority from the Attorney General that the proposed issuance of the Bonds is in conformity with the Act. No independent investigation of the representations made in such documents was conducted by the Attorney General.

## **THE BONDS**

### **Description of the Bonds**

The Bonds are limited obligations of the Authority payable solely from the Revenues derived or resulting from the Loan Agreement and the Note. The Bonds and any interest coupons appertaining thereto shall not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit or taxing powers. No Bondholder shall have the right to demand payment of the principal of, premium, if any, and interest on the Bonds out of any funds to be raised by taxation or from any source other than those specified above.

The aggregate principal amount of Bonds to be issued by the Authority is \$1,200,000. Additional parity Bonds of subsequent series may be issued pursuant to the applicable Indenture without the consent of the holders of the Bonds at any time outstanding. See the description below under "The Indenture — Additional Bonds."

The Bonds will be dated as of March 1, 1978, and will bear interest from their date at the rates and mature on the dates set forth on the cover page of this Official Statement. Interest will be payable semiannually on March 1 and September 1 of each year, beginning September 1, 1978. The Bonds will be issued in coupon form payable to bearer in the denomination of \$1,000. Principal and interest are payable at the place or places specified on the cover page of this Official Statement.

### **Security for the Bonds**

The Bonds, together with interest thereon, are limited obligations of the Authority and payable solely out of the Trust Estate, which consists of payments on the Note from operating revenues of the Project, except to the extent paid out of moneys attributable to the proceeds derived from the sale of the Bonds or to income from the temporary investment thereof and, under certain circumstances, to proceeds from insurance and condemnation awards, and shall be a valid claim of the respective Holders thereof only against the Revenue Fund and other moneys held by the Trustee as part of the Trust Estate which has been pledged for the equal and ratable payment of the Bonds, and the Trust Estate shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the

Bonds, except as may be otherwise expressly authorized in the Indenture. The Bonds and the interest coupons appertaining thereto are not and shall never constitute an indebtedness of the County of Yavapai, Arizona, within the meaning of any Arizona constitutional provision or statutory limitation, and shall not constitute nor give rise to a pecuniary liability of the County of Yavapai, Arizona, or a charge against its general credit or taxing powers. Neither the County of Yavapai, Arizona, nor the State of Arizona, nor any political subdivision thereof other than the Authority, shall in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Bonds or the performance of any obligation, or agreement undertaken by the Authority.

The Bonds are secured by a security interest in the personal property comprising the Project.

#### **Optional Redemption of Bonds Prior to Maturity**

The Bonds maturing on or prior to September 1, 1988, are not subject to optional redemption by the Authority prior to maturity. Bonds maturing on or after September 1, 1989, may be called prior to maturity, at the option of the Authority, as a whole, or in part, in inverse order of maturity and by lot within a single maturity, and redeemed from funds derived by the Authority from any source on September 1, 1988, or on any interest payment date thereafter, upon payment of a redemption price, equal to the principal amount thereof plus a premium of  $\frac{1}{2}$  of 1% of such principal amount for each whole year and for the fraction of a year, if any, remaining from the redemption date to the stated maturity of the Bonds so called for redemption.

#### **Extraordinary Redemption of Bonds Prior to Maturity**

The Bonds are subject to call and redemption prior to maturity in the event of loss of, substantial damage to, or condemnation of the Project. All or any part of the Bonds outstanding at that time may, at the option of the Authority, be called and redeemed prior to maturity on any succeeding interest payment date, at a redemption price equal to the principal amount thereof with accrued interest to the date of redemption plus the premium applicable thereto. The premium for Bonds redeemed in such instances, shall be five percent (5%) of such principal amount.

#### **Notice of Redemption of Bonds Prior to Maturity**

Notice of any redemption will be published in a financial newspaper or journal, printed in the English language and customarily published on each business day, of general circulation in New York, New York. Such notice will also be mailed to the original purchasers of the Bonds (in the case of a syndicate, to the manager thereof), but will not be mailed to the holders of the Bonds, except that a notice of redemption shall be mailed to any Bondholder who files his name and address with the Trustee for the purpose of receiving such notice.

Failure of any Bondholder to receive notice of redemption shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the redemption date. Notice of redemption of Bonds shall be given by the Trustee for and on behalf of the Authority.

#### **Additional Bonds**

So long as the Loan Agreement is in effect and there is no Event of Default then existing under the Loan Agreement or the Indenture, Additional Bonds on a parity with the Bonds may be issued for the purpose of completing the Project or providing substitutions, additions, modifications or improvements to the Project, including payment of the costs of issuance and sale of such Additional Bonds and capitalized interest, and reserves, if any, for purposes which shall be within the meaning of the Act.

#### **Refunding Bonds**

Refunding Bonds may be issued for the purpose of paying or retiring all of the outstanding Bonds or Additional Bonds, at maturity, or on any optional redemption date.

## THE CORPORATION

G. M. S. Company, Inc., a Nevada corporation, in good standing and authorized to transact business in the State of Arizona as a foreign corporation, was incorporated September 12, 1975. Its administrative offices are located at 1443 North 73rd Street, P. O. Box 1443, Scottsdale, Arizona 85252. See also "The Developer," on page 4.

### Officers and Directors

#### *Gerald Munson Shupe*

President

Chairman of the Board of Directors

September 1975 — Present

April 1972 — Present

March 1971 — April 1972

1964 — 1971

1964 — 1968

June, 1962 — January, 1964

December, 1957

August, 1956

1954 — 1956

1952 — 1954

1950 — 1952

1950 —

1949 — 1950

1949 —

G. M. S. Company, Inc., President

G. M. Shupe, Inc., President

Vice President, Dravo Corporation, and  
Dravo Ptv. Ltd. Australia

Vice President and General Manager,  
Western Construction Division —  
Dravo Corporation

Vice President — Dravo of Canada LTD  
Vice President — Dravo Construction LTD.,  
Canada

Western District Manager — Dravo Construction  
Vice President — Dravo Construction Ltd., Canada  
Vice President — Dravo of Canada, Ltd.

Vice President, Morrison-Knudsen Co., Inc.,  
Boise, Idaho — General Manager Dam Division

Dam Division Manager, Morrison-Knudsen Co., Inc.,  
Boise, Idaho

Administrative Manager of Dam Division  
Morrison-Knudsen Co., Boise, Idaho

Engineer and Assistant Division Manager, Dam  
Division, Morrison-Knudsen Co., Inc.,  
Boise, Idaho

Project Engineer, Morrison-Knudsen Co., Inc., and  
Associates, Chief Joseph Powerhouse, Washington

Project Engineer, Morrison-Knudsen Co., Inc.,  
Expansion of Open Hearth Facilities at Jones &  
Laughlin Steel Mill, Pittsburgh, Pennsylvania

Estimator and Engineer, Morrison-Knudsen Co.,  
Inc., Anchorage, Alaska

Project Manager, Morrison-Knudsen Co., Inc.,  
Construction Breeder of first reactor at National  
Reactor Testing Station, Arco, Idaho

Superintendent in charge of concrete structures,  
Morrison-Knudsen Co., Inc., Canal Project,  
Riverton, Wyoming

1949 —	Project Engineer, Morrison-Knudsen Co., Inc., Pipeline and Hydroelectric Project, Ogden, Utah
1948 — 1949	Materials Engineer, Morrison-Knudsen Co., Inc., Lower Salmon Dam, Hagerman, Idaho
1947 — 1948	Partner, Shupe & Horn, Construction Company Fort Collins, Colorado
<i>Cecil Morgan Sheeder</i>	
Present Position	Vice President — G. M. S. Company, Inc., Office Engineer, Executive Pilot, Multi-Engine Jet Aircraft
August, 1975 — May, 1973	Executive Pilot — Chief Pilot G.M. Shupe Inc. Multi-Engine Jet Aircraft
April, 1973 — November, 1971	Executive Pilot — Chief Pilot Multi-Engine Jet Aircraft Guerdon Industries, Boise, Idaho
October, 1971 — August, 1969	Dravo Corporation Executive Pilot Multi-Engine Jet Aircraft (G. M. Shupe)
1969 — 1949	Morrison-Knudsen Company Inc. Contractors & Engineers Multi-Engine Piston and Jet Aircraft, Executive Pilot
November, 1950 — February, 1952	Recalled to Active Duty, Captain U. S. Air Force as Aircraft Commander, Instructor and check pilot, Korea
1949 — 1946	Arnold Air Service Anchorage, Alaska Pilot DC3
October, 1945 — May, 1942	U. S. Army Air Corps Captain B24 Aircraft Commander European Theater, 8th Air Force Instructor Pilot 4th Air Force Aviation Cadet May 1942 to August 1943
1942 — 1940	Lockheed Aircraft Company Burbank, California Bomber Assembly
Licenses	Airline Transport Pilot Multi-Engine Piston and Jet, DC-3 through DH 125 and AC1121 Jets Total Flying Hours 18,172.5

**Compensation**

Management salaries for the Project for the Fiscal Year September 30, 1978, are estimated to total \$51,000. Management salaries for the Fiscal Year ending September 30, 1979, are estimated to total \$96,000, increasing to \$140,550 for the Fiscal Year ending September 30, 1983.

The Corporation entered into an employment agreement with Gerald M. Shupe, President on September 19, 1975, providing for compensation in the amount of \$50,000 per year. All sums payable pursuant to this Employment Agreement thru September 30, 1977, were waived in their entirety by Gerald M. Shupe.

### Transactions Between the Corporation and Certain Officers

The Corporation may purchase certain equipment for the Project from G. M. Shupe, at a purchase price not exceeding \$150,000. Mr. Shupe, the President of the Corporation, is also the President of G. M. Shupe, Inc.

### Principal Holders of Securities

The following table sets forth certain information with respect to the only persons who own beneficially ten percent (10%) or more of the outstanding shares of the Corporation's common stock:

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Outstanding Shares</u>
L. G. Campbell.....	20,000	50%
M. L. Quinn.....	20,000	50%

The Corporation is indebted to Gerald M. Shupe, President, in the amount of \$116,484.42.

## THE LOAN AGREEMENT

### Provision for Revenues to Pay the Bonds

Concurrently with or preceding the issuance of the Bonds, the Corporation shall execute and deliver a Note to the Trustee as evidence of its obligation to repay the Loan and to provide the Authority with revenues sufficient to retire the Bonds in accordance with their terms.

Pursuant to the Loan Agreement and notwithstanding any provision expressly or inferentially to the contrary contained in the Note, the Corporation unconditionally agrees that it shall make monthly payments to the Trustee (for the account of the Authority) in lawful money of the United States of America, and in such amounts and at such times (if not sooner required under the terms of the Loan Agreement) as shall be necessary to enable the Trustee to make full and prompt payment when due (whether at stated maturity, upon call for redemption prior to stated maturity, or upon acceleration of stated maturity), of the principal of, premium, if any, and interest on, all Bonds and Additional Bonds issued and outstanding under the Indenture. The Loan Agreement provides that the obligation of the Corporation to make such payments shall be absolute and unconditional and shall not be subject to diminution by set-off, counter claim, abatement or otherwise; and until such time as the principal of, premium, if any, and interest on the Bonds and Additional Bonds shall have been paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Corporation (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any such payments; (ii) will perform and observe all of its other agreements contained in the Loan Agreement; and (iii) will not terminate the Loan Agreement for any cause, including, without limitation, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, frustration of commercial purpose, any change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State of Arizona or any political subdivision of either, or any failure of the Authority to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or in connection with the Loan Agreement.

## PARTICULAR COVENANTS OF THE CORPORATION

Among other things, the Corporation has made the following covenants in the Loan Agreement.

### Taxes

The Corporation will (a) pay, or make provision for payment of, all lawful taxes and assessments, including income, profits, business and occupation taxes, occupational license taxes, property or excise taxes, if any, or other municipal or governmental charges, levied or assessed by the Federal, state or any

local government upon any payments pursuant to the Loan Agreement when the same shall become due and (b) pay or cause to be discharged, within sixty (60) days after the same shall accrue, any lien or charge upon any payments under the Loan Agreement.

#### **The Indemnification of Authority and Trustee**

The Corporation covenants and agrees, at its expense, to pay, and to indemnify and save the Authority and Trustee harmless of, from and against, any and all claims, damages, demands, expenses, liabilities and taxes (of any character or nature whatsoever regardless of by whom imposed), and losses of every conceivable kind, character and nature whatsoever, including, but not limited to, claims for loss or damages to any property or injury to or death of any person asserted by or on behalf of any person, firm, corporation or governmental authority arising out of, resulting from, or in any way connected with the Project, or the condition, occupancy, use, possession, conduct or management of, or any work done in or about, the Project, or from the planning, design, acquisition or construction of the Project or any part thereof, or from the leasing or subletting of any part thereof. The Corporation also covenants and agrees, at its expense, to pay, and to indemnify and save the Authority and Trustee harmless of, from and against, all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. In the event that any action or proceeding is brought against the Authority by reason of any such claim or demand, the Corporation upon notice from the Authority or the Trustee, covenants to resist and defend such action or proceeding on behalf of the Authority or the Trustee.

#### **Maintain Corporate Existence**

The Corporation covenants that it will maintain its corporate existence, and will not, except under certain circumstances more particularly described in the Loan Agreement, dissolve or otherwise dispose of all or substantially all its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it.

The Corporation warrants and represents that it is in good standing in the State of Arizona and that it is fully authorized to do business in the State of Arizona.

#### **Against Encumbrances and Sale**

The Corporation covenants that the Project or any part thereof, or any real or personal property essential to the operation thereof, shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Revenue Fund sufficient in amount to permit payment therefrom of the principal of, premium, if any, and interest due upon the call and redemption thereof, of the Bonds and any Additional Bonds, payment of which is required to be made out of the Revenues, and also to provide for such payment into the funds as are required under the terms of the Loan Agreement and the Indenture. The Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Loan Agreement. The Corporation further covenants that it will not enter into any agreement which impairs the operation of the Project or any part of it necessary to secure adequate revenues to pay the principal of and interest on the Bonds or which otherwise would impair the rights of the Bondholders with respect to the Revenues or the operation of the Project. If any substantial part of the Project is sold, the payment therefor shall either be used for the acquisition and/or construction of improvements and extensions of the Project or shall be placed in the appropriate funds and shall be used to pay or call and redeem the Bonds and Additional Bonds in the manner provided in the Loan Agreement, the Indenture and any supplemental agreement or indenture.

#### **To Maintain Insurance**

The Corporation will maintain with financially responsible insurance companies such insurance covering its properties and in such amounts as are customarily carried on such properties. The Corpo-

ration specifically shall maintain the following insurance: (a) direct damage insurance (extended coverage) on a replacement cost basis in an amount of not less than the full insurable value thereof; in time of war, such insurance as may be available from reputable insurance companies of the United States of America, or any agency thereof, in an amount not less than eighty percent (80%) of the then full insurable value thereof; insurance against loss or damage from leakage of sprinkler systems or explosion of steam boilers, pressure vessels and similar apparatus, (b) business interruption insurance in an amount equal to not less than \$150,000; (c) general liability insurance with limits of not less than \$250,000 with respect to bodily injury or death to any one person, not less than \$1,000,000 with respect to bodily injury or death to any number of persons in any one accident, and property damage liability insurance in an amount not less than \$50,000; (d) workman's compensation insurance.

The general liability insurance policies shall be endorsed to show the Trustee and the Authority as additional insureds.

### **Licenses and Permits**

The Corporation shall procure or cause to be procured any and all necessary building permits, other permits, licenses and other authorizations required for the lawful and proper construction, use, occupation, operation and management of the Project. The Corporation also agrees to pay or cause to be paid all lawful charges for gas, water, power, electricity, light, heat, power, telephone and other utility and service used, rendered or supplied to, upon or in connection with the Project. The Project Site is zoned for mining and/or milling use, respectively.

The Corporation shall perform the annual assessment work required to maintain the unpatented mining claims comprising the Project and record affidavits for any assessment year in which Bonds are outstanding.

### **Tax-Free Nature of Bonds**

The Corporation shall not do any thing or act in such manner as would result in the loss of tax exempt status of interest on the Bonds otherwise issued under Section 103(a) of the Internal Revenue Code of 1954, as amended, nor use any of the proceeds received from the sale of the Bonds, directly or indirectly, in any manner which would result in such Bonds being classified as arbitrage bonds within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended.

### **Accounting Records; Financial Statement**

So long as any of the Bonds are outstanding, the Corporation shall maintain a standard system for accounting in accordance with generally accepted principles of accounting consistently applied throughout all accounting periods and shall furnish to the Trustee:

(a) Within forty-five (45) days after the end of each of the first three quarters of each fiscal year a consolidated balance sheet of the Corporation as of the close of each such quarter, and consolidated statements of income and surplus of the Corporation for each such quarter and for that part of the fiscal year ending with each such quarter, all in reasonable detail and certified as true and correct (subject to audit and normal year-end adjustments) by a proper accounting officer of the Corporation; and

(b) As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year a copy of the audit report for such year and accompanying consolidated financial statements of the Corporation, as prepared by independent public accountants selected by the Corporation, which audit report shall be accompanied by an opinion of such accountants to the effect that the audit report fairly presents the consolidated financial condition of the Corporation and the results of its operations as of the relevant dates thereof.

## **EVENTS OF DEFAULT; REMEDIES**

### **Event of Default**

Each of the following events shall constitute and be referred to in the Loan Agreement as an "Event of Default":

(a) Failure by the Corporation to pay when due any payment required to be paid under the Loan Agreement, which failure shall cause an Event of Default under the Indenture, as defined therein.

(b) Failure by the Corporation to pay when due any payment required to be made under the Loan Agreement other than payments under Section 4.01 thereof, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Corporation by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration.

(c) Failure by the Corporation to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as provided, which failure shall continue for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration.

(d) The dissolution or liquidation of the Corporation or the filing by the Corporation of a voluntary petition in bankruptcy, or failure by the Corporation promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry out its obligations under the Loan Agreement, or the commission by the Corporation of any act of bankruptcy or the filing of an answer to a creditor's petition by the Corporation in a bankruptcy proceeding (admitting the material allegations thereof) for an adjudication of bankruptcy or for reorganization or to effect a plan or other arrangement with creditors, or adjudication of the Corporation as a bankrupt, or an assignment by the Corporation for the benefit of its creditors, or the entry by the Corporation into an agreement of composition with its creditors or having a receiver appointed for any of the Corporation's assets (with or without the consent of the borrower) and such receiver shall not be discharged within sixty (60) days after his appointment, or the approval by a court of competent jurisdiction of a petition applicable to the Corporation in any proceeding for its reorganization instituted under the provisions of any bankruptcy act, or under any similar act which may hereafter be enacted. The term "dissolution or liquidation of the Corporation", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Corporation resulting either from a merger or consolidation of the Corporation into or with another corporation or a dissolution or liquidation of the Corporation following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions contained in the Loan Agreement.

(e) An Event of Default (as defined therein) shall have occurred under the Indenture.

### **Remedies**

Whenever any Event of Default hereunder shall have happened and be continuing, any one or more of the following remedial steps may be taken, provided that, except for an Event of Default described in subsection (a) of Section 7.01 of the Loan Agreement, written notice of such an Event of Default has been given to the Corporation by the Authority or the Trustee and the Default has not theretofore been cured:

(a) The Authority may at its option declare all unpaid amounts payable under Section 4.01 of the Loan Agreement, together with interest then due thereon, to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Authority may take any action at law or in equity to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement or the Security Agreement.

### **Remedies Cumulative; Nonwaiver**

No remedy conferred upon or reserved to the Authority or the Trustee by the Loan Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority, or the Trustee, to exercise any remedy reserved or available to it in this Article, it shall not be necessary to give any notice other than such notice as may be expressly required in the Loan Agreement.

### **PREPAYMENT OF THE LOAN**

The Corporation shall have the option to prepay the amounts payable on the Loan (which shall constitute payment in full of the Loan) at any time when the Corporation so elects, in which case the unpaid amount due under the Loan Agreement shall be a sum, payable in cash and/or obligations sufficient, together with any other cash and/or such obligation held by the Trustee and available for such purpose, to cause all outstanding Bonds (upon compliance with all requirements of the Indenture) to be redeemed prior to maturity at the optional redemption price computed as stated in the Indenture, in accordance with said Indenture, to have been paid within the meaning of the Indenture, and to pay all Administration Expenses accrued and to accrue through the date of such discharge.

### **AMENDMENT OF THE LOAN AGREEMENT**

The Loan Agreement may be amended in any respect but only by written Agreement of the parties thereto and, if any Bonds remain outstanding at the time of such amendment, subject to the limitations on such amendments set forth in the Indenture.

### **MAKE U.C.C. FILINGS**

The Authority covenants that, in order to perfect the interest of the Trustee in the payments to be made under the Loan Agreement and the security interest under the Security Agreement, appropriate financing statements and/or assignments naming the Trustee as assignee of the contract rights represented by such Loan Agreement and Security Agreement, will be filed or recorded in the appropriate state and county offices as required by the provisions of the Uniform Commercial Code as adopted in the State of Arizona, and all other applicable Arizona laws, as from time to time amended and any other State where such filing or recording is necessary. The Authority and the Trustee will file such necessary continuation statements from time to time as may be required pursuant to the provisions of said Uniform Commercial Code to protect the interest of the Trustee.

### **FINANCIAL REPORTS**

Within one hundred twenty (120) days after the close of each fiscal year, the Authority shall furnish to any Bondholder who shall make written request therefor prior to the close of such fiscal year, a report prepared by the Trustee covering the operations of the Authority in connection with the Bonds issued pursuant to this Resolution or Additional Bonds issued pursuant to a subsequent resolution or resolutions for the next preceding fiscal year, showing the revenues and expenses for such period and the types and amounts of insurance coverage in force for such period and the expiration dates thereof. Such audit report shall include statements of the status of each fund pertaining to the Bonds or the Project, showing the amount and source of deposits therein, the amount and purpose of the withdrawals therefrom and the balance therein at the beginning and end of the fiscal year.

## THE INDENTURE

### Proceeds of Sale of Bonds

The Authority shall deposit with the Trustee all of the net proceeds from the sale of the Bonds (including accrued interest from the date from which interest is to be paid thereon to the date of their delivery to the purchaser) and the Trustee shall deposit such proceeds in the Construction Fund, from which the following amounts shall be allocated and deposited to the following funds:

(a) In the Interest Fund an amount which, together with accrued interest, if any, shall be sufficient to pay interest coming due on the Bonds to and including March 1, 1979.

(b) In the Construction Fund, the balance of the proceeds.

### Revenue Fund

All Revenues shall be immediately deposited with the Trustee for deposit to the Revenue Fund. The Trustee shall transfer from the Revenue Fund the following amounts at the time and in the manner hereinafter provided for, and shall deposit such amounts, in the following order of priority, in the following respective funds (which, except for initial payments from Bond proceeds, are derived from the Revenue Fund and are subdivisions thereof):

(a) *Interest Fund.* On or before August 1, 1979, the Trustee shall deposit in the Interest Fund (the initial payment into which is provided for from Bond proceeds) a sum sufficient, together with the balance then on hand in said Fund, to pay the interest becoming due on the Bonds on the following September 1; and on each February 1 and August 1 thereafter, the Trustee shall deposit in the Interest Fund a sum sufficient, together with the balance then on hand in said Fund, to pay the six (6) months interest becoming due on the Bonds on the next succeeding March 1 and September 1. No payment need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due in the next six (6) month period upon all of the Bonds then outstanding. Moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

(b) *Retirement Fund.* On or before August 1 of each year, beginning August 1, 1980, the Trustee shall deposit in the Retirement Fund hereby established a sum sufficient to pay the aggregate amount of principal of the outstanding Bonds maturing on the next succeeding September 1. No payment need be made into the Retirement Fund if the amount contained therein is at least equal to such amount of principal becoming due in the current year. Moneys in the Retirement Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds as it shall become due and payable.

(c) *Reserve Fund.* The moneys in the Reserve Fund shall be applied solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Resolution), or for the purpose of paying the principal of the Bonds at their maturities, to the extent that there are insufficient moneys available for such purposes in the Interest Fund, the Retirement Fund or the Revenue Fund. Moneys in the Reserve Fund may be used to pay the principal and/or interest on the last maturity or maturities of Bonds outstanding.

(d) *Surplus.* Any moneys remaining in the Revenue Fund on October 1, 1980, or on each October 1 thereafter, after the transfers to the Interest Fund and the Retirement Fund, shall be declared surplus and may be (a) used and applied by the Trustee at the direction of the Corporation, with the approval of the Authority, to the purchase of the Bonds, provided that such Bonds shall not be purchased at a price in excess of the then current redemption price or in excess of the maximum redemption price if such Bonds are not then subject to redemption, or (b) transferred

to the Redemption Fund and used to call and redeem Bonds prior to maturity, or (c) transferred to the Construction Fund to be set aside and accumulated therein for future changes, alterations and additions to the Project which the Corporation may from time to time deem desirable, or (d) transferred to the Reserve Fund.

### **PARTICULAR COVENANTS OF THE AUTHORITY**

Among other things, the Authority has made the following covenants in the Indenture.

#### **Maintain Corporate Existence**

The Authority will at all times maintain its corporate existence or assure the assumption of its obligations under this Indenture by any public body succeeding to its powers under the Act, and it will use its best efforts to maintain, preserve and renew all the rights and powers provided to it by the Act; and it will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Indenture, the Loan Agreement, and the Security Agreement.

Except as specifically provided in the Indenture, the Authority will not enter into any agreement with the Corporation amending the Loan Agreement or Security Agreement without the prior written consent of the Trustee and, in the event such amendatory agreement shall adversely affect the interests of Bondholders, the prior written consent thereto of at least 66 $\frac{2}{3}$ % in principal amount of the Bonds then outstanding.

#### **Not Extend Time for Bond or Coupon Payment**

In order to prevent any accumulation of coupons or claims for interest after maturity, the Authority will not directly or indirectly extend or assent to the extension of the time for payment of any coupons appertaining to, or claims for interest on, any of the Bonds and will not directly or indirectly be a party to or approve such arrangement by purchasing or funding such coupons or claims for interest or in any other manner. In case any such coupon or claim for interest shall be extended or funded in violation of this covenant, such coupon or claim for interest shall not be entitled, in case of any default, to the benefit or security of the Indenture except subject to the prior payment in full of the principal of all Bonds issued and outstanding and of all coupons and claims for interest which shall not have been so extended or funded.

#### **Limits on Additional Debt**

The Authority covenants that:

(a) No additional indebtedness payable out of the Revenues shall be issued having any priority in payment of principal or interest out of the Revenues over the Bonds authorized by the Indenture.

(b) No Additional Bonds or any other evidences of indebtedness payable out of the Revenues shall be issued, except as provided in the Indenture and subject to the limitations thereof, and ranking on a parity with the Bonds.

(c) No Refunding Bonds shall be issued to refund all or part of the Bonds authorized by the Indenture except as provided in the Indenture.

#### **Covenant Covering Arbitrage**

The Authority covenants to the purchasers of the Bonds that it will make no use of the proceeds of the Bonds at any time during the term thereof which, if such use had been reasonably expected at the date the Bonds are issued, would have caused such Bonds to be "arbitrage bonds" within the meaning of Section 103(c) of the United States Internal Revenue Code of 1954, as amended, and applicable regulations adopted thereunder by the Internal Revenue Service, and the Authority hereby assumes the obligation to comply with such Section 103(c) and such regulations throughout the term of the Bonds.

## INVESTMENT OF MONEYS

All moneys received by the Trustee may be retained uninvested as trust funds and shall, upon receipt from time to time of a certificate of the Corporation signed by a duly authorized representative of the Corporation so directing, be (if and to the extent then permitted by law):

(i) deposited (but only after security required by law shall be given) by the Trustee in interest-bearing deposit accounts (which may be represented by certificates of deposit) in one or more national or state banks (which may include the Trustee or any Paying Agent) or savings and loan associations each having a combined capital and surplus of not less than \$10,000,000;

(ii) invested by the Trustee in direct obligations of or obligations guaranteed by the United States of America;

(iii) invested in direct obligations of or obligations guaranteed by any State of the United States of America, or any political subdivision thereof, or in obligations of the Federal National Mortgage Association, Federal Land Banks or Federal Home Loan Banks.

## EVENTS OF DEFAULTS AND REMEDIES

Each of the following events shall constitute an "Event of Default":

(i) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable.

(ii) Default in the due and punctual payment of an installment of interest when and as the same shall become due and payable.

(iii) The occurrence of an Event of Default under the Loan Agreement or Security Agreement.

(iv) Failure by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, which failure shall continue for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied, is given to the Authority by the Trustee or to the Authority and to the Trustee by the holders of not less than twenty-five percent (25%) in principal amount of the Bonds outstanding.

In the case of an event described in paragraphs (i), (ii) or (iii) above, unless the principal of all the Bonds shall have become due and payable otherwise than by acceleration, the Trustee may, and upon written request of the holders of at least twenty-five percent (25%) in aggregate principal amount of all Bonds then outstanding shall, by written notice given to the Authority and the Corporation by the Trustee and provided that the default has not theretofore been cured, declared the principal of all Bonds then outstanding to be due and payable immediately, and upon such declaration such principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided in the notice, anything in this Indenture or in the Bonds to the contrary notwithstanding.

The above provisions, however, are subject to the condition that if, after the principal of all Bonds then outstanding shall have been so declared to be due and payable, all arrears of interest upon such Bonds, and interest on overdue installments of interest (to the extent permitted by law) at a rate per annum which is one percentage point greater than the rate per annum borne by the Bonds and the principal if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration, and all other sums payable under the Indenture, except the principal of and interest on the Bonds which by such declaration shall have become due and payable, shall have been paid by or on behalf of the Authority, and the Authority also shall have performed all other things

in respect of which it may have been in default under the Indenture, and shall have paid the reasonable expenses of the Trustee and of the holders of such Bonds, including reasonable attorneys' fees paid or incurred, then and in every such case, such default shall be waived and such declaration and its consequences rescinded and annulled by the Trustee by written notice given to the Authority and the Corporation by registered mail, which waiver, rescission and annulment shall be binding upon all Bondholders; but no such waiver, rescission or annulment shall extent to or affect any subsequent default or impair any right or remedy consequent thereon.

#### **Trustee's Rights on Default**

The Trustee, as pledgee and assignee for security purposes of all the right, title and interest of the Authority in and to the Loan Agreement (except as provided therein) and the Security Agreement shall, upon compliance with applicable requirements of law and except as otherwise specifically provided in the Indenture, be the sole real party in interest in respect of, and shall have standing, exclusive of holders of Bonds or coupons appertaining thereto, to enforce each and every right granted to the Authority under the Loan Agreement and the Security Agreement.

#### **Actions Upon Default**

Upon the happening and continuance of any Event of Default, the Trustee in its discretion may, and upon the written request of the holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding and receipt of indemnity to its satisfaction shall, take any one or more of the following steps:

(a) by mandamus, or other suit, action or proceeding at law or in equity enforce all rights of the Bondholders, and require the Authority or the Corporation or both of them to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act, the Loan Agreement, the Security Agreement, and this Indenture;

(b) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Bondholders; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

#### **Non-Waiver**

In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

#### **Majority of Bondholders Rights**

The holders of a majority in aggregate principal amount of the Bonds then outstanding hereunder shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder.

#### **Discharge of Lien**

If and when the Bonds shall become due and payable in accordance with their terms as provided in the Indenture, or otherwise, and the whole amount of the principal and the interest so due and payable upon all of the Bonds shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable hereunder by the Authority, the right, title and interest of the

Trustee in and to the Trust Estate, and all covenants, agreements, and other obligations of the Authority to the Bondholders shall thereupon cease, terminate, and become void and be discharged and satisfied. The Trustee shall turn over to the Corporation, or to such person, body or authority as may be entitled to receive the same, any surplus in the Revenue Fund, and shall execute such documents as may be reasonably required to effect such assignments and transfers.

#### **Defeasance Prior to Maturity or Redemption Date**

All outstanding Bonds, Additional Bonds or Refunding Bonds of any one or more series, and all coupons appertaining to such Bonds, shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Indenture if (a) in case said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish on a date in accordance with the provisions of the supplemental indenture authorizing the issuance of such Additional Bonds and/or Refunding Bonds notice of redemption of such Bonds on said redemption date, such notice to be given in accordance with the provisions of the supplemental indenture authorizing the issuance of such Additional Bonds and/or Refunding Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient (or obligations of or guaranteed as to principal and interest by the United States of America, which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee or any Paying Agent at the same time, shall be sufficient) to pay when due the principal of and premium, if any, and interest due and to become due on each said Bond on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instruction to publish, as soon as practicable in the same manner as a notice of redemption is published pursuant to the provisions of the supplemental indenture authorizing the issuance of such Additional Bonds and/or Refunding Bonds, a notice to the holders of such Bonds and coupons that the deposit required by (b) above has been made with the Trustee and that said Bond and coupons are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and interest on said Bonds. Neither the obligations nor moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on said Bonds.

#### **Supplemental Indentures**

(a) The Authority may, from time to time and at any time, without the consent of Bondholders, execute and deliver, and the Trustee may accept, indentures supplemental to the Indenture for the following purposes:

(i) To specify and determine any matters and things relative to Bonds which are not contrary to or inconsistent with the Indenture and which shall not adversely affect the interests of the Holders of Bonds;

(ii) To cure any defect, omission or ambiguity in the Indenture if such action does not adversely affect the rights of the Holders of Bonds;

(iii) To grant to or confer upon the Trustee for the benefit of the Holders of Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(iv) To add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(v) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture or theretofore in effect;

(vi) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this Indenture of the Revenues or of any other moneys, securities or funds; or

(vii) To authorize and provide for the issuance hereunder of Additional Bonds or Refunding Bonds.

(b) Before the Authority shall adopt any supplemental indenture pursuant to the Indenture there shall have been filed with the Trustee an opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Indenture and complies with its terms, and that upon enactment it will be valid and binding upon the Authority in accordance with its terms.

#### **Amendments to Indenture**

(a) Except as provided in the Indenture and subject to the terms and provisions contained therein and not otherwise, the Holders of not less than sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) in aggregate principal amount of the Bonds then outstanding shall have the right from time to time to consent to and approve the execution and delivery by the Authority and the acceptance by the Trustee of any supplemental indenture as shall be deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing therein contained shall permit, or be construed as permitting without the written consent of the Holders of all Bonds then outstanding, (i) a change in the times, amounts and currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount of any outstanding Bond, or the rate of interest thereon, without the consent of the holder of such Bond, or (ii) except for the parity claim, lien upon or pledge made in connection with the issuance of Additional Bonds, the creation of a claim or lien upon, or a pledge of, the Revenues ranking on a parity with the claim, lien or pledge created by this Indenture, or (iii) except for the claim, lien upon or pledge made in connection with the issuance of Refunding Bonds, the creation of a claim or lien upon, or a pledge of, the Revenues ranking prior to the claim, lien or pledge created by this Indenture; provided, however, that such Refunding Bonds shall only be issued in order to refund all, but not less than all of the Bonds, Additional Bonds or previously issued Refunding Bonds, or (iv) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of the Bonds required for consents under the Indenture.

#### **THE NOTE**

The Note will be issued by the Corporation and delivered to the Trustee in the aggregate amount of \$1,200,000. The Note will mature in installments of principal corresponding exactly in principal amounts, and all due one month prior to (but payable in monthly installments) the maturity dates of the Bonds. Each unpaid installment of principal on the Note will bear interest at a rate equivalent to that borne by the Bonds. On the first day of each calendar month, or on the first business day thereafter if the first is not a business day, beginning February 1, 1979, the Corporation shall pay to the Trustee, for the account of the Authority, an amount equal to one-sixth of the interest to become due on the next applicable interest payment date.

On the first day of each calendar month, or on the first business day thereafter if the first is not a business day, beginning August 1, 1979, the Corporation shall pay to the Trustee for the account of the Authority, an amount equal to one-twelfth of the principal to become due on September 1 of the succeeding year.

The Note has prepayment features (including provision where applicable, for the payment of premium) corresponding to the provisions applicable to the Bonds.

The Note will be a direct, full faith and credit obligation of the Corporation. The Loan Agreement and the Indenture provide that the Trustee may enforce, for the benefit of the Bondholders, all rights, privileges and remedies of the Authority in, under and to the Note which serves the Bonds.

#### **TAX EXEMPTION**

In the opinion of Richards, Watson, Dreyfuss & Gershon, Los Angeles, California, Bond Counsel, interest on the Bonds is exempt from income taxation by the United States of America under present laws, court decisions, regulations and rulings, except for interest on any Bond for any period during which such Bond is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(7) of the Internal Revenue Code of 1954, as amended. No opinion is expressed with respect to the taxability of interest on any Bond for any period during which the Bond is so held by such substantial user or related person. In the opinion of Bond Counsel, interest is also exempt from State of Arizona income taxes.

#### **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds by the Authority are subject to the unqualified approving opinion of Richards, Watson, Dreyfuss & Gershon, Los Angeles, California, Bond Counsel. Copies of such opinion will be available at the time of delivery of the Bonds. Certain legal matters will be passed upon for the Authority by Barry B. Cline, Attorney at Law, Ltd., Prescott, Arizona, Legal Counsel to the Authority. Certain legal matters will be passed upon for the Corporation by its counsel, Jones, Hunter & Lerch, Phoenix, Arizona. Richards, Watson, Dreyfuss & Gershon, as Bond Counsel, has not been engaged to make, nor have they in fact made, any independent investigation with respect to the factual or financial information furnished in this Official Statement other than the description of the Bonds, the Loan Agreement, the Indenture, and the Note.

#### **UNDERWRITING**

The Bonds are offered, subject to prior sale when, as and if issued by the Authority and accepted by the Underwriter, Phil Young Securities, Inc. The Underwriter has agreed to purchase the Bonds from the Authority subject to the receipt of the legal opinion above described and to certain other conditions.

The Underwriter will purchase the Bonds from the Authority at a purchase price of \$1,068,000 plus accrued interest from March 1, 1978.

#### **EXPERTS**

The financial statements of the Corporation included in this Official Statement have been examined by Phillip R. Harlbut, A.S.P.A., Arizona, but are unaudited.

#### **LITIGATION**

There is no litigation pending against the Authority or the Corporation arising out of the Project or the proposed issuance of the Bonds, or, to the knowledge of their respective Directors, Officers or Counsel, threatened.

**MISCELLANEOUS**

G. M. S. Company, Inc., has furnished all information in the Official Statement relating to the Corporation, its properties, operations and financial position and the Project.

The foregoing summaries of provisions of the Bonds, the Loan Agreement and the Indenture and all references to materials not purported to be quoted in full are only brief outlines of certain provisions thereof, and do not constitute complete statements of such documents and provisions. Reference is made to the complete documents relating to such matters for further information, copies of which will be furnished upon request by the Underwriter.

The Authority and the Corporation have authorized the execution and distribution of this Official Statement.

The Industrial Development Authority  
of the County of Yavapai

By /s/ H. W. SMITH  
H. W. Smith, Vice President

G. M. S. Company, Inc.

By /s/ G. M. SHUPE  
Gerald M. Shupe, President

**APPENDIX 1**

## PROFESSIONAL BACKGROUND

OF

PHILIP S. HOYT

CONSULTING MINING GEOLOGIST AND ECONOMIST

3049 North Marigold Drive

Phoenix, Arizona 85018

### Source Reference

1. INTERNATIONAL BLUE BOOK — "Who's Who in the World" — 1909-1940 by Hyacinthe Ringrose — New York: Belgrave Press.

#### EXTRACT:

"Geologist and Mineralogist, Born June 5, 1896, at Bozeman, Montana, of Scotch-Irish parentage. Discovered and pioneered the first commercial production of kyanite, olivine and vermiculite and others in the Industrial Mineral specialties, and new flotation reagents and milling processes".

2. From domestic publications of the U. S. Bureau of Mines, State Mining Bureaus, and others, including Engineering & Mining Journal and other technical papers; 33 years in the discovery, acquisition, exploration and development of the industrial mineral speciality products, including mica, asbestos, feldspar, fluorspar, lithium minerals, kyanite, dumortierite and andalusite, flint pebbles for grinding media, tremolite for acid filters, vermiculite, beryllium minerals, paligorskite in Alaska, and others. Most of this work was done on a consulting basis on special project with the larger U. S. and British mining and industrial concerns, including:

Laclede-Christy Clay Products Co., St. Louis  
Chief Geologist — 10 years

Asst. State Geologist — Wyoming — 2 years (See E&MJ, November 8th, 1924)

Johns-Manville Corp. — 2 years, Consulting on a Special Project

Lithium Corp. of America — 2 years, Consulting on a Special Project

Beryllium Corp. — Western Representative, 3 years — Research ore.

Mineral Processing Company — V.P. and Consulting Contract, two years-beryllium

Southeastern Asbestos Corp. — V.P. 1957-1959 Amphibloc asbestos in the southeast

James Stewart Company — Supt. Construction mica mill 1958 completed

International Minerals and Chemical Corp. — Consulting 1958-1959 — Tax work

Industrial Minerals Corp. of Nevada — Director and Consulting Engineer 1958-1959

U.S. Bureau of Mines — Employment and Consulting Rating — GS-11

During the last war developed and produced for own account, fluorspar, mica, ocher, flint pebbles, paligorskite (Alaska), tremolite (Alaska) and others. Made good profits on all operations.

In 1955 began exploration for and acquisition of rare earth minerals including especially those involved in the developing technology of the uses of nuclear energy, both fission and fusion. These rare earths include particularly beryllium, samarium, gadolinium, yttrium, germanium, seleniur, etc.

3. MEMBER OF:

American Institute of Mining and Metallurgical Engineers, 24 years  
Arizona Small Mine Owners Association — over 10 years  
Western Mining Council — Life Membership  
New Mexico Mining Association

PAST MEMBER OF:

Pan-American Institute of Mining & Metallurgical Engineers  
American Ceramic Society  
Geological Society of America

Was a member of the “Industrial Advisory Committee” of the War Production Board, during the war for “Dry Ground Mica”.

Was a member of the Industrial Minerals “Milling Committee”, AIMME-1945.

New milling processes developed are shown in Taggart’s “Handbook of Mineral Dressing” under Southern Mining & Milling Company.

April 14th, 1972

Harrison Mining & Exploration Inc.,  
3019 West Wethersfield Road  
Phoenix, Arizona 85029

Att: Mr. Herman S. Harrison

FEASIBILITY REPORT ON A  
MICA-FELDSPAR-SILICA  
PROJECT IN YAVAPAI  
COUNTY, ARIZONA

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Dear Herman:

Pursuant to your instructions we had a brief look at the above project on Sunday, April 9th accompanied by yourself and associates and we are outlining below some comments and suggestions pertaining to the project and its further development.

For the record, the project covers 48 lode mining claims laying in a rectangular shape, eight claims wide and six claims long, covering approximately 4800 x 9000 feet, or 960 acres. The road access is adequate for present needs with a new hauling road for ores to be laid out more directly into the Black Canyon and US Highway 17 which will shorten the distance to about three miles.

### Geology

The area included in the claims covers a stockworks of pegmatite dykes which are the end products of the large pegmatite zone that occupies the area from Cleator, Arizona southeasterly thru Horse Thief Basin and down into the lower and southeast end of the Bradshaw Range.

The major feature to deal here with is the attitude and size of the pegmatite bodies as indicated on the surface, these being simple pegmatite magmas that are end products from this immense pegmatite body to the north. The dykes showing on the surface indicate deep seated bodies, trending northerly and southerly, with varying widths and lengths, being parallel bodies, narrow but persistent.

The pegmatites seem uniform as to their content of mica, feldspar and quartz, with a notable absence of black minerals such as tourmaline and biotite. No accessory minerals were observed such as beryl or the rare earths although there may be such minerals in some of the lenses of pegmatite that have not yet been thoroughly examined.

Some large quartz blow-outs are present in the area particularly on the northeast edge of the present claims and it is recommended that these quartz bodies be located and the claims tied to the group as there may be mica bodies as well as rare earth minerals along the selvage contact with the country rock which should be examined. The quartz itself may have economic value.

### Mineralogy

The mica present in these pegmatite is all muscovite and of highest quality. Its inherent brilliance and sheen will furnish a scrap mica of superlative grade, which, when ground, will bring the highest prices in a specialty market. ✓

The feldspar observed in present openings is all microcline and orthoclase, both potash spars, and suitable for specifications in glass, pottery and all other ceramic uses in presently established industries using feldspar.

The quartz is of good quality, and when ground, would be marketable into many uses where silica is presently being used both for melts and as a filler in abrasives and polishing products.

**Economics**

There is undoubtedly a large and commercial tonnage of pegmatite in the many lense-like bodies showing on the claims. The problem will be how they can be mined at low cost. Pegmatites less than 50 feet in width present mining problems especially when there is pinching and swelling of these lenses along their strike of the dyke and when and if less than this 50 foot width problems occur in endeavoring to reach suitable depth in the dykes which would allow for bench mining without disturbing the enclosing walls. There are undoubtedly many places in these dykes where adequate width is present to provide ore for low cost removal and it is my suggestion that the next phase of your development be to locate several of these wide zones, especially in the gulch bottoms where the pegmatite dykes cross them.

The objective now should be to find such places as above described and to then calculate the tonnage potential present that can be mined at low cost. During this exploration work some information can then be developed as to the average tenor of mica, feldspar and quartz in the ore and a more positive tonnage calculated to insure the further financing of the project.

**Recommendations**

To accomplish the above further exploration it is recommended that some further work be done at the present locations where the compressor is located, by drilling a shooting off a bench in the east wall and follow the contact down to a depth of 40 or 50 feet in the wall zone. This will involve lowest cost exploration as it can all be done by drilling and shooting and dozing the broken wall rock down the slope to the east. When this has been accomplished to prepare a patio onto which broken ore from the dyke can be stockpiled and thus furnish an adequate tonnage of pegmatite material to give us the information necessary to properly evaluate one of these lenses and its content. There will be another approximately fifty feet of backs developed in the dyke to the south and I am suggesting this because you have already cleaned off the surface and exposed the dyke in place and we should take advantage of this work already done.

There should be two additional locations examined to the north where the gulch cuts thru the dyke which has either been faulted and laid back to the west, or there may be two separate dykes trending parallel in a northerly direction the gulch cutting around the respective ends of these dykes and offering a suitable location for further exploration which would provide approximately 100 feet of backs from the gulch level.

These features will be shown on a map that will be developed shortly by a reconnaissance over the whole group and there may be other locations where the topography will be favorable for further exploration of the pegmatites where the exposed dykes showing in the gulches provide the best locations for further exploration work.

As mentioned previously there seems adequate tonnage of pegmatite ores present in these claims, the problem being can they be mined at low enough cost for commercial needs and provide percentages of mica, feldspar and quartz to justify their mining and milling. This can only be determined by further exploration work as recommended. The aggregate length needed in these combined lenses is 9,000 feet, having a depth of mineable ore to 100 feet and not less than 50 feet in width. Having these dimensions there should be approximately 4,000,000 tons of recoverable low cost open pit ore. Estimating, from the small samples taken a 15% mica recovery of mica would furnish 600,000 tons of mica; 60% quartz content of 2,400,000 tons; and 20% feldspar content of 80,000 tons. An estimated crude value in these three minerals will aggregate \$24,000,000 of mica value, \$12,000,000 of quartz value, and \$800,000 of feldspar value, all in crude ore values prior to milling into commercial products. Thus an aggregate value of ore in the project would indicate some \$36,000,000.

If you agree, an overall report can be made up that will cover the costs involved in mining and milling this tonnage, and P&L made up on a proforma basis to furnish values in the production and sales of these products. Also the time factor in producing and milling the ores based on the marketing potential into which they will be sold.

10/Ton

40/Ton

1/3/TON

24/120

61240  
40

The critical factor here is the ore bodies and their recovery on a low cost mining basis. The hauling and milling can be set up on accurate cost basis. Hence I recommend the work be done as recommended above as this is the vital factor in its further development.

Respectfully submitted,

PHILIP S. HOYT

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AIME '59.

PSH:k

**APPENDIX 2**

**A FEASIBILITY REPORT**  
**on the**  
**GEOLOGY, MINING, MILLING AND MARKETING**  
**of**  
**GROUND MICA PRODUCTS**  
**from**  
**PEGMATITE DEPOSITS**  
**of**  
**YAVAPAI COUNTY**  
**ARIZONA**

**by**

**JOE WILKINS**  
Geologist

## PROFESSIONAL BACKGROUND

of  
**JOE WILKINS**  
Tucson, Arizona

Joe Wilkins was awarded a B.S. in Geophysics — Geochemistry (with Distinction) and Honors in Geology from the University of Arizona in 1966. Mr. Wilkins was a graduate student at the same university on the Special Masters program 1966-1967 with a teaching assistantship in geology and will be awarded a Master of Science degree in Geology upon completion of thesis.

Since graduation Mr. Wilkins has been employed by Duval Corporation (a subsidiary of Pennzoil Corp.) as a geologist and chief geophysicist. During this period, he has obtained a broad background in mining and mining exploration including exploration, evaluation, and mining of copper, molybdenum, gold, silver, uranium, tungsten, barite, veralculite, sulfur, potash, and phosphate. Mr. Wilkins was directly involved in exploration and evaluation of deposits in the U. S., Canada, Mexico, and Alaska.

Joe Wilkins is affiliated with the following professional and honorary societies:

- American Institute of Mining Engineers
- American Geophysical Union
- Society of Exploration Geophysicists
- Society of Geoelectricity and Geomagnetism of Japan
- Sigma Gamma Epsilon (Earth Science Honorary)
- Arizona Geological Society

Recently Mr. Wilkins was instrumental in the development of an induced polarization continuous borehole logging unit and new borehole techniques for evaluation of porphyry copper deposits.

JOE WILKINS

## SUMMARY

The Mica Mule mining property 25 miles north of Phoenix contains a mineable tonnage of muscovite mica that if mined will yield a superb quality scrap mica. Minimum mineable tonnage on the property is 1,402,710 tons of 40-50% mica that can be mined by open-pit methods at a 1.5 to 1 stripping ratio. This tonnage contains <sup>30%</sup> 701,355 tons of high-quality scrap mica.

The mica is contained in a NNE-trending series of pegmatite dikes conformably intruding Pre-Cambrian Yavapai Group schists. The differential weathering of the pegmatites and schists results in ridge-valley topography with bold outcrops of pegmatite forming ridges. The nature of the pegmatite outcrops yields an excellent environment for mining.

The mica will be mined in 8 separate open-pit mines yielding 300 tons/day of mica with removal of 450 tons/day of waste. The ore will be processed in a 300 tons/day capacity mill located near Gillette, Arizona, on the banks of the Agua Fria River.

For 40 year life the Mica Mule Mine will yield a \$27,323,533.00 profit after taxes (based on previous calculations — may be as much as 100% larger).

The total ore reserves at the Mica Mule Mine are estimated at 12,296,000 tons. At 300 tons/day and a 264 day year, this reserve will last for 155 years.

$$\begin{aligned} &3 \times 10^2 \times 3 \times 10^2 \times 4 \times 10^1 \\ &36 \times 10^5 \\ &3,600,000 \end{aligned}$$

## GENERAL

### Location

The Mica Mule mining claims are located in Yavapai County, approximately 2½ miles due east of Rock Springs-Black Canyon City, Arizona in the Tip Top Mining District. Specifically, the claims are located in Sections 12 and 13, T.8N., R.1E.; Sections 5, 6, 7, and 8, T.8N., R.1½E.; and Sections 17 and 18, T.8N., R.2E.

The mine area is currently accessible only by 4-wheel drive vehicle during the rainy seasons, but at other times, by any durable vehicle. The Table Mesa interchange, 22 miles north of Phoenix on Interstate 17 is the present access road into the mine area. From the interchange it is 5.6 miles Agua Fria River ford at Gillette via county maintained road. It is 8.6 miles from the river along the Tip Top Road to the southern boundary of the Mica Mule claims. With careful grading and a few cuts the road could be shortened to 3.5 to 4 miles.

### Topography — Climate

The claimed area is situated in the foothills of the Bradshaw Mountains in gently rolling terrain. Several sharply incised drainage channels present minor — and the only — topographic obstacles to easy development of the Mica Mule Mine. The elevation ranges from 2000 to 2500 feet A.S.L. in the main area of interest.

This portion of the Bradshaw range is semi-arid desert receiving an estimated 12-14 inches of rainfall per year. Vegetation is typical Upper Sonoran, consisting of various cacti, mesquite, palo verde, desert shrubs, with riparian vegetation along major drainages. The annual rainfall should be sufficient to charge a small strategically placed reservoir to provide water at the mine site. In addition, numerous springs exist at or near the granite-schist contact that could easily be developed providing a steady water flow.

### Property and Legal Status

The Mica Mule claim block consists of 48 contiguous, unpatented lode mining claims located on Federal land administered by the U.S. Bureau of Land Management. As shown on Plate II, the claim block is rectangular in outline, 8 claims across and 6 claims long, covering in excess of 960 acres. Each claim is 600 ft. wide and 1500 ft. long with extra lateral rights. The claims are in good standing and held virtue of annual assessment work as specified by Arizona Mining Law.

### History

Although the Tip Top Mining District is one of the oldest in Arizona — established in the 1870's — no significant mineral production has transpired since the closing of the Tip Top Mine near the turn of the century. No known mica production of any sort has been recorded.

The district has however undergone extensive prospecting as witnessed by the abundant abandoned claims. The claims were apparently staked for base metals, precious metals and/or uranium but abandoned when economic amounts of these metals were not found.

During the late 1960's and early 1970's, the Mica Mule group of claims were staked by Herman Harrison and Associates of Phoenix, Arizona. In 1971, the Harrison Mining and Exploration Company, Inc. was incorporated under the laws of the State of Arizona. The 48 Mica Mule claims were then assigned to this corporation. Following assignment, an intensive program of sampling and trenching was undertaken by the company and an extensive road network was established to provide needed access. As a result of this exploratory effort it was concluded that a large body of high quality muscovite mica of sufficient size to support a moderate mining and milling operation existed on the property. At this time, Harrison Mining and Exploration, Inc. management made plans to establish a mine and mica mill to process the high grade muscovite mica and undertook a series of feasibility studies to establish the optimum mining and milling rate to provide the greatest economic return.

A feasibility report on mill size, milling flowsheet, milling characteristics of the mica, and general milling economics was completed by mica expert, P. S. Hoyt in June, 1972. It was concluded that the Mica Mule Muscovite will produce a scrap mica product ". . . OF SUPERLATIVE QUALITY AS TO WHITE COLOR, BRIGHTNESS AND INHERENT SHEEN AND BRILLIANCE."

This report follows and summarizes the favorable results obtained by Mr. P. S. Hoyt.

## GEOLOGY

### Introduction

During portions of January through March, 1973 a program of detailed mapping and sampling was undertaken at the Mica Mule property. Following a general reconnaissance of the claims, a small portion of the center of the claim block was selected for small-scale geologic mapping. The area covered contains an exceptionally large and persistent pegmatite dike swarm approximately 1 mile long and 200 to 1,000 ft. wide containing 4 major dikes and innumerable smaller dikes. Each dike contains from 30 to 80% coarse-to medium-grained muscovite.

The dike swarm was mapped at 1 in. = 100 ft. scale with brunton and chain control. The geologic maps on Plates III and IV are the result of this mapping program. A total of 22,750 feet (4.31 miles) of pegmatite dike was mapped representing an estimated 50% of the existing dikes in the claimed area. During mapping, 19,000 feet of controlled traverses were made beginning at a known point and closing on that or another known point. Accuracy was excellent — most traverses closing within 10 feet and never exceeding 25 feet.

As shown on the map, the width of each dike was measured at inflection points along with the attitude of each contact and the grade of muscovite estimated.

### Regional Geology

The mine area is situated along a major Pre-Cambrian pegmatite belt extending from Cleator, Arizona in the north to the White Picacho District near Morristown, Arizona in the southwest. The belt is arcuate paralleling the contact between the Yavapai Group schists and a major granitic batholith, both of Pre-Cambrian age. Recent volcanic flows cover a large area south and east of the claims but are not present on the claims.

The deposit consists of a major pegmatite dike swarm trending N.10°E. to N.30°E. about 600 to 1,000 feet east of the granite-schist contact. Exposures of the dikes are excellent as they stand out in bold relief forming ridges and walls up to 25 feet in height above the intruded schist.

The pegmatite dikes generally are conformable with the intruded Yavapai Group schists but in a few instances cut across the schist trend. The rock sequence is as follows:

Pegmatite dikes

Granite

Yavapai Group schists

The oldest rocks are the schists and the youngest the pegmatites — all of older Pre-Cambrian age.

The *Yavapai Group schists* form the country rock throughout the claimed area. The schists are sericite-staurolite schists with porphyroblasts of staurolite set in a fine-grained sericite groundmass. The schist is quite soft weathering to topographic lows. It appears to be deeply weathered and should be easily rippable.

In one part of the claimed area, a thin but persistent rhyolite tuff breccia unit occurs with adjacent quartz-tourmaline veining. Several small, isolated occurrences of base metals exist along the margins of the rhyolite. Argentiferous and gold-bearing galena was noted at one prospect pit and oxidized chalcocopyrite at several other small pits along the rhyolite-schist contact.

The *Granite* intrudes the schist along the schistosity but with numerous parallel and transverse granite dikes. Several large pegmatites parallel and cut the contact. The contact is marked by an abundance of these pegmatites. An example of the complex nature of the contact is illustrated in the southwest corner of the mapped area. Several granite dikes grade laterally into coarse grained pegmatites along strike of the dike. The granite-schist contact is highly sericitic, probably from assimilation and remobilization of the intruded sericite schist.

Several granite dikes are present east of the mapped area paralleling the pegmatite dike swarm. Often these sericitic granite dikes grade laterally into pegmatites along strike.

In all instances, the granite is highly sericitic, coarse-grained, and consists essentially of quartz, potassic feldspar, and sericite. A common genesis between the granite and pegmatites is obvious.

The *Pegmatite* dike swarm consists of numerous NNE-trending dikes that pinch and swell and merge and separate. The pegmatite is simple granite consisting of very coarse to medium grained, subhedral to euhedral, crystals of milky quartz, potassic feldspars, and muscovite mica. No pronounced zoning of the components was noted except for a tendency in the larger masses for large aggregates of each mineral to occur together in an almost random fashion. In general, the larger the dike the larger the grain size.

Few accessory minerals were noted in the dikes. Noted were garnet, lithiophilite, and schorl tourmaline. The tourmaline occurs in the *schist* along the dike margins in irregular and inconsistent masses. Garnet and the manganese-bearing lithiophilite occur only on the northern and southern extremes of the deposit. Total accessory mineral content of the deposit will NOT exceed 0.1%.

The width of the dikes vary from 6 inches to 60 feet pinching and swelling along strike and probably with depth. In numerous instances several smaller dikes will merge along strike to form a single large dike and conversely. When visible along washes several dikes were seen to merge vertically forming a single unit. The Southern group of dikes is an excellent example of dikes merging along strike and with depth. Despite the pinching and swelling of the dikes, most are remarkably consistent along strike if an average width is considered. Most major dikes will maintain an average width for several hundred feet along strike. Along-strike characteristics of the dikes can be considered an excellent approximation of their depth characteristics.

Dips ranging from 45° to vertical were measured along the dikes. However, most of the dikes are essentially vertical. The shallow dips seems to represent an offshoot of a major dike and generally indicate merging of dikes with depth. The depth extent of the dike system is unknown but probably exceeds 500 feet — this is the amount of relief between the North and South ends of the dike swarm.

Numerous NW to WNW fault zones cut and offset the dike swarm yielding an apparent echelon series. The faults are probably normal faults with a small strike-slip component. A large portion of the dikes have undergone extensive shearing perpendicular to strike yielding a crumbly shattered rock. This sheeted rock is not quite as resistant to weathering and generally forms low (3-5 ft.) walls but should provide excellent, easily crushable mill feed. An estimated 50% of the dike rock has undergone shattering.

### **The Ore Minerals**

The primary ore minerals is muscovite mica, of exceptional quality and purity. Both gangue minerals quartz and potassic feldspars are potential by-products. In most of the areas to be mined the rock will average 40-50% mica with equal amounts of quartz and feldspar (25-30% each). Thus 10 tons of ore will theoretically yield:

4-5 tons of mica

2.5-3 tons of quartz

2.5-3 tons of potash feldspar

If markets can be found for both by-products there will be no waste from the milling operation.

*Muscovite mica* occurs in the pegmatite as unusually clean subhedral books with very few — if any — visible impurities. The books range in size from 12 in. across to less than 1/16 in. across. Average

sizes throughout the area are ¼ in. to 1 in. diameter books. The following size classification is used in this report:

- Fine — Less than ¼ in.
- Medium — ¼-½ in.
- Coarse — ½-1 in.
- Very Coarse — Greater than 1 in.

The average size of the mica in the main areas of interest is medium to coarse grained.

The average grade (as estimated) throughout the area is 35 to 45% with areas ranging up to 80% mica. The Geologic map on Plate IV shows the estimated mica content throughout the area mapped.

The muscovite is pale-green to yellow-green on fresh surface and occurs as aggregates of books. Often the aggregates constitute 80% of the rock in a pegmatite that averages 40% mica. The yield from these areas should be excellent as many aggregates are several feet in length and width. In the lower grade pegmatites the mica occurs as individual, non-oriented, discrete books. Owing to the nature of the muscovite as aggregates and fairly large discrete books, mill recovery should be excellent.

The muscovite at the Mica Mule Mine will provide an excellent high-purity product. Although the possibilities of sheet mica of good quality exist the primary product is scrap mica which will provide an excellent product for reconstituted mica, for paints, rubber filler, plastics, and wallpaper in addition to uses in the oil drilling industry, lubricants, welding rods, etc.

The *byproduct* feldspar and quartz are of sufficient quality and quantity to consider additional market research. The feldspars are microcline and orthoclase and suitable for the glass, ceramic, and pottery industries. The feldspar and quartz occur as discrete subhedral crystals and aggregates of crystals throughout the deposit. In general, feldspar exceeds quartz but quartz often forms veins or veinlike masses of pure quartz within the pegmatite. The individual crystal sizes are quite large in comparison with the micas with feldspars up to 2 ft. across noted.

All minerals in the deposit occur as separate, non-interlocking crystals so segregation should be quite simple.

## ORE RESERVES

### Method of Calculation

Ore reserves were calculated by measurement of surface area of each dike and dike segment. The surface area was converted to *tons per vertical foot* by division by a tonnage factor of 12.5 cubic feet/ton. Then tonnages were calculated for walls above surface and for assumed vertical wall depths of 50, 100, 150, 200, and 500 feet.

Open pit tonnages were calculated by sectional data across the dike. Sections were constructed and an assymetrical pit designed, with 45° and 60° slopes, then the tonnage for each pit calculated.

### Ore Reserves

For a total dike length of 22,750 feet covering an area of 150,370 square feet, the potential tonnage is 122,960 tons per vertical foot. Assuming vertical contacts for the dikes, the tonnage for various depths can be calculated:

Depth	Tonnage
50 ft.....	6,148,000 tons
100 ft.....	12,296,000 tons
150 ft.....	18,444,000 tons
200 ft.....	24,592,000 tons
500 ft.....	61,480,000 tons

Although the vertical contact assumption is not valid it will yield a good approximation of the tonnage for shallow depths (up to 100 ft.). Contacts that dip inward should be balanced by the number of contacts dipping outward yielding an average of vertical.

**Wall Tonnage**

Wall of pegmatite above ground on the property are numerous ranging up to 25 ft. in height. Variations in wall heights are shown color-coded on Plate III. Only walls greater than 5 ft. height were included in the wall tonnage, although *each* dike forms a bold outcrop above the enclosing schist and always mineable.

$$\text{Wall tonnage} = 66,310 \text{ tons}$$

In addition to the walls there is a large tonnage of boulders adjacent to the dikes that can and should be mined. The boulder tonnage is estimated at approximately 1/3 of the wall tonnage:

$$\text{Boulder tonnage} = 20,000 \text{ tons}$$

Thus the boulder and wall tonnage will yield approximately 86,000 tons of easily mineable material, enough to operate a 300 t/d mill for 1 year.

**Open Pit Tonnage**

A total of 8 areas was selected as open-pit mine areas. This is by no means all inclusive and many other areas are present that will provide a substantial tonnage of open-pit mineable ore. Each pit is shown on Plate III and individual sections on Figures 1 through 6. Each pit was selected by size of outcrop, grade, location, and topographic relief. In three instances small pits with larger stripping ratios were included because of their very high mica content.

The pit name, tonnage, grade, and stripping ratio are as follows:

<u>Pit</u>	<u>Tonnage</u>	<u>Grade</u>	<u>Stripping Ratio</u>
North.....	450,000	40-60%	1:1
North #2.....	14,000	60-70%	2:1
Central.....	52,000	50-60%	1.5:1
Central #2.....	90,000	35-45%	1.5:1
North Central.....	18,200	50-60%	2:1
N.C. #1.....	7,200	60-70%	2:1
N.C. #2.....	5,000	70-80%	2:1
South pit complex.....	680,000	35-50%	1:1
Total Tonnage.....	1,316,400	40-50%	1.5-1

This is an open-pit tonnage of 1,316,400 tons grading 40-50% mica at a stripping ratio of 1.5 tons waste to 1 ton of ore exist on the Mica Mule property.

**Total Mineable Tonnage**

If the open-pit tonnages are combined with the wall and boulder tonnages, the total easily mineable tonnage available is:

Open-pit tonnage.....	1,316,400 tons
Wall tonnage.....	66,310 tons
Boulder tonnage.....	20,000 tons
Total.....	<u>1,402,710 tons</u>

If the ore is mined and processed at a rate of 300 tons per day and a 264-day year, this reserve will last 4,675 days or 18 years of operation.

**APPENDIX 3**



December 5, 1977

Mr. G. M. Shupe  
G.M.S. Company, Inc.  
14435 N. 71st Street  
Scottsdale, Arizona

Dear Mr. Shupe:

The accompanying statement of assets and liabilities as of November 30, 1977 and related statement of revenues and expenses for the two months ended November 30, 1977 have been prepared without audit.

We have not carried out any auditing procedures with respect to these financial statements, and therefore we do not express any opinion whatever concerning them. A statement of changes in financial position has not been included in these interim financial statements.

Yours Truly,

/s/ Philip R. Hurlbut

PHILIP R. HURLBUT

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A.S.P.A.

N.S.P.A.

**G. M. S. COMPANY, INC.**

**BALANCE SHEET**

**November 30, 1977**

**ASSETS**

**Current Assets**

Cash.....	\$	19,690.23
Valley National Savings.....		48,000.00
Accounts Receivable.....		314,929.54
Office Supplies.....		2,443.86
Contracts in Progress Receivable.....		<u>286,973.51</u>

TOTAL CURRENT ASSETS..... **\$ 672,037.14**

**Fixed Assets**

Furniture and Fixtures.....	\$	9,778.78
Allowance for Depreciation.....		(9,778.78)
Leasehold Improvements.....		2,291.57
Amortization of Leasehold Improvements.....		(143.27)
Tacoma Terminal(1).....		<u>374,000.00</u>

TOTAL FIXED ASSETS..... **\$ 376,148.30**

**Investments and Other Assets**

Sun Shade Company.....	\$	5,000.00
Mica Mule Mine.....		5,000.00
Other.....		<u>238.0</u>

TOTAL INVESTMENTS AND OTHER ASSETS..... **\$ 10,238.00**

**Equipment, Autos and Trucks**

Construction Equipment.....	\$	86,659.54
Allowance for Depreciation.....		(86,159.54)
Small Tools.....		2,703.83
Allowance for Depreciation.....		(2,703.83)
Office Equipment.....		11,095.75
Allowance for Depreciation.....		(6,690.34)
Autos and Trucks.....		93,717.62
Allowance for Depreciation.....		<u>(24,853.69)</u>

TOTAL EQUIPMENT, AUTOS AND TRUCKS..... **\$ 73,769.34**

TOTAL ASSETS..... **\$1,132,192.78**

- (1) The sale of the Tacoma Terminals to the Port Authority is expected to close in early 1978 and the amount appearing in the Balance Sheet represents that portion of the total value belonging to G.M.S. Company, Inc.
- (2) The total of all fully depreciated fixed assets is \$104,942.90 which can be interpreted as additional net worth not appearing directly in the net worth of G.M.S. Company, Inc.

See accountant's letter attached.

**G. M. S. COMPANY, INC.**

**BALANCE SHEET**

**November 30, 1977**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current Liabilities**

Notes Payable:

First Federal Loan.....	\$121,202.67	
Valley National Loan.....	21,499.23	
Escrow Accounts.....	27,125.00	
C. M. Sheeder.....	13,997.51	
G. M. Shupe.....	176,975.74	
Autos and Trucks.....	63,595.58	
Accounts Payable.....	<u>8,719.13</u>	
<b>TOTAL LIABILITIES.....</b>		<b>\$ 433,114.86</b>

**Stockholders' Equity**

Capital:

Capital Stock.....	\$ 10,000.00	
Additional Paid-in Capital.....	378,592.16	
Retained Earnings, Prior Period.....	1,030.86	
Retained Earnings, Current.....	<u>309,454.90</u>	
<b>TOTAL STOCKHOLDERS' EQUITY.....</b>		<b>\$ 699,077.92</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS'</b>		
<b>EQUITY.....</b>		<b><u>\$1,132,192.78</u></b>

See accountant's letter attached.

G. M. S. COMPANY, INC.

STATEMENT OF INCOME

For the Two Month Period Ending November 30, 1977

REVENUES

Income

Construction.....	\$325,000.00
Rentals.....	1,599.20
Joint Venture.....	8,049.91
Other.....	413.28

TOTAL INCOME..... \$335,062.39

EXPENSES

Direct Expense

Cost of Construction including Labor, Equipment and Supplies. \$ 13,970.55

TOTAL DIRECT EXPENSE..... \$ 13,970.55

General and Administrative Expense

Auto Expense.....	\$ 2,238.07
Equipment Repairs and Maintenance.....	120.74
Consultants, Legal.....	2,515.64
Telephone, Radio Communications.....	886.17
Utilities.....	219.63
Travel and Entertainment.....	2,548.80
Insurance.....	2,303.03
Miscellaneous.....	10.00
Interest.....	392.67
Advertising.....	12.60
Depreciation.....	389.59

TOTAL GENERAL AND ADMINISTRATIVE EXPENSE..... \$ 11,636.94

TOTAL EXPENSES..... \$ 25,607.49

TOTAL INCOME..... \$335,062.39

TOTAL EXPENSES..... 25,607.49

NET PROFIT..... \$309,454.90

See accountant's letter attached.

**G. M. S. COMPANY, INC.**

**STATEMENT OF INCOME**

**For the Fiscal Year Ending September 30, 1977**

**REVENUES**

**Income**

Sale of Equipment.....	\$ 10,427.40	
Construction.....	116,402.72	
Rentals.....	8,540.00	
Joint Venture.....	41,600.52	
Lease.....	<u>15,435.00</u>	
<b>TOTAL INCOME.....</b>		<b>\$192,405.64</b>

**EXPENSES**

Eldorado Estates, Lot #7.....	\$ 1,691.33	
Phoenix Yard.....	8,113.51	
G. M. Shupe Inc.....	3,071.25	
GMS Equipment Trades.....	5,554.69	
GMS Miscellaneous Jobs.....	7,243.13	
GMS-HAS Joint Venture.....	1,351.55	
GMS-Mitchell Joint Venture.....	4,790.82	
Mica Mine Expense.....	409.57	
Contract Expense (G. M. Shupe).....	101,507.00	
Eldorado Estates Lot #15.....	1,000.00	
Salaries.....	24,072.00	
Office Rent.....	4,828.00	
Auto Expense.....	6,857.45	
Equipment Lease Expense.....	14,029.18	
License — Permits.....	1,519.88	
Office Supplies.....	790.33	
Office Equipment.....	1,067.79	
Office — Other.....	2,234.32	
Consultants, Legal.....	1,913.00	
Equipment Repair.....	2,350.93	
Telephone.....	3,169.14	
Radio Communications.....	2,497.14	
Utilities.....	2,015.30	
Repairs, Small Tools.....	952.55	
Yard Rent.....	450.00	
Travel Expense.....	1,537.75	
Moving Expense.....	3,753.34	
Entertainment.....	396.25	

(Continued)

**G. M. S. COMPANY, INC.**

**STATEMENT OF INCOME (Continued)**

**For the Fiscal Year Ending September 30, 1977**

**EXPENSES (Continued)**

Donations.....	\$ 50.00	
Dues.....	34.00	
Michigan Loader Expense.....	2,127.68	
Payroll Taxes.....	2,781.44	
Bad Debt.....	19,075.00	
Insurance.....	3,899.00	
Engineering Service.....	1,060.00	
Insurance.....	52.00	
Key Employee Hospitalization Insurance.....	1,294.92	
Taxes.....	176.67	
Miscellaneous Expense.....	54.22	
Interest.....	2,082.70	
Freight.....	515.39	
Bank Service Charges.....	25.80	
Advertising.....	150.38	
Loss on Sale of Fixed Assets.....	4,691.08	
Depreciation Expense.....	17,276.30	
Loss of Sale of Investment GNS-Mitchell.....	<u>21,500.00</u>	
TOTAL EXPENSES.....		\$286,013.78
NET PROFIT (LOSS).....		<u><u>\$(93,608.14)</u></u>

Unaudited

**G. M. S. COMPANY, INC.**

**BALANCE SHEET**

**September 30, 1977**

**A S S E T S**

**Current Assets**

Cash in Bank.....	\$	7,734.12
Accounts Receivable.....		21,291.82
Office Supplies.....		2,443.86
Contracts in Progress Receivable.....		280,158.87

TOTAL CURRENT ASSETS..... **\$311,628.67**

**Fixed Assets**

Furniture and Fixtures.....	\$	9,778.78
Allowance for Depreciation.....		(9,778.78)
Leasehold Improvements.....		2,291.57
Amortization of Leasehold Improvements.....		143.27
Tacoma Terminal.....		374,000.00

TOTAL FIXED ASSETS..... **\$376,148.30**

**Investments and Other Assets**

Sun Shade Company.....	\$	5,000.00
Mica Mule Mine.....		5,000.00
Other.....		238.00

TOTAL INVESTMENTS AND OTHER ASSETS..... **\$ 10,238.00**

**Equipment, Autos and Trucks**

Construction Equipment.....	\$	86,659.54
Allowance for Depreciation.....		(86,659.54)
Small Tools.....		2,703.83
Allowance for Depreciation.....		(2,703.83)
Office Equipment.....		11,095.75
Allowance for Depreciation.....		(6,690.34)
Autos and Trucks.....		53,679.06
Allowance for Depreciation.....		(24,853.69)

TOTAL EQUIPMENT, AUTOS AND TRUCKS..... **\$ 33,230.72**

TOTAL ASSETS..... **\$731,245.69**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current Liabilities**

<b>Notes Payable:</b>		
First Federal Loan.....	\$	121,202.67
Valley National Loan.....		24,000.00
Contract Payable — G. M. Shupe.....		101,507.00
Escrow Accounts.....		27,125.00
C. M. Sheeder, Loan.....		13,997.51
G. M. Shupe, Loan.....		116,484.42
Autos and Trucks.....		28,548.70
Accounts Payable.....		4,359.08

TOTAL LIABILITIES..... **\$437,224.38**

**Stockholders' Equity**

<b>Capital:</b>		
Capital Stock.....	\$	10,000.00
Additional Paid In Capital.....		377,629.45
Retained Earnings, Current Period.....		(93,608.14)

TOTAL STOCKHOLDERS' EQUITY..... **\$294,021.31**

TOTAL LIABILITIES AND  
STOCKHOLDERS' EQUITY..... **\$731,245.69**

Unaudited

**G. M. S. COMPANY, INC.**  
**STATEMENT OF INCOME**  
**For the Year Ending September 30, 1976**

**REVENUES**

**Income**

Equipment Income.....	\$ 82,707.38
Miscellaneous.....	22,531.93
Construction Contracts.....	<u>70,638.72</u>

TOTAL INCOME.....

\$175,878.03

**EXPENSES**

Equipment and Miscellaneous Job Expense.....	\$ 76,790.95
El Dorado Estates, Lot #16.....	70,638.72
El Dorado Estates, Lot #17.....	686.73
Phoenix Yard.....	284.20
Utilities.....	468.56
Telephone.....	264.67
Office Supplies.....	423.21
Truck Repair.....	(26.54)
Interest.....	295.50
Taxes, License.....	558.70
Legal Services.....	1,336.53
Bank Service Charges.....	8.02
Moving Expense.....	5,145.73
Maintenance, Warehouse-Office.....	66.17
Rent, Warehouse-Office.....	2,764.00
Travel Expense.....	122.02
Copy Machine.....	539.70
Auto Expense.....	242.60
Bad Debts.....	16,798.99
Depreciation Expense.....	<u>10,337.57</u>

TOTAL EXPENSES.....

\$187,746.03

NET PROFIT (LOSS).....

\$(11,868.00)

Unaudited

**G. M. S. COMPANY, INC.**

**BALANCE SHEET**

**September 30, 1976**

**A S S E T S**

**Current Assets**

Cash in Bank.....	\$	8,605.43
Utility Deposit.....		115.00
Accounts Receivable.....		2,673.31
Travel Advances, Employees.....		(2,373.18)
Work in Progress, Lot #16.....		70,638.72

TOTAL CURRENT ASSETS..... \$ 84,405.64

**Fixed Assets**

Furniture and Fixtures.....	\$	9,778.78
Allowance for Depreciation.....		(9,778.78)
Investment GMS-HAS J.V.....		17,000.00
Equipment.....		23,355.00
Tacoma Terminal.....		374,000.00

TOTAL FIXED ASSETS..... \$414,355.00

**Equipment, Autos and Trucks**

Construction Equipment.....	\$	86,659.54
Allowance for Depreciation.....		(86,659.54)
Small Tools.....		2,703.83
Allowance for Depreciation.....		(2,703.83)
Autos and Trucks.....		51,679.12
Allowance for Depreciation.....		(10,337.57)

TOTAL EQUIPMENT, AUTOS AND TRUCKS..... \$ 41,341.55

TOTAL ASSETS..... \$540,102.19

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Liabilities**

Accounts Payable.....	\$	5,575.00
Accrued Payroll Tax.....		66.26
Escrow Account.....		25,516.99
G. M. Shupe, Inc. — Other.....		(926.44)
G. M. Shupe Loans to GMS.....		57,000.00
First Federal Loan.....		2,790.00
Valley National Bank Loan.....		12,605.00
Obligation '76 Chevy ½-Ton.....		3,189.34
Obligation '76 Kenworth.....		39,539.76
G. M. S.-HAS Joint Venture.....		17,867.92

TOTAL LIABILITIES..... \$163,223.83

**Stockholders' Equity**

**Capital:**

Capital Stock.....	\$	10,000.00
Additional Paid-in Capital.....		378,746.36
Retained Earnings, Current.....		(11,868.00)

TOTAL STOCKHOLDERS' EQUITY..... \$376,878.36

TOTAL LIABILITIES AND  
STOCKHOLDERS' EQUITY..... \$540,102.19

Unaudited

**C**

**START UP PROJECTIONS**

- 1978 - 1 Fixed Plant Installation Costs
- 1978 - 2 General and Administrative Expenses
- 1978 - 3 Operating Costs
- 1978 - 4 Sales and Selling Expense

## G. M. S. COMPANY, INC.

## MICA MULE MINE PROJECT

## Projected Fixed Plant Installation Costs

	March 1978	April 1978	May 1978	June 1978	July 1978	August 1978	September 1978	October 1978	Total
Roads and Bridges									
Quarry to Pulverizer Plant (5.1 mi.).....	26,000	45,000	36,600						107,600
Pulverizer Plant to Highway (1.8 mi.).....	5,000		16,000	12,000	4,800				37,800
Site Preparation									
Quarry and Pulverizer Plant.....	20,000	40,000	40,000	34,300					134,300
Primary and Secondary Crushing and Screening Plant									
Equipment.....	100,000	50,000		100,000	50,000	25,000			325,000
Installation.....				20,000	20,000	12,000			52,000
Pulverizer Plant									
Equipment.....	50,000					48,900		50,000	148,900
Installation.....			20,000	20,000	10,000	34,500			84,500
Other Site Facilities.....	2,000	2,000	1,000	2,000	2,000				9,000
General and Administrative Expense..	35,000	22,100	14,500	14,000	15,600	14,200			115,400
Fees and Discount.....	240,000								240,000
Funded Interest.....	106,500								106,500
Totals.....	\$584,500	\$159,100	\$128,100	\$202,300	\$102,400	\$134,600		\$ 50,000	\$1,361,000

## G. M. S. COMPANY, INC.

## MICA MULE MINE PROJECT

Projected General and Administrative Expenses  
Fiscal Year Ending September 3, 1978

	March 1978	April 1978	May 1978	June 1978	July 1978	August 1978	September 1978	Annual Total
Management Salaries								
G. M. Shupe.....	3,000	3,000	3,000	3,000	3,500	3,500	3,500	22,500
C. M. Sheridan.....	1,500	1,500	2,000	2,000	2,500	2,500	2,500	14,500
Mgr.-Engr.	2,000	2,000	2,000	2,000	2,000	2,000	2,000	14,000
Total.....	\$ 6,500	\$ 6,500	\$ 7,000	\$ 7,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 51,000
Office Salaries.....	800	800	800	800	900	900	900	5,900
Payroll Taxes.....	2,100	2,100	2,300	2,300	2,700	2,700	2,700	16,900
Telephone and Radio.....	12,000	1,500	400	400	400	400	400	15,500
Travel.....	1,000	1,000	300	300	400	400	500	3,900
Office Expense.....	1,500	3,000	600	600	600	700	700	7,700
Professional Fees.....	4,000	3,000	1,500	1,500	1,500			11,500
Repairs and Maintenance.....	100	100	100	100	100	100	100	700
Engineering Equipment and Supplies.....	6,000	4,000	1,000	500	500	500	500	13,000
Miscellaneous.....	1,000	100	500	500	500	500	500	3,600
Totals.....	\$ 35,000	\$ 22,100	\$ 14,500	\$ 14,000	\$ 15,600	\$ 14,200	\$ 14,300	\$129,700

## G. M. S. COMPANY, INC.

MICA MULE MINE PROJECT  
Projected Operating Costs

Fiscal Year Ending September 30, 1978

	March 1978	April 1978	May 1978	June 1978	July 1978	August 1978	September 1978	Annual Total	
Drill and Shoot Quarry 60,000 cy/yr (15,000 cy/mo) @ 2.78/cy.....					41,700	41,700	41,700	125,100	
Load and Haul to Primary 60,000 cy/yr @ 2.65/cy.....						40,000	60,000	100,000	
Haul to Finish Pulverizer 48,000 tons/yr @ 0.50/ton 4,000 tons/mo.....						2,000	2,000	4,000	
Primary Plant Operation 60,000 cy/yr — 2 mos/yr @ 1.00/cy....						10,000	30,000	40,000	
Finish Plant Operation @ 53,152/mo. cost at capacity.....						10,000	20,000	30,000	
Facilities Maintenance.....						2,000	2,000	4,000	
Insurance — Business and Group Miscellaneous.....		7,000	500	500	500	1,000	12,000	19,000	
Total.....		\$ 7,500	\$ 500	\$ 500	\$ 500	\$ 42,200	\$ 106,700	\$ 168,700	\$ 326,100

1978-4

## G. M. S. COMPANY, INC.

MICA MULE MINE PROJECT  
Projected Sales and Selling Expenses

Fiscal Year Ending September 30, 1978

	March 1978	April 1978	May 1978	June 1978	July 1978	August 1978	September 1978	Annual Total
Sales								
Monthly Production — Tons.....							1,000 T	1,000 T
Total Sales.....							120,000	120,000
Selling Expenses								
Business Promotion.....					500	500	600	1,600
Travel.....					500	600	600	1,700
Auto Expense.....					400	400	400	1,200
Miscellaneous.....					500	500	500	1,500
Total Selling Expense.....					\$ 1,900	\$ 2,000	\$ 2,100	\$ 6,000
Costs and Expenses								
Production Costs.....		7,500	500	500	42,200	106,700	168,700	326,100
Sinking Fund.....							10,000	10,000
Plant Setup and Initial Operation.....	418,000	159,100	128,100	202,300	102,400	172,100		1,182,000
General and Administrative.....							14,300	14,300
Cost and Expenses — Totals.....	\$ 418,000	\$ 166,600	\$ 128,600	\$ 202,800	\$ 146,500	\$ 280,800	\$ 195,100	\$ 1,538,400
Cost and Expenses — Cumulative.....	418,000	584,600	713,200	916,000	1,062,500	1,343,300	1,538,400	
Net Earnings (losses).....	(418,000)	(166,600)	(128,600)	(202,800)	(146,500)	(280,800)	(195,100)	(1,418,400)
Net (Loss) Cumulative....	(418,000)	(584,600)	(713,200)	(916,000)	(1,062,500)	(1,243,300)	(1,418,400)	

**D**

**ONE YEAR DETAIL PROJECTIONS**

- 1979 - 1    General and Administrative Expenses
- 1979 - 2    Operating Costs
- 1979 - 3    Sales and Selling Expenses
- 1979 - 4    Cost/Ton and Net Earnings



G. M. S. COMPANY, INC.

MICA MULE MINE PROJECT

Projected Sales and Selling Expense

Fiscal Year Ending September 30, 1979

	October 1978	November 1978	December 1978	January 1979	February 1979	March 1979	April 1979	May 1979	June 1979	July 1979	August 1979	September 1979	Annual Total
<b>Sales</b>													
Monthly Production — Tons.....	1,000T	2,000T	2,000T	3,000T	3,000T	3,000T	3,000T	3,000T	3,000T	3,000T	3,000T	3,000T	32,000T
Cumulative Production — Tons.....	1,000T	3,000T	5,000T	8,000T	11,000T	14,000T	17,000T	20,000T	23,000T	26,000T	29,000T	32,000T	32,000T
Total Sales.....	\$120,000	\$240,000	\$240,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$3,840,000
<b>Selling Expense</b>													
Business													
Promotion.....	600	700	700	800	800	800	800	800	800	800	800	800	4,200
Travel.....	600	600	700	700	700	700	700	700	700	700	700	700	8,200
Auto Expense.....	500	600	600	700	700	700	700	700	700	700	700	700	8,000
Miscellaneous.....	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Total Selling Expenses.....	\$ 2,200	\$ 2,400	\$ 2,500	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 31,400
<b>Costs and Expenses</b>													
Production.....	144,700	34,000	54,000	57,100	57,100	57,100	57,100	57,100	57,100	126,500	214,000	228,500	1,430,000
Fixed Plant													
Installation.....	50,000												50,000
Sinking Fund.....	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Interest and Fees.....				37,500	37,500						37,500		75,000
General and Administrative Expense.....	14,900	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	179,900
<b>Costs and Expense Totals.....</b>	\$221,800	\$ 61,400	\$ 81,500	\$ 84,800	\$122,300	\$ 84,800	\$ 84,800	\$ 84,800	\$ 84,800	\$ 126,500	\$ 214,000	\$ 228,500	\$1,480,000
<b>Costs and Expense Cumulative..</b>	221,800	283,200	364,700	449,500	571,800	656,600	741,400	826,200	911,000	1,037,500	1,251,500	1,480,000	
<b>Net Earnings (loss).....</b>	(101,800)	178,600	158,500	275,200	237,700	275,200	275,200	275,200	275,200	233,500	146,000	131,500	2,360,000
<b>Net Earnings Cumulative..</b>	(101,800)	76,800	235,300	510,500	748,200	1,023,400	1,248,600	1,573,800	1,849,000	2,082,500	2,285,000	2,360,000	
													Average cost per ton..... 46.25/ton

**G. M. S. COMPANY, INC.****MICA MULE MINE PROJECT****Projected****Cost per Ton and Net Income First Year****AVERAGE COST PER TON**

Cost 10/78 through 9/79.....	\$1,480,000
Cost 3/78 through 9/78.....	195,000
General and Administrative 3/78 through 9/78.....	129,700
Fees and Interest 3/78 through 9/78.....	<u>217,500</u>
Total Production Cost to 9/79.....	\$2,012,200
Total Tons to 9/79.....	33,000 = \$60.97/ton

**NET EARNINGS CALCULATION**

Cumulative Income through 9/79.....	\$2,123,600
Less Costs 3/78 through 9/78.....	(493,300)
Royalty 12% of Gross Sales (3.96M).....	<u>(475,000)</u>
Net Income First Year.....	\$1,155,300

**E**

**FIVE YEAR PROJECTIONS**

1983 - 1    General and Administrative Expenses

1983 - 2    Operating Costs

1983 - 3    Sales and Selling Expenses

Recap Including Depletion Allowance,  
Income Taxes and Net Earnings

## G. M. S. COMPANY, INC.

**MICA MULE MINE PROJECT**  
**Projected General and Administrative Expense**  
**Five Year Period Ending September 30, 1983**

	1979	1980	1981	1982	1983	5 Year Totals
Management Salaries.....	\$ 96,000	\$105,600	\$116,160	\$127,770	\$140,550	\$ 586,080
Office Salaries.....	14,400	15,840	17,425	19,165	21,085	87,915
Payroll Taxes.....	34,800	38,280	42,110	46,320	50,950	212,460
Telephone and Radio.....	5,900	6,490	7,140	7,850	8,640	36,020
Travel.....	6,000	6,600	7,260	7,990	8,780	36,630
Office Expense.....	8,400	9,240	10,160	11,180	12,300	51,280
Professional Fees.....	1,200	1,320	1,450	1,600	1,760	7,330
Repairs and Maintenance.....	1,200	1,320	1,450	1,600	1,760	7,330
Engineering Equipment and Supplies.....	6,000	6,600	7,260	7,990	8,780	36,630
Miscellaneous.....	6,000	6,600	7,260	7,990	8,780	36,630
Totals.....	<u>\$179,900</u>	<u>\$197,890</u>	<u>\$217,675</u>	<u>\$239,455</u>	<u>\$263,385</u>	<u>\$1,098,305</u>

1983-2

## G. M. S. COMPANY, INC.

**MICA MULE MINE PROJECT**  
**Projected Operating Costs**  
**Five Year Period Ending September 30, 1983**

	1979	1980	1981	1982	1983	5 Year Totals
Drill and Shoot.....	\$ 166,800	\$ 183,480	\$ 201,830	\$ 222,000	\$ 244,220	\$1,018,330
Load and Haul to Primary.....	159,000	174,900	192,390	211,630	232,790	970,710
Haul to Finish Pulv.....	24,000	26,400	29,040	31,940	35,140	146,520
Primary Plant Operation.....	60,000	66,000	72,600	79,860	87,850	366,310
Finish Plant Operation.....	578,370	701,610	771,770	848,940	933,840	3,834,530
Facilities Maintenance.....	12,000	13,200	14,520	15,970	17,570	73,260
Insurance — Business and Group.....	12,000	13,200	14,520	15,970	17,570	73,260
— Miscellaneous.....	12,000	13,200	14,520	15,970	17,570	73,260
Totals.....	<u>\$1,024,170</u>	<u>\$1,191,990</u>	<u>\$1,311,190</u>	<u>\$1,442,280</u>	<u>\$1,586,550</u>	<u>\$6,556,180</u>

## G. M. S. COMPANY, INC.

**MICA MULE MINE PROJECT**  
**Projected Sales and Selling Expense**  
**Depletion Allowance, Income Taxes and Net Income**

	1979	1980	1981	1982	1983	Totals
Sales — Tons.....	32,000T	32,000T	32,000T	32,000T	32,000T	160,000T
Total Sales.....	\$3,840,000	\$4,224,000	\$4,646,400	\$5,111,040	\$5,622,140	\$23,443,580
Interest Earned on Sinking Fund.....	3,250	9,250	15,250	21,250	27,250	76,250
Total Income.....	\$3,843,250	\$4,233,250	\$4,661,650	\$5,132,290	\$5,649,390	\$23,519,830
Costs and Expenses						
Selling Expense.....	31,400	35,370	39,880	45,050	50,970	202,670
Production.....	1,024,170	1,191,990	1,311,190	1,442,280	1,586,550	6,556,180
Sinking Fund.....	120,000	120,000	120,000	120,000	120,000	600,000
Interest and Fees.....	75,000	75,000	75,000	75,000	75,000	375,000
General and Administrative.....	179,900	197,890	217,675	239,455	263,385	1,098,305
Extra Ordinary Expense 1977-78.....	493,300					493,300
Royalties (12%).....	460,800	506,880	557,570	613,320	674,660	2,813,230
Total Costs and Expenses.....	\$2,384,570	\$2,127,130	\$2,321,315	\$2,535,105	\$2,770,565	\$12,138,685
Earnings Before Income Taxes.....	\$1,458,680	\$2,106,120	\$2,340,335	\$2,597,185	\$2,878,825	\$11,381,145
Depletion Allowance (Sales less Royalties x 22%).....	743,424	817,766	899,542	989,499	1,083,445	4,538,677
Earnings Subject to Income Taxes.....	715,256	1,288,354	1,440,792	1,607,686	1,790,380	6,842,468
Income Taxes — 50%.....	357,628	644,177	720,396	803,843	895,190	3,421,234
Net Income (loss).....	\$1,101,052	\$1,461,943	\$1,619,939	\$1,793,342	\$1,983,635	\$ 7,959,911