



## **CONTACT INFORMATION**

Mining Records Curator  
Arizona Geological Survey  
1520 West Adams St.  
Phoenix, AZ 85007  
602-771-1601  
<http://www.azgs.az.gov>  
[inquiries@azgs.az.gov](mailto:inquiries@azgs.az.gov)

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URNEY, IRVIN & ASSOCIATES

P. O. BOX 595  
SAHUARITA, ARIZONA

July 28, 1960

Mr. L. E. Broadhurst  
2037 E. Rancho Drive  
Phoenix, Arizona

Appendix "A"

Re: Ellsworth Mining Property,  
Cochise County, Arizona

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Dear Mr. Broadhurst

At Mr. Earl Ellsworth's request of July 26 and your verification of this date, this letter will outline the results of and opinions gained during my visit to Mr. Ellsworth's Ash Creek property. This visit, made on June 25, 1960, was of one day's duration and was a reconnaissance of the ground. No samples for assay were taken nor was any verification of property status made.

Mr. Ellsworth's claims cover over two square miles of federal and state land adjoining the International Boundary in Cochise County, lying principally in but not restricted to, sections 16 and 17 of T.24S., R.29E. They are some 10 miles due east of Douglas. The topography is hilly with relief of around 500 feet. Climate and vegetation are typical of the Sonoran Desert. Jeep roads, in fair condition at the time of the examination, provide access to the claims. The road from Douglas is two lane and graded.

Two principal rock groups are present. Oldest of these are the limestones and clastic sediments of the Bisbee Group (Cretaceous). These older rocks have been intruded by fine-grained, thick porphyry dikes or sills ranging in composition from monzonite to andesite. Contacts between the two rock groups are sharp and stand out upon inspection by their color contrast. The exposures of these igneous rocks are irregular in plan and indicate highly variable strike. Megascopic alteration of the igneous rocks is not intense but one has weathered to a seal-brown color, suggestive of oxidized pyrite. No pyrite was observed. Only slight and localized alteration of the sediments at the igneous contact has taken place. This appears to be mostly halting with some sparse development of epidote.

Principal mineralization in the area is galena and its oxidized products and there are minor, although locally impressive, amounts of primary and secondary copper minerals. It is my understanding that some silver has been mined from the district, and if such is the case, there is the added possibility of presence of this metal in the Ellsworth claims.

It is difficult to assess the amount of lead mineralization present since the various lead minerals are widely spread in the area. There does not seem to be a single definitive mineralized zone but rather a mineralized area consisting of a number of prospected and developed shows. In general the lead mineralization occurs in faulted and fractured limestone and appears to increase in abundance in the rocks closer to igneous contacts. The small amount of copper mineralization is fracture associated and erratically distributed.

Mr. L.E. Broadhurst  
 Phoenix, Arizona  
 July 23, 1960 ----- 2

Most of the mineral shows have been developed by shallow cuts and pits and several by more extensive work such as deep cuts and a shaft. The one shaft seen at the time of examination was inaccessible. This shaft, near a contact between dike and limestone appeared to be about 100 feet deep and had a moderate sized dump. Material on the dump indicates that some lead and minor copper may have been present in the workings.

None of the work done so far on the claims has blocked out any positive tonnage of ore but, instead, has opened the many shows of mineralization. In its present state, the property is only a semi-developed prospect but in my opinion a very attractive prospect upon which further exploratory and development work is well justified. This opinion is based upon the following factors:

1. The almost ubiquitous presence of lead mineralization in sedimentary rocks of the area. There are, of course, unmineralized zones in the sediments but nevertheless the widespread distribution of even the small shows is encouraging. The large hill near the center of the area appears to be intensely mineralized although, at first glance, the mineralization (cerussite and anglesite) is not apparent.

2. An attractive and encouraging relation of igneous rocks to mineralization. Whether or not this relation will be of importance in the sub-surface is difficult to tell but the close relations at the surface between dikes and mineralization indicate that a favorable outlook could be taken on testing this relationship at depth.

3. Strong similarity of surface indications (alteration and fracturing) of this property with similar producing lead properties in other parts of southern Arizona.

4. Amenability of the mineralization here to relatively inexpensive concentrating methods.

Presence of primary copper minerals is interesting and deserves further consideration and testing. It is not possible now to evaluate shows of this metal but further development and exploration should give some answer.

In closing, I would like to restate that I believe this property to be an extremely promising prospect for further exploratory and development work and has sufficient potential to make a modest amount of such work well justified.

Respectfully submitted

*Spencer R. Tilley*

Spencer R. Tilley

cc: Mr. Earl Ellsworth ✓  
 File

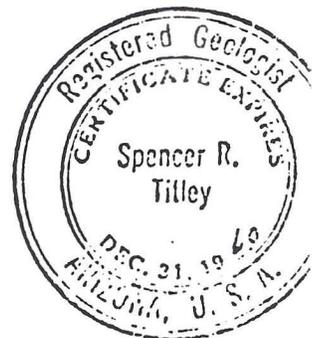


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- Exhibit   A: Agreement of Limited Partnership
- B: Exploration and Option Agreement
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- D: Tax Opinion

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## WHO SHOULD CONSIDER INVESTING

The purchase of Units involves a substantial degree of risk and is suitable only for persons of adequate means who have no need for liquidity in their investment. See "Certain Risk Factors". In addition, only investors whose income is subject to high rates of income taxation will derive the full benefit of the tax losses expected to be realized by the Partnership. Any such investor's ability to derive full benefit will also depend on other factors, including the level of tax preference income. See "Certain Tax Aspects".

Prior to acceptance of any subscription by the Partnership, each prospective investor will be required to represent and warrant in the Subscription Agreement and Purchaser Questionnaire among other things, that:

1. He has received and reviewed this Memorandum and understands the risks of an investment in the Partnership;
2. He has the experience and knowledge with respect to similar investments which enable him to evaluate the merits and risks of such investment, or has obtained and relied upon an experienced independent adviser with respect to such evaluation;
3. He has adequate means to bear the economic risk of such investment, including the loss of the entire investment;
4. He has adequate means to provide for his current needs and possible personal contingencies;
5. He has no need for liquidity of his investment in the Units;
6. He understands that the Units have not been registered under the Securities Act of 1933 and have not been registered or qualified under applicable state securities laws and, therefore, that he cannot sell the Units unless they are subsequently so registered or an exemption therefrom is available;

7. He is acquiring the Units for investment solely for his own account and without any intention of resale or other distribution;

8. He understands that the Units will bear a restrictive legend prohibiting transfers thereof except in compliance with provisions of the Partnership Agreement and applicable Federal and state securities laws.

The Partnership may also establish further minimum suitability standards which require an investor either (i) have had an income in excess of \$200,000 for each of the last two years and a reasonable expectation of an income in excess of \$200,000 for 1984 or (ii) have a net worth of at least \$1,000,000. For purposes of the foregoing standards, net worth would be computed exclusive of home, furnishings and automobiles. Subscribers will be required to represent that they comply with the applicable standards as established by the Partnership or that they are purchasing in a fiduciary capacity for a person meeting such standards. The General Partners will make inquiry to assure that there is compliance with the appropriate suitability standards, and the General Partners will not accept subscriptions from any person who does not represent in the Subscription Agreement and Purchaser Questionnaire that he meets such standards. The General Partners may waive these specific requirements with respect to a specific purchaser if such purchaser otherwise demonstrates to the General Partners his or her suitability for investment in the Partnership. It is likely transferees will be required to comply with the applicable standards as a condition to substitution as a Limited Partner.

Satisfaction of the foregoing suitability standards by a prospective Limited Partner does not necessarily determine that an investment in the Partnership is appropriate for such person.

## SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Memorandum and all prospective investors should carefully review the entire contents of this Memorandum and the Exhibits attached hereto and should feel free to make inquiry of the General Partners as to matters affecting the Partnership.

PROSPECTIVE INVESTORS SHOULD NOT CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS OWN COUNSEL, ACCOUNTANT OR OTHER ADVISORS AS TO LEGAL, TAX AND RELATED MATTERS CONCERNING THE RISKS AND THE TAX CONSEQUENCES OF AN INVESTMENT IN THE UNITS. THE GENERAL PARTNERS DO NOT, IN ANY WAY, REPRESENT, COVENANT OR GUARANTEE THAT AN INVESTMENT IN THE UNITS WILL RESULT IN AN ECONOMIC GAIN OR THAT THE POSITIONS WHICH THE GENERAL PARTNERS PROPOSE TO TAKE ON THE INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP WILL BE SUSTAINED BY THE INTERNAL REVENUE SERVICE OR THE COURTS.

The Partnership:                   BORDER SILVER LIMITED PARTNERSHIP  
(hereinafter referred to as the "Partnership") is a limited partnership recently organized under the Uniform Limited Partnership Act as in effect in the State of Washington. The Partnership's principal place of business will be Suite 400, West 801 Riverside, Spokane, Washington 99201; telephone number (509) 624-4653.

General Partners:                   The Corporate General Partner is BORDER SILVER MINING, INC., a minimally capitalized Washington corporation incorporated May 16, 1983, by Frank J. Frankovich. The shareholders ("Shareholders") of Border Silver Mining, Inc., are Frank J. Frankovich, Hobart Teneff and Janice E. Duval. For information regarding the experience of

the General Partners see "The General Partners". The Individual General Partners are Frank D. Duval and Hobart Teneff. The General Partners will make all of the business decisions for the Partnership and may employ consultants where they deem appropriate.

Business Objectives:

To explore and develop mining properties and to produce precious metals, primarily silver therefrom. It is the present intention of the General Partners to begin exploration of certain mineral properties located near Douglas, Arizona and commonly referred to as the "Border Silver Property". Furthermore, it is the desire of the General Partners to expand the Partnership's exploration efforts to other mineral properties as they become available. The General Partners believe that the initial capital of the Partnership will be adequate to conduct the initial exploration and development that may be necessary with respect to the properties being contributed by them. However, it is possible that additional funds may be required to complete the exploration and development program with respect to any particular property. If all 40 Units are sold and the exploration and development is successful, the properties will be placed in production. There can be no assurance that such objectives will be met. See "Proposed Plan of Business".

**Partnership Term:**

The Partnership has been recently formed and will continue until December 31, 2024 unless sooner terminated in accordance with the Partnership Agreement. See Exhibit "A", attached hereto.

**Terms of the Offering:**

40 Units at \$25,000 per Unit are being offered for a total offering in the amount of \$1,000,000. This offering will initially close and the Partnership will begin operations upon the sale of 12 Units in the amount of \$300,000. The minimum subscription is 1 Unit and no more than 35 subscribers will be admitted as Limited Partners. The purchase price for the Units will be payable \$25,000 in cash, check or money order at time of subscription. Subscribers must comply with certain net worth and/or annual income standards. See "Who Should Consider Investing". The General Partners will be reimbursed for the organizational expenses and other expenses of the Offering upon the closing of the Offering. See "Certain Terms of the Offering".

**Termination of the Offering:**

This Offering will terminate on March 15, 1985. All Offering proceeds will be held in an impound account established to hold the proceeds of the offering until, (i) at least 12 of the 40 Units are subscribed by the aforementioned date, and (ii) certain other conditions more fully set forth in

this Memorandum are satisfied, or the proceeds will be refunded to subscribers.

Risks and Investment Requirements:

An investment in the Units of Limited Partnership involves significant risks and therefore, is not suitable for all prospective investors. Investment in Units will be accepted only from those individuals, corporations, and other entities meeting certain suitability standards. See "Certain Risk Factors" and "Who Should Consider Investing".

Allocation of Profits and Losses:

Losses not in excess of \$1,010,000 shall be allocated ninety percent to the Limited Partner and one percent (1%) to the General Partners. Losses in excess of \$1,010,000 shall be allocated eighty-five percent (85%) to the General Partners and fifteen percent (15%) to the Limited Partner. Until all losses have been recouped, profits shall be shared in the same proportion as theretofore unrecouped losses. Thus, if unrecouped losses are \$1,110,000 (of which \$95,100 would have been allocated to the General Partner) the first \$1,110,000 of profits shall be shared 8.568 percent to the General Partners, and 91.432 percent to the Limited Partners. Additional profits shall be allocated eighty-five percent (85%) to the General Partners and fifteen percent (15%) to the Limited Partner.

91%

**Distributions:**

Distributions shall be made within the sole discretion of the General Partners. Distributions to the Limited Partner shall be in proportion to their capital contribution. Distributions to the Partners shall be made ninety-nine percent (99%) to the Limited Partner and one percent (1%) to the General Partners until distributions to the Limited Partners have totalled at \$1,000,000. After such time, all other distributions, except distributions on termination of this Partnership, shall be eighty-five percent (85%) to the General Partners and fifteen percent (15%) to the Limited Partners.

**Compensation to General Partners:**

The General Partners will receive no direct compensation other than their interest in the Partnership for acting as General Partners in connection with this Offering and the management of the Partnership's assets. The expense to the General Partners connected with the organization of the Partnership and of the offering will be reimbursed from the offering proceeds.

**Use of Proceeds:**

All the proceeds of the offering, except for expenses connected with the organization of the Partnership and of this offering, will be expended for exploration and development of the properties. See "Uses of Proceeds".

Properties to be  
Contributed by  
General Partner:

The Corporate General Partner will contribute to the Partnership as its capital contribution, leasehold rights and interests in and to the mining claims commonly referred to as the "Border Silver Property". The Corporate General Partner acquired the Border Silver Property from Frank J. Frankovich, for 500,000 shares of common stock of the Corporate General Partner. In addition to the shares he received, Mr. Frankovich will receive from the Partnership \$50,000 on the Initial Closing Date, \$25,000 when 20 Units have been sold. Mr. Frankovich also retained a royalty on the state claims of two percent (2%) of the net smelter returns and on the Federal claims a royalty of five percent (5%) of the net smelter returns. Mr. Frankovich will also be entitled to receive from the Partnership advance minimum royalties in the amount of \$2,500 per month upon the Initial Closing of this offering. While the Partnership may acquire other properties subsequent to its formation, the General Partners will not be contributing any additional properties to the Partnership nor may it substitute any properties for ones already contributed once the Partnership has been capitalized. The Partnership will explore the Border Silver Property and possibly other mining properties for the purpose of

ultimately producing precious metals. See "Proposed Plan of Business".

**Exploration Agreement:** The Partnership will contract with Mr. Frank Frankovich, a major shareholder in the Corporate General Partner, to perform certain exploration activities on the Border Silver Property and possibly on other properties in order to determine whether precious metals are present in sufficient quantities for further development and production. It is anticipated that the Exploration Program will provide for the expenditure of all available funds, after the payment of organization, offering and acquisition costs, on exploration activities. See "Proposed Plan of Business" and "Uses of Proceeds".

**Anticipated Tax Write-Off:**

It is anticipated that except for funds expended for organization, offering and acquisition costs and lease and advance royalty payments, all of the Limited Partners' Capital Contributions will be expended on the properties for exploration and development during 1984 and 1985.

**Additional Financing:**

If the Partnership's exploration activities result in the discovery of ore deposits that can be profitably exploited, the development and operation of those deposits would in all probability necessitate substantial additional outside financing. No

mechanism for raising such outside financing has been developed and no assurance can be given that the necessary funds will be obtained. See "Proposed Plan of Business".

**Tax Ruling:**

The Partnership will not seek a ruling from the Internal Revenue Service that it will be taxed as a partnership or with respect to any other issue. Each investor must rely on his own tax counsel as to the tax consequences of a purchase of the Units.

**Limited Liability:**

No Limited Partner will be liable for any of the debts of the Partnership in excess of his capital contribution or be required to lend any funds to the Partnership. See "Certain Risk Factors".

**Conflicts of Interest:**

There will be certain conflicts of interest between the Partnership and the General Partners and their Affiliates. See "Conflicts of Interest".

**Reports:**

The Partnership will furnish reports to the Limited Partners on a quarterly basis.

## CERTAIN TERMS OF OFFERING

The Partnership is a recently formed limited partnership and has no assets or liabilities whatsoever. It was formed as a limited partnership under the Uniform Limited Partnership Act of the State of Washington. The Partnership will engage in exploration, development and operation of certain mining properties for the production of silver. The Corporate General Partner is BORDER SILVER MINING, INC., a minimally capitalized Washington corporation. The Individual General Partners are Frank D. Duval and Hobart Teneff.

### Size of Offering and Minimum Subscription

A total of 40 Units of Limited Partnership are being offered at \$25,000 per Unit. All offering proceeds will be placed in an impound account until the minimum subscription amount of \$300,000 has been raised. At such time (the "Initial Closing Date"), impound will be broken and the offering proceeds will be paid to the Partnership. This offering will terminate on the earlier of March 15, 1985, or the date on which all 40 Units have been sold (the "Final Closing Date"). In the event this offering terminates before the minimum \$300,000 of Units has been sold, the offering proceeds will be promptly returned to subscribers. The General Partners may accept subscriptions from not more than thirty-five (35) qualified investors, other than "Accredited Investors" as defined in Regulation D of the Securities Act of 1933. The Units are non-assessable.

### Sale of Units

The Units will be sold exclusively by the General Partners. The General Partners and their agents will not receive any sales commission for Units which they sell.

### Subscription Period and Closing Date

This Offering will terminate (the "Final Closing Date") the earlier of March 15, 1985 or the date on which all 40 Units have

been sold. Subscriptions for Units must be received and accepted by the General Partners on or before the Final Closing Date to qualify the subscriber for participation in the Partnership. No subscriptions will be accepted after the Final Closing Date. If subscriptions for the requisite number of Units have been received and accepted by or before March 15, 1985, the Partnership will become effective and commence its business and operations on the Initial Closing Date, or if the Partnership is not otherwise formed, subscriptions theretofore paid will be promptly refunded to the prospective investors without interest, and all costs incurred in connection with the efforts to form the Partnership and offer Units therein will be borne by the General Partners.

#### Subscription Procedures and Payments

Persons intending to subscribe should send one executed and completed Offeree Questionnaire, one executed and completed Offeree Representative Questionnaire, if appropriate, and two executed copies of the Subscription Agreement and Power of Attorney, or facsimile copies thereof, with the number of Units desired indicated thereon, to the General Partners together with a check or money order for \$25,000 per Unit payable to Border Silver Limited Partnership Impound Account. No subscription will be accepted unless accompanied by payment in full. A subscription will be binding and enforceable if, within thirty (30) days after its receipt of the executed Subscription Agreement, the General Partners evidence their acceptance by countersigning and mailing one copy to the subscriber. The General Partners will concurrently forward one conformed copy to the Impound Agent, together with the check or money order received with the Subscription Agreement. The proceeds of such checks or money orders will be held by the Impound Agent in an impound account until deposited to the account of the Partnership, if this offering closes, or will be returned as soon as possible if it should be determined that this offering will not close.

Subscriptions will be effective only on acceptance by the General Partners and the right is reserved to reject any subscription in whole or in part. This Offering may be terminated at any time by the General Partners.

Funds held by the impound agent will be held in interest-bearing accounts. In the event this offering is not closed by March 15, 1985, subscriptions will be promptly returned without interest to the subscribers. Interest on the impounded subscriptions will be paid to the General Partners to help defray the costs of organization of the Partnership and offering Units therein.

#### Purchase of Units by the General Partners

At present, the General Partners do not intend to subscribe for Units. However, the General Partners reserve the right to subscribe for Units and it is possible that such subscription(s) could be determinative as to whether the funds deposited in the impound account are returned to subscribers.

#### Deposit and Use of Funds

After the Initial Closing Date, the Partnership's funds will be deposited in a separate bank account maintained for the Partnership or invested in short-term government securities, certificates of deposit, bank repurchase agreements or commercial paper for the account of the Partnership until expended for Partnership purposes. The subscription proceeds, Capital Contributions, income from the aforementioned investments and proceeds from borrowings may be commingled with other of the Partnership's funds. No funds of the Partnership will be commingled with funds of the General Partners or their Affiliates or any other programs sponsored by the General Partners or their Affiliates, and funds of the Partnership will not be used as compensating balances or otherwise for the benefit of the General Partners or any of their Affiliates.

### General Partners' Capital Contributions

On the Initial Closing Date, the General Partners will make a Capital Contribution of the Border Silver Property to the Partnership. As a result, the General Partners will receive their interest in the Partnership. The value of the contribution has been determined to be \$80,000 all of which shall be the General Partners' initial capital account. Assuming the maximum number of Units is sold, the Partnership Agreement governing the allocations of profits and losses allocates 1 percent of the losses up to \$1,010,000 to the General Partners and 85 percent of the losses in excess of \$1,010,000 to the General Partners. Profits are allocated the same as losses until all losses have been recouped and 85 percent thereafter to the General Partners.

### Partnership Distributions

The General Partners intend to make annual determinations of the Partnership's cash, asset and liability position. If they determine that cash flow is available for distribution, after considering the cash expected to be used thereafter to pay costs incurred in Partnership operations or to repay Partnership borrowings obtained to pay such costs, such cash flow will be distributed to the Partners in the same proportions that Partnership profits and losses are allocated to them. Due to the general nature of exploration and development activities, the General Partners anticipate that the Partnership will not generate income in excess of expenses and that cash distributions will not be made for a number of years. The amount and frequency of distributions will be dependent on the success of the Partnership. Any Partnership cash reserves may be invested temporarily in time deposits, money market funds, government securities or bank repurchase agreements.

Each Limited Partner, by becoming a Limited Partner, consents to pro rata distributions to the Limited Partners, on the basis of their interests in the Partnership. Such distributions may constitute, in whole or in part, returns of Capital Contributions.

### Termination of the Partnership

The term of the Partnership ends on December 31, 2024. However, the Partnership will be dissolved and terminated prior thereto in the event of (i) the death, retirement (provided there has been 90 days prior written notice to the Limited Partners), insanity, adjudication of bankruptcy or insolvency, or the dissolution of the last remaining General Partner or by operation of law. Upon termination, the debts, liabilities and obligations of the Partnership will be paid out of Partnership assets, and distributions in cash (in the event Partnership assets are sold) will be made to the Partners in proportion to the allocations of profits and losses among them.

Upon liquidation, the General Partners may purchase the Partnership's assets, provided the General Partners pay at least the highest independent bona fide bid for such assets, or in the absence of such bid, at current fair market value as determined by an independent appraiser selected by the General Partners. If distributions of Partnership assets are made in kind to the Limited Partners the Limited Partners may no longer have the protection of limited liability with respect to the continued operation of such assets. Furthermore, the number of Limited Partners may make it difficult for them to retain the assets and monitor the operations of the distributed assets, and the geographical dispersion of both the assets and the Limited Partners may make the operation or disposition of the distributed assets by the Limited Partners difficult.

### Partnership Organization

Upon closing of the offering, a subscriber will become a Limited Partner in the Partnership. The Limited Partners, will share in profits, losses, income, credits and deductions of the Partnership, but will not be entitled to participate in the management of the Partnership (except as set forth in the Partnership Agreement), such management being entirely in the General Partners. The personal liability of a Limited Partner for obligations of the Partnership will generally be limited to

the amount of his Capital Contribution, his rights to the undistributed income of the Partnership and in certain circumstances the return of recent distributions made by the Partnership to him.

Maintenance of the limited liability of the Limited Partners requires compliance with certain legal requirements in jurisdictions in which the Partnership may operate. The limited liability of Limited Partners may not be clearly established under local law in certain jurisdictions in which the Partnership may operate. In the latter jurisdictions, the Partnership will operate in such manner, including operations through other partnerships, through one or more operators, or by such other means as the General Partners, on the advice of counsel, deem appropriate to assure to the extent possible limited liability to the Limited Partners and preservation of the classification of the Partnership as a partnership for Federal income tax purposes.

### CERTAIN RISK FACTORS

NO ASSURANCE CAN BE GIVEN THAT THE PARTNERSHIP WILL BE SUCCESSFUL IN ACHIEVING ITS STATED BUSINESS OBJECTIVES, OR THAT THE PARTNERSHIP WILL GENERATE AVAILABLE CASH FLOW FOR DISTRIBUTION TO THE LIMITED PARTNERS.

The purchase of the Units involves a high degree of risk and is suitable only for persons of adequate means who have no need for liquidity in their investment. In addition to the factors set forth elsewhere in this Memorandum, prospective investors should specifically consider the following risks and other factors before making a decision to purchase Units:

#### Risks Associated with the Partnership and Its Mining Operations Mineral Exploration

Most all of the proceeds of the offering will be spent for mining exploration and development. Exploration for minerals is highly speculative even when conducted on properties known to contain significant quantities of precious metals. The search often results in the failure to discover any mineralization, or the discovery of mineralization which will not generate income in excess of the costs incurred in mining and processing the ore.

#### Mine Development

There can be no assurance that a particular Partnership mining property can be developed and operated by the Partnership even if it appears on the basis of the results of exploration that commercially marketable quantities of precious metals exist. Moreover, there can be no assurance that the operation of a mine, when developed, will produce minerals in sufficient quantities or under conditions enabling the mine to be profitable for the Partnership. Development and operation of a mine involves a high degree of risk, both operationally and with respect to the market prices of the precious metals which might be ultimately produced.

### Title to Property

Some of the Border Silver Property consists of leased state lands and unattended mining claims. The validity of all unpatented mining claims is dependent upon inherent uncertainties and conditions. These uncertainties relate to matters which are not reflected in public records, such as the sufficiency of the discovery of minerals, proper posting and marking of boundaries and possible conflicts with other claims not determinable from descriptions of record.

A mining claim is open to location by others unless the owner is in actual possession of and diligently working the claim and performing annually a minimum of \$100 of labor or improvements (assessment work) for each claim. The work may be performed on one claim to satisfy the composite work requirement of all of the claims in the same group.

### Mining Operations

The Partnership's operations will be subject to all of the operating hazards and risks normally incident to exploring for and developing mineral properties, such as encountering unusual or unexpected formations, environmental pollution restrictions and personal injury. The Partnership will maintain general liability insurance and workman's compensation insurance, where appropriate. However, should the Partnership sustain an uninsured loss or liability, its ability to operate could be adversely affected.

### Fluctuations in Price

The market price of precious metals is extremely volatile and beyond the control of the Partnership. If the price of precious metals should drop significantly, the Partnership's operations would be seriously affected.

In view of the fact that several or more years may be required to develop a mine and place it into production, it is possible that the market conditions existing at the time a decision is made to develop and operate a property may no longer

exist when the property is ultimately placed in production. In such cases, it could be necessary for the Partnership to sell or otherwise dispose of the property and related production facilities upon the best terms and conditions available in the opinion of the General Partners, in order to reduce further losses. Moreover, inflationary conditions in the economy, or adverse conditions encountered in developing a property, could result in either substantial cost overruns or the Partnership having insufficient funds to complete development of the property and the achievement of commercially successful operations.

#### Operating Hazards

Mining operations involve hazards normally associated with earth moving operations and hazards such as the possible collapse of earth walls. The Partnership may incur losses due to risks against which it cannot insure or against which it elects not to insure because of high premium costs or other reasons. While the Partnership intends to maintain, or cause any operator it contracts with to maintain, insurance for the Partnership against risks and in amounts which are customary in mining operations in the vicinity of Partnership properties, substantially uninsured liabilities to third parties may arise, the satisfaction of which could reduce the funds available for further mining activities of the Partnership or its subcontractors and thereby cause the curtailment or termination of mining operations.

#### Availability of Field-Prospector-Geologists

The Partnership intends to pursue exploration programs based on geological concepts and active field prospecting. The difficult task of field prospecting requires the hiring of personnel with specialized skills. Although such personnel is presently available, there can be no assurance that the Partnership will be able to attract and retain such personnel or that a shortage may not develop in the future.

### Environmental Controls

Mining operations and the exploration and development of new mines and production facilities are also subject to a considerable amount of regulation by Federal, state and local governmental authorities. There could be instances in which exploration or development of a property is effectively prevented by laws, rules or regulations enacted or issued by such agencies. Moreover, compliance with such requirements may add considerably to the costs of conducting exploration or in the development and operation of a mine. In addition, there can be no assurance that such laws, rules or regulations will not change from time to time in a manner that has a material adverse effect on the operations to be conducted by the Partnership.

### Federal and State Taxation

Federal income tax laws are of particular significance to the mining industry as are state severance ad valorem and other taxes levied or assessed against mining properties or measured by production therefrom.

### Competition

The Partnership will be competing with many other mining companies and others, many of which have far greater financial resources than the Partnership and larger technical staffs of geologists and other personnel. Companies with greater resources may have a competitive advantage over the Partnership and competition therefrom could have material adverse effect on the operations of the Partnership.

The development and operation of a silver properties and the marketing of silver are affected by a number of factors which are beyond the Partnership's control, the effect of which cannot be accurately predicted. These factors include imports from other nations, actions by silver-producing nations, the availability of adequate transportation, refining and milling facilities, the marketing of competitive minerals, the price and availability of

fuel and water and other matters affecting the availability of a ready market, such as fluctuating supply and demand.

#### Working Capital, Borrowings and Equity Funding

There can be no assurance that the funds contributed by the Partners or the revenues earned by the Partnership, if any, will be adequate for the Partnership's needs or that any additional funds needed will be available on terms acceptable to the Partnership. Neither the Limited Partners nor the General Partners are obligated to loan funds to the Partnership or to make contributions in excess of those described under "Uses of Proceeds."

It is not expected that the Partnership will incur substantial indebtedness. However, the Partnership Agreement permits the General Partners, in their discretion, to borrow funds on behalf of the Partnership and to grant security interests in the Partnership's assets as collateral for such borrowings. The revenues available for distribution to Limited Partners will be reduced to the extent they are required for repayments of such loans and the interest thereon. Moreover, if revenues are insufficient to make the required payments on any loans or obligations, the Partnership may be required to sell assets to obtain the required funds.

Money expended for exploration often is only a minor portion of the total amount required to develop a mine and place it into commercial production, including in some cases the construction and operation of milling or refining facilities. Thus, in the event that commercially marketable quantities of precious metals are discovered through exploration, it is anticipated that it will be necessary for the Partnership to raise a substantial amount of additional capital to bring that mining property into production. Although the General Partners may seek to obtain such funds in part through borrowing, there is no assurance that such borrowings could be obtained on reasonable terms or in the amounts sought. In the event the Partnership cannot obtain debt financing on terms acceptable to it, the General Partners may

attempt to raise the necessary funding through an offering of stock in the Corporate General Partner. It is likely that such method of financing would dilute the interest of the Limited Partners. Furthermore, no assurance can be given that such funding would be successfully raised.

Alternatively, it might be necessary for the General Partners to sell or transfer, in whole or in part, an interest in the property to be developed to some third party in order to either raise the required funds for development and production or for the purpose of disposing of the property upon the best terms and conditions available, in lieu of the Partnership developing and operating the mine.

Although there are various engineering evaluation and appraisal techniques which may be employed in the appraisal of mineral properties, any appraisal made prior to the commencement of actual production must rely to a certain degree upon expert engineering judgment which is in part subjective, and differing opinions of value might be rendered by different engineers. Accordingly, a precise appraisal of the fair market value of a mineral property for purposes of valuing an interest to be sold is difficult to obtain and could be subject to fluctuations in the event the price of silver or other precious metal is fluctuating at the time of sale. Although the General Partners would attempt to structure the terms of any financing transaction as fairly as possible on the basis of the best information available, due to the absence of definitive information as to value it is possible that the additional financing might ultimately prove to be unfavorable to the Limited Partners.

#### Borrowing

Although the Partnership does not presently intend to borrow any funds, the Partnership Agreement provides that the General Partners have the right to encumber Partnership assets to secure loans to further develop the Partnership Properties. In the event of default in the repayment of such loans, a lender could foreclose and take possession of the Partnership assets so encumbered.

### Distributions

The General Partners, in their sole discretion, shall determine the amount, timing and frequency of all cash distributions. The General Partners may determine amounts to be retained by the Partnership for working capital, for the payment of Partnership liabilities, for contingency reserves and for capital expenditures. It is anticipated that there will not be cash available for distribution until the production stage is reached. As previously indicated, it is likely that additional funding will need to be obtained to place the Partnership properties into production and there exists considerable uncertainty as to the availability of such additional financing.

### Partnership Business Objectives

The Partnership's business objectives must be considered speculative and there is no assurance that the Partnership will fulfill them. To the extent that the Partnership fails to attain its business objectives, which may be influenced by factors beyond its control, the investment results experienced by investors in the Partnership will be adversely affected.

### Return on Investment

No assurance can be given that the Limited Partners will realize a return on their investment or that they will not lose their investment entirely. For this reason, each prospective Limited Partner should read this Memorandum and all exhibits hereto carefully and should consult with his own accountant, attorney or business advisor.

### Lack of Operating History

The Partnership is a newly formed venture with no history of operations or earnings. Although the Shareholders of the Corporate General Partner have substantial experience in the mining business, the future success of the Partnership will depend, among other things, upon the discovery of precious metals in commercially marketable quantities on the properties which the Partnership will explore and develop.

### Limited Resources of the Corporate General Partner

Although the Corporate General Partner has limited financial resources, it believes it has the financial resources to serve and meet its obligations as a General Partner of the Partnership. A significant financial reversal for the Corporate General Partner or its Affiliates, could adversely affect both its ability to operate the Partnership and the Limited Partners' interests therein. In addition to being the General Partners of the Partnership, the General Partners may be General Partners in other limited partnerships.

### Incapacity or Dissolution of General Partners

The resignation, incapacity, insolvency or dissolution of the last remaining General Partner will result in the dissolution and winding up of the Partnership. Such a dissolution may force a sale of the Partnership's assets on a basis that would not be profitable to the Partnership or to the Limited Partners.

### Adequacy of Resources for Partnership Operations

If the entire original subscription has been fully expended and additional costs expected to be incurred in conducting or completing the Partnership's exploration, development and production activities cannot be funded from its income or borrowings, the General Partners may cause the Partnership to lease or farm-out the Partnership property upon which such operations were to be conducted, or, if suitable measures cannot be arranged, such property may be surrendered or abandoned. The Partnership Agreement provides that until distributions to the Limited Partners have exceeded the amount of the capacity contributions of the Limited Partners the General Partners may not sell all or substantially all of the Partnership's property without the consent of all Limited Partners. Sale or lease of such property may reduce the Partnership's ultimate revenues and surrender or abandonment would cause the Partnership to lose its investment in the abandoned property.

Neither the General Partners nor the Limited Partners will be subject to assessments to finance Partnership operations. Consequently, even though further exploration or development of Partnership property may provide an attractive investment opportunity, if such further exploration or development cannot be financed out of the Partnership income or borrowings, the Partnership may be unable to participate in such exploration or development. The Partners may also be given the opportunity to loan money to the Partnership if other financing is not obtained.

#### Uninsured Losses

The Partnership will arrange for comprehensive insurance, including liability, fire and extended coverage, which is customarily obtained for properties of the type in which it will acquire an interest. However, certain types of losses, such as business losses and physical losses of a catastrophic nature, including earthquakes, floods and wars are either uninsurable or not economically insurable to the full extent of a potential loss. Should such losses occur, the Partnership would suffer and could lose both its invested capital and anticipated profits.

#### Conflicts of Interest

This Offering involves certain inherent conflicts of interest arising out of the relations of the General Partners and their Affiliates with the Partnership. Further, the officers of the Corporate General Partner will devote only a limited amount of their time to the affairs of the Partnership. In addition, the General Partners and their Affiliates may own and operate previously acquired mineral properties and may acquire additional mineral properties on their own behalf or on behalf of others. As a consequence, conflicts of interest between the Partnership and the General Partners or their Affiliates may arise. Certain transactions between the General Partners or their Affiliates and the Partnership may occur on terms no less favorable than those which could be obtained from independent third parties, but possible conflicts of interest may nevertheless result. The

aforementioned conflicts may not be resolved to the maximum advantage of the Limited Partners.

#### Determination of Unit Price

The purchase price of the Units offered hereby was determined primarily by the capital needs of the Partnership and bears no relationship to any established criteria of value such as book value or earnings per Unit, or any combination thereof. Further, the price of the Units is not based on past or projected future earnings of the Partnership, nor does it necessarily reflect market value of the assets of the Partnership. No valuation or appraisal has been prepared of the Partnership's potential business.

#### Registration

Since the Units are being offered and sold under the exemption from registration provided for in Section 4(2) of the Securities Act of 1933, including Regulation D promulgated thereunder, the Partnership has not registered and will not register the Units offered with the Securities and Exchange Commission or any other Federal agency, nor will the Units be registered with any state or local agency. This means that no Federal or state agency reviewed this offering. Accordingly, prospective investors must recognize that they do not necessarily have any of the same protections afforded by registration under applicable Federal and state securities laws and they must judge the adequacy of disclosure and the fairness of the terms of the offering on their own, without the benefit of prior review of regulatory authorities.

#### Reliance on Management

All decisions with respect to the management of the Partnership will be made exclusively by the General Partners. The Limited Partners will have no right or power to participate in the management of the Partnership. Accordingly, no person should purchase Units unless he is willing to entrust all aspects of the

management of the partnership to the General Partners or successor General Partners, if any. The obligations of the General Partners to the Partnership are not exclusive, and the General Partners need only devote so much of their time to the Partnership affairs as they, in their sole discretion, deem to be reasonably necessary to manage the Partnership business. Investors should also be aware that they are acquiring interests in the Partnership, not in the Corporate General Partner or its Affiliates. Nevertheless, because the General Partners are primarily responsible for the proper conduct of the Partnership's business and affairs, a significant financial reversal for the General Partners or their Affiliates could adversely affect both the ability of the General Partners to operate the Partnership and the Limited Partners' interest therein.

Investors should also be aware that any Individual General Partner may withdraw or retire as a General Partner any time after December 31, 1985.

#### Limitation on General Partner's Liability

The Partnership Agreement contains certain indemnification provisions which may limit the right of action which a Limited Partner might otherwise have against the General Partners. See "Summary of Agreement of Limited Partnership."

#### Limited Transferability of Units

Each Limited Partner will be required to represent that he is acquiring his Units for investment and not with a view to distribution or resale, and that he understands the Units are not freely transferable. The Units have not been registered under the Securities Act of 1933 or under applicable state securities laws and therefore they cannot be resold unless they are subsequently registered or an exemption from such registration is available and unless the Partner complies with the restrictions set forth in the Partnership Agreement. Transferees of Units cannot be substituted as Limited Partners except with the written consent of the General Partners unless to a family member by

gift. Units may not be subdivided. The suitability standards applied to initial purchasers of the Units may also be applied to transferees as a condition to their substitution as Limited Partners. It is not anticipated that a public trading market will develop for the Units. Further, the Partnership will not terminate until the year 2024 unless sooner terminated in accordance with the provisions of the Partnership Agreement. Limited Partners will not, therefore, be able to liquidate their investment in the event of any emergency and Units will not be readily accepted as collateral for a loan. Consequently, the Units should be considered only as a long-term investment. In addition, there can be no assurance that a transfer of Units will not result in a loss or adverse tax consequences.

#### Liability of Limited Partners

By purchasing a Unit, an investor will become a Limited Partner in the Partnership upon the Initial Closing Date. As a Limited Partner, his personal liability for obligations of the Partnership will generally be limited to the amount of his Capital Contribution and his rights to the undistributed income of the Partnership. However, under certain conditions, recipients of distributions from the Partnership could be liable to certain creditors of the Partnership to the extent of such distributions, plus interest.

Maintenance of the limited liability of the Limited Partners requires compliance with certain legal requirements in jurisdictions in which the Partnership may operate. Further, if a Limited Partner participates in control of the business of the Partnership or permits his name to be used in the conduct of the Partnership's business, he may become personally liable as a general partner for Partnership obligations beyond the amount of his Capital Contributions. The nature of the activities constituting "control" that are required to impose such liability on a Limited Partner is not clear.

### Termination and Liquidation

The Partnership will terminate upon the death, retirement, insanity, adjudication of bankruptcy or insolvency, or the dissolution of the last remaining General Partner. If, upon its liquidation, the Partnership's available cash is not sufficient to pay in full all of its liabilities and obligations, certain of its assets may be sold as required to cover the cash deficiency. Any such dissolution and liquidation of the Partnership prior to the completion of all operations could adversely affect the investment of the Limited Partners. Moreover, in the event Partnership assets are distributed to the Limited Partners upon liquidation of the Partnership, the recipients will no longer have the limited liability of the Limited Partners of the Partnership with respect to the continued operation of such assets and may find it difficult to operate or dispose of the assets.

### Loss on Dissolution and Termination

In the event of a dissolution and termination of the Partnership, the proceeds realized from the liquidation of assets, if any, will be distributed to Partners only after the satisfaction of claims of all creditors. Accordingly, the ability of a Limited Partner to recover all or any portion of his investment under such circumstances will depend on the amount of funds so realized and the claims to be satisfied therefrom.

### Government Regulation

The production and sale of minerals is subject to governmental and state regulations in a variety of ways, including environmental regulation and taxation. Although Federal, state and local environmental regulations could have a material adverse effect on the Partnership's operations, due to a recent formation of the Partnership and the lack of the significant operations to date, it is not possible to determine what effect, if any, such regulations may have.

The Partnership and its Partners will be subject to Federal and state income taxes, state and local franchise taxes, personal

property taxes and state severance taxes. State severance taxes vary between the states and, within a single state, the amount of the tax based on a percentage of the value of the mineral being extracted, varies from mineral to mineral. The Partnership's operations will also be subject to taxation by each locality in which it owns mineral properties or does business. Because many state and local tax laws are not uniform, the Partnership runs a substantial risk of double taxation on portions of its income by various jurisdictions. This may adversely affect the Partnership's earnings.

#### Environmental Regulation

No environmental impact studies or statements have been prepared or undertaken on any of the properties. Development and exploration programs such as are contemplated by the Partnership are subject to state and Federal regulations regarding environmental considerations. All of the Partnership's mining claims are on public lands. All operations by the Partnership involving the exploration for or the production of any minerals are subject to existing laws and regulations relating to exploration procedures, safety precautions, employee health and safety, air quality standards, pollution of stream and fresh water sources, odor, noise, dust and other environmental protection controls adopted by Federal, state and local governmental authorities as well as the right of adjoining property owners. The Partnership may be required to prepare and present to Federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for a production of minerals may have upon the environment. All requirements imposed by any such authorities may be costly, time consuming and may delay commencement or continuation of exploration or production operations. Future legislation may significantly emphasize the protection of the environment, and as a consequence, the activities of the Partnership may be more closely regulated to further the cause of environmental protection. Such legislation, as well as future interpretation of existing laws, may require

substantial increases in equipment and operating costs to the Partnership and delays, interruptions, or a termination of operations, the extent of which cannot be predicted. Environmental problems known to exist at this time may not be in compliance with regulations that may come into existence in the future. This may have a substantial impact upon the capital expenditures required of the Partnership in order to deal with such problems and could substantially reduce earnings.

#### Certain Tax Risks

The following sections and the section entitled "Who Should Consider Investing" and the opinion of counsel attached hereto as Exhibit "D" must be carefully read and understood by each prospective Limited Partner to determine whether an investment in the Partnership is suitable for him.

The Partnership has not applied for and does not expect to apply for a ruling from the Internal Revenue Service (the "Service") with respect to its status as a Partnership for federal income tax purposes or with respect to any of the other projected tax consequences set forth in this Memorandum, and no representation or warranty of any kind is made with respect to any tax consequences relating to the Partnership.

The following paragraphs summarize some of the tax risks to the Limited Partners. A more complete discussion of the tax aspects of the investment is set forth under "Certain Tax Aspects." Because the tax aspects of the offering are complex and certain of the tax consequences may differ markedly among the Limited Partners, prospective Limited Partners should consult their own tax advisors in evaluating the tax aspects of an investment in the Partnership.

This Memorandum does not discuss local or state income tax requirements. Again, prospective Limited Partners should consult their own tax advisors on this matter.

Investors should recognize that they might be forced to incur substantial legal and accounting costs resisting any challenge by the Service.

### Partnership classification

A partnership is not itself subject to Federal income taxes. The partners of a Partnership take into account their share of the partnership's taxable income, losses and deductions in computing their Federal income taxes. Accordingly, the tax benefits of the Limited Partners depend upon the Federal income tax classification of the Partnership as a "partnership" and not as an "association" taxable as a corporation. Since the Partnership has not applied for, and does not expect to apply for, a ruling from the Service regarding its tax classification, a greater risk and uncertainty as to the tax status of the Partnership exists than would be the case if a tax ruling were requested and received. Although it is the opinion of counsel that the Partnership will be treated as such for tax purposes, no assurance can be given that the Partnership will not be treated as an association taxable as a corporation, resulting in the loss of substantially all of the tax benefits that may flow from an investment in the Partnership. If the Partnership should be treated for Federal income tax purposes as an association taxable as a corporation rather than a partnership, the Partnership would be required to pay Federal income tax on its income, and its deductions and credits would not be passed through to the Partners. Also, the Partners would be taxed upon distributions substantially in the manner that corporations and their shareholders are taxed upon distributions.

### Tax Shelter Program

The Service has established a "Tax Shelter Program" to identify and examine abusive tax shelter returns. Although the Partnership does not specifically meet the criteria established under this program, the Service may assert, in view of the large anticipated initial losses to be incurred by the Partnership, that it is an abusive tax shelter. Further, the Service activity in this area may increase the likelihood that an individual Partner's return may be audited.

### Risk of Audit

There is substantial risk that the Partnership will be audited and that such an audit could result in adjustments to the various items reported by the Partnership. Any such adjustments to the return of the Partnership may require each Partner to file an amended Federal income tax return for his taxable year with respect to which the adjusted Partnership items were reported. Also, any adjustments to the Partnership's return may result in an audit of each Partner's own income tax return which could result in adjustments of non-partnership items of income, deductions or credits as well as Partnership items. In the event of such adjustments, a Partner might incur attorneys' fees, court costs and other expenses in connection with contesting any proposed deficiency asserted by the Service. Each Partner will have to bear his own expenses in connection with contesting any proposed deficiency asserted by the Service. Further, each Partner will have to bear his own expenses in connection with any possible amendment, adjustments, audit or contest of his own tax return and considerable legal and accounting expenses could occur even if the challenge by the Service proved unsuccessful.

There may be uncertainty surrounding certain tax positions, including certain deductions, which will be taken by the Partnership, and there can be no assurance that some of the deductions claimed or positions taken by the Partnership may not be challenged and disallowed by the Service. The Partnership will consider taking all deductions and positions for which there is support, even though it may be aware that the Service does not agree. No opinion of counsel is available with respect to some of these issues, either for the reason that they involve factual determinations, or for the reason that they involve legal doctrines that are not fully developed under existing case law. In addition, no opinion of counsel is available and no assurance can be given that the Service will not challenge the position taken by the Partnership as to any of these matters, including the amount of any deduction or the period or year in which it may be claimed or the deductibility by the Partnership of any fee

paid to the General Partners or any of its Affiliates. The Service is presently vigorously auditing partnerships, scrutinizing in particular certain claimed tax deductions.

#### Recapture of Exploration Expenses

Exploration expenses which are deductible under Section 617(a) must be recaptured and treated as ordinary income when the mining property on which the exploration is performed reaches the production stage or upon certain depositories.

#### Tax Preferences - Minimum Tax

Depletion deductions taken on mining income in excess of the adjusted basis of the property will be an item of tax preference, which is subject to the alternative minimum tax. In addition, exploration and development expenses will also be an item of tax preference.

#### Contracts with Affiliates

It is intended that a contract be entered into between Frank J. Frankovich and the Partnership whereby Mr. Frankovich will undertake to carry out an exploration program on the properties. Since Mr. Frankovich is an Affiliate of the General Partners, the contract between the Partnership and Mr. Frankovich will not be negotiated on an arm's length basis. Although the Partnership will attempt to set the terms of the contract substantially the same as those which would be negotiated between unrelated parties, no assurance can be given that the Service will not challenge the contract.

#### Changes in Federal and State Tax Laws and Regulations and Interpretations Thereof

The tax benefits of an investment in the Partnership could be lost and substantial tax liabilities incurred by reason of legislative changes in the tax law or changes in Treasury Rulings or Regulations. Furthermore, no assurance can be given that the Partnership's interpretation of the existing law and Treasury

Regulations will not be challenged by the Service and possibly disallowed. Moreover, there is no assurance that changes in the interpretation of applicable income tax laws will not be made by administrative or judicial action which will adversely affect the tax consequences of an investment in the Partnership. Any such changes may or may not be retroactive with respect to transactions prior to the effective date thereof. Each potential Limited Partner should seek and must rely on the advice of his own tax advisor with respect to the possible impact on his investment of any proposed legislation.

#### State and Local Taxes

The Limited Partners may be subject to various state and local taxes with respect to their investment in the Partnership.

PROSPECTIVE LIMITED PARTNERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS, FIRST, WITH RESPECT TO THE POTENTIAL TAX CONSEQUENCES TO THE LIMITED PARTNERSHIP, AND SECOND, WITH RESPECT TO THE APPLICABILITY THEREOF TO THEIR OWN INDIVIDUAL TAX SITUATION.

### FIDUCIARY DUTY OF THE GENERAL PARTNERS

The General Partners are accountable to the Partnership as fiduciaries, and consequently, are required to exercise good faith and integrity in all their dealings with respect to Partnership affairs. Where the question has arisen, courts have held that a limited partner may institute legal action on behalf of himself and all other similarly situated limited partners (a class action) to recover damages for a breach by a general partner of his fiduciary duty or on behalf of the partnership (a partnership derivative action) to recover damages from third parties. Certain recent cases decided by the Federal courts may also be construed to support the right of a limited partner to bring such actions under Rule 10b-5 adopted by the Securities and Exchange Commission for the recovery of damages (including losses incurred in connection with the purchase or sale of partnership units) resulting from a breach by a general partner of his fiduciary duty. This is a rapidly developing and changing area of the law, and Limited Partners who have question concerning the duties of the General Partners should consult with their own counsel.

Provision has been made in the Partnership Agreement that the General Partners shall not be liable to the Partnership nor to any Limited Partner for any course of conduct undertaken in good faith, provided that the General Partners' conduct did not constitute gross negligence. As a result, Limited Partners will have a more limited right of action in certain circumstance than they would in the absence of such a provision in the Partnership Agreement.

The Partnership Agreement also provides that the General Partners may effect necessary insurance for the Partnership and/or for the General and/or Limited Partners. The General Partners shall not be indemnified against liabilities arising under the Securities Act of 1933. The Partnership shall not pay for any insurance covering liability of the General Partners or any other persons for actions or omissions for which indemnification is not permitted by the Partnership Agreement,

provided, however, that the General Partners or their Affiliates may be named as additional insured parties on policies obtained for the benefit of the Partnership to the extent that there is no additional cost to the Partnership or decrease in the insurance proceeds payable to the Partnership.

IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION, INDEMNIFICATION FOR LIABILITIES ARISING UNDER THE SECURITIES ACT OF 1933 IS CONTRARY TO PUBLIC POLICY AND THEREFORE IS UNENFORCEABLE.

## CONFLICTS OF INTEREST

The Partnership is subject to various conflicts of interest arising out of its relationships with the General Partners and their Affiliates. Because the Partnership was organized and will be operated by the General Partners, these conflicts will not be resolved through arm's length negotiations but through the exercise of the General Partners' judgment consistent with its fiduciary responsibility to the Limited Partners and the Partnership's investment objectives and policies. These conflicts include, but are not limited to, the following:

### Competition for Management Services

The Partnership will not have independent management but will rely solely upon the General Partners for its operational management. The agents and employees of the General Partners will devote only so much of their time to the business of the Partnership as in their judgment is reasonably required. Such persons will have conflicts of interest in allocating management time, services and functions between the Partnership and other business ventures in which they may be involved. The duties and responsibilities in connection with these ventures may adversely affect the General Partners' abilities to perform their duties for the Partnership. The General Partners, their agents, employees and affiliates, may engage on their own account, or for the account of others, in other business ventures, and neither the Partnership or any Limited Partner shall be entitled to any interest therein.

The officers of the Corporate General Partner and some of their Affiliates have existing and on-going obligations to provide mining services to a variety of other clients. The General Partners and their Affiliates may also seek additional clients seeking mining investments, and may sponsor the securities of additional limited partnerships, trusts and companies that will seek to buy, hold, explore, develop and sell mining investments. These activities may require that the

General Partners and their Affiliates undertake to provide services to these clients similar to those to be provided to the Partnership.

The General Partners have engaged and will continue to engage in other mining activities for their own account and for others, which activities may compete with the Partnership and may result in potential conflicts of interest.

#### Conflicts with Affiliates

Frank J. Frankovich, the party with which the Partnership will contract for the exploration of the Partnership properties, is an Affiliate of the General Partners.

The General Partners may contract on behalf of the Partnership with affiliated parties to provide services or materials to the Partnership if the fees for such services or materials are not less favorable to the Partnership and are competitive with those which the Partnership could obtain from equally qualified independent parties.

In the event that any Partnership property (other than additional Units) is sold to a General Partner or any Affiliate, the sale shall be at the greater of the highest bona fide independent offer received, or if no such offer is received, the fair market value thereof, as determined by an independent mining engineer or appraiser selected by the General Partners. Any purchase from the General Partners or an Affiliate may only be for a consideration not greater than fair market value as determined by such an engineer or appraiser. See "Summary of Agreement of Limited Partnership" and the Agreement of Limited Partnership attached hereto as Exhibit "A".

#### Participation by the General Partners in Additional Financing

The General Partners have the discretion to seek the additional funds necessary to complete exploration, development and/or production of any property, and may participate as an investor in any such financing in accordance with requirements specified in the Partnership Agreement. Additional equity

financing ultimately may prove to be more advantageous to the General Partners than to the Limited Partners. For example, such additional financing could dilute the Limited Partners' proportionate interest in the Partnership property. Since it is not possible to determine in advance the most advantageous manner in which interests in a commercially minable property may be marketed, the Partnership Agreement does not limit the General Partners' flexibility in arranging the financing of additional exploration, development and production activities. As noted under "Certain Risk Factors," it may be impossible to obtain a meaningful appraisal of the fair value of any mineral property for purposes of valuing the interests to be offered the investors financing additional mining activities (including the General Partners or an Affiliate). In these circumstances, it is contemplated that the General Partners would set the terms of the additional financing as fairly as possible on the basis of the best information available.

#### Indemnification of the General Partners

The enforceability of provisions of the Partnership Agreement limiting the General Partners' liability may be limited by future developments in the law. It is understood that it is the view of the Securities and Exchange Commission that any attempt to limit a partner's liability under the Securities Act of 1933, as amended (the "Act"), is contrary to public policy and is unenforceable.

#### Rights of Limited Partners

Under present Federal law, it appears that (i) Limited Partners would have the right, subject to the provisions of the Federal Rules of Civil Procedure, to bring class actions in the Federal courts to enforce Federal right of all Limited Partners similarly situated and derivative actions in the Federal courts to enforce Federal rights of the Partnership, (ii) Limited Partners who have suffered losses in connection with the purchase or sale of Units due to acts or omissions by the General Partners

involving the requisite elements of misrepresentation in connection with such purchase or sale including misapplication by a General Partner of the proceeds from the sale of Units of the Partnership, would have the right to recover such losses from such General Partner in an action based on Rule 10b-5 under the Securities Exchange Act of 1934, and (iii) the Partnership and certain other persons (including the General Partners) would be liable under applicable provisions of the Act in civil and criminal action in which the requisite elements of such liability are established.

The cost of litigation against a General Partner for enforcement of its fiduciary and other obligations to the Partnership and the Partners may be prohibitively high and any judgment obtained may not be collectible, since such General Partner may not be bonded and any such judgment may exceed the net worth of such General Partner.

#### Legal Services

It is anticipated that counsel to the Partnership and counsel to the General Partners will be the same and that such dual representation will continue in the future. In addition, accountants and other experts who perform services for the Partnership may from time to time perform services for the General Partners or their Affiliates and it is anticipated that such multiple representation may be continued in the future.

USES OF PROCEEDS

The following table illustrates estimated uses by the Partnership of the proceeds of this offering. The amounts set forth below are estimates only and the actual uses of proceeds may differ from those illustrated.

	<u>Minimum</u>	<u>Maximum</u>
Limited Partners' Capital		
Contributions .....	\$ 300,000	\$1,000,000
General Partner's Capital		
Contribution .....	<u>Note 1</u>	<u>Note 1</u>
Gross Proceeds of Offering.....	\$ 300,000	\$1,000,000
Estimated Offering and		
Organizational Expenses (Note 2).....	30,000	30,000
Property Acquisition Payments (Note 3)	50,000	75,000
Reserve for Advance Minimum		
Royalties (Note 4)	40,000	40,000
Amount Available for Investment		
(Net Proceeds) (Note 5).....	<u>\$ 180,000</u>	<u>\$ 855,000</u>

THESE FIGURES SHOWN ARE ESTIMATES AND MAY NOT ACCURATELY REFLECT THE ACTUAL APPLICATION OF THE PROCEEDS OF THIS OFFERING.

Note 1 The General Partners' Capital Contributions will not include any cash but will consist of the Border Silver Property described elsewhere in this Memorandum.

- Note 2      The General Partners will be reimbursed for all expenses incurred by them in connection with the organization of the Partnership and of the offering of the Units therein.
- Note 3      The property acquisition payments are due to Frank J. Frankovich in the amount of \$50,000 upon the sale of 12 Units and an additional \$25,000 upon the sale of 20 Units.
- Note 4      An advance minimum royalty is due to Mr. Frankovich in the amount of \$2,500 per month commencing the first month following the sale of 12 Units and continuing monthly thereafter.
- Note 5      The amount available for investment is the amount of funds that will be available for exploration and development of the Border Silver Property and other properties, if any, selected by the General Partners. In addition, a portion of such funds will be required to establish a reserve to pay for any advance and/or minimum royalties which may be due under the Partnership's agreements with respect to the Border Silver Property and other properties, if any, in order to maintain any leases and/or mining claims in full force and effect.

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SECURITIES DIV.

PROPOSED PLAN OF BUSINESS

BORDER SILVER LIMITED PARTNERSHIP, is a recently formed limited partnership organized under the laws of the state of Washington. The administrative offices of the Partnership will be at Suite 400, West 801 Riverside, Spokane, Washington. The Partnership will be created for the purpose of the exploration of mineral properties with a view to the production of precious metals.

Capitalization of the Partnership

The Partnership will be capitalized with \$1,000,000 if all 40 Units are sold. However, the General Partners feel that a viable exploration program can be conducted on the Border Silver Property for approximately \$250,000. Accordingly, this offering will initially close and the Partnership will begin operations upon the sale of at least 12 Units. After the payment of organizational and offering expenses, it is estimated that the Partnership will have operational capital of \$970,000. The Partnership will also receive precious metal mining properties from the Corporate General Partner which will be underground silver prospects in the exploration stage located in Arizona, commonly referred to as the "Border Silver Property". This property will consist of leased state lands and unpatented federal mining claims held pursuant to the Exploration and Option Agreement. In addition, the Border Silver Property includes an adjacent 980 acres of state land acquired by Mr. Frankovich by prospecting permit and 10 unpatented mining claims known as the Nova claims numbers 1 through 10. There is a total of 2,145 acres included in the Border Silver Property.

Proposed Exploration Program

The Partnership intends to begin its exploration activities on the Border Silver Property upon the Initial Closing Date. The Partnership will terminate exploration on

PREPARED FOR  
MINE EXPLORATION Co., INC.

BY  
JOHN N. FAICK, Ph.D  
MINING GEOLOGIST  
NOV. 5, 1968

SEC. 17

SEC. 16

9.0

5.8

3.9

Lead

Silver

Lead

zone

zone

zone

3.3 / 2.1

3.5

1.8

2.9

2.1

6.2

7.0

To Douglas

8 9  
17 16

9 10  
16 15

T. 24 S.

N

Scale 1" = 1000'

FIG. 4

METAL RATIOS  
SHOWING DISTRIBUTION OF LEAD  
IN PERCENT FOR EACH OUNCE  
OF SILVER BY ASSAY

INTERNATIONAL BOUNDARY

R. 29 E.

ARIZONA  
MEXICO

x

17 16

16 15

2.5

the Border Silver Property when, and if, management determines that the results are not sufficiently encouraging to continue. In that event, the remaining funds, if any, would be used to acquire and explore other precious metal properties selected by the General Partners.

#### Development and Production Activities

Funds expended for exploration often are only a minor portion of the total amount required to develop a mine and place it into commercial production, including in some cases the construction and operation of milling or refining facilities. Thus, in the event that commercially marketable quantities of precious metals are discovered through exploration, it is anticipated that it will be necessary for the Partnership to raise a substantial amount of additional capital to bring that mining property into production. Although the General Partners may seek to obtain such funds in part through borrowing, there is no assurance that such borrowings could be obtained on reasonable terms or in the amounts sought. In the event the Partnership cannot obtain debt financing on terms acceptable to it, the General Partners may attempt to raise the necessary funding through an offering of stock in the Corporate General Partner. It is likely that such method of financing would dilute the interest of the Limited Partners. Furthermore, no assurance can be given that such funding would be successfully raised.

Alternatively, it might be necessary for the General Partners to sell or transfer, in whole or in part, an interest in the property to be developed to some third party in order to either raise the required funds for development and production or for the purpose of disposing of the property upon the best terms and conditions available, in lieu of the Partnership developing and operating the mine.

## THE BORDER SILVER PROPERTY

The Partnership will acquire all of the Corporate General Partner's interest in the Border Silver Property located in Cochise County Arizona. An Exploration and Option Agreement between Mr. Frankovich and Mr. Ellsworth, which has been assigned to the Partnership, covers a contiguous block of 561 acres of State mineral leases and 474 acres consisting of 26 Federal mining locations, for a total of 1035 acres. Mr. Frankovich had also acquired by prospecting permit and stating certain rights to additional Border Silver Property which have been assigned to the Partnership by the Corporate General Partner. Mr. Frankovich assigned his entire interest in the Border Silver Property exclusive of retained royalty interests of five percent (5%) of the net smelter returns attributable on the federal claims and two percent (2%) of the net smelter returns on the state leases. With respect to such royalties, Mr. Frankovich will be entitled to receive from the Partnership advance minimum royalties in the amount of \$2,500 per month beginning on the Initial Closing Date. In addition, the Partnership will pay to Mr. Frankovich \$50,000 on the Initial Closing Date and \$25,000 upon the sale of 20 Units for the acquisition of the Border Silver Property. See the "Assignment Agreement attached hereto as Exhibit "C".

### Location

The Border Silver Property is located in Sections 15, 16, and 17, T.24s, R.29E of Cochise County, Arizona. It is 9 miles due east of Douglas, Arizona, and immediately north of and adjacent to the Mexican border. It is easily accessible via a gravelled county road from Douglas across the north edge of the property. The average elevation is about 4,500 feet. The terrain is of moderate relief with light desert vegetation, and almost all of the property is traversible by 4-wheel drive vehicle.

### Exploration and Option Agreement

The Exploration and Option Agreement allows exploration of the property and the right to purchase with no reservations under the following terms:

1. Expenditure of \$10,000 for the benefit of the property in the first year. This has been done.

2. Rental payments monthly starting November 1, 1983, at \$300 per month and annually increasing to \$1,000 per month starting November 1, 1986.

3. Total purchase price of \$500,000 payable in five annual installments of \$100,000 each, with the first payment due November 1, 1986.

The Partnership can terminate the agreement at any time without penalty. To keep the agreement in effect, in addition to the option payments, the Company must do the assessment work on the 30 Federal claims (minimum of \$100 each), file the proper notices and make rental payments of the Arizona State leases, totalling \$390 per year. Arizona reserves a 5% net smelter returns royalty on its mineral leases. A copy of the agreement is attached hereto as Exhibit "E".

### History and Previous Exploration

Old geological references indicate that claims in the area were first located about 1900 and that prospecting activity, promoted by silver-lead mineralization, has continued intermittently since that time by individuals and small companies.

Several major mining companies have done reconnaissance type geochemical work on the property. One such company followed up with drilling a total of 500 feet of diamond drill holes in 3 holes. A small investment company drilled 10 air-rotary holes for a total of 3,070 feet. The people who did that work did not consider the results to be favorable.

## Geology

The property contains Cretaceous Bisbee Group limestones, sandstones and shales which have been gently folded, faulted, and intruded by Laramide igneous stocks. Silver-lead mineralization and gossans are found in numerous places in the property. None of the mineralization is commercial and no reliable predictions can be made as to the character of the mineralization. Independent geological reports are generally favorable in their outlook for the mineral potential of the property.

## Proposed Exploration Program

The Partnership plans to improve the present 1" to 500' geological map and to extend it by an additional three square miles and do additional geochemical surveying. Three primary target areas have been identified and will be explored by drilling profiles of diamond drill holes across the strike of mineralized structures. The results of drilling will be assessed after each hole is completed and changes in the program will be made as desirable. The amount of drilling that will be done in each target area will depend on the results of the drilling as it progresses. A flexible program will be maintained for best results. Several secondary drill targets on the property have been located and will receive some first-phase drilling if funds are available.

The Partnership plans to hire Frank Frankovich, consulting geologist and Arizona contract diamond drilling companies to perform all of its exploration program on its property in Arizona under geological and management supervision from the Partnership's office in Spokane, Washington.

The initial priority of presently identified target areas is as follows:

- a. Great Arizona gossans (eastern area of property);
- b. Border Queen area gossan-sulphide-barite mineralization (central area);

- c. Gossanous arkose formation (western area of property);
- d. Border King area silver-lead-barite mineralization (north central area);
- e. Johnson prospect silver-lead-barite mineralization (north central area);
- f. Windmill prospect silver-lead-barite mineralization (north central area);
- g. Other lesser target areas identified.

The priority of targets may be reordered by the project geologist as the work progresses.

The Partnership will terminate exploration on the Border Silver Property when, and if, management determines that the results are not sufficiently encouraging to continue. In that event the remaining funds would be used to further its plan to acquire and explore other precious metal properties.

## THE GENERAL PARTNERS

### Corporate General Partner

Border Silver Mining, Inc., was incorporated in the State of Washington on May 16, 1983, with a capitalization of 20,000,000 shares of \$.0025 par value common stock. The Corporation maintains its principal place of business at West 801 Riverside, Spokane, Washington and its telephone number at the address is (509) 624-4653.

Its officers and directors are: Janice E. Duval, President and Director; Frank J. Frankovich, Vice President and Director; Hobart Teneff, Secretary and Director; Rockne Timm, Treasurer.

### Individual General Partners

Hobart Teneff, age 63, is Secretary and a director of the Corporate General Partner. Mr. Teneff is presently President of the publicly held British Columbia, Canada companies, Pegasus Gold, Ltd. and Montoro Gold, Inc. Mr. Teneff is also President of Gold Reserve Corporation, a Washington corporation and Vice President and a director of Midnite Mines, Inc., a Washington corporation. Gold Reserve and Midnite Mines are both publicly traded companies. Prior to his involvement in the mining industry through his affiliation in the mid 1970's with Gold Reserve and Pegasus, Mr. Teneff was President and the owner and operator of General Equipment Company, a company engaged in selling and installing heating and air conditioning units to the mechanical contracting industry.

Frank D. Duval, age 48, is currently President and a director of Midnite Mines, Inc. For the past eight years Mr. Duval has been employed by Pegasus Gold Ltd. in an advisory capacity. Mr. Duval has been active in mine developments for the past 24 years.

## PROFITS, LOSSES AND DISTRIBUTIONS

### General Partners' Share in Partnership's Income and Losses

The Corporate General Partner shall contribute to the Partnership all of its interest in the Border Silver Property as described in the Partnership Agreement. The value of the contribution has been determined to be \$80,000 all of which shall be the General Partners' initial capital account. Assuming the maximum number of Units is sold, the Partnership Agreement governing the allocations of profits and losses allocates 1 percent of the losses up to \$1,010,000 to the General Partners and 85 percent of the losses in excess of \$1,010,000 to the General Partners. Profits are allocated the same as losses until all losses have been recouped and 85 percent thereafter to the General Partners.

### Limited Partners' Share in Partnership Income and Losses

Again assuming the maximum number of Units is sold, losses up to \$1,010,000 shall be allocated 99 percent to the Limited Partners and in excess of \$1,010,000 shall be allocated 15 percent to the Limited Partners. Profits shall be allocated to the Limited Partners the same as losses until all losses have been recouped at which time profits shall then be allocated 15 percent to the Limited Partners.

### Distributions to the Partners

Distributions shall be made within the sole discretion of the General Partners except distributions to the Limited Partners shall be in proportion to their capital contribution and shall be 99 percent to the Limited Partners and one percent to the General Partners until distributions to the Limited Partners have totalled \$1,000,000 (or adjusted as provided for in the Partnership Agreement). All other distributions, except distributions on termination, shall be 85 percent to the General Partner and 15 percent to the Limited Partners.

## PARTNERSHIP MANAGEMENT

The Partnership will be managed by the Corporate General Partner, Border Silver Mining, Inc., and the Individual General Partners. Hobart Teneff and Frank D. Duval. The Corporate General Partner is prohibited by the terms of the Partnership Agreement from engaging in any other business activity without the consent of the Limited Partners until such time as distributions to the Limited Partners have totalled \$1,000,000 (or adjusted as provided for in the Partnership Agreement). After distributions totalling \$1,000,000 (or adjusted) have been made to the Limited Partners, the Corporate General Partner may engage in any business it chooses including businesses related to or competitive with the business of the Partnership and need only devote to the Partnership whatever time, effort and skill may be necessary to conduct the business affairs of the Partnership. See "Conflicts of Interests."

The Partnership Agreement does not restrict the outside activities of any of the directors, officers or employees of the Corporate General Partner nor of the Individual General Partners.

### Summary of Management Responsibilities

Except as provided within the terms of the Partnership Agreement the General Partners shall have sole and complete charge of the affairs of the Partnership. The General Partners shall have the authority to act on behalf of the Partnership in all matters of Partnership business with the exception that the General Partners may not sell all or substantially all of the Partnership property without the consent of the Limited Partners until the Limited Partners have realized their investment. Nor may the General Partners sell to a related entity without the consent of the Limited Partners. The General Partners shall have authority to expend Partnership funds in furtherance of the business of the Partnership, to arrange financing as they deem appropriate, to pledge all or

any portion of the Partnership's assets and to convey such portions, if any, of the Partnership's assets as may be required to obtain such financing, to acquire or lease mineral interests; to explore or prospect for silver and other minerals, including geological and geophysical activities, and to produce, save, sell and develop any Partnership property, and to enter into operating agreements or joint venture agreements with respect to properties acquired by the Partnership, to employ agents, employees, independent contractors, attorneys and accountants as the General Partners deem reasonably necessary, to effect necessary insurance, to pay, collect, compromise, arbitrate, or otherwise adjust any and all claims or demands of or against the Partnership; and to bind the Partnership in all transactions involving the Partnership's property or business affairs. The General Partners shall be reimbursed for all costs fairly allocable to the Partnership's business but shall receive no compensation for their services other than their interests in the Partnership.

#### Offering and Organization

The General Partners are responsible for organizing the Partnership as well as for marketing the Units. This includes the formation of the Partnership; the preparation and filing of information with state and Federal regulatory agencies if required; the marketing of Units and securing capital for the Partnership.

#### Possible Conflicts of Interest

The principal areas in which conflicts of interest may arise in connection with the business of the Partnership are as follows:

The Individual General Partners and Affiliates of the Corporate General Partner are engaged in other mining activities. The Individual General Partners, and their Affiliates are not restricted from engaging for their own

account in business activities of the type conducted by the Partnership. Occasions may arise when the interests of the Partnership would be in direct conflict with those of the Individual General Partners, the Corporate General Partners or their Affiliates. When distributions to the Limited Partners have totalled \$1,000,000 (or adjusted) the Corporate General Partner may also engage in business activities which may prove to be competitive or in conflict with the business interests of the Partnership.

Frank J. Frankovich is involved in other mineral exploration and development activities and will continue to be so involved. In addition, Mr. Frankovich is an Affiliate of the Corporate General Partner and will conduct the exploration activities of the Partnership pursuant to an Exploration Agreement with the Partnership.

It is possible that as a consequence of the obligations and relationships discussed above, advantageous investment opportunities that might otherwise be available to the Partnership may not be made available to it and that the General Partners may be required to devote considerable time to ventures other than the Partnership as is allowed under the terms of the Partnership Agreement.

## SUMMARY OF AGREEMENT OF LIMITED PARTNERSHIP

Prospective Limited Partners should read and familiarize themselves with the Agreement of Limited Partnership (the "Partnership Agreement") which is attached to this Memorandum as Exhibit "A". Certain provisions of the Partnership Agreement have been described elsewhere in this Memorandum. The following is a summary of certain provisions of the Partnership Agreement. However, this summary does not purport to completely describe or refer to all significant terms of the Partnership Agreement and therefore each prospective Limited Partner should read the Partnership Agreement in its entirety.

### Capital Contributions

The General Partners will make a capital contribution to the Partnership in an amount equal to eight percent (8%) of the maximum contributions to the Partnership of the Limited Partners. Such contribution by the General Partners will be in the form of certain mining claims commonly referred to as the Border Silver Property, which have an agreed value of \$80,000. Limited Partners in this offering will purchase a minimum of 12 Units for an aggregate offering amount of \$300,000 and up to a maximum of 40 Units for an aggregate offering amount of \$1,000,000. Payment for the Units shall be made in cash or by check or money order contemporaneously with the execution of the Subscription Agreement. If the Limited Partners' contributions are less than \$1,000,000, distributions shall be made to the Limited Partners based on their lesser contribution and losses allocated to the Limited Partners shall be adjusted to 101 percent of the Limited Partners' total lesser capital contribution. Allocation of profits to the Limited Partners, shall also be reduced proportionately, and to the General Partners increased accordingly.

### Adjustments of Profits and Losses

Profits and losses shall be determined and allocated to the Limited Partners based on the number of days that each Limited Partner is admitted to the Partnership. Losses shall not be allocated to any Limited Partner if such allocation would reduce his capital account below zero. Allocations shall be made to the Limited Partners in proportion to their capital contributions.

### Term and Dissolution

The term of the Partnership commenced July 16, 1984, the date of filing and recording of the Certificate of Limited Partnership, and will continue for a period ending December 31, 2024, unless sooner dissolved pursuant to the terms of the Partnership Agreement. Such earlier dissolution will happen upon the occurrence of:

1. The sale of all real and personal property of the Partnership.
2. The retirement of the last remaining General Partner.
3. Any act of insolvency on the part of the last remaining General Partner.
4. By operation of law.

Upon dissolution of the Partnership, the Partnership will be liquidated and the proceeds of liquidation will be applied in the following manner:

1. To the payment of debts and liabilities of the Partnership (other than any loans or advances made by any of the Partners) and the expenses of the liquidation;
2. To the Partners in repayment of loans;
3. To the Partners in respect to their undistributed shares in their capital account.

### Rights and Duties of the General Partners

The Partnership Agreement provides that the General Partners shall have the sole right to manage the business of the Partnership and that no Limited Partner shall participate

in or have any control over the business of the Partnership. The General Partners, however, are precluded, until such time as distributions to the Limited Partners shall have exceeded the aggregate contributions made by the Limited Partners, from selling all or substantially all of the Partnership property without the consent of all Limited Partners. In addition, the General Partners may not at any time sell Partnership assets to a related entity without the consent of all Limited Partners. The General Partners shall have the authority and power to pledge all or any portion of the Partnership's assets as required to obtain financing.

#### Liabilities of Limited Partners

No Limited Partner shall be personally liable for any of the debts, obligations or liabilities of the Partnership or any of the losses thereof in excess of the amount of his capital contribution.

#### Transfer of Units

The Partnership Agreement provides, for tax and securities law reasons, significant limitations on the assignment of transfer of Units. By becoming limited partners, Limited Partners agree that no Unit will be sold, assigned or transferred without the prior written consent of the General Partners. If written consent to assign is obtained from the General Partners, the purchaser, assignee or transferee will become a Substituted Limited Partner with all the rights of a holder of the Units only if all of the interest of the assignor or transferor is sold, assigned or transferred and the Substituted Limited Partner executes an instrument agreeing to be bound by the terms and conditions of the Partnership Agreement. No assignment of an interest in the Partnership will be effective until all certificates or other documents have been executed and filed and all acts have been performed to preserve the status of the Partnership as a Limited Partnership.

#### Amendment of Agreement

The Partnership Agreement provides that the Agreement may only be amended with the written consent of the General Partners and all of the Limited Partners.

#### Liability of General Partners to Limited Partners

The Partnership Agreement provides that the General Partners shall not be liable to the Limited Partners for any course of conduct undertaken in good faith unless the General Partners are guilty of gross negligence with respect to such course of conduct.

#### Rights and Powers of Limited Partners

The Limited Partners shall be precluded from taking part in the conduct or control of the Partnership business and shall have no right or authority to act for or to bind the Partnership.

#### Accounting and Reports to Limited Partners

The fiscal year of the Partnership shall be the calendar year. Partnership records and books of account shall be kept on a cash or accrual basis as the General Partners shall determine and shall be further kept in accordance with generally accepted accounting principles. Audited financial statements shall be provided to the Limited Partners within 120 days after the close of the Partnership's fiscal year. In addition, quarterly reports on operations will be supplied within 45 days after the close of each calendar quarter. Information of the Partnership's income or loss and the classes thereof or deduction relevant to reporting Partnership income and distribution share of taxable income, gain, loss or deduction shall be supplied within 75 days after the close of the calendar year.

## CERTAIN TAX ASPECTS

### Preliminary Statement

It is impractical to comment on all aspects of Federal, state and local laws that may affect the tax consequences of an investment in the Partnership. IN VIEW OF THE COMPLEXITIES OF THIS TRANSACTION AND THE FACT THAT A RULING HAS NOT BEEN REQUESTED OR OBTAINED FROM THE INTERNAL REVENUE SERVICE WITH RESPECT TO ANY OF THE TAX ASPECTS OF THIS OFFERING, EACH PROSPECTIVE LIMITED PARTNER MUST RELY ON HIS OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PURCHASE AND OWNERSHIP OF UNITS OF LIMITED PARTNERSHIP. The following discussion is intended only as a summary and does not purport to be a complete analysis or listing of all potential tax factors relevant to a decision to purchase or own Units in the Partnership. The following discussion is based upon the existing provisions of the Internal Revenue Code of 1954, as amended (the "Code"), existing and proposed regulations thereunder and current administrative rulings and court decisions. No assurance can be given that legislative or administrative changes or court decisions may not be forthcoming which would require significant modification of the statements expressed in this section.

The discussion of Federal income tax considerations herein is necessarily general, and tax considerations may vary depending on a Limited Partner's individual circumstances. For example, a prospective Limited Partner may be subject to the alternative minimum tax, which could eliminate or reduce the tax benefits associated with an investment in the Partnership. Moreover, although the Partnership has consulted Brajcich & Topliff, P.S., counsel to the General Partners and to the Partnership, no opinions, other than those contained in the form of the Tax Opinion set forth as Exhibit "D" hereto, will be secured from such counsel. This opinion of counsel represents only such counsel's legal judgment and has no binding effect or official status of any kind. The Federal

income tax aspects of an investment in the Partnership have been affected in several respects by the Tax Reform Act of 1976, ("Reform Act"), the Revenue Act of 1978, ("Revenue Act"), the Economic Recovery Tax Act of 1981, ("ERTA"), the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), and the Deficit Reduction Act of 1984, hereafter collectively referred to as the "Tax Acts". Like all new statutes, the Tax Acts contain provisions that are subject to varying interpretation, and the significance of these provision may not become certain until they have been interpreted by the Service and the courts. THIS OFFERING IS BEING MADE ON THE BASIS THAT EACH PROSPECTIVE LIMITED PARTNER WILL RELY SOLELY UPON HIS OWN ADVISOR WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES ARISING FROM THE PURCHASE AND OWNERSHIP OF UNITS IN THE PARTNERSHIP.

The Partnership will file a Federal information tax return, which may be audited by the IRS. ANY ADJUSTMENTS TO THE PARTNERSHIP RETURN AS A RESULT OF SUCH PROCEEDINGS MAY ALSO RESULT IN AN AUDIT OF A LIMITED PARTNER'S INDIVIDUAL TAX RETURN, WHICH COULD RESULT IN ADJUSTMENTS OF NON-PARTNERSHIP AS WELL AS PARTNERSHIP ITEMS. Prospective Limited Partners should be aware that TEFRA requires that proceedings for assessment and collection of tax deficiencies arising out of a partner's distributive share of income or loss be conducted at the partnership level, which may limit effective participation by Limited Partners in judicial proceedings the outcome of which may adversely affect them and may bind Limited Partners to administrative settlements entered into by the Partnership unless a timely statement has been filed with the IRS which limits the Partnership in this respect.

Counsel will issue an opinion with respect to certain material tax issues under present law with respect to which there is a reasonable possibility of challenge by the IRS regarding the tax treatment proposed by the Partnership. The opinion is expected to be in substantially the form of the draft attached hereto as Exhibit "D". If it is not possible to

make a judgment as to the outcome of a material tax issue, the reasons therefore are stated, as required by American Bar Association Formal Opinion 346 (January 29, 1982). A summary of the opinions of Counsel with respect to the tax issues which are believed to be "material" under present law and within the scope of Opinion 346 is as follows:

(i) The Partnership will be treated as a partnership for Federal income tax purposes and not as an association taxable as a corporation.

(ii)

(iii)

(iv) Each Limited Partner will be entitled to deduct from his gross income each year, to the extent of his adjusted basis for his interest in the Partnership at the end of such taxable year, his distributive share of allowable losses for such year, recognized by the Partnership after the date he is admitted to the Partnership. Counsel expresses no opinion as to whether the Partnership's tax treatment of the various expenditures incurred is proper, because the treatment of those expenditures involves a variety of factual questions which are beyond the scope of the professional expertise of counsel.

(v) It is more likely than not that, in the aggregate, a Limited Partner will realize the preponderance of the tax benefits which are a significant feature of his investment in the Partnership.

The draft of the opinion of Counsel attached hereto as Exhibit "D" addresses only those issues enumerated in (i) through ( ) above. The opinions of counsel are based upon

assumptions and qualifications which are discussed more fully in Exhibit "D". PROSPECTIVE LIMITED PARTNERS ARE URGED TO READ THE COMPLETE TEXT OF THE OPINION OF COUNSEL LOCATED IN EXHIBIT "D" IN CONJUNCTION WITH THIS MEMORANDUM.

In summary, the following discussion and the opinion of Counsel referred to herein are based on the application of existing Federal income, estate and gift taxes to the Partnership. The opinions of Counsel are not binding on the IRS, and no assurance can be given that changes in the law or in the interpretation thereof will not affect such opinions or have the effect of making "material" an issue which Counsel has not addressed in its opinion. Considerable uncertainty exists concerning various tax aspects of mining limited partnerships, and the opinions of Counsel are based upon important qualifications as well as legal and factual assumptions. MOREOVER, THERE IS NO ASSURANCE THAT THE CONCLUSIONS OF COUNSEL WILL NOT BE CHALLENGED BY THE IRS AND THAT SUCH CHALLENGE WILL NOT BE SUCCESSFUL. THE PARTNERSHIP MAY ALSO SETTLE AN AUDIT TO AVOID COSTLY LITIGATION, WHOLLY APART FROM THE MERITS OF ONE OR MORE PARTICULAR ISSUES, WITH THE RESULT THAT SOME TAX BENEFITS MAY BE ELIMINATED OR DEFERRED TO LATER YEARS. THERE CAN THEREFORE BE NO ASSURANCE THAT THE ANTICIPATED TAX BENEFITS OF AN INVESTMENT IN THE PARTNERSHIP IN FACT WILL BE REALIZED.

In addition to the tax issues which Counsel considers material under present law, prospective Limited Partners should consider the following discussion of various tax principles and tax matters association with an investment in the Partnership. Many of these principles and matters are not addressed in the opinion of Counsel because they are essentially general information about income, estate and gift taxation or because the tax consequences vary significantly from Limited Partner to Limited Partner or involve a variety of factual questions which are beyond the scope of the professional expertise of counsel. The following discussion should also be read in conjunction with CERTAIN RISK FACTORS.

### General Tax Incentives

Under present United States income tax laws and regulations, there are certain incentives available for the exploration and development of solid mineral mines. The principal incentives are (i) the election to deduct what are generally referred to as solid mineral exploration and development costs incurred in connection with the exploration for marketable quantities of solid minerals; and (ii) the right to a deduction for percentage depletion with respect to the gross income derived from a solid mineral property. Other tax incentives include deductions for business expenses, interest expenses, and accelerated capital cost recovery allowances on equipment used in connection with solid mineral operations.

### Mine Exploration Costs

It is anticipated that a substantial portion of the cost of the Partnership's exploration expenditures will be deductible as incurred at the election of the Partners. Under the Partnership Agreement, initial losses will be allocated ninety-nine percent (99%) to the Limited Partners and one percent (1%) to the General Partners. To the extent such losses are attributable to exploration expenses each Partner may elect to currently deduct such amounts. Exploration costs deducted by the Partners may constitute an item of tax preference. See "Tax Preferences".

Mine exploration costs are generally those paid or incurred in ascertaining the existence, quantity and quality of certain mineral deposits. Absent the election to currently deduct exploration costs, such costs must be capitalized as a part of the taxpayer's basis in the mineral interest possessed. If a taxpayer elects to deduct exploration expenditures, all amounts deducted are subject to recapture, as discussed below. Upon recapture ordinary income must be recognized, capitalized and added to the taxpayer's basis in the mineral interest.

### Exploration Cost Recapture as Ordinary Income

Section 117 of the Code provides that upon the earlier of two events exploration costs which have previously been deducted must be recognized as ordinary income. First, where the mineral property is sold or otherwise disposed of, gain realized, to the extent of all previously unrecaptured exploration expenditures, must be recognized as ordinary income.

The second event generally triggering the recapture provisions is the commencement of the production activities. A mine is generally considered to have commenced production activities at such time as the principal activity is the production of minerals. Upon reaching the producing stage, depletion deductions are generally available. See "Depletion". Exploration cost deductions will ordinarily be recaptured by a dollar for dollar reduction of otherwise allowable depletion deductions. Thus, no depletion deductions will be allowed until an amount of such forgone depletion deductions equals the amount of previously deducted exploration expenditures. Alternatively, a taxpayer may elect to retain the right to claim depletion deductions, provided in the year during which the mine reaches the producing stage, an amount equal to 100% of the previously deducted exploration expenses is included in income and added to the basis of the mineral interest. However, certain dispositions are excepted from the recapture-on-disposition rules, including the contribution of such property to the capital of a corporation where such transfer is otherwise tax free.

### Depletion

The owner of an economic interest in a mineral property is entitled to a deduction for depletion against a portion of the income derived from production on such property. The amount of the deduction allowed is the greater of cost depletion or percentage depletion, subject to the limitations discussed below.

Under the cost depletion method, the capitalized costs of a mineral property are recovered over the useful life of the

property. Under the percentage depletion method, on the other hand, a deduction is permitted equal to 15% of the gross production income from the property. The aggregate percentage depletion deductions are not limited to the tax basis of the property, but deductions in excess of the tax basis of the property are an item of tax preference. See "Tax Preferences". Percentage depletion allowable with respect to each property is limited to 50% of the taxable income, before depletion, from such property.

The deduction for cost or percentage depletion with respect to production from solid mineral properties must be computed separately by the Limited Partners and not by the Partnership. A Limited Partner will be deemed to have a basis in the solid mineral properties owned by a Partnership equal to the Limited Partner's proportionate share (based on his or her interest in the Partnership capital or income) of the Partnership's basis in those properties. Similarly, a Limited Partner will be deemed to have production to the extent of his or her proportionate share of the Partnership's revenues from the mineral properties.

#### Leasehold Costs and Abandonments

All capital costs, including exploration costs for which no election is made must be capitalized, are part of the basis in the mineral property. If a mineral lease is determined to be worthless, the taxpayer's adjusted basis in such lease constitutes a loss which is deductible as an ordinary loss on business property in the year in which the lease becomes worthless.

#### Classification as a Partnership

The General Partner has not obtained, and does not intend to request, a ruling from the Service that the Partnership will be classified as partnership for Federal income tax purposes. The General Partner has obtained an opinion of counsel that the

Partnership will be classified as partnership for tax purposes. However, counsel's opinion is not binding on the Service.

The opinion of counsel is based upon the Code, Treasury regulations, Internal Revenue Service rulings, case law, the Washington State Uniform Limited Partnership Act, certain representations of the General Partners and the assumption that the Partnership's activities will be conducted in accordance with the terms of the Partnership Agreement and the representations made in this Memorandum. If the representations of the General Partners are no longer true or there is a material change in the representations, or the law, regulations, Service rulings, or case law changes, no assurance can be given that at such time the Partnership would be classified as a partnership for Federal income tax purposes, with or without retroactive effect.

Should the Internal Revenue Service determine that the Partnership should be characterized as an association taxable as a corporation rather than as a partnership, the Limited Partners would be treated as corporate shareholders for tax purposes and, as such, would not be entitled to the favorable presently anticipated. For example, the income of the Partnership would be taxed to the Partnership as a separate taxable entity at corporate income tax rates, distributions would be taxed to the Limited Partners as dividends (to the extent of the Partnership's earnings and profits), and deductions generated by the Partnership would be available only to the Partnership and not to the Limited Partners.

#### Federal Taxation of a Partnership and Its Partners

Under the Code, Federal income tax is not paid by a partnership. If the Partnership is treated as a partnership for Federal income tax purposes, the Limited Partners of the Partnership will report on their Federal income tax return their distributive share of all items of the Partnership income, gain, loss, deduction, credit and tax preference for each taxable year of the Partnership ending within or with

their taxable year, without regard to whether such Limited Partners have received or will receive any distributions from the Partnership. Thus, it is possible for a Limited Partner to have income reported on his or her Federal income tax return without regard to the amount of cash, if any, distributed to him or her. For example, this might happen where Partnership revenues are used to repay Partnership loans.

A Limited Partner of the Partnership will be entitled to deduct on his or her individual Federal income tax return, subject to the limitations of section 465 of the Code (discussed below), his or her allocable share of the Partnership's net losses, if any, to the extent of the tax basis of his or her Limited Partnership interest at the end of the Partnership's taxable year in which such loss has occurred.

In the event a Limited Partner's interest in a Partnership is transferred during a taxable year, Partnership income, deductions and credits allocable to such interest will be apportioned between the transferor and transferee of the interest.

#### Partnership Allocation Provisions

The General Partners have not obtained, and do not intend to request, a ruling from the Service that the provisions of the Partnership Agreement respecting the distributive shares of the respective Partners in the income, gains, losses, deductions or credits (or items thereof) will withstand government scrutiny pursuant to an audit of the income tax returns of the Partnership or the respective Partners. The General Partners have obtained an opinion of counsel that the distributive shares of the respective Partners as provided in the Partnership Agreement are in accordance with the respective interest in the Partnership as required by Code Section 704(b). However, counsel's opinion is not binding on the Service.

The opinion of counsel is based on the Code, Treasury regulations, Internal Revenue Service rulings, case law, certain representations of the General Partners and the

assumption that the Partnership's activities will be conducted in accordance with the terms of the Partnership Agreement and the representations made in this Memorandum. If the representations of the General Partners are no longer true or there is a material change in the representations, or the law, regulations, Internal Revenue Service rulings, or case laws changes, no assurance can be given that at such time the purported distributive shares of the Partners in the income, gains, losses, deductions or credits (or items thereof) would not be altered or eliminated for Federal income tax purposes, with or without retroactive effect.

Allocations of overall Partnership income or loss, or of any item of income, gain, loss, deduction or credit, among Partners in a manner which is not in accordance with the Partners' respective interest in the partnership (e.g., which is disproportionate to the capital contributions of such Partners) are sometimes referred to as "special allocations". Such "special allocations" are not valid for Federal income tax purposes and will be disallowed unless the allocations have "substantial economic effect."

The tax rules with respect to special allocations were amended by Congress in 1976, and the Treasury has not finalized regulations to explain the new rules. It is not entirely clear what "substantial economic effect" means and what factors are relevant in determining whether a special allocation has "substantial economic effect." The legislative history of the 1976 amendment indicates, and the United States Tax Court has said that a special allocation would be considered as having substantial economic effect if the allocation "may actually affect the dollar amount of the partners' shares of the total partnership income or loss independently of tax consequences." Generally, a special allocation should have substantial economic effect if the allocation is reflected as an increase or decrease in the partners' capital accounts, and liquidation proceeds are distributed to the partners in accordance with their adjusted capital account balances.

In 1982, the United States Court of Claims in Hamilton v. U.S., 687 F.2d 408 (Ct. Cl. 1982) reviewed a partnership agreement which allocated 95% of the Partnership's income and expenses to the Limited Partners in accordance with their initial capital contributions, until they recovered their contributions. After such period, the limited partners were allocated 60% of the Partnership's income and expenses. Such an arrangement was analyzed by the court as a bottom-line allocation, not as a special allocation, and was upheld in part due to the fact that until pay-out, income and expenses were allocated in proportion to initial capital contributions.

Given the uncertainty which exists with respect to what constitutes "substantial economic effect" and the increasing attention which the Service is giving to special allocations in "tax shelter" partnerships, there can be no assurance that the Partnership allocations contained in the Partnership Agreement will not be challenged by the Service as special allocations lacking "substantial economic effect." If an allocation in the Partnership Agreement were disallowed as a special allocation without substantial economic effect, the Service would reallocate the disallowed item among the Limited Partners and the General Partners, in accordance with their respective interest in the Partnership, taking into account all facts and circumstances. This could result in a loss of tax deductions for the Limited Partners.

#### Basis of Limited Partnership Interest of Limited Partners

Generally, the tax basis of an interest of a limited partner in a partnership is equal to the amount of cash contributed by the limited partner, decreased by the limited partner's share of partnership distributions and losses, and increased by the limited partner's share of partnership income. The tax basis of an interest of a limited partner in a partnership will also be decreased by his or her deduction for depletion with respect to Partnership solid mineral operations.

The tax basis of an interest in a partnership is important because a limited partner cannot deduct his or her share of partnership losses in excess of his or her basis in the partnership (subject also to the "at risk" limitations discussed below). Furthermore, a limited partner's tax basis is used in determining the extent of gain is realized on cash distributions, and in measuring gain or loss upon a partial or complete disposition of his or her interest in a partnership.

#### Limitations on Loss Deductions to Amount "At Risk"

Under section 465 of the Code, the amount of losses which individuals and certain corporations may deduct with respect to most business and investment activities, including exploring for or exploiting solid minerals, is limited to the amount which the individual or corporation is "at risk" with respect to such activity. An activity for these purposes includes participation in a partnership which is engaged in the mineral activities. Thus, the amount of losses of a partnership which most limited partners will be entitled to deduct will be limited to the amount which the limited partner is "at risk" at the close of the taxable year in which the loss occurs.

Generally, a limited partner will be "at risk" for an amount equal to the cash paid for his or her partnership interest. If any part of the payment for a partnership interest is made with borrowed funds, it will be considered to be "at risk" only if certain conditions are satisfied. For example, the limited partner must have obtained the loan from unrelated sources and be personally liable for repayment. In subsequent years, the "at risk" amount generally will be increased by the limited partner's allocable share of the partnership's net income, and reduced by his or her allocable share of the partnership's net loss. Partnership distributions will also reduce the limited partner's "at risk" amount.

Limited partners which are corporations are subject the "at risk" rules if they are either an electing small business corporation (a so-called "Subchapter S corporation") or a

corporation 50% or more of whose stock is owned by 5 or fewer individuals considering the applicable attribution rules of section 318 of the Code.

If the amount for which a limited partner is "at risk" is reduced below zero (by distributions to the limited partner, by changes in the status of indebtedness from recourse to non-recourse, or otherwise), the limited partner will recognize income to the extent that such distributions exceed his or her "at risk" amount.

#### Cash Distributions

If cash distributions by a partnership to a limited partner in any year exceed a partner's share of the partnership's taxable income for that year, the excess will constitute a return of capital to the partner. A return of capital will not be reportable as taxable income by a partner for Federal income tax purposes, but it will reduce the adjusted basis of his or her partnership interest.

Cash distributions from a partnership to a partner in excess of the partner's adjusted basis in his or her partnership interest will be taxable to the partner as though it were a gain on the sale or exchange of his or her partnership interest. Depending on the surrounding facts and circumstances, such gain may be taxable as ordinary income or capital gain.

#### Organization Costs

Under Section 709(b) of the Code, the costs of organizing a partnership are not allowable as a current deduction but may, at the election of the partnership, be amortized over a period of 60 months. The Partnership intends to make the election to amortize its organization costs. The costs of raising partnership capital and promoting the sales of interests in the partnership are neither currently deductible nor amortizable.

### Capital Cost Recovery of Tangible Personal Property

The Partnership intends to recover the capital cost of its tangible personal property under the accelerated cost recovery system ("ACRS") enacted by the 1981 Tax Act. Under ACRS, the cost of most equipment used in solid mineral exploration may be recovered on an accelerated basis over a five year period. Upon sale or disposition of the equipment, any gain recognized by the Partnership will be treated as ordinary income to the extent of all prior ACRS deductions.

### Investment Credit

The Partnership's investment, if any, in new depreciable personal property with recovery periods of 5 years or more for ACRS purposes, will generally qualify for the 10% investment tax credit. In the case of depreciable property with a recovery period of less than five years only 60% of the cost of the property qualifies for the investment tax credit. If a partnership disposes of investment credit property, or if the "at risk" amount with respect to the property decreases, all or some of the investment credit previously claimed is required to be recaptured.

### Sale or Liquidation of Partnership Interest

A limited partner will realize gain or loss on the sale or exchange of his or her partnership interest measured by the difference between the amount realized on the sale or exchange and the limited partner's adjusted basis for the interest.

Assuming that the Partnership is not a dealer in solid mineral interests and that the Limited Partners are not dealers in properties similar to Partnership Units, the sale or liquidation of a Partnership Unit by a Limited Partner who has held such Unit for more than six months will generally result in the recognition of a long-term capital gain or loss. However, if at the time of the sale or liquidation of a Partnership Unit, the Partnership has "inventory items" which have substantially appreciated in value or "unrealized

receivables", the portion of the Limited Partner's gain attributable to such items will be taxable as ordinary income.

For this purpose "unrealized receivables" include, among other things, unrealized receivables (in the accounting sense) and certain recapture items with respect to Section 1245, 1250 and 617 property (i.e., ACRS or depreciation recapture with respect to tangible personal and real property, and exploration recapture) to the extent of the amount which would have been treated as ordinary gain under such sections if the property had been sold by the Partnership at its fair market value. It is possible that, on the sale or liquidation of a Partnership Unit, a Limited Partner may realize ordinary income in the form of depreciation and exploration cost recapture with respect to deductions claimed by the Partnership during the time he or she was not a Limited Partner.

#### Treatment of Gain or Loss on Sale, Exchange or Foreclosure of Partnership Property

In general, gains and losses from sales or other dispositions of partnership properties, if such properties have been held for more than six months and not held primarily for sale to customers, would be gains and losses described in section 1231 of the Code (i.e., gains and losses from sales or exchanges of real or depreciable property used in a trade or business). Gains and losses from sales of partnership solid mineral properties, where such properties have been held for more than six months and not held primarily for sale to customers, would be section 1231 gains and losses, except to the extent of depreciation recapture and recapture of exploration costs. In determining gain or loss on sale or other disposition of partnership property, the amount realized includes the amount of liabilities which encumbers the transferred property, and the amount of liabilities which the purchaser of the property assumes.

A partnership's net section 1231 gain or loss is passed through separately to the partners. A limited partner's

allocable share of partnership net section 1231 gain or loss must be aggregated with his or her section 1231 gains and losses from other sources. If the result is a net gain, such gain will be taxable as long-term capital gain; if the result is a net loss, such loss will be deductible as an ordinary loss. Gains and losses from sales of partnership properties which are not section 1231 gains and losses generally would be taxable to the partners as ordinary income and ordinary loss.

Income received from the sale of solid minerals in the ordinary course of business will be ordinary income

### Tax Preferences

The alternative minimum tax is a complicated provision imposing a flat tax at the rate of 20% on an amount referred to as alternative minimum taxable income (AMTI). A taxpayer's AMTI is generally determined by adding to the taxpayer's adjusted gross income the amount of tax preference items taken into account in determining taxable income, and subtracting therefrom certain itemized deductions and an exemption amount.

One of the items of tax preference to be included in AMTI is the excess of exploration expense deductions over the allowable deductions if the exploration expenses were, in lieu of being deducted currently, capitalized and amortized over a 10 year period on a straight line basis. Partners electing to deduct exploration costs without electing the 10 year amortization will significantly increase their exposure to alternative minimum tax liability.

A second item of preference exposing the Partners to alternative minimum tax liability is the potential for depletion allowances in excess of the Partners' adjusted basis in the depletable property of the Partnership. In addition, capital gains and accelerated cost recovery deductions incurred by the Partnership may result in exposing the Partners to alternative minimum tax liability.

### Election to Adjust Tax Basis of Partnership Property

The Service provides for optional adjustments to the basis of partnership property as a result of a distribution of partnership property to a partner or a transfer of a partnership interest, if a partnership election has been made in accordance with Code section 754. The general effect of such an election is that transferees of partnership interests are treated, for purposes of depreciation and gains and losses, as if they had acquired a direct interest in partnership assets, and the partnership is treated for such purposes, upon certain distributions to the partners, as if it had newly acquired an interest in partnership assets and therefore acquired a new cost basis for such assets. The tax accounting required to implement such an election is quite complex and costly, as adjustments must be made each time there is a transfer of a partnership interest or a distribution of partnership property. Accordingly, the General Partners may not make a section 754 election on behalf of the Partnership, although it is empowered to do so by the Partnership Agreement. The absence of such an election, and the lack of power on the part of the Limited Partners to compel the making of such an election, may reduce the value of an interest in the Partnership to potential transferees.

### Possible Application of Section 183

Under section 183 of the Code, certain deductions may be disallowed to a limited partner who is determined to lack a profit motive in purchasing an interest in a partnership, possibly even if the partnership itself is deemed to have a profit objective. Although investments such as the purchase of an interest in a partnership typically have not been the type of activity which the Service has sought to describe as an "activity not engaged in for profit" within the meaning of section 183, the Service has recently succeed in barring deductions attributable to an investment in a cattle-breeding venture on the basis of a finding by the Tax Court that the

program was engaged in primarily to generate tax savings rather than to generate profit from the operation of the partnership business.

#### Limitation on Deductibility of Interest

Interest paid or accrued by a limited partner (other than a corporation) on indebtedness incurred or continued to purchase or carry property held for investment, such as an investment in the Partnership, may be deducted only to the extent that such interest does not in any one year exceed \$10,000 (\$5,000 in the case of married taxpayers filing separate returns) plus the Partner's other net investment income (excluding capital gains). Any excess may be carried over and deducted in future years, subject to the same limitation.

Under certain circumstances (some of which may not be within the control of the Partnership), property held by the Partnership may be deemed to be held for investment rather than in the conduct of a trade or business, with the result that interest on any indebtedness incurred or assumed by the Partnership to purchase such property may be subject to the limitations on deductibility of investment interest. Each Limited Partner would report on his or her own return his or her distributive share of the Partnership's investment interest. Although the Partnership does not anticipate that any of its properties will constitute "property held for investment," that term has not yet been the subject of binding judicial or final administrative interpretation, and no assurance can be given that Partnership properties may not be so classified in the future.

#### Tax Procedure

Many recent changes in the Code have affected investors in limited partnerships. These changes have revised the procedural provisions regarding partnerships including the reporting by partners of partnership items, the conduct of audits of partnership returns and the imposition, in certain

circumstances, of penalties on investors in tax shelters. Pursuant to these provisions individual partners are generally required to report items of income, gain, deductions, loss and credit on the individual's income tax return in a manner consistent with the treatment of such items on the partnership return. Furthermore, before initiating income tax deficiency proceedings against a partner the Service is required to conduct an audit of the partnership. Upon the commencement and conclusion of audits of partnerships, the Service must notify each partner of the audit and each partner has the right to participate in the audit. Each partner will generally be bound by any settlements reached in the course of a partnership audit, although in certain circumstances a waiver may avoid this result.

The statute of limitations for the assessment of tax deficiencies relating to partnership items has been set at three years from the date the partnership return is due or filed, whichever is later. If no partnership return is filed, or is filed yet omits a substantial portion of income, regardless of the partners' timely filing of otherwise accurate individual returns, such partner may be assessed for tax deficiencies beyond the expiration of the three year period of limitations applicable to individuals provided assessment is made within the period applicable to partnership items. There is also a penalty provision imposing a ten percent penalty on taxpayers for substantial understatements of income tax liability. For this purpose, an understatement is defined as the excess of the amount of tax required to be shown on the return for the taxable year over the amount of tax which is actually shown on the return.

#### Taxation of Capital Gains and Losses

Under current law, individuals are subject to a maximum tax rate on their net capital gain (i.e., the excess of net long-term capital gains over net short-term capital losses) of 20%. The amount of ordinary income against which individuals

may deduct capital losses is \$3,000. However, only one-half of the excess of net long-term capital losses over net short-term capital gains may be deducted from ordinary income.

#### State and Local Taxation

The Partnership may operate in the states and localities which impose a tax on each Limited Partner on his or her share of the income derived from activities of the Partnership in such states. In addition, to the extent that the Partnership so operates in certain jurisdictions, estate or inheritance taxes may be payable therein upon the death of a Limited Partner. Accordingly, a Limited Partner might be subject to income taxes and estate or inheritance taxes in states in which the Partnership does business, as well as his or her own state, although in some instances reciprocal credit provisions may prevent actual collection of two taxes. Depending on the location of properties owned by the Partnership and on applicable state and local laws, deductions which are available to a Limited Partner for Federal income tax purposes may not be available for state or local tax purposes because of the location of his or her domicile or the sources of his or her other income.

#### Tax Accounting Considerations

The Deficit Reduction Act of 1984 made significant changes in the tax accounting provisions of the Code applicable to the Partnership. It is anticipated that the Partnership will utilize the cash method of accounting which prior to the 1984 Act would have resulted in the recognition of items of income and deduction at the time each is received or paid. Under the new Act, cash basis "tax shelters" are not treated as incurring deductible expenditures until both payment and "economic performance" occur. With respect to the contract for the performance of exploration activities, economic performance is deemed to occur as the services are provided to the Partnership. Therefore, deductions for exploration expenses

may not be taken by the Partnership until the year during which the exploration activities occur.

For the purposes of this provision, a "tax shelter" is defined to include any partnership if more than 35% of its losses are allocable to limited partners. Therefore, it appears that the Partnership will constitute a "tax shelter" and, therefore, will be unable to deduct exploration costs prior to the time when exploration services are actually performed.

At the date of this writing, no regulations or other interpretations of the economic performance rule have been promulgated. Therefore, the specific applicability of the rule to the facts of the Partnership cannot be reliably predicted.

#### Advanced Minimum Royalty

The mineral rights possessed by the Partnership are subject to an advance minimum royalty of \$2,500 per month which was retained by Mr. Frankovich. Advance royalties that are subject to recoupment against future production are generally deductible in the year in which the mineral is sold or produced, whichever occurs later. However, advance royalties which are paid pursuant to a minimum royalty provision requiring payments for the life of the lease are subject to an election to deduct the payments thereunder in the year paid.

#### 1984 Tax Legislation

Many provisions of the Deficit Reduction Act of 1984 may affect a investment in the Partnership, including those affecting capital gains, depreciation, investment tax credit, tax shelters (including tax shelter registration), penalties and accounting for pre-paid expenses. Each Partner should consult his or her own tax advisor and thoroughly investigate the applicability of the new law to his or her particular circumstances.

LEAD-SILVER DEPOSITS ON THE ELLSWORTH PROPERTY  
ASH SPRING DISTRICT, COCHISE COUNTY, ARIZONA

A Preliminary Report

by

John N. Faick, Ph.D.  
Registered Geologist

Prepared for

MINE EXPLORATION COMPANY, Inc.  
3130 East Grant Road  
Tucson, Arizona 85716

November 5, 1968

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INTRODUCTION

Located a few miles east of Douglas, Cochise County, Arizona, is a three-square-mile area in which small, sporadic, rich, lead-silver deposits have been prospected from time to time during the last 12 or 15 years by Earle and Leoma Ellsworth of Douglas, Arizona. I visited this area October 10, and again on October 25, 26 and 27, 1968. As a result of these visits to the area I am convinced that the lead and silver deposits are sufficiently abundant to present an attractive exploration target for companies interested in possible future production of lead and silver ore. Many of the small deposits are closely spaced and the intervening zones seem to be sufficiently well mineralized so that some parts of the area should be considered as large, low-grade, disseminated lead deposits. In two or three places these lead-rich zones may be suitable for open pit mining on a moderate scale. The deposits should be explored and evaluated to determine whether mining of the deposits is economically feasible.

LOCATION, ACCESSIBILITY, TOPOGRAPHY, POWER AND WATER

The area where the lead-silver deposits have been found lies in sections 15, 16, and 17 in T. 24 S., R. 29 E., from about seven to ten miles east of Douglas, Arizona. The south side of these three sections adjoins the Mexican border and a Cochise County road passes approximately along the north side of the mineralized area. This road, which is an extension of East 15th Street in Douglas, provides easy access to the property.

The area in which the deposits are found is generally referred to as the Ash Spring district but is sometimes referred to as the Douglas district. As shown on figure 1 it is an area of low mountains with moderate topography; having a maximum difference of elevation of about 750 feet. Most of the property is readily accessible over several jeep trails.

Douglas, with a population of about 12,000, is the site of a Phelps-Dodge smelter which treats the copper ores from the Bisbee Mines. It is also an important railroad shipping point and the heart of a thriving farming and ranching area. It would be the principal source of labor and supplies for any work done in the Ash Spring district.

The nearest source of power is at Douglas. A small dependable supply of water is said to be available in a mine shaft on section 15 but large supplies probably would have to be obtained from the San Bernardino Valley toward the east or the Douglas area west of the lead-silver deposits.

## OWNERSHIP OF THE PROPERTY

The lead-silver deposits occur on both Federal and State land and the mineral rights are controlled by Earle and Leoma Ellsworth who at one time operated a cattle ranch in the area and who have prospected it for several years. The Ellsworths have unpatented lode claims on the Public Domain and mineral leases on claims on the Arizona State land. Some of the Ellsworth claims are shown on figure 2; others have not been mapped. Ellsworth's title to the land and the mineral resources seems to be in good shape; however, it is still under investigation.

## HISTORY

A brief history of early exploration in the Ash Spring district is recorded by the Copper Handbook for the years 1909, 1910-1911, and 1918. It was reported that extensive lands were being explored for copper in 1907, and in 1908 the Grand Arizona Copper Company was incorporated to develop the land. At that time the company reportedly had 36 unpatented claims covering an area of about 700 acres near the foot of Nigger Head Butte. The property was developed by about 1000 feet of workings which included three shafts respectively 40, 70 and 325 feet deep; and a 42-foot and 65-foot crosscut tunnel and a 115-foot drift tunnel. Apparently these workings are on section 15, where a General Land Office survey plat (dated 1914) shows a mine shaft designated as Arizona Copper Company. In 1908 the property was fully equipped with a 72-HP steam power plant, hoists, machinery and seven buildings but the entire property was sold for debt in 1912.

By 1908 the mine had explored a contact deposit (Copper Handbook, Vol. X, p. 878) averaging about eight feet wide between limestone and porphyry. This was a sulfide ore deposit containing a small percentage of copper and zinc and up to 46 percent lead and 28 ounces of silver per ton with small values in gold. The ore is said to have contained some chalcopyrite and bornite. Some pyrite was found on the waste dump in October 1968.

It is rumored locally that the mine had produced about \$75,000 worth of silver just before operation ceased and that the reason for closing the mine was that an excessive flow of water was encountered by the workings. The shaft was used as a source of water for Ellsworth's cattle for several years.

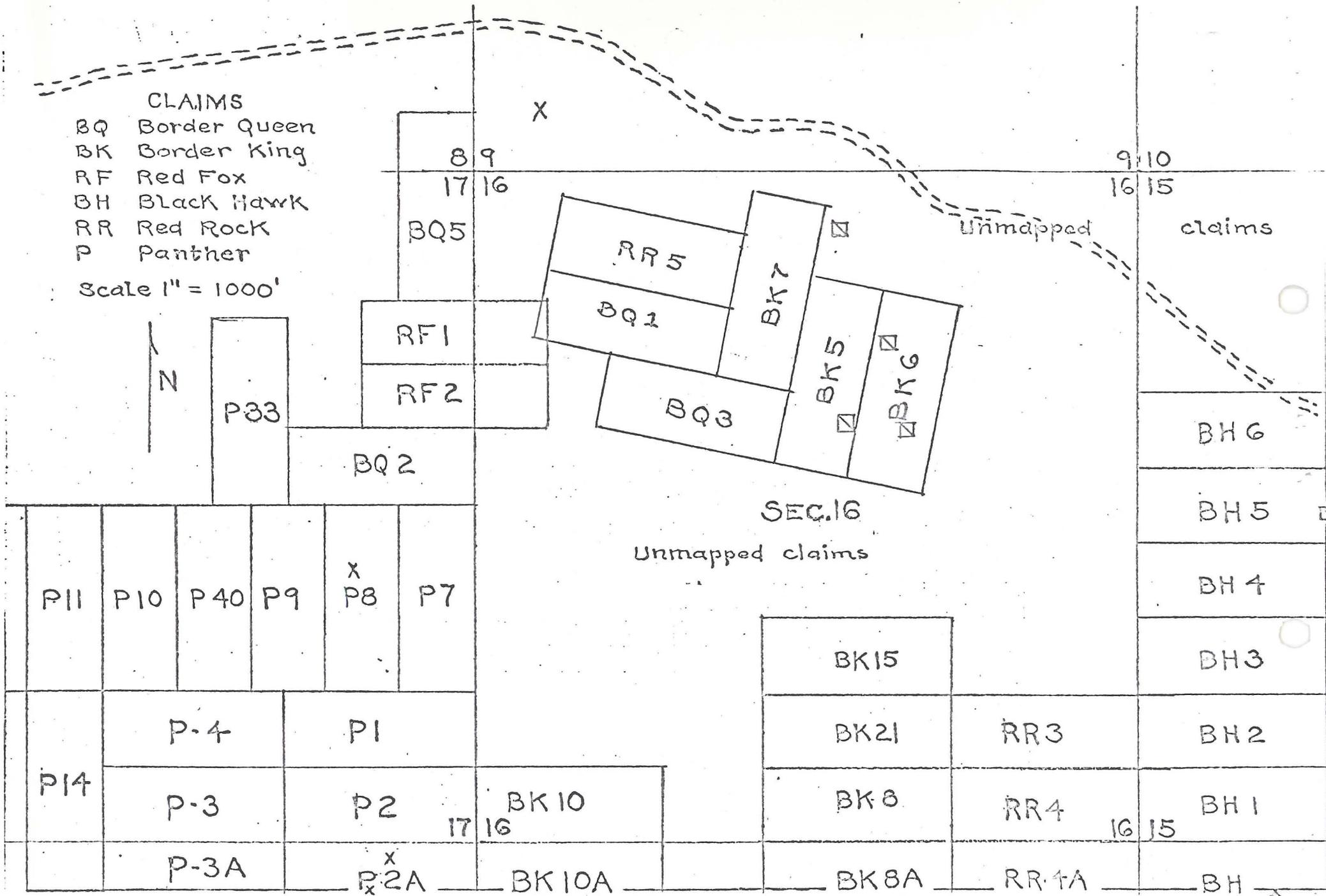
There are several other shafts and prospect pits on the property but the history of them is unknown. Some of them, including the old underground workings of the Grand Arizona Copper Company, are situated near the eastern margin and possibly outside of the lead-bearing zone which I think has the best possibility of becoming productive.

In 1957 the Mineral Reserve Co., reported to be a Nevada Corporation, became interested in the property and made an intensive investigation of it. Apparently this company sampled the lead deposit extensively and made a mill test on about 10 tons of ore taken from

CLAIMS

- BQ Border Queen
- BK Border King
- RF Red Fox
- BH Black Hawk
- RR Red Rock
- P Panther

Scale 1" = 1000'



BY  
 JOHN N. FAICK, Ph.D  
 MINING GEOLOGIST  
 NOV. 5, 1968

FIG. 2

CLAIM MAP OF SOME OF ELLSWORTH CLAIMS  
 subject to revision

T245 R225E

International Boundary

seven deposits on three or four different claims. Most of the records of this investigation have been lost. The Mineral Reserve Company is reported to have discontinued its work on the Ellsworth property in order to concentrate all of its efforts on a gold mine in Mexico.

#### PRODUCTION

It is rumored that the Grand Arizona Copper Company produced silver ore worth about \$75,000 in the early 1900's. In June 1957 the Minerals Reserve Company produced about 10 tons of lead ore for a mill test in Douglas but the records are incomplete. Shipments of ore for the mill test are shown below.

<u>Source by claims</u>	<u>Date of shipment</u>	<u>Weight in pounds</u>
Panther 8	6-14-57	3,065
Unidentified	6-19-57	3,500
Unidentified	6-19-57	3,250
Border King 8	6-20-57	2,890
Border King 8	6-20-57	2,775
Border King 8	6-20-57	2,950
Border King 8	6-25-57	2,145
	Total	20,575

Ore from the unidentified sources was obtained from the Penny 8(?), Penny 9(?), or Border King 8 claims but the exact source is no longer known. All of this ore was mixed, sampled and assayed but the assay record is not available. The ore was valued at \$110 per ton and was paid for at this rate by Winter and Wolf of New York.

#### GENERAL GEOLOGY

The Ash Spring district, as shown by a reconnaissance geological map by Cooper (1960), is underlain by stratified rocks of the Bisbee group of Cretaceous age and by intrusive igneous rocks which may be as young as Tertiary. The stratified rocks in the area are dominantly thin-bedded limestone with which are associated some shale and relatively thin discontinuous beds of quartzite. The thickness of these strata in the Ash Spring district is not known but elsewhere in southeastern Arizona the formation attains a thickness of at least 4000 feet. These strata, on the Ellsworth property, generally have a north-northwesterly strike and a southwesterly dip but locally they are considerably deformed by faults and folds.

The igneous intrusive rocks are relatively fine-grained porphyritic sills, dikes and small stock-like masses of andesite and monzonite. These formed irregular masses that intruded into the Bisbee formation with sharp contacts but with little or no alteration along the contacts. Small bodies of these intrusives are widely scattered throughout the area but the principal bodies were shown in the reconnaissance map of Cooper, from which the attached geologic map, figure 3, was compiled.

## ALTERATION AND MINERALIZATION

Alteration of both the igneous and sedimentary rock was relatively mild. Some of the igneous rocks are essentially unaltered but some zones show the effects of alteration to clay and locally to sericite. The weathered outcrops are brownish or reddish, thus suggesting the presence of iron pyrite in the intrusive masses.

Locally the limestones have been slightly bleached and re-crystallized but for the most part they seem to be unaltered. Most of the fine-grained clastic beds or shales have been indurated to form a flint-like mass or "hornstone" which was probably metamorphosed by heat from the igneous intrusions rather than by the process of mineralization.

The ore minerals seem to be confined entirely to the limestone strata although the distribution is not well known. Most of the ore seems to occur in widely scattered elongate lenses and pods that occur in faulted and folded limestone strata. Some of the deposits are vein-like and appear to be concentrated along minor fractures and faults, other deposits are localized on bedding planes in the limestone strata. Some deposits are in the limestone near the igneous intrusions but no lead ore has been found in the intrusive bodies. Some nuggets of galena (lead sulfide) have been found in a couple of shallow gulches where galena concentrated after weathering of the outcrops.

In a two-page private report, prepared July 28, 1960 by Dr. Spencer R. Titley, Professor of Geology, University of Arizona, he reported the wide-spread distribution of the lead on the Ellsworth property and noted that it seemed to be most abundant in close proximity to the igneous intrusions. Mr. Ellsworth advised me that Dr. Titley examined the SW $\frac{1}{4}$  of section 15 and the S $\frac{1}{2}$  of section 16, but he apparently did not see the numerous exposures of lead ore in the north central part of section 16 where lead seems to be most abundant. A copy of Dr. Titley's report is attached herewith as Appendix "A".

An important reason why we know so little about the distribution and relative abundance of the lead-silver ore is because the weathered outcrops of the ore look very similar to the weathered limestone host rock and it is difficult to recognize the ore. The best method to detect it is by a simple geochemical test.

The ore minerals are galena (lead sulfide) and cerusite (lead carbonate). Here and there are small spectacular occurrences of copper sulfides and carbonates but copper seems to be so scarce that it probably would not have any commercial value. The only metals sufficiently abundant to be valuable are lead and silver which are always in close association as shown by assays of the ore. It is reported that one large nugget of native silver was found on the property in recent years. The ore contains only traces of gold and less than one percent zinc.

The ore minerals are associated with relatively abundant barite, quartz and minor amounts of calcite. Limonite associated with some of the ore suggests the former presence of siderite, an iron carbonate. There is a slight possibility that barite might be sufficiently abundant in this deposit to be recovered as a by-product from the production of lead.

#### SAMPLES AND GRADE OF ORE

Many assays of samples of the ore from the Ellsworth property have been made but assays of only 47 samples are available. Table I gives a list of the available assays with the sample locality given by claim; they cannot be located precisely without an accurate survey. Obviously the samples represent choice, select ore material found during prospecting activities and do not represent the grade of ore that might be mined from the deposit.

The arithmetic average of the 42 silver assays and 38 lead assays shown on Table I is 5.30 ounces of silver per ton of ore and 15.0 percent lead. The indicated average metal ratio is one ounce of silver for each 2.83 percent of lead but the range is from 1.8 to 9.0 percent lead for each ounce of silver. An interesting variation of the metal ratio is indicated by comparison of average assays of samples from different localities as shown by Table II.

Table II Average grade of samples and metal ratios showing percent lead for each ounce of silver.

Locality by claim	No. of assays averaged	Oz. Silver per ton	Percent Lead	Ratio Oz. Ag/T : Percent lead
Panther 7	3	4.62	8.1	1 : 1.8
Panther 8	4	15.55	32.8	1 : 2.1
Border Queen 3	2	3.80	8.0	1 : 2.1
Red Rock 4A	1	0.60	1.5	1 : 2.5
Border Queen 1	3	7.02	20.2	1 : 2.9
Panther 9	3	8.37	27.3	1 : 3.3
Border Queen 2	3	4.84	16.7	1 : 3.5
Border King 21	3	3.03	11.9	1 : 3.9
Panther 1	2	3.20	18.5	1 : 5.8
Border King 5	4	2.43	25.3	1 : 6.2
Border King 6	1	0.80	5.6	1 : 7.0
Panther 4	2	1.20	10.8	1 : 9.0

The above metal ratios suggest a zonal relationship of lead and silver with a central zone having a relatively high proportion of silver which is surrounded by a zone having a relatively high proportion of lead.

TABLE I - Assays of Samples from Ellsworth Property, Ash Spring District, Arizona

<u>Assay date</u>	<u>Assay Office</u>	<u>Collected by</u>	<u>Silver Oz./T</u>	<u>Copper Percent</u>	<u>Lead Percent</u>	<u>Description and Location</u>
8/24/55	Phelps-Dodge	Collett	0.10			Hand Sample, Red Rock 3.
12/30/55	Hawley	Ellsworth	0.30	2.07		Near monument, on Saddle, Panther 8
11/ 2/56	Hawley	"	9.40	0.44	26.3	Panther 9; near Jeep park.
"	Hawley	"	2.50	0.26	9.7	Border King 5; on hill above prospect.
"	"	"		3.4		Border King 6; near old silver mine.
1/17/57	"	"	6.70		23.9	Panther 9.
2/15/57	"	"	Tr.		0.4	Unidentified.
2/21/57	"	"	9.10			Border Queen 2; in arroyo.
6/24/57	"	"	1.50		20.9	Border King 5.
6/24/57	"	"	1.40		9.4	Panther 4.
6/26/57	"	Minerals Reserve	3.70		10.7	Panther 1.
"	"	" "	0.90	0.28	7.3	Panther 7.
7/ 3/57	"	" "	3.20		10.9	Panther 7. Float sample collected over large area by McFaren.
9/20/57	Nevada Mineral Lab.	Ellsworth	1.00		12.3	Panther 4.
10/10/57	Hawley	"	4.60		21.1	Border Queen 1.
11/ 5/57	"	"	1.60		7.0	Border King 5.
11/15/57	"	"	11.00		39.9	Border Queen 2.
1/10/58	"	"	4.90		27.3	Panther 8.
3/ 5/58	"	"	9.00		31.9	Panther 9.
3/24/58	"	"	5.50		29.8	Panther 8. Small old prospect below big cut. In "blue vein."
8/19/58	"	"	2.70		26.3	Panther 1. In barite. E. side Terri Kat hill, halfway down slope.
11/26/58	"	"	39.60		55.6	Panther 8. On NW side of hill.
11/12/59	"	"	31.80			Panther 8.

Silver

<u>Assay date</u>	<u>Assay Office</u>	<u>Collected by</u>	<u>Silver Oz./T</u>	<u>Copper Percent</u>	<u>Lead Percent</u>	<u>Description and Location</u>
1/ 5/61	Hawley	Ellsworth	6.16		12.5	Border Queen 1. Out of arroyo.
7/ 4/61	Rochin	Ellsworth	8.40		17.5	Border King 1-3. On saddle.
8/19/61	"	"	10.30		26.9	Border Queen 1.
8/ 3/62	"	"	2.90			Panther 1.
6/11/64	"	"	0.60		1.5	Red Rock 4A.
6/11/64	"	"	3.00		3.8	Border Queen 2.
"	"	"	3.20		7.6	Red Rock 5.
"	"	"	12.80		3.0	Panther 31.
"	"	"	2.20		12.3	Border King 21.
"	"	"	5.30		5.6	Border King 23.
"	"	"	4.00		6.9	Border Queen 3.
"	"	"	12.20		18.6	Panther 8.
"	"	"	0.40		3.0	Border Queen 5.
"	"	"	1.00		6.3	Panther 40.
2/ 9/65	"	"	0.80	0.08	5.6	Border King 6.
"	"	"	9.80	0.71	7.5	Red Fox 1.
7/28/65	"	"	1.60		17.7	Border King 21.
5/17/65	"	"	3.60		9.1	Border Queen 3.
8/12/66	"	"	1.04			Border Queen 3.
"	"	"	4.12		23.5	Border King 5.
"	"	"	0.52		6.3	Border Queen 2.
9/26/68	"	"	9.76		6.2	Panther 7.

Average of 42 assays 5.30 oz.Ag.

Average of 38 assays 15.0% Pb.

This apparent zoning, as shown on figure 4, may have considerable economic significance in the future but at present it is of uncertain validity because it is based on insufficient data.

#### POSSIBLE METHODS OF TREATING ORE

Mineralogy of the ore is very simple and it seems probable that the metals could be recovered from the ore by simple methods. Probably a heavy media process could be used for preliminary treatment to recover a concentrate to be up-graded by flotation to yield a high-grade lead-silver concentrate for direct shipment to the El Paso smelter. This would be a relatively low-cost method of treatment because most of the waste rock would be eliminated by heavy media and only a relatively small volume of material would be subjected to higher-cost processes of fine grinding and flotation.

#### ORE RESERVES AND FUTURE DISCOVERIES

The mineralized zone on the Ellsworth property is relatively large and the small bodies of lead-silver ore with minor amounts of copper are widely distributed over section 16, the east one-half of section 17 and the west one-half of section 15 in T. 24 S., R. 29 E. At least three of these small bodies may contain enough lead and silver to be minable during periods of high metal prices. However, the greatest future for the property lies in the possibility of finding relatively large zones that are sufficiently well mineralized to be mined by medium size open-pit mining operations. There appears to be three zones that are especially favorable and warrant further investigation to determine if they are sufficiently well mineralized to form large, low-grade, disseminated-type ore bodies. These zones are on or near the Border King 5, Panther 1 and 4, and Panther 8 and 9 claims shown on figure 2.

#### SUGGESTED EXPLORATION

The Ellsworth property has been extensively prospected by shallow pits and cuts which proved the area to be extensively mineralized; however, little of the work was systematically done and the property was never drilled. It now remains for carefully engineered, intensive exploration methods to prove if any of the mineralized zones are large enough and rich enough in lead and silver to make a commercial mine.

Exploration work that should be done in the near future consists of the following:

- (1) Verification and/or validation of all property rights in the area of interest and possible acquisition of adjoining property.

- (2) Geological mapping to determine the distribution of the stratified rocks and the intrusive igneous rocks, and the faults and folds that may have been important factors in localizing the lead-silver ore.

(3) Geochemical surveys should be made to show the zones of most intense mineralization.

(4) Steps 1, 2 and 3 should be followed by test pitting, trenching and drilling of wagon or hammer drill holes and by extensive sampling to determine the tonnage and grade of the most favorable zones. The hammer drill holes should be supplemented by diamond drill holes but none of the holes need be very deep because the immediate objective is to prove the existence of shallow ore suitable for open pit mining.

#### RECOMMENDATION

Because of the widespread occurrence of good quality lead-silver ore on the Ellsworth property it is highly recommended that this property be thoroughly investigated in an effort to find large ore bodies suitable for large scale mining by open pit methods.

Respectfully submitted,

*John N. Faick*  
John N. Faick Ph.D.  
Mining Geologist

Tucson, Arizona  
November 5, 1968



PREPARED FOR  
MINE EXPLORATION Co., INC.

BY  
JOHN N. FAICK, Ph.D  
MINING GEOLOGIST  
NOV. 5, 1968

SEC. 17

SEC. 16

9.0

5.8

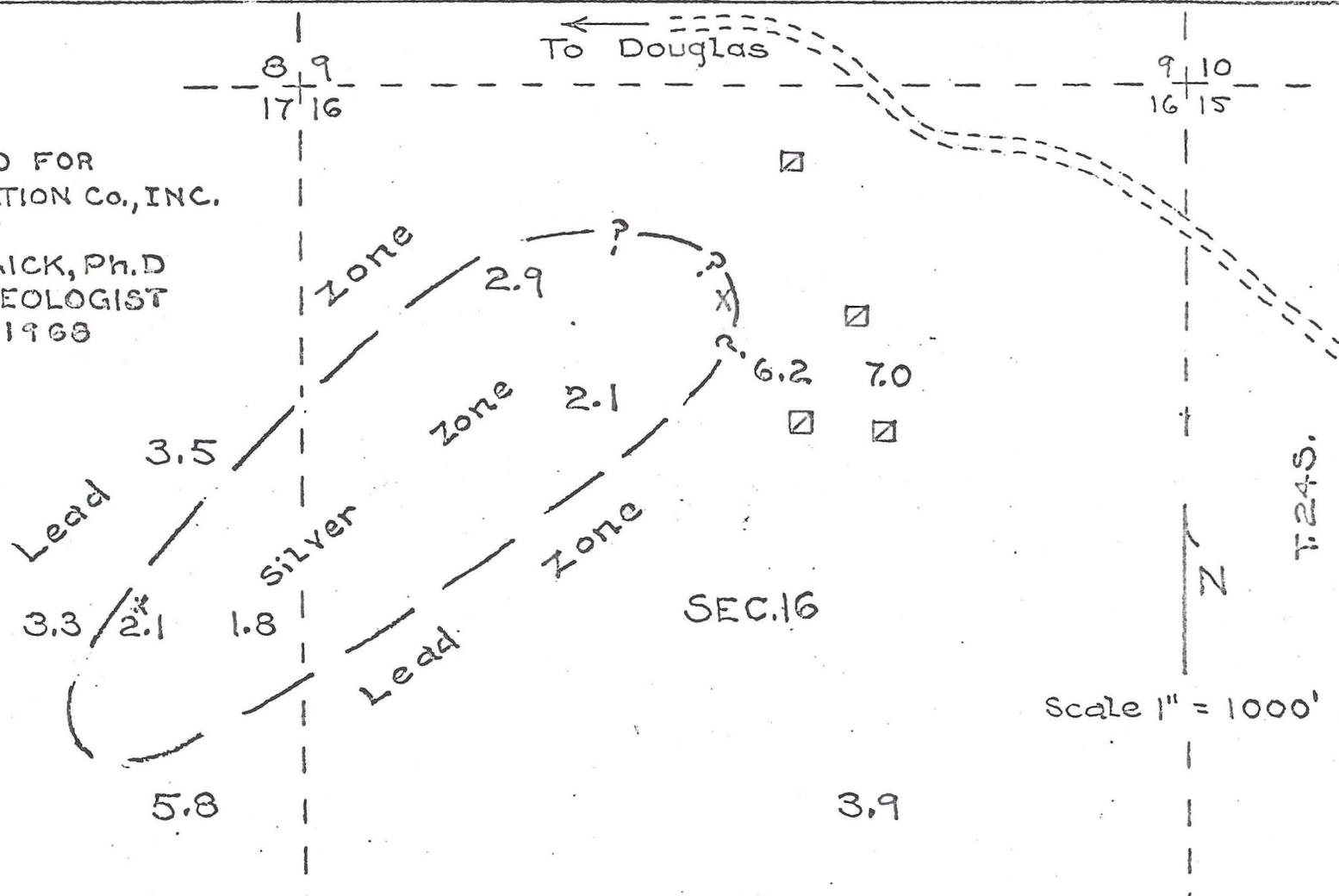
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INTERNATIONAL BOUNDARY

R.29E.

ARIZONA  
MEXICO

FIG. 4  
METAL RATIOS  
SHOWING DISTRIBUTION OF LEAD  
IN PERCENT FOR EACH OUNCE  
OF SILVER BY ASSAY



Scale 1" = 1000'

T.24S.

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TURNEY, IRVIN & ASSOCIATES

P. O. BOX 505  
SAHUARITA, ARIZONA

July 28, 1960

Mr. L. E. Broadhurst  
2037 E. Rancho Drive  
Phoenix, Arizona

Appendix "A"

Re: Ellsworth Mining Property,  
Cochise County, Arizona

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Dear Mr. Broadhurst

At Mr. Earl Ellsworth's request of July 26 and your verification of this date, this letter will outline the results of and opinions gained during my visit to Mr. Ellsworth's Ash Creek property. This visit, made on June 25, 1960, was of one day's duration and was a reconnaissance of the ground. No samples for assay were taken nor was any verification of property status made.

Mr. Ellsworth's claims cover over two square miles of federal and state land adjoining the International Boundary in Cochise County, lying principally in but not restricted to, sections 16 and 17 of T.24S., R.29E. They are some 10 miles due east of Douglas. The topography is hilly with relief of around 500 feet. Climate and vegetation are typical of the Sonoran Desert. Jeep roads, in fair condition at the time of the examination, provide access to the claims. The road from Douglas is two lane and graded.

Two principal rock groups are present. Oldest of these are the limestones and clastic sediments of the Bisbee Group (Cretaceous). These older rocks have been intruded by fine-grained, thick porphyry dikes or sills ranging in composition from monzonite to andesite. Contacts between the two rock groups are sharp and stand out upon inspection by their color contrast. The exposures of these igneous rocks are irregular in plan and indicate highly variable strike. Megascopic alteration of the igneous rocks is not intense but one has weathered to a seal-brown color, suggestive of oxidized pyrite. No pyrite was observed. Only slight and localized alteration of the sediments at the igneous contact has taken place. This appears to be mostly baking with some sparse development of epidote.

Principal mineralization in the area is galena and its oxidized products and there are minor, although locally impressive, amounts of primary and secondary copper minerals. It is my understanding that some silver has been mined from the district, and if such is the case, there is the added possibility of presence of this metal in the Ellsworth claims.

It is difficult to assess the amount of lead mineralization present since the various lead minerals are widely spread in the area. There does not seem to be a single definitive mineralized zone but rather a mineralized area consisting of a number of prospected and developed shows. In general the lead mineralization occurs in faulted and fractured limestone and appears to increase in abundance in the rocks closer to igneous contacts. The small amount of copper mineralization is fracture associated and erratically distributed.

Mr. L.E. Broadhurst  
 Phoenix, Arizona  
 July 28, 1960 ----- 2

Most of the mineral shows have been developed by shallow cuts and pits and several by more extensive work such as deep cuts and a shaft. The one shaft seen at the time of examination was inaccessible. This shaft, near a contact between dike and limestone appeared to be about 100 feet deep and had a moderate sized dump. Material on the dump indicates that some lead and minor copper may have been present in the workings.

None of the work done so far on the claims has blocked out any positive tonnage of ore but, instead, has opened the many shows of mineralization. In its present state, the property is only a semi-developed prospect but in my opinion a very attractive prospect upon which further exploratory and development work is well justified. This opinion is based upon the following factors:

1. The almost ubiquitous presence of lead mineralization in sedimentary rocks of the area. There are, of course, unmineralized zones in the sediments but nevertheless the widespread distribution of even the small shows is encouraging. The large hill near the center of the area appears to be intensely mineralized although, at first glance, the mineralization (cerussite and anglesite) is not apparent.

2. An attractive and encouraging relation of igneous rocks to mineralization. Whether or not this relation will be of importance in the subsurface is difficult to tell but the close relations at the surface between dike and mineralization indicate that a favorable outlook could be taken on testing this relationship at depth.

3. Strong similarity of surface indications (alteration and fracturing) of this property with similar producing lead properties in other parts of southern Arizona.

4. Amenability of the mineralization here to relatively inexpensive concentrating methods.

Presence of primary copper minerals is interesting and deserves further consideration and testing. It is not possible now to evaluate shows of this metal but further development and exploration should give some answer.

In closing, I would like to restate that I believe this property to be an extremely promising prospect for further exploratory and development work and has sufficient potential to make a modest amount of such work well justified.

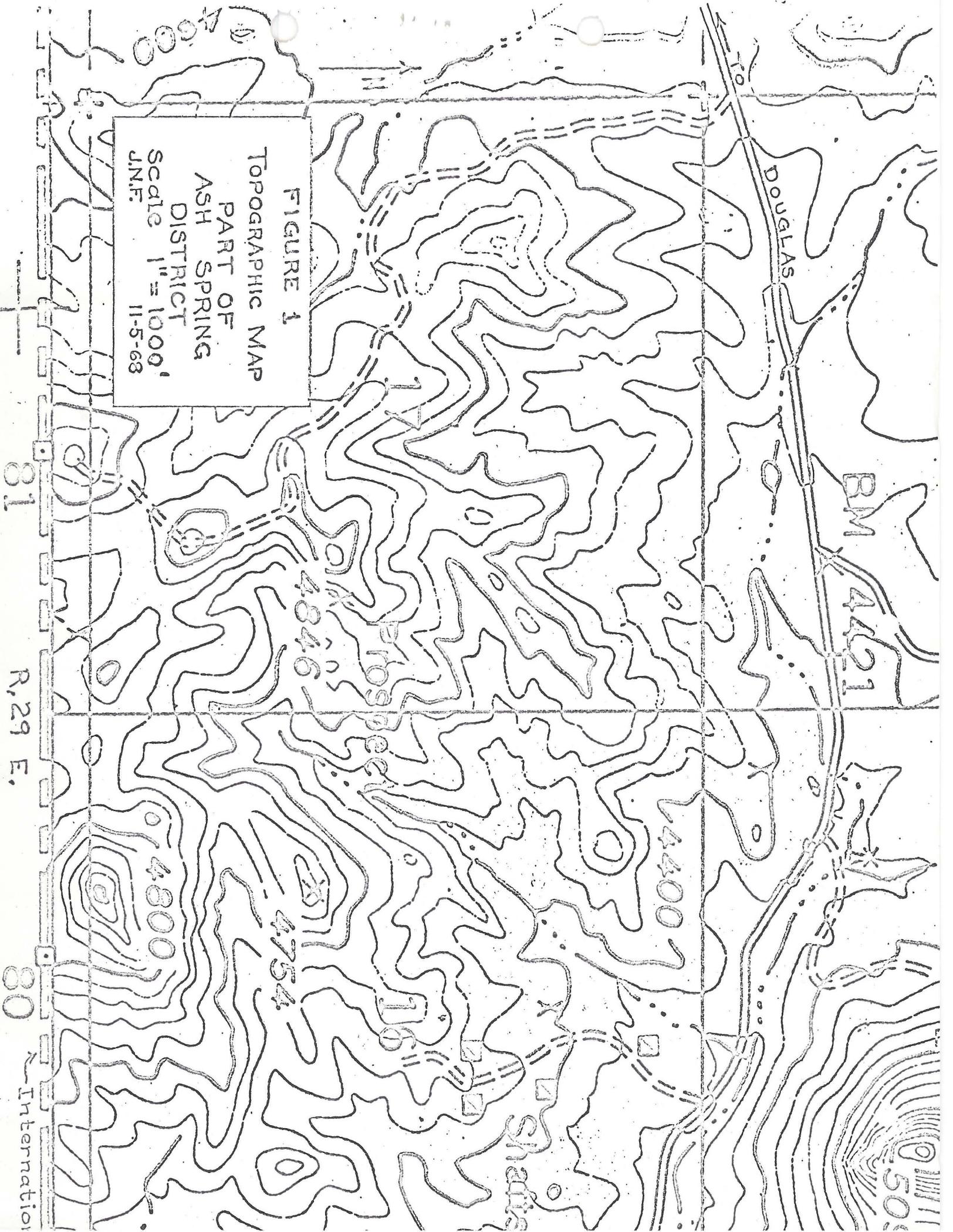
Respectfully submitted

*Spencer R. Titley*  
 Spencer R. Titley

cc: Mr. Earl Ellsworth ✓  
 File



FIGURE 1  
TOPOGRAPHIC MAP  
PART OF  
ASH SPRING  
DISTRICT  
Scale 1" = 1000'  
J.N.F.  
11-5-68



R, 29 E.

International