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1979 (2/27-Aug)



## TOLL CALL

No 007164

DATE 2/27/79 HOUR 4:19  
TELEPHONE AREA CODETIME-MINUTES CHARGE TO:  
P-418COST  
\$ LocalCALLS PLACED BY US  
☐ PREPAID  
☐ Station to Station ☐ Person to Person  
☐ Dial Direct  
☐ COLLECT  
☐ Station to Station ☐ Person to PersonCALLS TO US  
☐ Person to Person ☐ Station to Station  
☐ Prepaid Call to usCALL MADE BY--TAKEN BY  
HFB

## TOLL CALL

No 007165

DATE 2/27/79 HOUR 4:57  
TELEPHONE 432-2701 AREA CODETIME-MINUTES CHARGE TO:  
P-418

COST

CALLS PLACED BY US  
☐ PREPAID  
☐ Station to Station ☐ Person to Person  
☒ Dial Direct  
☐ COLLECT  
☐ Station to Station ☐ Person to PersonCALLS TO US  
☐ Person to Person ☐ Station to Station  
☐ Prepaid Call to us

CALL MADE BY--TAKEN BY

## TOLL CALL

No 007166

DATE TELEPHONE  
HOUR AREA CODE

TIME-MINUTES CHARGE TO:

COST  
\$CALLS PLACED BY US  
☐ PREPAID  
☐ Station to Station ☐ Person to Person  
☐ Dial Direct  
☐ COLLECT  
☐ Station to Station ☐ Person to PersonCALLS TO US  
☐ Person to Person ☐ Station to Station  
☐ Prepaid Call to us

CALL MADE BY--TAKEN BY

SOUTHWESTERN EXPLORATION ASSOCIATES  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712☐ TELEPHONE FROM ☒ TELEPHONE TO

Leo Smith

FIRM

ADDRESS

CITY, STATE, ZIP

Tucson,

PURPOSE OF CALL

1. Lease of 71 mins 2. Termination Papers -  
71 mins from AT&T 3. Memo - unsigned as towhat caused the disruption of interest in  
Tombstone heap. I review some of SBM background

4. Partnership agreement 71 minerals.

RE-ORDER NO. 7030N-2 PART 7030N-3 PART

ORIGINAL

© DAY-TIMERS, Inc., P. O. Box 2268, Allentown, Pa. 18001

SOUTHWESTERN EXPLORATION ASSOCIATES  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712☐ TELEPHONE FROM ☒ TELEPHONE TO

CDG

FIRM

SEA

ADDRESS

CITY, STATE, ZIP

Bisbee County Records office Bisbee Ariz.

PURPOSE OF CALL

Numerous people in Recorder's office  
searching some data - potential claims Tombstone  
law office in Tucson - last week

RESULTS OF CALL

RE-ORDER NO. 7030N-2 PART 7030N-3 PART

ORIGINAL

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4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712☐ TELEPHONE FROM ☐ TELEPHONE TO

FIRM

ADDRESS

CITY, STATE, ZIP

PURPOSE OF CALL

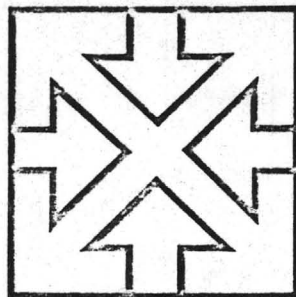
RESULTS OF CALL

ORIGINAL

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Consultants in:

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  - coal • geothermal • environment
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4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

James A. Briscoe, President  
Registered Professional  
Geologist

## Southwestern Exploration Associates, Inc.

February 28, 1979

Mr. Leo N. Smith  
Verity, Smith, & Kearns  
Suite 902  
Transamerica Building  
Tucson, Arizona 85701

Dear Mr. Smith,

Enclosed please find a copy of the lease between T.D.C. and 1971 Minerals. Notice that it was signed by myself, R.F. Hewlett, as general partner for 71 Minerals.

My general partner functions have been terminated by 1971 Minerals after I left the group close to three years ago. Upon my letters of resignation, I recieved notice of my termination in the various limited partnerships by Bruce Stevenson, et.al.

With the termination of the lease agreement by 71 Minerals with T.D.C., August 31, 1973, by letter from 71 Minerals, page 9, paragraph 14, 71 Minerals now has no properties, leases, etc., and the partnership could be closed or terminated. In any event, I have had no involvement with 71 Minerals for a number of years.

Concerning the 71 Minerals-T.D.C. lease:

- A. No conveyance was ever made of the claims to 71 Minerals. The lease does not call for such a conveyance and there was no record in the Cochise County Court House at Bisbee of such a conveyance.
- B. There are no liens recorded in the Cochise County Court House against the T.D.C. claims. However, a tax lien was filed by the State of Arizona against 71 Minerals.
- C. Termination of the 71 Minerals and T.D.C. was accomplished by:
  1. Written notice by 71 Minerals to T.D.C.; Frank Gallup, T.D.C., is sending the notice directly to Leo Smith, paragraph 14.

2. 71 Minerals is in default of paragraph 14 by:

- a. Not paying taxes, paragraph 7.
- b. Not paying royalty, paragraph 3.

3. 71 Minerals have left the property in Sept. 1978.

71 Minerals terminated their lease because they were not making any further profit by leaching a heap of uncrushed ore, 100 feet high. They processed the heap for over 60 months, they paid T.D.C. over \$300,000 in royalties at \$5,000 per month. Without a new capital investment and metallurgical technology, which, they do not possess, further leaching was not possible. Simply stated, by crushing, adding oxygen, and substances to induce percolation and hence increase recovery, a good profit can be made by re-processing the heap, heaped dump ore.

Concerning the present lease with T.D.C., this is the very best that I could do and any changes would not be acceptable to T.D.C. Reasons for this attitude are:

- 1. They are independently wealthy, and plus 65 with an average of 75.
- 2. They have owned the property over 20 years.
- 3. They have only leased their claims to me - once when I was with 71 Minerals and now.
- 4. After Bruce Stevenson, also a 71 Mineral general partner, took over the management of the Tombstone Heap Leaching Project, five years ago and I was not involved, Bill Hight and other T.D.C. shareholders had monthly fights with Bruce to pay the royalty and 71 Minerals left the taxes unpaid, as well as having numerous outstanding claims.

Therefore, T.D.C. does not want:

- 1. Problems with payment of the minimum royalty.
- 2. Problems with unpaid taxes, liens, and encumbrances, after the lease is terminated by the lessee.
- 3. An investment group to conduct exploration for a short period of time and leave, also a group not knowledgeable in heap leaching.

In summary, they want me to prove my metallurgical system of re-processing the heap, 1,000,000 tons, and to confirm the existence of extensive open-pit ore that we will process. At such time, T.D.C. would welcome an offer by us to buy their claims. In other words, we would prove to ourselves the value of the claims.

2/28/79

Contact me concerning any questions.

Sincerely yours,

*Richard F. Hewlett*

Richard F. Hewlett

RFH/slr

P-418

enc.

2082



## LEASE AGREEMENT

THIS AGREEMENT, dated this 31<sup>st</sup> day of August, 1973,  
by and between TOMBSTONE DEVELOPMENT COMPANY, an Arizona Corporation,  
hereinafter referred to as "Lessor", and 1971 MINERALS LIMITED, a New  
Jersey Limited Partnership, hereinafter referred to as "Lessee".

### RECITALS

Lessor is the owners of a certain group of patented and unpatented lode mining claims, referred to herein as "Leased Claims", all of which are situated in Cochise County, Arizona, Mineral Survey numbers of which, and the book and page of the recording in the office of the Recorder of Cochise County, Arizona, are more particularly described in Appendix "A" attached hereto.

Lessee desires to obtain from Lessor a mining lease covering the Leased Claims, described in Appendix "A", and Lessor desires to grant to Lessee such mining lease, on the terms hereinafter set forth:

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties herein, and other valuable consideration, Lessor hereby leases to Lessee for the term and purposes hereinafter mentioned, all that certain land referred to herein as the "Leased Claims".

1. PURPOSE: This lease is made for the sole purpose of examining, searching and testing for opening and operating mines, of, and extracting, producing, treating, selling and shipping any and all minerals contained therein. Lessor also leases to Lessee, the necessary rights of way, easements and water rights, in connection with the leased claims, so as to facilitate exploration and development thereof. The parties hereto agree that certain surface <sup>water</sup> rights shall be retained by Lessor, but that the retention of those surface <sup>water</sup> rights shall not unreasonably interfere with the exploration or mining and associated activities conducted by Lessee. /RFH

2. TERM: The term of this lease shall be for the initial period of ten (10) years from the date hereof, and as long thereafter as valuable

Consent  
Lessor  
both sides  
1973

mineral is produced from said land in commercial quantities and so long as royalties are paid to Lessors, provided, however, that all of the terms and conditions hereof are fully met and that this lease has not been terminated pursuant to any clause hereof.

3. ROYALTIES: Royalties are to be paid to Lessor on all minerals mined from the leased claims, as a percentage of their market value after being reduced to a marketable concentrate or other saleable mineral, and payable on the 15th day of the month following the date of sale of such minerals produced. Said royalty payments are to be made pursuant to the written direction and instruction of the Lessor herein, and Lessor hereby specifies that the royalty payments provided for hereunder shall be sent by U. S. mail to Tombstone Development Company, c/o Mr. William Hight, 1824 North Broadwell, Grand Island, Nebraska, 68801, on or before the due date provided for herein. Lessee agrees that it shall not unreasonably stockpile ore for any excessive period of time after active and substantial production from the leased claims has commenced, and in no event, shall Lessee stockpile ore for more than six months after ~~substantial~~ production has commenced. [For the purposes of this paragraph, the period of substantial production shall commence, shall be the month in which the royalty out of production exceeds the minimum royalty, both provided for hereunder.]

The royalty payable out of production for ores or concentrates sold from the leased claims are payable in varying percentages with the different percentages relating to different average gross value per ton of ore or concentrate produced and sold from the leased claims during each month. The average gross value of ore produced and sold from the leased claims over the period of each month shall be determined by dividing the net smelter returns, received for such ore produced by the number of tons mined and shipped during the month. The royalties are payable as follows:

(a) Subject to the provisions of this paragraph, Lessor shall be paid a limited royalty out of production, payable in varying percentages. Each different percentage shall be derived from the average gross value per

ton of ore, or concentrate mined and shipped from the leased claims, listed as follows:

For any month in which the average gross value per ton of ore figure is less than \$20.00 per ton, the royalty will be seven (7%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$20.00 per ton or more, but less than \$25.00 per ton, the royalty will be eight (8%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$25.00 per ton or more, but less than \$40.00 per ton, the royalty will be nine (9%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$40.00 per ton or more, but less than \$80.00 per ton, the royalty will be ten (10%) percent of the net smelter returns from mineral produced from the leased claims

For any month in which the average gross value per ton of ore figure is \$80.00 per ton or more, but less than \$100.00 per ton, the royalty will be twelve (12%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$100.00 per ton or more, but less than \$150.00 per ton, the royalty will be fifteen (15%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is more than \$150.00 per ton, the royalty will be twenty (20%) percent of the net smelter returns from mineral produced from the leased claims.

RFH

Definition of Net Smelter Income: The term net smelter return is understood by the parties to mean the amount received from the smelter after deducting actual freight for ore concentrate haulage from the mill to the smelter. For ores, minerals or metals not sent to the smelter, the lessee may deduct the actual cost of direct labor and materials for processing, but such cost deducted will not exceed 10% of the average gross value per ton of ore for that month. For example: If the average gross value of ore mined during a one month period is \$50.00 per ton, the maximum deduction for direct processing cost will be 10% or \$5.00 per ton. The royalty would be paid on \$45.00 per ton. 70 B/H  
RFH

The royalty percentage shall apply to all mineral and will be based on all monies received or the market value of all ore, metals, minerals, geothermal steam, waters or other materials removed from the property. 70 B/H  
RFH

(b) Notwithstanding the above sub-paragraph, there shall be a minimum monthly royalty payable to Lessors as follows:

(i) For the month of September, 1973, and for each of the five (5) succeeding calendar months, to-wit: October, November, December, all of 1973, and January and February, both of 1974, the sum of money equal to the greater of: (1) a minimum monthly royalty of \$2,500. or (2) the royalty out of production for each such month;

(ii) For the month of March, 1974, and for each succeeding month during the term of this agreement, a sum of money equal to the greater of: (1) a minimum monthly royalty of \$5,000.00 or (2) the royalty out of production for each such month.

(c) Notwithstanding said sub-paragraphs (a) and (b), there shall be an advance minimum royalty payable to Lessor equal to a sum of money of \$10,000.00, payable by Lessee, upon the execution of this agreement.

(d) The amount by which the minimum monthly royalty, or the advance minimum royalty, provided for in sub-paragraphs (b) and (c) herein, paid for any calendar month during the term of this lease, exceeds the royalty out of production for such month, may be recovered by Lessee out of, and credited against, the royalty out of production due for any succeeding month or months thereafter, during the term of this agreement.

4. OPERATION OF MINE: Lessee agrees to work said land in the manner necessary to good and economic mining, so as to bring about maximum and economic recovery from the property, with due regard to development



and preservation of said premises as a workable mine. Lessee agrees to perform continuously and diligently in good faith, in an active and substantial way, development in mining work upon the said leased claims directed toward the discovery and production of minerals or ore therefrom. The equipment and machinery brought onto the leased claims by Lessee is and shall remain the personal property of Lessee, and title thereto shall not vest in Lessor by operation of law. The obligations of Lessee set forth in this paragraph shall be suspended only while Lessee's compliance is <sup>prevented</sup> ~~is~~ ~~prevented~~ by the elements, accidents, strikes, lockouts, riots, delays in transportation, inability to secure materials in the open market, or interference by governmental action, or by any other causes beyond the reasonable control of Lessee, whether similar or dissimilar to the causes specifically mentioned. Lessee agrees to furnish at its own cost, any and all environmental impact studies required by any governmental authority as a result of its undertaking the exploration, development and mining operation contemplated by this agreement. Lessee agrees to honor any and all <sup>with</sup> ~~and~~ contractual obligations undertaken by Lessor relating to the <sup>sale of water on</sup> ~~the~~ surface use of the herein leased claims, so long as those said obligations do not interfere with the exploration, developmental, mining, or similar activity on the leased claims by Lessee. Lessee hereby recognizes that Lessor intends to develop <sup>up to 100 acres of</sup> the surface of certain claims situated in the immediate vicinity of the townsite of Tombstone. Those said claims consist of the Content, Cocopah, North Point, Contentment, Empire, Tranquil, Silver Belt, Silver Thread, Contention, New Year, Cincinnati, Cornell, Head Center, Yellow Jacket and Flora Morrisson Claims. Lessor agrees that the said development of the surface on the hereinabove mentioned claims shall not interfere with activities of Lessee contemplated by this lease. Notwithstanding any development of the surface of the above mentioned leased claims, Lessor further agrees that Lessee shall have access on or across the above mentioned claims so as not to interfere with the exploration, developmental, mining, or associated activities of Lessee contemplated by this lease; on those above named claims, ~~or any others which are subject to this lease.~~ If the Lessee, in its sole discretion, determines

N. B. / R. F. H.

However after a period of 12 months (1 yr.) for exploration and development of any mining plans, the lessee shall permit the lessor to develop on contiguous or adjacent to the city of Tombstone of as much as 100 acres on the surface of the above listed claims. However lessee will continue to have all rights for mineral exploration, development and mining 40 feet or more below the surface. R. F. H.

5. REPORTING: Lessee agrees that it will provide Lessor with a report on or before the 15th day of each month, pertaining to the previous month, to the Lessor, in writing, indicating the following:

- (a) The number of tons of ore mined.
- (b) A summary of all assays taken on said ore mined.
- (c) The number of tons processed for which royalty is payable pursuant to this lease through mills or reduction plants used to process said ores.
- (d) The value of all minerals sold or otherwise disposed of from ores subject to royalty payments pursuant to this lease.

The above referenced statement and reports are to be accompanied by a draft payable to each of the said lessors in the proper prorata amount of the royalty due Lessors as aforesaid. If no royalty out of production is due for any monthly period hereof, then a report containing all of the pertinent details above required, shall be submitted to Lessor with a statement to the effect that there is no royalty out of production due for the preceding month.

6. ADDITIONAL REPORTS AND ACCESS: Lessee shall keep a full set of accounts and records, and shall allow Lessor, or its agents and employees to examine them from time to time. Lessee will allow Lessor to enter upon said premises, and into any workings, mills, or reduction works thereon, or wherever said ore may be worked or reduced, for the purpose of inspection to ascertain whether the terms and conditions of this lease are being promptly carried out and to take samples and to make tests and measurements, and to affix notices. ~~lessee shall, upon being requested to do so, make~~ available to Lessor, its agents and employees, copies of assay reports, drillhole logs, and any and all other data assembled as an aid in determining the location, quantity, and quality of any and all deposits on said

land. All inspections shall be made at reasonable hours and at reasonable intervals, and shall be at the sole cost of, and risk of Lessor.

7. TAXES: Lessor shall pay all ad valorem and similar property taxes lawfully levied or assessed during the term of this agreement against the property, or any improvements thereto, but upon the receipt of a statement therefor from Lessor, Lessee shall reimburse Lessor for any such taxes paid by Lessor. In addition to the foregoing, Lessee shall pay all other taxes imposed by reason of Lessee's operation and improvements upon the property. Lessee shall pay any such taxes on a <sup>installment</sup> ~~pro-rata~~ basis upon receiving notice from Lessor that such <sup>installment</sup> ~~pro-rata~~ payment of the said taxes is due. Lessee agrees to pay any such taxes before they become delinquent. Lessee shall not be liable for the payment of any tax assessment imposed by any city, county, state, federal or other law or ordinance, on the income of Lessor hereunder, or the interest reserved by Lessor thereunder or upon a transfer or passing by death or gift, of any interest of Lessor or for any similar tax. Lessee further agrees to do all other things necessary and required by federal, state and local laws and regulations to protect and defend and maintain Lessor's title to the leased claims, so that title will be as good as at the time of the execution of this agreement. *RFH*

8. WARRANTY: Lessor represents and warrants that it is the owner of the leased claims, free of all claims, liens and encumbrances, and that Lessor has the exclusive possession of the leased claims, except for approximately two acres leased to the United States Department of Agriculture for surface and except to the extent that the United States Government holds title to unpatented claims.

9. BANKRUPTCY: In case Lessee shall be adjudged a bankrupt by either voluntary or involuntary proceedings, Lessor may, at its option, terminate this lease by written notice. After termination by notice, Lessor may re-enter the leased claims and take exclusive possession. Upon exercise of the option to terminate, the estate and rights in the herein leased claims of Lessee, and any person claiming through the Lessee,

by act of the parties or operation of law, shall immediately terminate.

10. IMPROVEMENTS: Lessee may construct, reconstruct, demolish, remove, maintain, and use such roads, ditches, buildings, fixtures, machinery, and mine dumps on, through and upon said leased claims, as may be necessary in carrying on mining operations during the term of this lease. At the termination hereof, Lessee may remove all personal property, machinery, tools, appliances, and buildings constructed upon said leased claims by Lessee, *RFH 10/11 except shaft timbering & lining, underground supports & rails, electric water, steam, & airline* provided no default shall at such time exist with respect to any payments or rentals, or in respect to any covenants, agreements, or conditions to be kept and performed by Lessee; provided that all machinery, tools, appliances and buildings, and all personal property remaining on said premises sixty (60) days after the termination (by notice or otherwise) of this lease, shall be held to have become the property of Lessor and shall not be removed therefrom by Lessee. Lessee agrees to perform all environmental restoration activities on the claims required by any governmental authority at its sole cost and expense. *RFH*

11. HOLD HARMLESS: Lessee agrees to release and to indemnify and hold harmless Lessor, and any corporation wholly or in part affiliated with, owned or controlled by Lessor, from and against all claims, causes of action, liabilities, costs and expenses for losses, or damage to, all property whatsoever and injuries to, or death of, all persons whomsoever, arising out of, or in any way connected with, the use and occupation of the leased premises or exercise of the rights hereunder. Lessee agrees to comply with all such regulations promulgated by the responsible governmental agencies in carrying out the activities contemplated by this lease, and to fence all open shafts which are in existence upon the claims.

12. LIENS: Lessee agrees to pay in full, all persons who perform labor or services on, furnish materials, joined or affixed to, or provide equipment for, said leased claims, at Lessee's instance or request. Lessor shall not permit or suffer liens of any kind or nature to be enforced against said leased claims for such labor, services, materials, or equipment. Lessor



shall have the right to pay any amount required to release any such lien, or liens, or to defend any action brought thereon, and to pay any judgment entered therein, and Lessee shall be liable to Lessor for all costs, damages and reasonable attorney's fees, and any amounts expended in defending any proceedings or payment of any of said liens or any judgment

*RPH* ~~Lessee~~ *should also provide a bond in the amount of \$50,000 on payment of labor materials on the property with the cost of the bond to be shared equally by*

13. ASSIGNMENT: This lease shall inure to the benefit of and be *lessor & lessee* binding upon the respective heirs, administrators, executors, successors and assigns of the parties hereto, Upon such assignment all references herein to "Lessee" or "Lessor" shall be deemed to refer to such succeeding heirs, administrators, executors, successors and assigns of such alienating party. *RPH*

14. TERMINATION: Lessee shall have the right in its sole and exclusive discretion, to terminate this lease upon giving thirty (30) days written notice of termination to Lessor. Upon giving such notice of termination, Lessee shall be liable only for the payment of the minimum royalty or royalty out of production due for the thirty day period next following the date the notice of termination was given. Should Lessee be in default in regard to any of the provisions of Paragraphs (3), (7) or (17) of this lease, Lessor shall give formal, written and detailed notice of the existence of same to Lessee. If Lessee has not cured the said default within thirty (30) days after the receipt of said formal, written and detailed notice of default, Lessor can terminate the herein lease.

15. INSURANCE: Lessee agrees to maintain and keep in force at all times, a policy of liability insurance protecting Lessee and Lessor from personal and property liability that may be incurred on said leased claims in the amount of \$2,000,000.00. Lessee further agrees to maintain and keep in force at all times, workmens compensation insurance, *to be furnished by Lessee*

*RPH* *certificates of both required of the insurance policies to be furnished by Lessee*  
16. NOTICES: Any and all notices required hereunder, or permitted to be given by either party to the other, shall be considered to have been delivered at the expiration of seventy-two (72) hours following deposit in *RPH*

the United States Mail, with registered or certified postage prepaid thereon, and addressed:

(a) If to Lessor: To: Tombstone Development Company  
c/o William Hight  
1824 North Broadwell  
Grand Island, Nebraska 68801

With copy to: Robert B. Hicks  
501 Fremont Lane  
South Pasadena, Calif. 91030

(b) If to Lessee: To: 1971 Minerals Limited  
4741 East Sunrise Drive  
Tucson, Ariz. 85718

With copy to: Robert A. Hewlett, Esq.  
Gentry, McNulty & Borowiec  
P. O. Box 87  
Bisbee, Ariz. 85603

Either of the parties may change the location to which required notices to it shall be addressed, upon ten (10) days' written notice to the other party.

17. ASSESSMENT WORK: Lessee agrees to perform all necessary assessment work required by federal and state laws for the continuing validity of all mining claims subject to this lease. Lessee further agrees to do all other things necessary and required by federal, state, and local laws and regulations to protect, defend and maintain, Lessor's title to the above referenced claims, so that title will be as good as at the time of the execution of this agreement.

18. FIRST RIGHT OF REFUSAL: It is agreed to by and between the parties hereto that lessee shall be given the first right of refusal to buy the interest of lessor, should lessor entertain offers to sell its interest herein, or the leased claims. For the purpose of this paragraph, lessee has the first right of refusal to buy the leased claims at the same price as set forth in any bona fide offer in writing, acceptable to Lessor, given by any individual or company. Lessor shall, at its own exclusive discretion, determine what collateral, guarantees, or other evidences of Lessee's ability to purchase the said interest of Lessor herein, for the leased claims, are to be provided by Lessee.

IN WITNESS WHEREOF, the parties hereto have executed this agreement  
as of the date and year first above written.

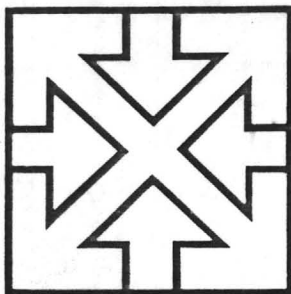
By

By

- 11 -

Consultants in:

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- Worldwide Mobilization



**Southwestern  
Exploration Associates, Inc.**

February 28, 1979

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

*File 418*  
James A. Briscoe, President  
Registered Professional  
Geologist

Mr. Thomas H. Schloss  
FAMCO  
1700 Broadway  
New York,  
New York(10019)

Dear Tom:

Enclosed please find a letter to Leo Smith relating to the 71 Minerals-TDC lease. Also enclosed is a copy of the 71 Minerals-TDC lease.

Mr. Leo Miller was furnished the above and a lease-land status report on the TDC claims at Tombstone. I spoke by phone with him at noon and explained what was being delivered to him and reviewed the 71 Minerals termination letter.

Also, please find the article concerning uranium within your area of influence from Cordero.

Best personal regards.

Sincerely yours,

*Richard F. Hewlett*

Richard F. Hewlett

RFH  
P-418  
enc.  
2085



P-418  
ORIGINAL

for  
PRELIMINARY DRAFT ~~2/~~ WBH  
of  
LEASE AGREEMENT

THIS AGREEMENT, dated this 7th day of February, 1979, by and between TOMBSTONE DEVELOPMENT COMPANY, an Arizona Corporation, hereinafter referred to as "Lessor", and Tombstone Exploration, Inc, and The Austin Exploration & Mining Corporation, hereinafter referred to as "Lessee".

RECITALS

Leassors are the owners of certain groups of patented and unpatented lode mining claims, referred to herein as "Leased Claims", all of which are situated in Cochise County, Arizona, Mineral Survey numbers of which, and the book and page of the recording in the office of the Recorder of Cochise County, Arizona, are more particularly described in Appendix "A" attached hereto.

Lessee desires to obtain from Lessor a mining lease covering the Leased Claims, described in Appendix "A", and Lessor desires to grant to Lessee such mining lease, on the terms hereinafter set forth:

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties herein, and other valuable consideration, Lessor hereby leases to Lessee for the term and purposes hereinafter mentioned, all that certain land referred to herein as the "Leased Claims".

1. PURPOSE: This lease is made for the sole purpose of examining, searching and testing for opening and operating mines, of, and extracting, producing, treating, selling and shipping any and all minerals contained therein. Lessor also leases to Lessee, the necessary rights of way, easements and water rights, in connection with the leased claims, so as to facilitate exploration and development thereof. The parties hereto agree that all surface and water rights shall be retained by Lessor, but that the retention of those surface and water rights shall not unreasonably interfere with the exploration or mining and associated activities conducted by Lessee. Also, oil and gas rights are retained by Lessor.

2. TERM: The term of this lease shall be for the initial period of one(1) year from the date hereof, and as long thereafter as valuable mineral is produced from said land in commercial quantities and so long as royalties are paid to Lessors, provided, however, that all of the terms and conditions hereof are fully met and that this lease has not been terminated pursuant to any clause hereof.

3. ROYALTIES: Royalties are to be paid to Lessor on all minerals mined from the leased claims, as a percentage of their market value after being saleable reduced to a marketable concentrate or other minerals, and payable by a refinery of mutual choice on a basis of ~~5%~~ <sup>21% WCH</sup> of the net smelter return. The proceeds of the refinery can be taken in kind by the parties subject to this agreement. Lessee agrees that it shall not unreasonably stockpile ore for any excessive period of time after active and substantial production from the leased claims has commenced, and in no event, shall Lessee stockpile ore for more than six months after production has commenced.

The royalty payable out of production for ores or concentrates sold from the leased claims are payable in varying percentages with the different percentages relating to different average gross value per ton of ore or concentrate produced and sold from the leased claims during each month. The average gross value of ore produced and sold from the leased claims over the period of each month shall be determined by dividing the net smelter returns as defined by 3(A) received for such ore produced by the number of tons mined and shipped during the month. The royalties are payable as follows:

(a) Subject to the provisions of this paragraph, Lessor shall be paid a limited royalty out of production, payable in varying percentages. Each different percentage shall be derived from the average gross value per ton of ore, or concentrate mined and shipped from the leased claims, listed as follows:



For any month in which the average gross value per ton of ore computed is less than \$15.00 per ton, the royalty will be five(5%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore computed is from \$15.00 to \$20.00 per ton, the royalty will be 6 percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$20.00 per ton or more, but less than \$25.00 per ton, the royalty will be eight(8%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$25.00 per ton or more, but less than \$40.00 per ton, the royalty will be nine (9%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$40.00 per ton or more, but less than \$80.00 per ton, the royalty will be ten (10%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$80.00 per ton or more, but less than \$100.00 per ton, the royalty will be twelve (12%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is \$100.00 per ton or more, but less than \$150.00 per ton, the royalty will be fifteen (15%) percent of the net smelter returns from mineral produced from the leased claims;

For any month in which the average gross value per ton of ore figure is more than \$150.00 per ton, the royalty will be twenty (20%) percent of the net smelter returns from mineral produced from the leased claims.

Definition of Net Smelter Income: The term net smelter return is understood by the parties to mean the amount recieved from the smelter after deducting actual freight for ore concentrate haulage from the mill to the smelter. For ores, minerals or metals not sent to the smelter, the lessee may deduct the actual cost of direct labor and materials for processing, but such cost deducted will not exceed 10% of the average gross value per ton of ore for that month. For example: If the average gross value of ore mined during a one month period is \$50.00 per ton, the maximum deduction for direct processing cost will be 10% or \$5.00 per ton. The royalty would be paid on \$45.00 per ton. The royalty percentage shall apply to all mineral and will be based on all monies recieved or the market value of all ore, metals, minerals, and non-metallic minerals removed from the property.

(b) Notwithstanding the above sub-paragraph, there shall be a minimum monthly royalty payable to Lessors of \$7,500 starting May 1, 1979 and payable on the first day of each month thereof.

(c) Notwithstanding said sub-paragraphs (a) and (b), there shall be an advance minimum royalty payable to Lessor equal to a sum of money of \$6,000.00, payable by Lessee, upon the execution of this agreement.

(d) The amount by which the minimum monthly royalty, or the advance minimum royalty, provided for in sub-paragraphs (b) and (c) herein, paid for any calendar month during the term of this lease, exceeds the royalty out of production for such month, may be recovered by Lessee out of, and credited against, the royalty out of production due for any succeeding month or months thereafter, during the term of this agreement.



4. OPERATION OF MINE: Lessee agrees to work said land in the manner necessary to good and economic mining, so as to bring about maximum and economic recovery from the property, with due regard to development and preservation of said premises as a workable mine. Lessee agrees to perform continuously and diligently in good faith, in an active and substantial way, development in mining work upon the said leased claims directed toward the discovery and production of minerals or ore therefrom. The equipment and machinery brought onto the leased claims by Lessee is and shall remain the personal property of lessee, with the exception of any building constructed by Lessee, and title thereto shall not vest in Lessor by operation of law. Appendix "B" is an inventory of equipment, buildings, and other property owned by Lessor, which the Lessee will take care of and may use for an operation on the leased claims. The obligation of Lessee set forth in this paragraph shall be suspended only while Lessee's compliance is prevented by the elements, accidents, strike, lockouts, riots, delays in transportation, inability to secure materials in the open market, or interference by governmental action, or by any other causes beyond the reasonable control of Lessee, whether similar or dissimilar to the causes specifically mentioned. Lessee agrees to furnish at its own cost, any and all environmental impact studies required by any governmental authority as a result of its undertaking the exploration, development and mining operation contemplated by this agreement. Lessee agrees to honor any and all contractual obligation undertaken by Lessor relating to the sale of water or surface use of the herein leased claims, so long as those said obligations do not interfere with the exploration, development, mining, or similar activity on the leased claims by Lessee. Lessee hereby recognizes that Lessor intends to develop up to 200 acres of the surface of certain claims situated in the immediate vicinity of the townsite of Tombstone. Those said claims consist of the Content, Cocopah, North Point, Contentment, Empire, Tranquil, Silver Belt, Silver Thread, Contention, New Year, Cincinnati, Head Center, Yellow Jacket and Flora Morrisson claims. Lessor agrees that the said development of the surface on the hereinabove mentioned claims shall not interfere with activities of Lessee contemplated by this lease. Notwithstanding with activities of Lessee, any development of the surface of the above mentioned leased claims, Lessor further agrees that Lessee shall have access on or across the above mentioned claims so as not to interfere with the exploration, development, mining, or associated activities of Lessee contemplated by this lease, on those above named claims. ~~IF the Lessee, in its sole~~



However lessee will continue to have all rights for mineral exploration, development and mining 40 feet or more below the surface.

5. REPORTING: Lessee agrees that it will provide Lessor with a report on or before the 15th day of each month, pertaining to the previous month, to the Lessor, in writing, indicating the following:

- (a) The number of tons of waste and ore mined.
- (b) A summary of all assays taken on said ore and waste mined.
- (c) The number of tons processed for which royalty is payable pursuant to this lease through mills, smelting, or reduction plants used to process said ores.
- (d) The value of all minerals sold or otherwise disposed of from ores subject to royalty payments pursuant to this lease.

The above referenced statement and reports are to be accompanied by a draft payable to the Lessor. If no royalty out of production is due for any monthly period hereof, then a report containing all of the pertinent details above required, shall be submitted to Lessor with a statement to the effect that there is no royalty out of production due for the preceding month,

In addition to the above, weekly progress reports will be sent to the Lessor, as well as all data generated relating to the leased claims.

6. ADDITIONAL REPORTS AND ACCESS: Lessee shall keep a full set of accounts and records, and shall allow Lessor, or its agents and employees to examine them from time to time. Lessee will allow lessor to enter upon said premises, and into any workings, mills, or reduction works thereon, or wherever said ore may be worked or reduced, for the purpose of inspection to ascertain whether the terms and conditions of this lease are being promptly carried out and to take samples and to make tests and measurements, and to affix notices. Lessee shall provide to Lessor, its agents and employees, copies of assay reports, drillhole logs, and any and all other data assembled which could be used as an aid in determining the location, quantity, and quality of any and all deposits on said land. All inspections shall be made at reasonable intervals, and shall be at the sole cost of, and risk of Lessor.

7. TAXES: Lessor shall pay all ad valorem and similar property taxes lawfully levied or assessed during the term of this agreement against the property, or any improvements thereto, but upon the receipt of a statement therefor from Lessor, Lessee shall reimburse Lessor for any such taxes paid by Lessor. In addition to the foregoing, Lessee shall pay all other taxes imposed by reason of Lessee's operation and improvements upon the property. Lessee shall pay any such taxes on installment basis upon receiving notice from Lessor that such installment payment of the said taxes is due. Lessee agrees to pay any such taxes before they become delinquent. Lessee shall not be liable for the payment of any tax assessment imposed by any city, county, state, federal or other law or ordinance, on the income of Lessor hereunder, or the interest reserved by Lessor thereunder or upon a transfer or passing by death or gift, of any interest of Lessor or for any similar tax. Lessee further agrees to do all other things necessary and required by federal, state and local laws and regulations to protect and defend and maintain Lessor's title to the leased claims, so that title will be as good as at the time of the execution of this agreement. A Performance Bond referred to in paragraph 12 will also cover tax payments.

8. WARRANTY: Lessor represents and warrants that it is the owner of the leased patented claims and the rights to unpatented claims, free of all claims, liens and encumbrances, and that Lessor has the exclusive possession of the leased claims, except for approximately two acres leased to the United States Department of Agriculture for surface and except to the extent that the United States Government holds title to unpatented claims. Also, Lessor may lease the "Vizina Mine Tour" provided the Lessor assumes all responsibility and liability for the tour enterprise.



9. BANKRUPTCY: In case Lessee shall be adjudged a bankrupt by either voluntary or involuntary proceedings, Lessor may, at its option, terminate this lease by written notice. After termination by notice, Lessor may re-enter the leased claims and take exclusive possession. Upon exercise of the option to terminate, the estate and rights in the herein leased claims of Lessee, and any person claiming through the Lessee, by act of the parties or operation of law, shall immediately terminate.

10. IMPROVEMENTS: Lessee may construct, reconstruct, demolish, remove, maintain, and use such roads, ditches, ponds, buildings, fixtures, machinery, pumps, PVC pipe, mine dumps, pad, heap, and headframes on, through and upon said leased claims, as may be necessary in carrying on mining operations during the term of this lease. At the termination hereof, Lessee may remove all personal property, machinery, tools, appliances, supplies, pumps, pipe, and equipment on said leased claims by Lessee; except shaft timbering and linings, any underground supports, rails, electric, water, or steam or airline pipes, provided no default shall at such time exist with respect to any payments or rentals, or in respect to any covenants, agreements, or conditions to be kept and performed by Lessee; provided that all machinery, tools, appliances and buildings, and all personal property remaining on said premises sixty (60) days after the termination (by notice or otherwise) of this lease, shall be held to have become the property of Lessor and shall not be removed therefrom by Lessee. Lessee agrees to perform all environmental restorations on the claims required by any governmental authority at its sole cost and expense.

Lessee will obtain approval from Lessor on the site and type of building constructed either for a plant and laboratory facility or a building for another lessee to enable use of the present 71 Minerals plant.

11. HOLD HARMLESS: Lessee agrees to release and to indemnify and hold harmless Lessor, and any corporation wholly or in part affiliated with, owned or controlled by Lessor, from and against all claims, causes of action, liabilities, costs and expenses for losses, or damage to, all property whatsoever and injuries to, or death of, all persons whomsoever, arising out of, or in any way connected with, the use and occupation of the leased premises or exercise of the rights hereunder. Lessee agrees to comply with all such regulations promulgated by the responsible governmental agencies in carrying out the activities contemplated by this lease, and to fence all open shafts, pits, etc., which exist upon the claims according to the requirements of the State Mine Inspector.

12. LIENS: Lessee agrees to pay in full, all persons who perform labor or services on, furnish materials, joined or affixed to, or provide equipment for, said leased claims, at Lessee's instance or request. Lessor shall not permit or suffer liens of any kind or nature to be enforced against said leased claims for such labor, services, materials, or equipment. Lessor shall have the right to pay any amount required to release any such lien, or liens, or to defend any action brought thereon, and to pay any judgement entered therein, and lessee shall be liable to Lessor for all costs, damages and reasonable attorney's fees, and any amounts expended in defending any proceedings or payment of any kind of said liens or any judgments obtained therefor. Lessee should also provide a bond in the amount of \$150,000.00 on payment of labor and materials on the property with the cost of the bond to be paid by the lessee.

13. ASSIGNMENT: This lease shall inure to the benefit of and be binding upon the respective heirs, administrators, executors, successors and assigns of the parties hereto. Upon such assignment all references herein to "Lessee" or "Lessor" shall be deemed to refer to such succeeding heirs, administrators, executors, successors and assigns of such alienating party.



14. TERMINATION: After an exploration/development expenditure of \$200,000, and an equivalent of 12 months advanced minimum royalties(\$90,000), *W B H* *CF 1+* Lessee shall have the right in its sole and exclusive discretion, to terminate this lease upon giving thirty (30) days written notice of termination to Lessor.

Upon giving such notice of termination, Lessee shall be liable only for the payment of the minimum royalty or royalty out of production due for the thirty day period next following the date the notice of termination was given. Lessor can terminate this lease if the advanced minimum royalty is not sent by certified mail on the first day of every month, starting May 1, 1979, or if the Lessee is in default in regard to any other of the provisions of Paragraphs (3), (7) or (17) of this lease. Lessor shall give formal, written and detailed notice of the existance of same to Lessee. If Lessee has not cured the said default within thiry (30) days after receipt of said formal, written and detailed notice of default, Lessor can terminate the herein lease.

15. INSURANCE: Lessee agrees to maintain and keep in force at all times, a policy of liability insurance protecting Lessee and Lessor from personal and property liability that may be incurred on said leased claims in the amount of \$2,000,000.00. Lessee further agrees to maintain and keep in force at all times, workmens compensation insurance and to furnish certificates of insurance and copies of the Insurance policies to the Lessor. Lessor will be named as Additional Insured. *W B H* *1-F H*

16. NOTICES: Any and all notices required hereunder, or permitted to be given by either party to the other, shall be considered to have been delivered at the expiration of seventy-two (72) hours following deposit in the United States Mail, with registered or certified postage prepaid thereon, and addressed:

(a) If to Lessor: To: Tombstone Development Company  
c/o William Hight  
1824 North Broadwell  
Grand Island, Nebraska (68801)

(b) If to Lessee: To: Tombstone Exploration, Inc.  
c/o Thomas H. Schloss

The Austin Exploration & Mining Corporation  
c/o James A. Briscoe  
4500 E. Speedway  
Suite # 14  
Tucson, Arizona (85712)

Either of the parties may change the location to which required notices to it shall be addressed, upon ten (10) days written notice to the other party.



17. ASSESSMENT WORK: Lessee agrees to perform all necessary assessment work required by federal and state laws for the continuing validity of all mining claims subject to this lease. Lessee further agrees to do all other things necessary and required by federal, state, and local laws and regulations to protect, defend and maintain, Lessor's title to the above referenced claims in effect on February 7, 1979, so that title will be as good as at the time of the execution of this agreement. If conflicts exist on the 18 unpatented claims, Lessee will do everything possible to validate the claims.

18. FIRST RIGHT OF REFUSAL: It is agreed to by and between the parties hereto that Lessee shall be given the first right of refusal to buy the interest of Lessor, should Lessor entertain to sell its interest herein, or the leased claims. For the purpose of this paragraph, Lessee has the first right of refusal to buy the leased claims at the same price as set forth in any bona fide offer in writing, acceptable to Lessor, given by any individual or company. Lessor shall, at its own exclusive discretion, determine what collateral, guarantes, or other evidences of Lessee's ability to purchase the said interest of Lessor herein, for the leased claims, are to be provided by Lessee.

19. MISCELLANEOUS: This agreement constitutes the entire understanding of the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements of the parties hereto with respect to the subject matter hereof, and may not be waived, amended or modified in any manner except in writing and signed by the party to be charged. Representations, warranties and agreements of the parties hereto, herein contained, regardless of any disclosure made to, or any investigation made by or on behalf of any party not making such representations, warranties and agreements, shall survive the execution and delivery of this agreement. This agreement, and such representations, warranties and agreements, shall be binding upon, inure to the benefit of, and be enforceable, by and against the heirs, successors, or assign of each of the parties hereto.

This Agreement may be recorded or registered with the Clerk, Recorder or similar officer of the county or counties of which these claims are located, or in any appropriate office of the United States Government, or anywhere else Lessee deems appropriate in order to protect its interests hereunder. This agreement may be executed in any number of counterparts, which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this agreement as of the date and year first above written.

Lessor:  
TOMBSTONE DEVELOPMENT COMPANY

By W B Hight

By John Medfelt

By John T. Deery

By Gene Bahr

Lessee:  
TOMBSTONE EXPLORATION, INC.

By Thomas H. Schloss  
Thomas H. Schloss

THE AUSTIN EXPLORATION & MINING CORP.

By James A. Briscoe  
James A. Briscoe



TOMBSTONE DEVELOPMENT COMPANY CLAIMS

<u>Claim Name</u>	<u>Designation</u>
North Point	E-4
Cocopah	E-2
Silver Belt	E-9
Empire	D-3
Hawkeye	D-7
Little Wonder	
Way Up	D-16
Goodenough	D-6
Gilded Age	D-5
Vigina	D-15
Poor X	D-10
Survey	D-12
Toughnut	D-13
SW Ext. Toughnut	D-11
Fortuna	D-4
Tranquillity	D-14
Protectors	E-5
Contentment	E-7
Content	E-3
Cinnccinatti	E-8
Houghton	F-36
Defense	D-2
Surveyor	D-27
Westside	D-17
Sulphuret	D-25
Mayflower	D-23
Alta	H-1
San Rafael	F-28
Ninety Nine	D-24
Last Chance #2	D-8
Boss	D-1
Herald	D-22
Tribute	D-19/F-39
Eastside	F-6
Blue Monday	D-18/F-38
Eastside No.2	F-7
Old Guard	D-26/F-2
Lucky Cuss	F-16
COD	F-5
Lucky Sure	F-1
McCann	F-19
Owl's Last Hoot	F-23
Owl's Nest	F-24
Escondido	F-10
Wedge	F-33
Black Hawk	F-4
Oregon	C-2
Prompter	F-25
Contact	C-1

Claim NameDesignation

Florodoro	F-12
Antelope	C-5
Shoo Fly	C-5
Verde	C-9
Mexicana	F-18
Extacy	F-11
Shorty	F-29
Emerald So. Mine	F-9
Emerald	F-8
Hidden Treasure	F-15
Revenue	F-27
Telephone	F-32
Grand Dipper	F-14
Rattlesnake	F-26
Mammoth	F-19
Bunker Hill	F-3
Little Comet	C-4
Big Comet	C-4
Miner's Dream	C-4
Sidney	F-31
So. Ext. Central	F-30
Southern Belle	F-37
Buffalo	F-34
Naumkeag	F-21
Moonlight	F-20
Grand Central	F-13
Illinois	F-37
Michigan	F-37
Flora Morrison	F-41
Head Center	D-21
Yellow Jacket	D-21
Contention	D-20/F-20
New Year	F-22
Cornell	F-35

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VERITY, SMITH & KEARNS, P. C.

ATTORNEYS AT LAW  
902 TRANSAMERICA BUILDING  
177 NORTH CHURCH AVENUE  
TUCSON, ARIZONA 85701

TELEPHONE  
(602) 623-6981

VICTOR H. VERITY  
LEO N. SMITH  
DESMOND P. KEARNS  
LARRY D. CLARK  
PATRICIA G. MUNGER

March 1, 1979

Mr. Thomas H. Schloss  
FAMCO  
1700 Broadway  
New York, New York 10019

Re: Comments Concerning TDC  
Lease Agreement

Dear Tom:

I have reviewed a document entitled Preliminary Draft of Lease Agreement dated February 7, 1979, between Tombstone Development Co. ("TDC"), a corporation, and Karin Lake Exploration, Ltd. (the nature of which entity is undeterminable from the draft).

It was explained to me by Jim Briscoe and Dick Hewlitt that the Lease is the best that can be made under the circumstances and that any changes would not be acceptable to TDC. Further, it was explained that the Lease was fashioned after a Lease Agreement dated August 31, 1973 between TDC and 1971 Minerals, Ltd.

The Lease is not artfully drafted and contains numerous ambiguities and uncertainties that exist, as more fully discussed below.

Of initial concern from your standpoint, in deciding whether or not to become a party to the Lease, are the obligations assumed by Lessee upon execution of the Lease. The most onerous obligation appears to be the commitment that Lessee assumes under Paragraph 14 to expend \$200,000 in exploration and development and to pay \$90,000 in advance royalties before Lessee is entitled to terminate the Lease. As I read Paragraph 14, this is an absolute commitment on the part of Lessee. With this in mind, I assume that you would not elect to become personally liable as a Lessee.

*Dexed to NYC m 3/1/79  
mailed " " " "*



Other commitments assumed by Lessee do not appear as onerous, and include items such as an initial \$6,000 advance royalty payment upon execution and a \$7,500 monthly advance royalty payment commencing May 1, 1979 and each month thereafter (Paragraph 3); an obligation to "continuously and diligently" and "in an active and substantial way" explore and develop the mining claims (Paragraph 4); a requirement that Lessee furnish a myriad of reports and data (Paragraphs 5 and 6); payment of taxes (Paragraph 7); a \$150,000 bonding requirement to protect Lessor for liens or labors and materials furnished for Lessee's account (Paragraph 12); a requirement that Lessee furnish a comprehensive liability policy in a minimum amount of \$2,000,000 (Paragraph 15); and an obligation that Lessee perform assessment work and that Lessee "do everything possible to validate" the unpatented claims (Paragraph 17).

As mentioned above, the Lease contains numerous ambiguities, including:

1. Surface and Water Rights - Paragraph 1 contains a most peculiar provision whereunder Lessor "leases" the "necessary rights-of-way, easements and water rights" to enable Lessee to explore and develop the claims, followed by an express statement to the effect that all surface and water rights shall be "retained" by Lessor. This ambiguity is compounded even further by the flat statement that the "retention of those surface and water rights shall not unreasonably interfere with the exploration and mining and associated activities conducted by Lessee." Under Paragraph 4, Lessee agrees to honor "any and all contractual obligation undertaken by Lessor relating to the sale of water or surface use" but only so long as the obligations do not interfere with Lessee's activities. Frankly, I haven't the slightest idea what the true intent of the parties is, nor do I find any express provision indicating the extent to which Lessee may use the surface other than for access and for certain specified facilities, such as the improvements specifically mentioned in Paragraph 10 as "roads, ditches, ponds, buildings, fixtures, machinery, pumps, PVC pipe, mine dumps, pad, heap, and head frames." Clearly, however, "Lessee will continue to have all rights for mineral exploration, development and mining 40 feet or more below the surface" (Paragraph 4).

2. Buildings - Paragraph 4 indicates that any equipment and machinery placed upon the property by Lessee shall remain Lessee's property "with the exception of any buildings constructed by Lessee." Alone, this

provision infers that any building constructed by Lessee would pass to Lessor upon termination. However, Paragraph 10 contains a provision that unless Lessee removes within sixty days of termination certain items, including "buildings," the same shall become the property of Lessor.

3. Use of Existing Facilities - The last sentence of Paragraph 10 requires Lessee to obtain approval from Lessor "on the site and type of building constructed for a plant and laboratory facility or a building for another lessee to enable use of the present 71 Minerals plant." I find it hard to believe that Lessor anticipates leasing portions of the claims to another mineral lessee -- however, the sentence quoted above raises a strong inference that such may be the intent of Lessor.

4. Production Royalties - I find nothing in the provisions concerning production royalties that properly anticipates a method of computing production royalties from a leaching operation. Although the first sentence of Paragraph 3 refers to a production royalty of five percent net smelter return, subparagraph (a) of Paragraph 3 describes varying percentages based on the "gross value per ton of ore," which in turn is based on the number of tons of "ore or concentrate" produced and shipped. Although the ambiguity in the production royalty provisions is definitely in favor of the Lessee with respect to "ores and concentrates produced and shipped," the lack of any definitive method of calculating production royalty from a leaching operation could lead to future disagreement over the manner and method in which production royalties should be calculated. A couple of other features of the production royalty provision should also be mentioned: (i) the first sentence of Paragraph 3 refers to "a refinery of mutual choice," thus imposing an unusual constraint on the operator's freedom to market product; and (ii) the same sentence gives the Lessor the right to take in kind but does not make any provisions for crediting advance minimum royalties against Lessor's share of such product if Lessor takes product in kind.

If it were at all practical to so do, it would be preferable that a new Lease be prepared to eliminate many of the ambiguities and uncertainties that exist in the present Lease form. If, however, the present Lease is the only Lease acceptable to TDC, the possibility of disputes with TDC concerning the numerous ambiguities must be recognized.

Very truly yours,

LNS/dmd

Leo N. Smith

File

VERITY, SMITH & KEARNS, P. C.

VICTOR H. VERITY  
LEO N. SMITH  
DESMOND P. KEARNS  
LARRY D. CLARK  
PATRICIA G. MUNGER

ATTORNEYS AT LAW  
902 TRANSAMERICA BUILDING  
177 NORTH CHURCH AVENUE  
TUCSON, ARIZONA 85701

TELEPHONE  
(602) 623-6961

March 3, 1979

Mr. James A. Briscoe  
Southwestern Exploration  
Associates, Inc.  
4500 East Speedway, Suite 14  
Tucson, Arizona 85712

Dear Jim:

At the request of Tom Schloss and Dwight Lee, I am enclosing herewith two copies of a draft of a proposed form of letter agreement pertaining to the Tombstone Heap Leaching Project. As you may have discussed with Tom or Dwight, neither has had an opportunity to review the draft. Both had an opportunity to see an earlier draft (without Appendices) and I have discussed revisions to the earlier draft by phone with Tom and Dwight.

It is my understanding that after you have had a chance to review the enclosed draft you will be in touch with Tom and Dwight.

Best personal regards.

Very truly yours,



Leo N. Smith

LNS/dmd  
Enclosures

cc: Thomas H. Schloss (w/enclosure)

0670

1700 Broadway  
New York, N.Y.  
10019

March 2, 1979

Mr. James A. Briscoe  
Southwestern Exploration  
Associates, Inc.  
4500 East Speedway, Suite 14  
Tucson, Arizona 85712

Dear Mr. Briscoe:

This letter will outline the basic terms and conditions under which the undersigned (individually, or in conjunction with other investor associates of the undersigned, whether one or more, hereinafter referred to as "INVESTORS") agree to participate in an exploration and development project with you (hereinafter "BRISCOE") on property situated in the Tombstone Mining District, Cochise County, Arizona. It is agreed that INVESTORS and BRISCOE will enter into a formal agreement incorporating provisions for the operation of the exploration and development program (hereinafter the "Project") and such other provisions as are customary and desirable in such an agreement. It is further agreed that the formal agreement will include in substance those terms and conditions set forth in this letter agreement.

1. Mining Properties

It is anticipated that the Project will encompass (i) approximately 85 patented mining claims and 18 unpatented mining claims owned by Tombstone Development Company (hereinafter "TDC") and leased, or to be leased, to BRISCOE pursuant to a Lease Agreement (the "TDC Lease") containing essentially the provisions as set forth in that certain "Preliminary Draft of Lease Agreement" dated February 7, 1979, a copy of which has been heretofore furnished by BRISCOE; (ii) any additional mining claims or mineral properties leased, optioned, located or otherwise acquired by or on behalf of BRISCOE or the entity to be formed by BRISCOE and INVESTORS pursuant to Paragraph 4 below and which may be a part of, or an offset of, any mineralized deposits contained within properties leased from TDC, including without limitation the claims or areas known as the Tombstone Extension, Tombstone Mineral Reserve and the State of Maine areas (it being understood that claims and properties within the State of Maine area are owned principally by the Escapule family and that the Project may find it to its advantage to enter into some type of a joint venture with the Escapules; and (iii) any potential porphyry copper targets in the Seth Horn and Robbers Roost areas leased, optioned, located or otherwise acquired by or on behalf of BRISCOE or the entity described in Paragraph 4.

## 2. Condition of Agreement

The terms, conditions and covenants of this letter agreement, other than the payment obligation described in Paragraph 3 hereof, shall be expressly conditioned upon INVESTORS satisfying themselves within 30 days of the date of execution of this letter agreement by BRISCOE that: (i) the TDC Lease grants to BRISCOE the rights set forth therein, free and clear of all liens and encumbrances other than as specifically described therein, and that TDC has and possesses title as represented by TDC therein, all as evidenced by an opinion of counsel employed and retained by INVESTORS; and (ii) formation of an operating entity by INVESTORS and BRISCOE pursuant to Paragraph 4 below.

## 3. Initial Payment

Upon execution of this letter agreement by BRISCOE and delivery to INVESTORS of a fully executed copy, INVESTORS shall advance to BRISCOE the sum of Twenty-Five Thousand Dollars (\$25,000.00), which sum shall be applied against Project expenditures.

## 4. Operating Entity

It is anticipated that the Project will be conducted by an entity formed by INVESTORS and BRISCOE and whereunder INVESTORS, individually, shall assume no personal liability, which entity may be in the form of a joint venture, joint operating agreement, limited partnership, corporation or any combination thereof. It is anticipated that the day to day operations of the Project will be conducted under the direction of an operating or project manager. Any such entity shall be under the general management and control of representatives of both INVESTORS and BRISCOE to the end that decisions including, without limitation, those relating to payments to equity owners from cash flow, pursuing further exploration targets, acquisition of additional lands or mineral interests, expenses for plant or facility expansion, and decisions concerning termination or discontinuance of all or a portion of the Project operations will be made by representatives of all parties with an interest in the Project. Promptly following the organization or formation of the operating entity, all of the mining properties described in Paragraph 1 then held by or on behalf of BRISCOE or INVESTORS shall be transferred to the operating entity by appropriate instruments of conveyance, assignment or other transfer.

## 5. Management

BRISCOE shall manage the exploration and development operations pursuant to plans approved and adopted in accordance with the provisions of the agreement giving rise to, or the bylaws adopted by, the operating entity, it being understood and agreed that such approvals shall be made by a management committee or management group containing representatives of the owners of



interests in and to the Project. BRISCOE shall provide INVESTORS twice monthly with written progress reports detailing the activities undertaken by and planned for the Project.

6. Interest Acquired by INVESTORS

Unless INVESTORS terminate this letter agreement pursuant to the provisions of Paragraph 9 below, the equity interest of INVESTORS in and to the Project shall be determined by the amounts contributed to the Project (under the agreements made and through the entity established pursuant to Paragraph 4 above):

<u>Cumulative Investment</u>	<u>Percentage of Equity</u>	<u>Funding Intervals</u>
\$ 25,000.00	25%	Upon execution of this letter agreement
\$ 50,000.00	30%	*
\$ 75,000.00	35%	*
\$100,000.00	40%	*
\$125,000.00	45%	*
\$150,000.00	50%	Approximately 6/30/79
\$175,000.00	55%	*
\$200,000.00	60%	*

\*Upon the voluntary contribution by INVESTORS or upon call of Project in accordance with approved expenditure plans.

The Project shall make no calls at intervals more frequent than 20 days per call and no call shall be made prior to establishment of the entity described in Paragraph 4 above. Investments may be made by INVESTORS at such other intervals as they may choose, whether or not funds advanced are needed at the time of contribution, to the end that INVESTORS shall maintain the right, at their election, to complete all or such portion of the cumulative investment as INVESTORS may elect and thus obtain the specified percentage of equity in and to the Project and the operating entity as set forth above. INVESTORS shall have the right at any time to elect not to make further investments in the Project, in which event the equity interest of INVESTORS shall thereafter remain at the percentage specified in the table above.

7. Deposit of Funds; Disbursements; Bookkeeping

Unless and until the agreements giving rise to, or the bylaws adopted by, the operating entity provide to the contrary: (i) funds furnished by INVESTOR shall be deposited to the THL (Tombstone Heap Leach) Trust Account # 957-06641, The First National Bank of Arizona, University Medical Branch, P.O. Box 41960, Tucson, Arizona 85717; and (ii) disbursements will be made and books and records will be kept in the amounts and in the manner set forth in Appendix One attached hereto and made a part hereof.

8. Initial Capital Investment;  
General Outline of Operations

Attached hereto as Appendix Two, and made a part hereof, is an outline of the anticipated initial capital investment together with a table setting forth anticipated durations of crushing operations as a function of the rate thereof and a general outline of anticipated operations.

9. Termination

Unless extended in writing by INVESTORS and BRISCOE, this letter agreement, and the liabilities and obligations of the parties hereunder, shall terminate on April 5, 1979 unless on or before such date the conditions described in Paragraph 1 have been met; provided, however, that INVESTORS shall be entitled to reimbursement of the initial \$25,000.00 payment described in Paragraph 3 above from first proceeds obtained by BRISCOE or his assigns from production from the TDC Lease.

10. Notices

Any notice or communication permitted or required to be given hereunder shall be effective when deposited in the United States mail, postage prepaid, and addressed as follows:

If to INVESTORS: Messrs. Thomas H. Schloss  
and Dwight E. Lee  
FAMCO  
1700 Broadway  
New York, New York 10019

If to BRISCOE: Mr. James A. Briscoe  
Southwestern Exploration  
Associates, Inc.  
4500 E. Speedway, Suite 14  
Tucson, Arizona 85712

11. Liability Several; Inurement

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations herein set forth. It is not the intention of the parties to create a partnership and this letter agreement shall not be construed so as to render the parties liable as partners, associates, or joint venturers or as creating a mining or other partnership or association. The terms of this letter agreement shall inure to the benefit of and be binding upon the parties hereto and their permitted assigns. None of the parties shall assign their rights or obligations hereunder without first obtaining written consent of the other parties hereto, which consent shall not unreasonably be withheld.

If this letter agreement sets forth your understanding of the basic terms outlined in previous discussions on this subject, please indicate your acceptance by executing the copy of this letter agreement in the space indicated and return it to the undersigned.

Very truly yours,

---

Thomas H. Schloss

---

Dwight E. Lee

ACCEPTANCE BY BRISCOE:

Accepted this \_\_\_\_\_ day of  
\_\_\_\_\_, 1979.

---

James A. Briscoe

## APPENDIX ONE

### Project Disbursements and Bookkeeping

1. All Project disbursements will be made under a "purchase order" system in the same manner as presently employed by Southwestern Exploration Associates, Inc. ("SEA").
2. During the initial phase of Project operations and until Project expenditures totaling \$25,000.00 have been made, all Project expenditures in excess of \$100.00 shall, prior to payment, be approved by James A. Briscoe; thereafter, Project expenditures in excess of \$250.00 shall be approved by James A. Briscoe.
3. Checks and drafts drawn against Project funds in the THL (Tombstone Heap Leach) Trust Account shall be signed either by James A. Briscoe or jointly by SEA's Bookkeeper, J.E. Talley, and its Business Service Manager, C.M. Dodson.
4. Time and expense records for all employees of the Project (and for any employees of SEA who perform services for the Project) shall be kept in accordance with the "Day Timer" record keeping system presently employed by SEA.
5. Bills, invoices and other supporting documents evidencing Project expenditures will be submitted to the Project management committee or group twice monthly for all services performed for the Project.
6. The Project operator shall keep accurate books, records and accounts in accordance with standard record keeping procedures, and the books, records and accounts shall be made available for examination by parties having an interest in the Project during normal working hours at the Project office.

## APPENDIX TWO

### Outline of Anticipated Initial Capital Investment; Crushing Operations; and General Outline of Operations

#### I. Anticipated Initial Capital Investment

It is anticipated that the initial investment for the anticipated slope leach shall be as follows:

A.	Power hook-up		\$2400
B.	Electric		2000
C.	Pump installation/electric		1000
D.	Water line installation		2040
E.	Spray lines/manifolds		100
F.	Directional rainbirds		80
G.	Preg pond		100
H.	Laboratory		100
I.	Building		200
J.	Plants		2200
K.	Tanks		1000
L.	Chemicals		
1.	Resin-SR-3	100#	650
2.	Lime	1000# (.087)	87
3.	Salt		
4.	NaOCl	5-55 gal	247
5.	Na <sub>2</sub> S <sub>2</sub> O <sub>3</sub>	300#	74
6.	NaCN	1000#	561
7.	Na <sub>2</sub> S	400#	100
8.	Powd. Zinc	100#	66
M.	Insurance and bond		4500
N.	Management		4000
O.	Labor		2000
P.	Misc.		<u>1495</u>
			25,000



## II. Crushing Duration as a Function of Crushing Rate

<u>Rate</u>	<u>Duration</u>
200 Tons per Day	250 months
400 "	125 "
600 "	83.3 "
1000	50 "
3000	16.7 "

## III. General Outline of Operations

It is anticipated that the initial \$25,000.00 provided by INVESTORS will be used to initiate and commence spray leaching operations. Any resulting cash flow and any remaining part of the \$25,000.00 will be used to lease a crusher to process certain parts of the heap, to verify the process and to determine what the cost will be based on the type of ore to be processed. After these results have been obtained and analyzed, a decision will be made by the Project management committee or group to continue or to terminate the program. The current estimate for the use of the initial \$25,000.00 is set forth in paragraph I of this Appendix. If the Project continues, an additional \$25,000.00 to \$50,000.00 will be used to sample the heap and, if the Project management committee or group deems it advisable, to increase the daily capacity of the heap. Results available at this time will be analyzed by the management committee or group and decisions will be made as to whether to continue or terminate the program. If the decision is made to continue, it is anticipated that the next step will be commencement of a plant for the leaching operation. Contributions made by INVESTORS or calls for additional funds will be used to: first, process the heap; second, further expand the crushing facilities; third, sample and drill the open pit potential; and fourth, secure mineral rights in the areas not as yet under lease to the Project, all subject, however, to approval of or change of such plans by the Project management committee or group.

1700 Broadway  
New York, N.Y.  
10019

*File*  
*P418*

March 7, 1979

Mr. James A. Briscoe  
Southwestern Exploration  
Associates, Inc.  
4500 East Speedway, Suite 14  
Tucson, Arizona 85712

Dear Mr. Briscoe:

This letter will outline the basic terms and conditions under which the undersigned (individually, or in conjunction with other investor associates of the undersigned, whether one or more, hereinafter referred to as "INVESTORS") agree to participate in an exploration and development project with you (hereinafter "BRISCOE") on property situated in the Tombstone Mining District, Cochise County, Arizona. It is agreed that INVESTORS and BRISCOE, or their respective designees or assigns, will enter into a formal agreement incorporating provisions for the operation of the exploration and development program (hereinafter the "Project") and such other provisions as are customary and desirable in such an agreement. It is further agreed that, to the extent applicable, the formal agreement will include in substance those terms and conditions set forth in this letter agreement.

1. Mining Properties

It is anticipated that the Project will encompass (i) approximately 85 patented mining claims and 18 unpatented mining claims owned by Tombstone Development Company (hereinafter "TDC") and leased, or to be leased, to BRISCOE pursuant to a Lease Agreement (the "TDC Lease") containing essentially the provisions as set forth in that certain "Preliminary Draft of Lease Agreement" dated February 7, 1979, a copy of which has been heretofore furnished by BRISCOE; (ii) any additional mining claims, mineral interests or mineral properties leased, optioned, located or otherwise acquired by or on behalf of BRISCOE or the entity to be formed by BRISCOE and INVESTORS pursuant to Paragraph 4 below and which may be a part of, or an offset of, any mineralized deposits contained within properties leased from TDC, including without limitation the claims or areas known as the Tombstone Extension, Tombstone Mineral Reserve and the State of Maine areas (it being understood that claims and properties within the State of Maine area are owned principally by the Escapule family and that the Project may find it to its advantage to enter into some type of a joint venture with the Escapules); and (iii) any potential porphyry copper targets in the Seth Horn and Robbers Roost areas leased, optioned, located or otherwise acquired by or on behalf of BRISCOE or the entity described in Paragraph 4.

*JB* *JK*

2. Condition of Agreement

The terms, conditions and covenants of this letter agreement, other than the payment obligation described in Paragraph 3 hereof, shall be expressly conditioned upon INVESTORS satisfying themselves within 30 days of the date of execution of this letter agreement by BRISCOE that the TDC Lease grants to BRISCOE the rights set forth therein, free and clear of all liens and encumbrances other than as specifically described therein, and that TDC has and possesses title as represented by TDC therein.

3. Initial Payment

Upon execution of this letter agreement by BRISCOE and delivery to INVESTORS of a fully executed copy, INVESTORS shall advance to BRISCOE the sum of Twenty-Five Thousand Dollars (\$25,000.00), which sum shall be applied against Project expenditures.

4. Operating Entity

It is anticipated that the Project will be conducted by an entity formed by INVESTORS and BRISCOE and whereunder neither INVESTORS, individually, nor BRISCOE, individually, shall be obligated to assume personal liability, which entity may be in the form of a joint venture, joint operating agreement, limited partnership, corporation or any combination thereof. It is expressly agreed and understood that either INVESTORS or BRISCOE, or both, may assign the rights set forth herein to a corporation or other entity owned or managed by the respective parties. It is anticipated that the day to day operations of the Project will be conducted under the direction of an operating or project manager. Any such entity shall be under the general management and control of representatives of both INVESTORS and BRISCOE, and except as specifically provided below in this Paragraph 4, the voting rights of each party's representative with respect to the Project decisions shall be in proportion to the interest that each party has in and to the Project at the time such decision is made. Notwithstanding the foregoing, it is further agreed that until such time as INVESTORS have made the total cumulative contributions described in Paragraph 6 below or have forfeited their right to make further contributions, major Project decisions including, without limitation, those relating to cash calls, payments to equity owners from cash flow, pursuing further exploration targets, acquisition of additional lands or mineral interests, expenses for plant or facility expansion, and decisions concerning termination or discontinuance of all or a portion of the Project operations will be made by representatives designated by all parties with an interest in the Project. The agreement giving rise to, or the bylaws of, the operating entity shall contain a provision whereunder prior to the sale or transfer of an interest in the Project, the remaining parties to the Project shall have a right of first refusal, provided that no such transfer or assignment shall carry with it the right to manage the Project without the consent of the other parties. Promptly following the organization or formation of the operating entity,



all of the mining properties described in Paragraph 1 then held by or on behalf of BRISCOE or INVESTORS shall be transferred to the operating entity by appropriate instruments of conveyance, assignment or other transfer.

5. Management

It is anticipated that Southwestern Exploration Associates, Inc. (hereinafter "SEA"), or a subsidiary thereof, shall be employed by the Project to manage the exploration and development operations pursuant to plans approved and adopted in accordance with the provisions of the agreement giving rise to, or the bylaws adopted by, the operating entity, it being understood and agreed that such approvals shall be made by a management committee or management group containing representatives of the owners of interests in and to the Project as described in Paragraph 4 above. BRISCOE, or the Project manager, shall provide INVESTORS with written progress reports detailing the activities undertaken by and planned for the Project at intervals no less than twice monthly. The Project manager shall fully disclose Project matters to the parties and the parties agree to fully disclose to each other information pertaining to the Project and its operations.

6. Interest Acquired by INVESTORS

Unless this letter agreement terminates pursuant to the provisions of Paragraph 9 below, the equity interest of INVESTORS in and to the Project shall be determined by the amounts contributed to the Project (under this letter agreement and under the agreements made, and through the entity established pursuant to Paragraph 4 above):

<u>Cumulative Investment</u>	<u>Percentage of Equity</u>	<u>Funding Intervals</u>
\$ 25,000.00	25%	Upon execution of this letter agreement
\$ 50,000.00	30%	Within 7 days of sub- mittal to INVESTORS of the Report on First Phase described in Paragraph 8 below.
\$ 75,000.00	35%	*
\$100,000.00	40%	By 5/31/79
\$125,000.00	45%	*
\$150,000.00	50%	*
\$175,000.00	55%	*
\$200,000.00	60%	**

\* Upon the voluntary contribution by INVESTORS or within 7 days of call of Project in accordance with approved expenditure plans.

\*\* Upon the voluntary contribution by INVESTORS or within 7 days of call of Project in accordance with approved expenditure plans, but in any event no later than September 30, 1979.

The Project shall make calls at intervals no more frequent than 20 days per call. Contributions may be made by INVESTORS at such other intervals as they may choose, whether or not funds advanced are needed at the time of contribution, to the end that INVESTORS shall maintain the right, at their election, to complete all or such portion of the cumulative investment as INVESTORS may elect and thus obtain the specified percentage of equity in and to the Project and the operating entity as set forth above, provided that unless otherwise agreed to by all of the parties to the Project, the failure of INVESTORS to make contributions within the schedule set forth above shall terminate the right of INVESTORS to thereafter make additional contributions. INVESTORS shall have the right at any time to elect not to make further contributions in the Project. If INVESTORS either elect not to make further contributions or if INVESTORS lose the right to make further contributions, the equity interest of INVESTORS shall thereafter remain at the percentage specified in the table above. If the contributions of INVESTORS and the cash flow resulting from the Project are not sufficient to fund the Project at the level at which the parties desire to sustain, it is anticipated that the parties may seek additional funds, in which event it is anticipated that it may be necessary to reduce the respective interests of the parties to enable the Project to obtain additional funding. If INVESTORS acquire less than a 60% interest in the Project and if the Project elects to proceed to obtain additional funding over and above the \$200,000.00 funding level, INVESTORS recognize that their undivided interest in the Project may be subject to reduction. Except as hereinafter expressly provided in this Paragraph 6, INVESTORS participating interest in the Project shall not be reduced to less than the percentage that contributions made by INVESTORS plus the INVESTORS' share of Project profits used for Project operations bears to the total capital investment in the Project. If, however, INVESTORS' participating interest in the Project is reduced to 10% or less, INVESTORS shall relinquish their participating interest to the other parties to the Project in return for a 10% carried net profits interest.

7. Deposit of Funds; Disbursements; Bookkeeping

Unless and until the agreements giving rise to, or the bylaws adopted by, the operating entity provide to the contrary: (i) funds furnished by INVESTORS shall be deposited to the THL (Tombstone Heap Leach) Trust Account # 957-06641, The First National Bank of Arizona, University Medical Branch, P.O. Box 41960, Tucson, Arizona 85717; and (ii) disbursements will be made and books and records will be kept in the amounts and in the manner set forth in Appendix One attached hereto and made a part hereof.

8. Initial Capital Investment;  
General Outline of Operations

Attached hereto as Appendix Two, and made a part hereof, is an outline of the anticipated initial capital investment together with a table setting forth anticipated durations of

crushing operations as a function of the rate thereof and a general outline of anticipated operations. Upon evaluation of the results obtained by expenditure of the initial capital investment, as described in item I of Appendix Two, BRISCOE shall submit to INVESTORS a written report entitled "Report on First Phase" detailing the results of the initial work and setting forth BRISCOE's conclusions and recommendations based thereon. Except to the extent, if any, that Project funds are available for disbursement in accordance with the provisions of subparagraph (c) of Paragraph 9 below, the initial \$25,000.00 contribution made by INVESTORS upon execution of this letter agreement shall be non-refundable.

9. Termination

(a) Unless INVESTORS timely elect to make the second \$25,000.00 contribution, or unless extended in writing by INVESTORS and BRISCOE, this letter agreement, and the liabilities and obligations of the parties hereunder, shall terminate on the date 8 days after submittal by BRISCOE of the Report on First Phase described in Paragraph 8 above.

(b) If INVESTORS elect not to proceed beyond the initial \$25,000.00 contribution, this letter agreement shall terminate and, after payment in full of all general creditor claims, all available cash resources, if any, shall be disbursed in the following order of priority.

(i) Out-of-pocket expenses incurred by INVESTORS and BRISCOE, including expenses incurred by SEA for or on behalf of the Project, and including professional services (other than those rendered by SEA) and travel expenses;

(ii) Professional services billed by SEA to the Project (which billings shall be made at the lowest rate or with the most favorable discount employed by SEA in billing its other clients); and

(iii) Remainder, if any, to be divided 25% to INVESTORS and 75% to BRISCOE.

(c) If after termination of this letter agreement, BRISCOE elects to proceed alone or in conjunction with parties other than INVESTORS, INVESTORS shall be entitled to receive 25% of the net profits, if any, derived from such continued operations, provided, however, that BRISCOE shall have the right at his election to extinguish such net profits interest by paying INVESTORS the sum of \$50,000.00 no later than the date one year from the date of termination of this letter agreement.

10. Notices

Any notice or communication permitted or required to be given hereunder shall be effective when deposited in the United States mail, postage prepaid, and addressed as follows:



If to INVESTORS: Messrs. Thomas H. Schloss  
and Dwight E. Lee  
FAMCO  
1700 Broadway  
New York, New York 10019


If to BRISCOE: Mr. James A. Briscoe  
Southwestern Exploration  
Associates, Inc.  
4500 E. Speedway, Suite 14  
Tucson, Arizona 85712

11. Liability Several; Inurement

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations herein set forth. It is not the intention of the parties to create a partnership and this letter agreement shall not be construed so as to render the parties liable as partners, associates, or joint venturers or as creating a mining or other partnership or association. The terms of this letter agreement shall inure to the benefit of and be binding upon the parties hereto and their permitted assigns. None of the parties shall assign their rights or obligations hereunder without first obtaining written consent of the other parties hereto, which consent shall not unreasonably be withheld.

If this letter agreement sets forth your understanding of the basic terms outlined in previous discussions on this subject, please indicate your acceptance by executing the copy of this letter agreement in the space indicated and return it to the undersigned.

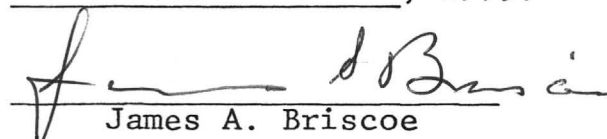
Very truly yours,

  
Thomas H. Schloss

\_\_\_\_\_  
Dwight E. Lee

ACCEPTANCE BY BRISCOE:

Accepted this 2th day of  
March, 1979.

  
James A. Briscoe



## APPENDIX ONE

### Project Disbursements and Bookkeeping

1. All Project disbursements will be made under a "purchase order" system in the same manner as presently employed by Southwestern Exploration Associates, Inc. ("SEA").

2. During the initial phase of Project operations and until Project expenditures totaling \$25,000.00 have been made, all Project expenditures in excess of \$100.00 shall, prior to payment, be approved by James A. Briscoe; thereafter, Project expenditures in excess of \$250.00 shall be approved by James A. Briscoe.

3. Checks and drafts drawn against Project funds in the THL (Tombstone Heap Leach) Trust Account shall be signed either by James A. Briscoe or jointly by SEA's Bookkeeper, J.E. Talley, and its Business Service Manager, C.M. Dodson.

4. Time and expense records for all employees of the Project (and for any employees of SEA who perform services for the Project) shall be kept in accordance with the "Day Timer" record keeping system presently employed by SEA.

5. Bills, invoices and other supporting documents evidencing Project expenditures will be submitted to the Project management committee or group twice monthly for all services performed for the Project.

6. The Project operator shall keep accurate books, records and accounts in accordance with standard record keeping procedures, and the books, records and accounts shall be made available for examination by parties having an interest in the Project during normal working hours at the Project office.



APPENDIX TWOTOMBSTONE  
Immediate Expenses

<u>Category</u>	<u>Activity</u>	<u>Quote</u>	<u>Estimate</u>
Power	APS Hook-Up (Deposit); West Side Water Pump Old '71 Min. Plant Office	\$ 800 2,400 50	
	Box & Meter Loop Electrician		\$ 600 500
	Cable Switches & Elec. Misc.		1,000 500
	Pump pannel/Installation		1,000
Water Line	3-inch PVC; 3,000 feet Installation	2,250 300	
PVC Fittings	Tees, Manifolds, etc.		100
Sprays	Directional rainbirds		80
Preg Pond	Liner & labor		100
Lab	Chemicals		100
Building	Trailer (40X8') - 2 months + \$215 Monthly rent = \$135	500	
Plant	4-50 GPM filter/recovery units		2,500
Tank	1350 gallon	350	
Chemicals	Start-Up solvents & reagents		2,432
Moving	Lab equipment & office		1,500
Labor	Leaching & crushing		2,000
Management	RF Hewlett, et.al. Sal/Expenses		4,000
Office	Reports & support		900
Misc.	Processing, freight, etc.		1,038
		<u>6,650</u>	<u>18,350</u>
		Total =	\$25,000



## II. Crushing Duration as a Function of Crushing Rate

<u>Rate</u>	<u>Duration</u>
200 Tons per Day	250 months
400 "	125 "
600 "	83.3 "
1000	50 "
3000	16.7 "

## III. General Outline of Operations

It is anticipated that the initial \$25,000.00 provided by INVESTORS will be used to initiate and commence spray leaching operations. Any resulting cash flow and any remaining part of the \$25,000.00 will be used to lease a crusher to process certain parts of the heap, to verify the process and to determine what the cost will be based on the type of ore to be processed. After these results have been obtained and analyzed, a decision will be made by the Project management committee or group to continue or to terminate the program. The current estimate for the use of the initial \$25,000.00 is set forth in paragraph I of this Appendix. If the Project continues, an additional \$25,000.00 to \$50,000.00 will be used to sample the heap and, if the Project management committee or group deems it advisable, to increase the daily capacity of the heap. Results available at this time will be analyzed by the management committee or group and decisions will be made as to whether to continue or terminate the program. If the decision is made to continue, it is anticipated that the next step will be commencement of a plant for the leaching operation. Contributions made by INVESTORS or calls for additional funds will be used to: first, process the heap; second, further expand the crushing facilities; third, sample and drill the open pit potential; and fourth, secure mineral rights in the areas not as yet under lease to the Project, all subject, however, to approval of or change of such plans by the Project management committee or group. To the extent that the foregoing operations of the Project require additional funding, it is agreed that resulting cash flow from the Project shall be used therefor.

13 MARCH, 19  
P.M.

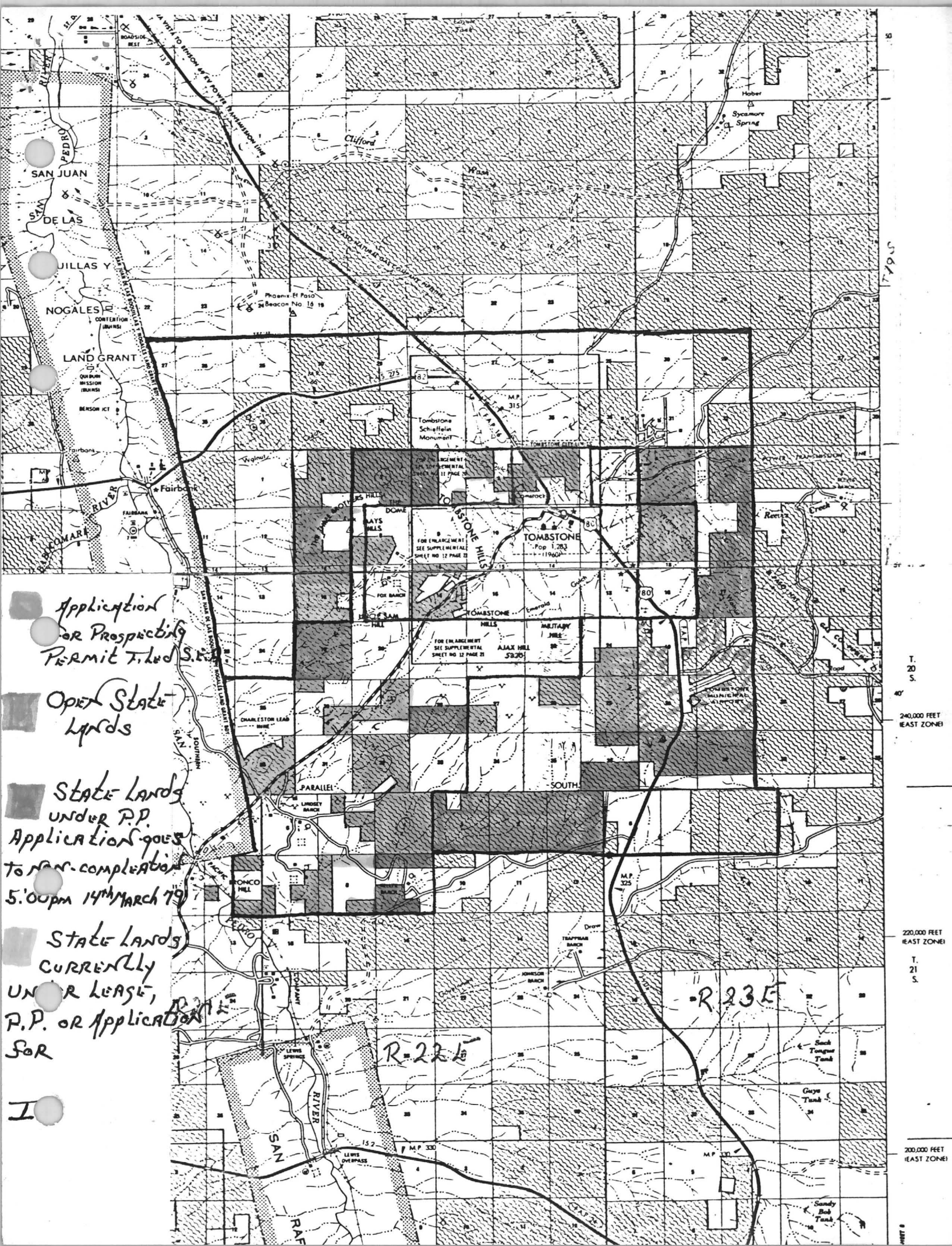
I want to

go on the FINK &

GIVEN by 8:00pm.

MARCH, 15, 1979

Clark



Application  
for Prospecting  
Permit T. & S. E.

Open State  
Lands

State Lands  
under P.P.  
Application goes  
to non-completion  
5:00pm 14th March 79

State Lands  
currently  
under lease,  
P.P. or Application  
for

I

T.  
20  
S.

240,000 FEET  
EAST ZONE

220,000 FEET  
EAST ZONE

T.  
21  
S.

200,000 FEET  
EAST ZONE

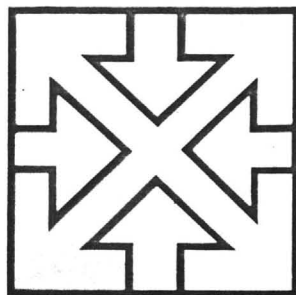
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Consultants in:

- base & precious metals • uranium
  - coal • geothermal • environment
  - remote sensing • color aerial photography
  - interpretation-image processing
- Worldwide Mobilization



E78  
4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

James A. Briscoe, President  
Registered Professional  
Geologist

**Southwestern  
Exploration Associates, Inc.**

March 30, 1979

Mr. & Mrs. Tom Schloss  
The Priory  
Pelham Manor, NY 10803


Dear Harry and Tom,

It must be good to get home again after your travels! I hope all went well with your reservations at the Rancho del Rio and the Tac Room on Friday evening.

Harry, enclosed is the list of addresses and phone numbers you requested over the phone. Please don't hesitate to call any of these people should a question or problem arise.

We certainly enjoyed touring our offices with both of you on Thursday and hope you'll feel free to stop in and visit with us anytime.

Sincerely,

  
Christine M. Dodson  
Mgr., Business Services

CMD: jmp  
encl.  
P-418  
2150

James A. Briscoe  
4500 E. Speedway, Suite 14  
Tucson, AZ 85712 (602) 795-6097

Trailer in Searchlight (702) 297-1605

Mr. & Mrs. Richard F. Hewlett  
Nellie Cashman Apartments  
Cottage #2  
121 E. 5th  
Tombstone, AZ (602) 457-3828

Alexis Briscoe - Marketing Representative  
Mandelburg Investment Company (602) 881-1660

Home Address:

6550 E. Miramar Drive Answering Service: (602) 886-0363  
Tucson, AZ 85715

Dana M. Slaymaker - Vice President, General Manager, S.E.A. Photography, Inc.  
5110 N. Camino Esplandora  
Tucson, AZ 85718 (602) 299-2747

Chris Dodson - Manager, Business Services  
1501 E. Hedrick Drive  
Tucson, AZ 85719 (602) 795-4697

Outer-Office Memo

3/14/79  
done

1. Call Polly Smith (Tombstone)

1-457-3373

She manages Parker House \* 275/mo

Guarantee the Co. will pay rent

→ Deduct out of my pay check

1/4/79

2. Want to see you this morning  
Concerning State Land Leases  
Clark Green can apply for  
at Tombstone

→ Have map - next page

3. Send Cotter Prop on 24  
Orphan

→ Get some cash

R F Hewlett

41-9  
RECEIVED MAR 23 1979

March 16, 1979

Arizona Corporation Commission  
415 West Congress Street  
Tucson, Arizona 85701

Attn: Incorporating Division

RE: SEA Hydromet, Inc.

Gentlemen:

Enclosed herewith please find the original Affidavit of Publication issued by The Daily Reporter, relating to the publication of the Articles of Incorporation of SEA Hydromet, Inc.

Your assistance with this matter is very much appreciated.

Sincerely yours,



Patrick J. Farrell

PJF:gld

Enclosure

cc: Southwestern Exploration Associates, Inc.

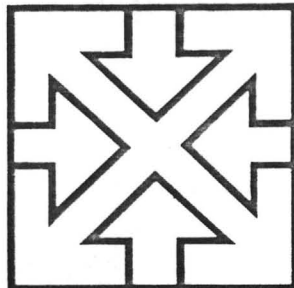
Attn: Christine M. Dodson

0709



Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Tungsten
- Worldwide Mobilization



Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

Richard F. Hewlett  
Vice President and General Manager  
Chemical Engineer  
Mining Engineer

## S.E.A. Hydromet, Inc.

April 11, 1979

Arizona State Land Department  
1624 West Adams  
Phoenix, Arizona 85007

ATTENTION: Barbara, Land Case Examiner

This letter is to register Mr. Thomas E. Waldrip, Jr. and Mr. Clark D. Green as authorized signatories for transactions between your office of the Arizona State Land Department and S.E.A. Hydromet, Inc. All future correspondence should be directed to the gentlemen.

Thank you for your cooperation in this matter.

Sincerely,

James A. Briscoe  
President

JAB/slr  
P-418  
2173

RECEIVED APR 18 1979

COREY & KITTLE, P. C.

ATTORNEYS AT LAW

BARRY M. COREY  
JAY S. KITTLE  
PATRICK J. FARRELL  
THOMAS A. STOOPS

SUITE 509 TRANSAMERICA BUILDING  
177 NORTH CHURCH AVENUE  
TUCSON, ARIZONA 85701  
(602) 882-4994

April 17, 1979

SEA Hydromet, Inc.  
4500 East Speedway, Suite 14  
Tucson, Arizona 85712

ATTENTION: James A. Briscoe  
Re: Issuance of Common Stock

Dear Jim:

This is a reminder to let you know that the common stock of SEA Hydromet, Inc. should be issued some time in the near future.

I am assuming that you have discussed this matter with Kyle DeFoor and that you have some idea regarding the manner in which the shares of the Corporation will be issued to you and Richard Hewlett.

I would appreciate your contacting me in the near future so that I may arrange for the proper issuance of the shares of the common stock of the Corporation to you and Mr. Hewlett. Thank you for your assistance with this matter.

Sincerely yours,

*Pat Farrell*

Patrick J. Farrell

PJF:ceg

51% JAB

49% RFH

*Forwarded  
4/20/79*

*J.C. # 15452*

*and*

*How many shares of stock?  
How paid for?*



April 20, 1979

Dear Mr. Tim Briscoe,

Thank you for the  
lengthy call on Easter  
Sunday. I am sure I  
talked too much.

However, it was a  
relief to express some thoughts  
after the last two years  
of silence.

I am enclosing a  
letter to Richard which  
I would be grateful if  
you would give to him or  
forward <sup>to him</sup>.

I hope we can  
work out some  
arrangements between  
us that are  
satisfactory and useful.

Sincerely, Mary Heald

APR 25 1979

OPERATING AGREEMENT

THIS AGREEMENT is made effective as of the \_\_\_\_ day of \_\_\_\_\_, 1979, by and between: TOMBSTONE EXPLORATION INC., a Delaware corporation qualified to do business in the State of Arizona ("TEI"), and AUSTIN EXPLORATION & MINING CORPORATION, an Arizona corporation ("AEM"), both of which parties are hereinafter sometimes collectively referred to as the "parties." The parties have agreed that Southwestern Exploration Associates, Inc. ("SEA") shall serve as the initial "Operator" (as hereinafter defined) and the execution of this Agreement by SEA shall serve as its agreement so to act pursuant to the terms and conditions of this Agreement and subject to the rights and obligations afforded "Operator" hereunder.

## W I T N E S S E T H:

WHEREAS, the parties own, or intend to acquire, as tenants in common the entire leasehold estate in and to certain patented and unpatented mining claims owned by Tombstone Development Company ("TDC") all as more particularly described and defined in Section 1 as the "Initial Property Interests," and desire to participate in a program for further acquisition, exploration, development and mining of any or all of the minerals within the area defined in Section 1 as the "Area of Interest" and encompassing the Initial Property Interests and other areas within the Tombstone Mining District, Cochise County, Arizona;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

1. Definitions

As used in this Agreement, the following terms shall have the meanings assigned to them in this Section 1:

- (a) "Operator" shall mean SEA, acting in that capacity as hereinafter provided and any successor Operator appointed hereunder.
- (b) "Non-Operators" shall mean TEI and AEM, together with their respective successors and assigns.



(c) "Area of Interest" shall mean the following described area in Cochise County, Arizona:

(i) approximately 85 patented and 18 unpatented lode mining claims owned by TDC to be leased to one or more of the parties, a more particular description of which claims is set forth in that certain "Preliminary Draft of Lease Agreement" dated February 7, 1979, copies of which have been furnished to and examined by the parties hereto;

(ii) any additional mining claims, mineral interests or mineral properties leased, optioned, located or otherwise acquired by or on behalf of the parties, or either of them, or by or on behalf of the "Project," and which may be a part of, or an offset of, any mineralized deposits contained within properties leased from TDC, including without limitation the claims or areas known as the Tombstone Extension, Tombstone Mineral Reserve and the State of Maine areas (it being understood that claims and properties within the State of Maine area are owned principally by the Escapule family and that the Project may find it to its advantage to enter into some type of a joint venture with the Escapules); and

(iii) any potential porphyry copper targets in the Seth Horn and Robbers Roost areas leased, optioned, located or otherwise acquired by or on behalf of the parties, or either of them, or by or on behalf of the "Project";

less any portions thereof as may, from time to time, be deleted therefrom pursuant to the surrender provisions of Section 8 below.

(d) "Initial Property Interests" shall mean the leasehold interest of "Lessee" created under that certain Lease Agreement dated \_\_\_\_\_, 1979, by and between TDC (as "Lessor") and \_\_\_\_\_ (as "Lessee") a Memorandum of which is or will be placed of record in the office of the Cochise County Recorder.

(e) "Project" shall mean the joint program of acquisition, exploration, development and mining undertaken by the parties pursuant to this Agreement.

(f) "Project Operations" shall mean all of the operations conducted for the parties by Operator under the provisions of this Agreement.

(g) "Project Properties" shall mean any lands or interests in lands (including the Initial Property Interests) now owned or hereafter acquired by any of the parties hereto within the Area of Interest less any such lands or interests therein as may, from time to time, be deleted therefrom pursuant to the surrender provisions of Section 8 below.

(h) "Operating Committee" shall mean the committee provided in Section 5 consisting of representatives of each of the parties.

(i) "Plan" or "Plans" shall mean a plan or plans adopted by the parties pursuant to the provisions of Section 4.

(j) "Exploration" or "Exploration Operations" when used herein shall refer to the activity or work of prospecting and searching

for ores and minerals on, in or under the Project Properties and drilling, examining, measuring and sampling a mineral deposit when found to gain knowledge of the size, shape, position and characteristics to determine the value of the deposit and all other activity or work performed outside a Development Block.

(k) "Development" or "Development Operations" when used herein shall mean any and all operations conducted on or in connection with a Development Block.

(l) "Development Block" shall mean such portions of the Project Properties so designated as hereinafter provided after determination has been made that minerals are present therein of sufficient quantity and quality to warrant development.

(m) "Committing Party" shall mean the party or parties who have elected to participate in the costs incurred in any operation conducted pursuant to an effective Plan.

(n) "Non-Committing Party" shall mean the party or parties who have elected not to participate in the costs incurred in any operation conducted pursuant to an effective Plan.

(o) "Joint Account" shall mean the accounts and records maintained for the parties by the Operator for the purpose of accounting for and apportioning contributions, costs and credits with respect to the Project and Project Operations.

(p) "Accounting Procedure" shall mean the Accounting Procedure attached hereto as Exhibit A.

## 2. Title Examination and Loss of Leasehold or Interest

If for any reason title to the Initial Property Interests or any interests hereafter acquired fail or are lost in whole or in part, such loss shall be the joint loss of the parties and shall be borne by the parties in proportion to their interests owned in the Project.

## 3. Interest of the Parties

(a) The parties shall initially own, as of the effective date of this Agreement, the following undivided interests in the Project and in and to the Project Properties:

<u>Party</u>	<u>Undivided Interest</u>
AEM	70%
TEI	30%

(b) Unless this Agreement sooner terminates pursuant to the provisions of Section 24 below, the undivided interest of TEI in and to the Project and in and to the Project Properties shall increase in

relation to the amounts initially contributed by TEI to the Project, and the interest of AEM shall decrease in a corresponding amount, pursuant to the following schedule:

Cumulative Funds Furnished to the Project by TEI*	Undivided Interest of TEI
\$ 75,000.00	35%
\$100,000.00	40%
\$125,000.00	45%
\$150,000.00	50%
\$175,000.00	55%
\$200,000.00	60%

\*Cumulative Funds shall include all funds heretofore contributed by TEI and by its predecessor in interest pursuant to that certain letter agreement dated March 7, 1979 between Thomas H. Schloss and Dwight Lee (predecessors in interest to TEI) and James A. Briscoe.

The rights, obligations and elections by TEI to provide any such funds (and obtain the corresponding undivided interest) are all more particularly set forth in subparagraph (c) of this Section 3.

(c) TEI shall have the right, at its election, to provide the initial funds to the Project up to and including a total of \$200,000.00 and, by so doing, to earn an undivided interest in the Project and the Project Properties in the percentage set forth in subparagraph (b) above, all in accordance with the following:

(i) The Project shall make calls at intervals no more frequent than twenty (20) days per call, all subject, however, to the provisions of subparagraph (v) below;

(ii) Contributions may be advanced by TEI at such other intervals as it may choose, whether or not the sums advanced are needed at the time of contribution and whether or not a Plan is in effect which would require such sums, all to the end that TEI shall maintain the right at its election to complete all or such portion of the cumulative investment as it may elect, thus entitling it to TEI's undivided interest set forth in subparagraph (b) above;

(iii) Unless AEM otherwise agrees in writing, the failure of TEI to make contributions within the schedule set forth in subparagraph (b) above shall terminate the right of TEI to thereafter acquire an additional percentage of undivided interest by making such additional contributions;

(iv) If TEI either elects not to make further contributions or if TEI loses the right to make further contributions, the undivided interest of TEI shall thereafter remain at the percentage specified in subparagraph (b) above, all subject, however, to the withdrawal and dilution provisions of Section 11 below;

(v) Anything in subparagraph (i) through (iv) to the contrary notwithstanding, until such time as TEI has made the total cumulative contributions described in subparagraph (b) of this Section 3 or has forfeited its right to make further contributions,

major Project decisions including, without limitation, those relating to cash calls, payments to equity owners from cash flow, pursuing further exploration targets, acquisition of additional lands or mineral interests, expenses for plant or facility expansion, and decisions concerning termination or discontinuance of all or a portion of the Project Operations will require the unanimous approval of the Operating Committee; and

(vi) If TEI acquires less than a 50.1% undivided interest, and if the Project or if AEM elects to proceed to obtain additional outside funding in excess of \$200,000.00, it is agreed and understood by TEI that its undivided interest in the Project may be subject to further reduction (which reduction shall not reduce the undivided interest of TEI to less than the percentage that contributions made by TEI plus TEI's share of Project proceeds used for Project Operations bears to the total amount contributed to the Project); provided, however, that if TEI's undivided interest in the Project is thus reduced to 10% or less, TEI shall be obliged to relinquish its undivided interest to the other parties to the Project in return for a 10% "Net Profits Interest" as described in Section 11(c) below.

(d) From and after the time that TEI's undivided interest has been determined under subparagraph (c) of this Section 3, the costs incurred and production developed under this Agreement shall be paid and shared by each of the parties as its interest exists at the time such costs are incurred or production is obtained.

#### 4. Project Plans

Subject only to the provisions of Section 3(c), Project Operations hereunder shall be performed pursuant to Plans adopted by the parties from time to time after submittal by Operator of proposed Plans to the parties, it being understood that Plans leading to the diligent operations of the Project will be proposed at reasonable intervals during the term of the Project. In the event Operator fails to timely propose a Plan, a Plan is not approved as proposed, or more than six (6) months have elapsed since completion of the previous Plan without Operator proposing a subsequent Plan, then a Non-Operator may propose a Plan to the parties and to the Operator. A Plan or proposed Plan shall describe work to be performed, set forth estimates of costs to be incurred in carrying out the work, and give an estimated period of time to perform the work. Prior to such time as TEI's undivided interest has been determined pursuant to Section 3 above, any such proposed Plan shall not encompass operations for a period exceeding sixty (60) days nor shall the total expenditures proposed in any single Plan exceed \$25,000.00. Thereafter, unless prior written approval is obtained from the parties, no proposed Plan shall encompass operations for a period exceeding three (3) months nor shall the total expenditures proposed in any single Plan exceed \$500,000.00. No Plan shall combine Development Operations with Exploration Operations.



(a) Plans proposing Exploration shall be submitted separately from Plans proposing Development Operations and each such Exploration Plan shall be for a period of not less than two (2) months nor more than six (6) months and shall call for an estimated expenditure not to exceed \$50,000.00. Unless otherwise agreed by the parties, only one Exploration Plan shall be carried out at one time.

(b) The Initial Plan proposing Development Operations shall designate an area as a Development Block within which all operations proposed by the Plan shall be conducted. Thereafter, additional Development Plans within a designated Development Block may be proposed. Each time a Plan for Development Operations is proposed on lands not included within a designated Block, a new area shall be designated as a Development Block for such lands unless all of the parties agree to add such additional lands to an existing Development Block.

(c) Until such time as Project expenditures exceed \$200,000.00, each party shall confirm to Operator and the other party in writing within seven (7) days after receipt of a Plan approved by the Operating Committee, evidencing its approval or disapproval of the proposed Plan. Thereafter, each party shall confirm to Operator and the other party in writing within thirty (30) days after receipt of a proposed Plan, its approval or disapproval of the proposed Plan. Failure to reply shall constitute an election not to commit to the Plan. No Plan shall become effective without the approval of both parties until such time as either (i) contributions by TEI total \$200,000.00; or (ii) TEI's undivided interest is finally determined as provided in Section 3 above. Thereafter, if any party or parties elect not to commit to such Plan, such Plan shall not become effective nor be carried out unless a party or parties owning not less than an undivided 50.1% interest in the Project committing thereto elects to proceed with the Plan for their own account.

##### 5. Operating Committee

An Operating Committee comprised of two representatives of each of the parties shall be established. Each party may designate one or more alternates to serve in the absence of each of the designated representatives. The names of the designated representatives and of any alternates shall be filed in writing with the Operator. Each representative shall have a vote equal to one-half of that percentage interest owned by the party which he represents. Except as otherwise specifically provided in this Agreement, decisions of the Operating Committee shall require the approval of those representatives representing a majority interest in the Project. Meetings of the Operating Committee may be held by telephone and may be called by the Operator or by the representative of any of the parties. The Operating Committee shall meet at no less than semi-annual intervals at the Project's operations office (it being anticipated that such office shall be located either in Tombstone or in Tucson, Arizona). A party may change its representative (or any alternate representative) by notice to the Operator and to the

other parties in writing. All decisions relating to the time and manner of distribution of Project proceeds shall be made by the Operating Committee. Subject to the provisions of Section 3, any calls upon the parties for funds or advances to the Project shall also be made by the Operating Committee. All reports from Operator shall be directed to all of the members of the Operating Committee.

6. Access to Premises

Non-Operators shall have access at their sole risk to the Project lands and Project Properties at any reasonable time to inspect any Project Operations, together with the right to inspect all drilling data, samples, cores, logs, and all other data pertaining to the Project obtained by Operator while conducting the Project Operations and upon reasonable request from Non-Operators, Operator shall be obligated to furnish directly to Non-Operators copies of all logs, assay reports, maps, feasibility studies, production records and other documents pertaining to the Project.

7. Land Acquisition

All interest heretofore acquired by the parties hereto or their agents within the Area of Interest shall be subject to the terms of this Agreement. Any interests within the Area of Interest hereafter acquired shall be acquired by the Project pursuant to a Plan or pursuant to the consent of all of the Non-Operators and the acquisition costs shall be Project costs. In the event any party hereto proposes to acquire any additional lands or mineral rights within the Area of Interest, such party shall notify the other parties of such proposal by written notice setting forth in such notice a description of the lands or interests, costs of acquisition, and the facts upon which the proposing party bases its conclusions that such lands should be acquired by the Project. Operator shall not acquire any interest within the Area of Interest for its own account without first obtaining the prior written approval of all of the parties.

8. Surrender

Except as hereinafter provided, no interest in any of the Project Properties shall be surrendered, in whole or in part, without the consent of all parties. Whenever any party desires to surrender all or any portion of its interest in any Project Properties, it shall give notice thereof, in writing, to the other parties. Any party receiving such notice shall have the right to elect by notice in writing to the notifying party within fifteen (15) days thereafter to take from the party desiring to surrender an assignment without warranty, express or implied, of the interest desired to be surrendered. Any party so electing shall pay the party desiring to surrender its share of the salvage value of any salvable materials and equipment then located or used in connection with the Project Properties covered by such interest. After assignment is made, the assigning party shall be relieved from all

obligations thereafter accruing with respect to the interest so assigned; and such interest shall no longer be subject to this Agreement. If more than one party so elects, and the assignment is to more than one party, the interest so assigned shall be apportioned among the assignees in proportion to their respective participating interests. If no party elects to take assignment within such period, the parties shall proceed to take the necessary steps to surrender the Project Properties covered by the interest desired to be surrendered.

9. Operator's Powers and Rights

In accordance with the terms and conditions of each effective Plan, Operator shall have full, complete and exclusive control, charge and supervision of the Project Properties and the personal property included in the Project and all Project Operations conducted thereon. Operator shall conduct Project Operations to the best of its ability and in accordance with the terms and conditions of each effective Plan using modern techniques and good and economical mining practice. All operations shall be conducted with due regard for the development and preservation of said Project Properties and Project capital and in keeping with applicable federal, state and local laws and ordinances and regulations. Operator shall conduct its operations hereunder as an independent contractor and all work performed and equipment furnished by Operator shall at all times be in Operator's direct control and supervision. Pursuant to the provisions of each Plan, Operator shall select the means, manner and method of performing Project Operations. Operator shall abide by directions from the Operating Committee as to the end results to be accomplished, but Operator shall assume the sole responsibility for directing its employees and equipment as to the manner and means of accomplishing the same. Operator assumes all liability for, and agrees to defend, indemnify and hold the parties harmless, from and against any and all demands and any liabilities sought to be imposed upon the parties, and from and against all loss, damage, personal injury (including death), and costs and expenses arising from conduct by Operator of its operations hereunder.

10. Operator's Duties and Obligations

Operator shall have, among others and without limitation, the following specific duties and obligations:

(a) to manage, direct and control all Project Operations in and under the Project Properties in a prudent workmanlike manner and in accordance with the terms and conditions of each effective Plan, each instrument under which interests in the Project Properties were acquired, and all applicable laws, ordinances and regulations, including without limitation, those pertaining to mining claims and mining operations. Operator shall, before incurring total expenditures not previously included in an effective Plan in excess of \$1,000.00 of the amount of such Plan, secure the approval of the Operating Committee.

(b) to keep true and correct books, accounts and records of operations hereunder and to permit at all reasonable times the inspection, examination and auditing thereof by Non-Operators, to submit monthly financial statements, and to submit to summaries of Operating Plans and projections to the Operating Committee;

(c) to keep the Project Properties free from liens and encumbrances occasioned by its operations hereunder, except only the lien hereinafter granted to Operator;

(d) to furnish the Operating Committee on or before the 20th day following the close of each calendar month with a statement of minerals produced from the Project Properties and the proceeds thereof, if sold through Operator during the preceding calendar month;

(e) to pay for the Joint Account of the Parties, on production sold from the Project Properties, all royalties payable under the terms of each lease or agreement and charge the same to the Joint Account, as provided in the Accounting Procedure, a copy of which is attached hereto as Exhibit A;

(f) to pay all costs, expenses and liabilities accruing or resulting from Project Operations and to account to Non-Operators in accordance with the provisions of the Accounting Procedure; in the event the terms of the Accounting Procedure conflict with any of the provisions hereof, this Agreement shall be deemed to control;

(g) to account for any income received for the Joint Account and to distribute the same as directed in writing from time to time by the Operating Committee, to the extent such income exceeds each such party's pro-rata share of operating capital requirements;

(h) to furnish the Operating Committee within twenty (20) days following the close of each calendar month with a summary of operations conducted during the preceding calendar month.

11. Voluntary Withdrawal; Failure to Commit to Plan; Dilution

(a) Any party hereto shall have the right to voluntarily withdraw from the Project or from any Development Block and terminate its interest therein prior to termination of the Project by giving written notice of such withdrawal to the other party or parties. In the case of such a voluntary withdrawal, all of the rights and obligations of the withdrawing party under this Agreement or under the portion of the Project Properties constituting such Development Block shall terminate as of the date of the giving of notice of such withdrawal; and all right, title and interest of the withdrawing party in and to Project Properties or the applicable Development Block portion thereof shall be deemed to have been transferred automatically to the non-withdrawing parties in undivided interests in the same proportion as the respective interests of such non-withdrawing parties in the Project or in the applicable Development Block at that time bear to each other; provided, however, that: (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Plan to which it is committed, including costs incurred pursuant to such Plan after the



effective date of the withdrawal but not in excess of the most recent cost estimates committed to, or approved by, such withdrawing party; and (ii) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Project and in the Project Properties, or the applicable Development Block portions thereof, to the non-withdrawing parties. A withdrawing party shall be furnished with data acquired in connection with Project operations prior to withdrawal but shall not, other than under the provisions of this Agreement, conduct or become a part of any exploration program or prospecting venture nor obtain any interests within the Area of Interest for a period of two (2) years from the actual date of its withdrawal and for such period shall hold confidential any information acquired pursuant to this Agreement.

(b) Any party hereto who has elected not to commit itself to a proposed Development Plan which becomes an effective Project Plan shall not, for that reason alone, be deemed to have withdrawn from the Project, but such Non-Committing Party shall be deemed to have relinquished to the Committing Parties its share of any production from such Development Block, or the proceeds therefrom, until such time as the Committing Parties have recovered from the Non-Committing Party's share of production an amount equal to the total of the following or, in the alternative, the Non-Committing Party has paid to the Committing Parties in the same proportion as the respective interests of the Committing Parties at that time bear to each other an amount equal to the total of the following:

(i) 300% of that portion of all Exploration Operations costs and expenses that would have been chargeable to the Non-Committing Party had it and all the other parties hereto participated from the beginning in the Development Plan, plus

(ii) 200% of that portion of Development Operations costs and expenses that would have been chargeable to the Non-Committing Party, had it and all other parties participated from the beginning in the Development Plan, during the period prior to the time the Non-Committing Party's relinquished interest in production shall revert to it under the provisions of this subparagraph (b), plus

(iii) 150% of the Project's royalty, overriding royalty and other lease burdens, if applicable, and the production taxes accruing on and with respect to the ores received by the Committing Parties and attributable to the share of production relinquished by the Non-Committing Party;

provided, however, that unless the Committing Parties have recovered the amount equal to the total of (i) plus (ii) plus (iii) within six (6) months from the completion of the Development Plan or unless within such six-month period the Non-Committing Party has paid such total amount to the Operator for the collective account of the Committing Parties, the interest of the Committing Parties thereafter shall be subject to the

dilution provisions of subparagraph (c) of this Section 11. At any time prior to completion of a Development Plan, the Non-Committing Party may notify Operator and the Committing Parties in writing of its election to commit to the remainder of the Development Plan and may thereafter participate in operations under the Development Plan by paying to the collective account of the Committing Parties the full amount in cash that the Committing Parties would have recovered under (i), (ii) and (iii) above for actual expenditures made under the Plan through the current accounting period as provided in the Accounting Procedure. The Non-Committing Party shall receive credit for any amount which the Committing Parties have recovered from the Non-Committing Party's share of production from the applicable Development Block through the same accounting period.

(c) In the event the Non-Committing Party has not paid or received credit for the amounts described in (i), (ii) and (iii) of subparagraph (b) above within the six-month period provided therein, the Non-Committing Party's undivided interest in the Development Block shall be reduced to that percentage of the entire undivided interest therein that the Non-Committing Party's expenditures to such date bear to the total Development Block expenditures to such date, and such Non-Committing Party shall have no right thereafter to participate in further Plans with respect to such Development Block. In a like manner, at the completion of each Development Plan thereafter, the interest of the Non-Committing Party shall be diluted to the percentage that its Development Block expenditures bear to the total Project expenditures; provided that if such Non-Committing Party's undivided interest in the Development Block is reduced to 10% or less, such Non-Committing Party's undivided interest in and to the Development Block and in and to the Project Properties constituting the same shall terminate subject only to the retention by the Non-Committing Party of a non-working 10% "Net Profits Interest" (as described in Exhibit B attached hereto and made a part hereof) in and to the proceeds, if any there be, taken by the Committing Parties, their successors or assigns, from the Project Properties constituting such Development Block (as such Project Properties exist as of the date of such termination).

#### 12. Transfer of Interest

(a) Should any party desire to dispose of part or all of its interest in this Agreement, such party shall advise the other party in writing of its desire and of the terms and conditions of such desired disposition including the consideration in lawful money of the United States or its equivalent which it is willing to accept for such interest together with all other pertinent terms and conditions of such disposition and the facts on which the transferring party based its calculations. Within thirty (30) days after receipt of such written notice, the other parties shall have the option of acquiring the interest proposed to be disposed of on the terms and conditions and for the consideration proposed. If more than one of the other parties elect to

exercise such option, the acquisition shall be pro-rated according to each such other parties' interest in the Project. If the interest offered to be disposed of by disposing party is not so acquired by the other parties within the time provided, the disposing party shall have the right for a period of ninety (90) days from the expiration of the aforementioned thirty-day period to dispose of such interest to any third party or parties upon substantially the same terms and conditions and for a consideration no greater than specified in such notice; provided, however, that such interest may not be disposed of unless the purchaser, concurrently with said sale and purchase, delivers to the other parties a written and enforceable assumption by the purchaser of the obligations of the disposing party under this Agreement; provided further, however, that if the initial notice given by disposing party to other parties does not identify the prospective purchaser of such interest, the party to whom disposition of such interest is intended to be made must first be approved in writing by other parties, which approval shall not be unreasonably withheld. If such interest is not disposed of within such ninety-day period, it must first be re-offered to the other parties prior to any subsequent disposition thereof.

(b) The right of first refusal granted in subparagraph (a) of this Section 12 shall not apply to any interest in this Agreement through merger, reorganization, consolidation, dissolution or where a party assigns its entire interest in this Agreement to a parent corporation or to a wholly owned subsidiary, but any such transaction shall not be valid until written notice thereof has been delivered to the other parties, together with a written and enforceable assumption by receiving person of the obligations of disposing party under this Agreement as they relate to the interest so acquired.

(c) The right of first refusal granted in subparagraph (a) of this Section 12 shall not apply to any mortgage, pledge or hypothecation by the disposing party of all or any portion of its interest in this Agreement and in the Project Properties; but it is understood that such mortgage, pledge or hypothecation is and shall be made expressly subject to this Agreement and made subject to the condition that on any realization of the security, any person thus acquiring an interest shall deliver to other parties a written and enforceable assumption of the obligations of disposing party under this Agreement as they relate to the interests so acquired, and any such mortgage, pledge or hypothecation shall not be valid until written notice thereof has been delivered to the other parties.

(d) Except as provided in Sections 8 and 11 and in this Section 12, no disposition of any interest shall be made by any party.

### 13. Insurance

Operator shall carry or maintain for the benefit and at the expense of the Joint Account the insurance coverage set forth in Exhibit C attached hereto and made a part hereof naming as additional insureds each of the parties, as their interests may appear.

14. Term

Subject to the rights of surrender and withdrawal as herein provided and unless sooner terminated or further extended by mutual agreement, this Operating Agreement shall remain in force and effect so long as the Project Properties are jointly owned by the parties and thereafter until all materials, supplies and equipment have been salvaged and disposed of and a final accounting has been made between the parties.

15. Disposition of Production

Each of the parties shall have the right to take in kind or separately dispose of its proportionate share of all ores and minerals produced from the Project Properties in such form as the Operating Committee deems appropriate and convenient. Any extra expenditures incurred by reason of the taking in kind or separate disposition by any parties of their proportionate share of said ores and minerals so produced shall be borne by each such party and each such party shall be required to construct, operate and maintain, all at its own expense, any and all facilities which may be necessary to receive, store and dispose of its share of production at the rate it is produced. In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of said ores and minerals, such party shall be solely liable to the other party for any costs incurred by the Operator or by the Project in preserving or storing such proportionate share. With the prior written consent of a party, the Operating Committee may enter into a sales contract for such party's proportionate share of ores and minerals produced; provided that all contracts of sale for any such party's share of ores and minerals produced shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. If any party is not taking its share of such ores and minerals in kind, any proceeds received by the Project for such party shall be distributed or accounted for quarterly to such party; provided, however, that Operator shall be entitled to retain and apply any proceeds of production accruing to any party hereto on any unsatisfied expenses chargeable against such party as herein provided. In case of any adverse claim, dispute or question as to the right to receive the production or proceeds deliverable to or payable to any party under this Agreement, the Operating Committee shall not be required to make delivery or payment thereof under this Agreement until final disposition of such claim, dispute or question and the Operating Committee may withhold delivery or payment thereof and, in the case of payments, deposit the same in a separate account until the Operating Committee is furnished with the original or certified copies of an instrument disposing of such claim or dispute or until delivery to the Operating Committee of proof sufficient in the opinion of the Project's counsel to settle the same, in which event the Operating Committee shall make



payment of the amounts so deposited in accordance with the instrument or proof so furnished. All costs incurred by the Project in stockpiling, selling or otherwise disposing of production so withheld shall be a charge against the Non-Operator whose right to receive the same has been so disputed or questioned.

16. Taxes

Operator shall pay for the Joint Account, as the same become due and payable, all taxes levied or assessed against the Project Properties and the production therefrom and against all personal property acquired in operations hereunder including, but not limited to, ad valorem, production, severance, sales, use and like taxes; provided that the Operating Committee or any of the parties shall have the right to contest in the courts or otherwise, the validity or amount of any such taxes if it deems the same unlawful, unjust, unequal or excessive and to take such other steps or proceedings as it may deem necessary to secure a cancellation, reduction, readjustment or equalization thereof before the same shall be required to be paid.

17. Rentals and Other Obligations

Operator shall pay from the Joint Account any and all delay rentals and other rentals, if any, which may become due and payable on the Project Properties. Operator agrees to follow good and customary practices in the matter of administering said payments and to do all work necessary and make all payments necessary within the time required by any instrument under which interests in the Project Properties were acquired and to do whatever else is necessary to maintain the interests of the parties in the Project Properties and charge the Joint Account for the same.

18. Operator's Lien

Non-Operators hereby grant to Operator a lien upon their respective interests in the Project and the Project Properties and in the jointly owned equipment and other property and upon their interests in all production as security for payment of costs chargeable to them, together with any interest payable thereon. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by a Non-Operator in the payment of costs chargeable to it, Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such defaulting Non-Operator's share of production up to the amount owing by such Non-Operator plus interest at the rate of 12% per annum until paid; each such purchaser shall be entitled to rely on Operator's statement concerning the existence and amount of any such default.

19. Change of Operator

Operator may resign from its duties and obligations at any time upon written notice of not less than 180 days given to Non-Operators. If Operator shall become bankrupt, subject to compliance with requirements of Section 12 hereof, it shall cease to be Operator without need of any further action other than selection, by the Operating Committee, of a successor operator. The Operating Committee may, at any time, discharge the Operator upon no less than thirty (30) days' prior written notice by a vote of the Operating Committee's representatives holding a majority in interest in and to the Project. If any Non-Operator shall at any time consider that the Operator is in default of performance of any of its duties and obligations hereunder, such Non-Operator shall give the Operator and other Non-Operators written notice thereof setting forth in detail the matters wherein default is claimed. If, within thirty (30) days from its receipt of such notice, Operator does not either correct the matters of which complaint is made or show cause why such matters do not constitute a default, then thereafter, by the vote of one or more Non-Operators then owning a majority of the interest in the Project, upon a finding of such a default of Operator and that the default is continuing, remove the Operator and select a successor. The Operator, upon ceasing to act in such capacity for any reason, shall deliver to its successor the custody of all of the assets, records, books and other property, both real and personal, of the Project and shall not acquire, nor consult upon, any mineral properties within a distance of five (5) miles from the exterior boundary of the Project Properties. The successor Operator shall assume the responsibilities and duties of, and shall have the rights granted to, the Operator pursuant to this Agreement.

20. Relationship of the Parties

It is understood and agreed between the parties that the ownership in the Project Properties and the personal property located thereon shall be and is as tenants in common, and the liability of the parties shall be several and not joint or collective. It is not the purpose or intent of this Agreement to create, and same shall never be construed as creating, a joint venture, mining partnership, commercial partnership or other partnership relation. Each party shall be responsible only for its obligations as herein set forth and shall be liable for its proportionate share of the cost of developing and operating the Project Properties. Each of the parties elects to be excluded from the application of all of the provisions of Sub-Chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, and the Operating Committee is hereby directed and hereby agrees to file such elections with appropriate partnership returns for the first year in which this Agreement is in effect.

21. Laws and Regulations and Force Majeure

(a) This Agreement shall be subject to all valid and applicable laws and official rules and regulations; and, in the event this Agreement or any of the provisions hereof or the operations contemplated hereby are found to be inconsistent with or contrary to any such valid laws or official rules or regulations, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly and, as so modified, to continue in full force and effect.

(b) In the event of Operator being rendered unable wholly or in part, by force majeure applying to its operations, to carry out its obligations under this Agreement other than to make payment of amounts due hereunder, it is agreed that the obligations of the Operator so far as they are affected by such force majeure shall be suspended during the continuance of any inability so caused, but for no longer period; and such cause shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure," as employed herein, shall mean acts of God, strikes, lock-outs or other industrial disturbances, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, any state or federal laws, regulations or other matters beyond the reasonable control of the Operator, whether similar to matters herein specifically enumerated or not; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that the Operator shall not be required against its will to adjust any labor dispute or to question the validity of or to refrain from judicially testing the validity of any state or federal order, regulation or law. This Agreement shall not terminate while operations hereunder are prevented by reason of any cause in this subparagraph.

22. Notices

For the purpose of receiving notices as required by this Agreement, the parties designate the following addresses and notices shall be deemed given upon deposit thereof in the United States mail, certified or registered, postage prepaid:

If to TEI:	Tombstone Exploration, Inc. 1700 Broadway New York, New York 10019
If to AEM:	Austin Exploration & Mining Corporation 4500 East Speedway Boulevard, Suite 14 Tucson, Arizona 85712
If to Operator:	Southwestern Exploration Associates, Inc. 4500 East Speedway Boulevard, Suite 14 Tucson, Arizona 85712

which addresses may be changed upon written notice given as as above set forth.

23. Information to Parties; Confidentiality

Operator shall keep Non-Operators informed, at reasonable intervals, of the progress and results of Project Operations performed hereunder. Except as otherwise provided in this Agreement, each party agrees that, without written consent of the other party first granted, it will treat as confidential and prevent disclosure to any third parties of any geological or geophysical or other technical information and data relating to the Project Properties or operations undertaken pursuant to this Agreement. This obligation shall be a continuing one throughout the term of this Agreement, notwithstanding such party may have ceased to be a party to this Agreement before its termination. While this Agreement is in effect, no party hereto shall, without the express written consent of the other parties, disclose any information it may obtain with respect to the results of Project Operations conducted hereunder nor issue any press releases concerning the Project's operations, except where counsel for such party renders a written opinion that such disclosure is required by applicable governmental statute or regulation. In such latter event, copies of the opinion and the text of the proposed disclosure or release shall be furnished to the other parties and at least fifteen (15) days prior to such disclosure or release. Nothing contained herein shall prohibit disclosure by a party to consultants or advisors employed by such party, provided that any such information shall be treated as confidential and proprietary by the consultant or advisor so retained.

24. Termination; Furnishing of Data

Each party shall, as soon as possible following termination pursuant to Section 14 hereof, complete the discharge of all of its proportional share of accrued or outstanding obligations to the other parties or to third parties incurred under this Agreement and not previously met. Any party, upon termination and upon discharge of the above mentioned obligations, may, if it so chooses, quitclaim to the other parties its interest in the Project Properties, or in any portion thereof. Upon termination of this Agreement, each of the parties shall be entitled to all information acquired under the Project, including copies of all maps, data and reports which can be reproduced and which have not theretofore been furnished.

25. Headings for Convenience Only

The headings used in this Agreement are for convenience only and shall be disregarded in construing this Agreement.

26. Miscellaneous

(a) This Agreement, and all of the provisions hereof, shall inure to the benefit of, and be binding upon, not only the parties but also their respective successors and permitted assigns.

(b) Each party agrees to execute such deeds, assignments, endorsements and other instruments and evidences of transfers, give such



further assurances and perform any acts which are or may become necessary or appropriate to effectuate and carry out this Agreement.

(c) Each party hereby waives any and all rights of partition it may have with respect to the Project Properties for so long as this Agreement is in effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement effective as of the date first above set forth.

TOMBSTONE EXPLORATION, INC.

By \_\_\_\_\_

AUSTIN EXPLORATION & MINING CORPORATION

By \_\_\_\_\_

This shall serve to acknowledge that SOUTHWESTERN EXPLORATION ASSOCIATES, INC. ("SEA") as the initial Operator under the preceding Operating Agreement, acknowledges that it has read and understands the provisions thereof. The execution by SEA shall serve as its agreement to serve as Operator pursuant to and in accordance with the terms and conditions thereof.

SOUTHWESTERN EXPLORATION ASSOCIATES, INC.

DATE: \_\_\_\_\_

By \_\_\_\_\_

EXHIBIT A  
ACCOUNTING PROCEDURE

I. GENERAL PROVISIONS

A. Definitions

The terms used in this Exhibit A shall have the meanings assigned to them in the Operating Agreement (Agreement) to which this Exhibit is attached and of which it is made a part.

B. Accounting Records

Operator shall maintain the accounts and records required by the Agreement in accordance with generally accepted accounting principles consistently applied, including such separate accounts and records as are required for any Development Block. Operator shall not dispose of any such records for any calendar year within five (5) years of the end of such calendar year without the prior written consent of the parties and shall retain any such records for a reasonable additional period if specifically requested by either of the parties during such five (5) year period.

C. Audits

1. The Operating Committee shall arrange for an annual audit of the Project's accounts by an independent public accounting firm acceptable to the parties. The cost of such audit will be a Project cost.

2. Each party shall have reasonable access to the accounts and records maintained by the Operator and by the Operating Committee for transactions relating to the Agreement and, in addition to the annual audit provided for in paragraph 1 above, shall have the right at reasonable times during normal business hours to audit such accounts and records for any period of any calendar year. Each party shall also have the right to appoint an independent public accounting firm acceptable to the other party, which approval shall not be unreasonably withheld, to perform such audit. The party who initiates an audit pursuant to this paragraph shall bear the full expense of such audit.

3. The parties agree that all statements approved by the Operating Committee during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of each calendar year unless within the said twenty-four (24) month period any party shall take written exception thereto and unless at any time federal, state or local tax authorities take exception thereto. In the event of such an exception, only the excepted item or items shall remain open for adjustment until resolved by the parties pursuant to the Agreement.

D. Accounting Period

The accounting period shall be the calendar year.

II. CHARGES TO THE JOINT ACCOUNT FOR DEVELOPMENT AND OPERATIONS

Charges to the Joint Account shall mean all costs pursuant to transactions under this Agreement, including all costs of preparation of the Agreement to which this Exhibit is attached and costs related to further exploration, development, construction, mining, the concentration and beneficiation of production and smelting, refining, or treatment of such production, the loading and transporting of production, weighing, sampling, assaying and impurity penalties, laboratory and testing costs, and all other operations related thereto conducted according to industry practice, including, without limitation, costs such as:

A. Rentals and Royalties

Royalties and rentals and any other amounts due or paid under leases or other landholding or land acquisition agreements related to the Project.

B. Travel and Related Expenses

Travel and related expenses of the members of the Operating Committee in carrying out the work of the Operating Committee.

C. Services

1. The cost of contract services (including those of Operator) approved by the Operating Committee, including cost of power, light, heat and effluent disposal, outside consultants', attorneys' and auditors' fees and travel and related expenses (except for special audits performed or requested independently by any party).

2. Charges for consulting services provided by either of the parties at the specific request of the Operating Committee; provided that the parties agree to the nature and cost of the consulting services prior to any charges to the Project therefor.

D. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with any activity or transaction which Operator is obligated to pay under the Agreement.

E. Other

1. Cost of maintaining and protecting the Project assets during any periods of no activity.

2. Other costs which are not specifically mentioned in this Section II but which are incurred by the Operating Committee or the Operator in accordance with the terms of the Agreement and are necessary and proper for the conduct of work under the Agreement.

*Eocene Research, Ltd.*

ORE RECLAMATION SYSTEMS

RECEIVED MAY 14 1979

May 4, 1979

Mr. Thomas H. Schloss  
Famco  
1700 Broadway  
New York, N.Y. 10019

Dear Tom,

Please find enclosed a copy of exploration and  
license agreement with Tenneco Oil on the millsites  
located on the Boquillas Ranch.

I am also enclosing a copy of a letter sent to the  
former partners of Eocene Research, Ltd.

I will call you next week regarding the above..

Best regards,

*George*  
GEORGE M. JEWETT  
President



TO: JAB

FROM: WES

DATE: May 6, 1979

RE: My trip to Tombstone on Wednesday, May 2, 1979, to inspect the heap leaching operation.

On May 2 I traveled to Tombstone, Arizona to see first-hand Dick Hewlett's heap leaching operation and to study its application to our uranium exploration program in New Mexico. However I was immediately struck with the inefficiency caused by the use of used equipment and the lack of proper supplies. I plainly saw several cases of excessive down time, delayed schedules and costly additional work that was due to non-functioning, used equipment and lack of proper supplies and equipment. In particular, scheduling of work that is of a consecutive nature is difficult, if not impossible, when one does not know if equipment is going to work when it is supposed to, or if one piece of equipment fails and this causes additional delays in the overall program. This was evident at Tombstone in the few hours that I was there where, for instance, the major expense for the day was delivery of a tanker truck of sulphuric acid which had to be stored in a makeshift, unanticipated storage tank because the intended storage tank leaked and the sprinkler system was not yet in operation due to the use of salvaged, used pumps and plastic pipe. This situation reminded me of an expression a friend of mine used to use, "A dollar waiting on a dime." In the case at Tombstone, the lack of \$20 worth of plumbing and electrical supplies disrupted the entire day's work for about seven people and resulted in schedule disruptions which will take several days to correct.

My recommendation is obvious. Enough money should be appropriated to the job in order to get it done with new equipment and plenty of the necessary supplies before the job is underway. It can easily be seen that, given the present situation, some minor mechanical problem could come up and prevent the entire project from being completed. In other words the project could become a complete failure based on the failure or inappropriate use of a piece of used equipment. Of course, much more likely is that the project will take twice as long to accomplish as need be, resulting in an overall greater cost than if new equipment and sufficient supplies were utilized in the first place.

WES

WES/kar

P-418

RECEIVED MAY 14 1979

*Proj  
File* 134

FAMCO/

1700 Broadway • New York, New York 10019 • (212) 247-0428

May 9th, 1979

Mr. James Briscoe  
Mr. Dick Hewlett  
SOUTHWESTERN EXPLORATION ASSOC.  
4500 E. Speedway  
Suite # 14  
Tucson, Ariz. 85712

Dear Jim & Dick:

Endlosed is the material sent to me by George Jewett.

It is of interest to note the financial terms he was able to negotiate with Tenneco.

Please give me your opinions as to the potential of this area.

Very truly yours,



Thomas H. Schloss  
Chairman of the Board

THS/avc

Encl.

*Inc.*

Agreement between JAMES BRISCOE hereinafter called JAB and THOMAS H. SCHLOSS, DWIGHT E. LEE AND FAMCO or other investors designated by SCHLOSS OR LEE (hereinafter called INVESTORS).

Investors desired to invest and JAB desires to sell present interest and future interest on the following basis in the mineral rights described below in the following manner:

<u>DOLLARS INVESTED</u>	<u>% OWNERSHIP IN MINERAL AREA</u>	<u>TIMING OF CASH TRANSFER</u>
\$ 25,000	25%	on signing
50,000	30%	when required but not less than 14 days from signing
75,000	35%	
100,000	40%	by May 31, 1979
125,000	45%	
150,000	50%	
175,000	55%	
200,000	60%	

#### MINERAL RIGHTS

Mineral rights shall include but not be limited to the rights listed in the preliminary draft of lease agreement dated February 7, 1979, between TOMBSTONE DEVELOPMENT COMPANY (hereinafter referred to as either Lessor or TDC) and KARIN LAKE EXPLORATION COMPANY (hereinafter referred to either as Lessee or JAB). JAB intends to develop the patent and unpatent claims described in the TDC agreement and including the 200 acres of certain claims situated in the immediate vicinity of the townsite of Tombstone. Those claims consist of the Content, Cocopah, North Point, Contentment, Empire, Tranquil, Silver Belt, Silver Red, Contention, New Year, Cincinnati, Head Center, Yellow Jacket and Flora Morrison claims plus the Vagina Mine Tour claims. Also included above, but not specifically mentioned is the heap located on the TDC property.

Although the lease speaks of surface rights it is understood to mean for the agreement, surface rights as well as underground mining if the economics warrant. We have the right to clarify or correct or

perfect any inconsistencies that may be present in the current TDC lease. What may be part of the same ore body or offset from the TDC are the Tombstone Extension, Tombstone Mineral Reserve (TMR), and the State of Maine area. The State of Maine area and other claims are chiefly owned by the Escapules and concern only the T2001 underground ore zones on a joint venture with the Escapules. The Seth Horn and Robbers Roost area are potential porphyry copper targets. Although it is not planned at this time to explore or mine the porphyry copper area it is understood that at a later time when an agreement is reached with owners of these areas, investors would participate in the same manner through their ownership in the TDC agreement.

#### SIGNING

A. Upon signing of this agreement \$25,000 will be paid to JAB to be used to start the chemical process plant defined. These funds will pay for the initiation of spray leaching. Any resulting cash flow and or remaining part of the \$25,000 will be used to lease a crusher to process certain parts of the heap, to verify the process and determine what the cost will be based on the type of ore to be processed. After these results have been obtained and analyzed then a decision will be made to continue or terminate the program. Attachment 1 is the current estimate for the use of funds for the first \$25,000.

B. If continued, an additional \$25,000 to \$50,000 will be used to sample the heap if appropriate, and to increase the daily capacity of the heap plus to start building the plant for the leaching operation. Based upon these cost configurations a decision will be made to continue or terminate.

C. The rest of the funds will be raised by Memorial Day, but credited as raised and needed and used according to JAB directive to: first, process the heap; second, to sample and drill the open pit potential; and third, to secure the mineral rights of the areas currently not under contract at this time.



## DEPOSIT OF FUNDS, DISBURSEMENT AND BOOKKEEPING

Funds will be deposited to the THL (Tombstone Heap Leach) Trust account #957-06641 1st National Bank of Arizona University Medical Branch, Tucson, Arizona.

All disbursements will be by the purchase order system used throughout S.E.A., Inc. organization.

During the expenditure of the first \$25,000, Phase A items over \$100 will be approved by J. A. Briscoe.

During Phase B, the expenditure of the second 25 to 50 thousand dollars, items over \$250 will be approved by J. A. Briscoe.

J. A. Briscoe, singly; bookkeeper J. E. Talley and Business Service Manager C. M. Dodson, jointly; will have capability to write checks against this THL checking account.

The Day Timer record keeping system, in use throughout the S.E.A., Inc. organization, will be used to keep time and expense records for all employees of the Tombstone Leach Project.

Bills in support of the expenses for the operation will be submitted to the partnership on a bimonthly basis.

Books will be kept on the operation, with these subject to examination by the partners during normal working hours.

# ATTACHMENT 1

Required capital investment for the slope leach is as follows:

A.	Power hook-up		\$2400
B.	Electric		2000
C.	Pump installation/electric		1000
D.	Water line installation		2040
E.	Spray lines/manifolds		100
F.	Directional rainbirds		80
G.	Preg pond		100
H.	Laboratory		100
I.	Building		200
J.	Plants		2200
K.	Tanks		1000
L.	Chemicals		
1.	Resin-SR-3	100#	650
2.	Lime	1000#(.087)	87
3.	Salt		
4.	NaOCl	5-55 gal	247.50
5.	Na <sub>2</sub> S <sub>2</sub> O <sub>3</sub>	300#	73.80
6.	NaCN	1000#	561.50
7.	Na <sub>2</sub> S	400#	99.20
8.	Powd. Zinc	100#	66.20
M.	Insurance and bond		4500
N.	Management		4000
O.	Labor		2000
P.	Misc.		<u>1495</u>
			25,000

CrushingRateCrushingDuration

200 Tons per Day

250 months

400 "

125 "

600 "

83.3 "

1000 "

50 "

3000 "

16.7 "

OPERATING AGREEMENT

(No Change)

W I T N E S S E T H:

(No Change)

1. Definitions

(a) (No Change)

(b) "Non-Operators" shall mean TEI and AEM, together with their respective successors and assigns, including additional equity owners, if any.



(c) "Area of Interest" shall mean the following described area in Cochise County, Arizona:

(i) those certain areas delineated in the maps attached hereto as Exhibit D;

(ii) (No Change)

(iii) (No Change)

(d) (No Change)

(e) (No Change)

(f) (No Change)

(g) (No Change)

(h) (No Change)

(i) (No Change)

(j) "Exploration" or "Exploration Operations" when used herein shall refer to the activity or work of prospecting and searching for ores and minerals on, in or under the Project Properties and drilling, examining, measuring and sampling a mineral deposit in order to gain knowledge of the size, shape, position and characteristics to determine the value of the deposit and all other activity or work performed outside a Development Block.

(k) (No Change)

(l) (No Change)

(m) (No Change)

(n) (No Change)

(o) (No Change)

(p) (No Change)

(q) "Exploration Block" shall mean such portions of the Project Properties so designated for intensive exploration operations which might lead to the subsequent designation of such Properties as a Development Block.

2. (No Change)

3.  
(a) (No Change)

(b) Unless this Agreement sooner terminates pursuant to the provisions of Section 24 below, the undivided interest of TEI in and to the Project and in and to the Project Properties shall increase in relation to the amounts initially contributed by TEI to the Project, and the interest of AEM shall decrease in a corresponding amount, pursuant to the following schedule:

Cumulative Funds Furnished to the Project by TEI*	Undivided Interest of TEI	Funding Intervals
\$ 75,000.00	35%	**
\$100,000.00	40%	By 5/31/79
\$125,000.00	45%	**
\$150,000.00	50%	**
\$175,000.00	55%	**
\$200,000.00	60%	**

\*Cumulative Funds shall include all funds heretofore contributed by TEI and by its predecessor in interest pursuant to that certain letter agreement dated March 7, 1979, between Thomas H. Schloss and Dwight Lee (predecessors in interest to TEI) and James A. Briscow.

\*\*Upon the voluntary contribution by TEI or within seven days of call of project in accordance with approved expenditure plans.

\*\*\* Upon voluntary contribution by TEI or within seven days of call of project in accordance with approved expenditure plans, but in any event no later than September 30, 1979.

(c) (No Change)

(i) The Project shall make capital calls at intervals no more frequent than twenty (20) days per call, all subject, however, to the provisions of subparagraph (v) below:

(ii) (No Change)

(iii) (No Change)

(iv) (No Change)

(v) (No Change)

(vi) If TEI acquires less than 50.1% undivided interest, and if the Project or if AEM elects to proceed to obtain additional outside funding, it is agreed and understood by TEI that its undivided interest in the Project may be subject to further reduction (which reduction shall not reduce the undivided interest of TEI to not less than the percentage that contributions made by TEI bears to the total amount contributed to the Project). As an example of the maximum reduction in TEI's undivided interest, assume that TEI were to contribute \$100,000.00; assume further that at the time of computation of the reduction the total contributions by TEI, AEM and any outside funding totalled \$1,000,000.00; in such case, TEI's undivided interest would be reduced to no less than 100,000/1,000,000 (10%) undivided interest. If TEI's undivided interest in the Project is thus reduced to 10% or less, TEI shall be obliged to relinquish its undivided interest to the other parties in the Project in return for a 10% net profit interest as described in Section 11 (c) below.

(vii) For purposes of computing the total contributions as described in paragraph (vi) above, the contribution of AEM shall be assigned a value of \$133,333.33;

(d) (no change)

4. Project Plans (no change)

(a) (no change)

(b) (no change)

(c) Until such time as capital contributions by TEI equal or exceed \$200,000.00, each party shall communicate to Operator and the other Party in writing within seven (7) days after receipt of a Plan approved by the Operating committee, its approval or disapproval

of the proposed Plan. After such time as capital contributions by TEI equal or exceed \$200,000.00, each party shall communicate to Operator and the other party in writing within thirty (30) days after receipt of a proposed Plan, its approval or disapproval of the proposed Plan. Failure to reply shall constitute an election not to commit to the Plan. Except as set forth below, no Plan shall become effective without the approval of both parties. If any party or parties elect not to commit to such Plan, such Plan shall not become effective nor be carried out unless a party elects to proceed with the Plan for its own account, subject to the provisions of section 11 below.

5. Operating Committee

An Operating Committee comprised of two representatives of each of the non-operators shall be established. Each party may designate one or more alternates to serve in the absence of each of the designated representatives. The names of the designated representatives and of any alternates shall be filed in writing with the Operator. Each representative shall have a vote equal to one-half of that percentage interest owned by the party which he represents. Except as otherwise specifically provided in this Agreement, decisions of the Operating committee shall require the approval of those representatives representing a majority interest in the Project. Meetings of the Operating Committee may be held by telephone provided all members of the Operating Committee participate simultaneously by a conference call, and may be called by the Operator or by the representative of any of the parties. The Operating Committee shall meet at no less than semi-annual intervals at the Project's operations office (it being anticipated that such office shall be located either in Tombstone or in Tucson, Arizona). A party may change its representative (or any alternate representative) by notice to the Operator and to the other parties in writing. All decisions relating to the time and manner of distribution of Project proceeds shall be made by



the Operating Committee. Subject to the provisions of Section 3, any calls upon the parties for funds or advances to the Project shall also be made by the Operating committee. All reports from Operator shall be directed to all of the members of the Operating Committee. No business shall be transacted by the Operating Committee without all members participating.

6.

(no change)

7. Land Acquisition

All interest heretofore acquired by the parties hereto or their agents within the Area of Interest shall be subject to the terms of this Agreement. Any interests within the Area of Interest hereafter acquired during the term of this Agreement shall be acquired by the Project pursuant to a Plan or pursuant to the consent of all of the Non-Operators and the acquisition costs shall be Project costs. Nevertheless, interests within the Area of Interest may be acquired by less than all the Non-Operators without the consent of the non-committing parties subject to the provisions of Section 11 below. In the event any party hereto proposes to acquire any additional lands or mineral rights within the Area of Interest, such party shall notify the other parties of such proposal by written notice setting forth in such notice a description of the lands or interests, costs of acquisition, and the facts upon which the proposing party bases its conclusions that such lands should be acquired by the Project. During the term of this Agreement, Operator shall not acquire any interest within the Area of Interest for its own account without first obtaining the prior written approval of all of the parties.

8.

(WE SUGGEST DELETING THIS SECTION)

(If all the parties wish to terminate or dispose of the Projects' interest in a certain area, they can agree to do so. If only some of the parties wish to dispose of their interest in a certain area, they may do so pursuant to the provisions of Section 12)

9. Operator's Powers and Rights

In accordance with the terms and conditions of each effective Plan, Operator shall have full, complete and exclusive control, charge and supervision of the Project Properties and the personal property included in the Project and all Project Operations conducted thereon. Operator shall conduct Project Operations to the best of its ability and in accordance with the terms and conditions of each effective Plan using modern techniques and good and economical mining practice. All operations shall be conducted with due regard for the development and preservation of said Project Properties and Project capital and in keeping with applicable federal, state and local laws and ordinances and regulations. Operator shall conduct its operations hereunder as an independent contractor and all work performed and equipment furnished by Operator shall at all times be in Operator's direct control and supervision. Pursuant to the provisions of each Plan, Operator shall select the means, manner and method of performing Project Operations. Operator shall abide by directions from the Operating Committee as to the end results to be accomplished, but Operator shall assume the sole responsibility for directing its employees and equipment as to the manner and means of accomplishing the same.

NOTE: It is the position of TEI that the parties to the Agreement are adequately protected by the insurance required in Section 13, and that TEI should not be required to be a co-insurer.

10. (no change)  
(a) (no change)

(b)

(No Change)

(c) to keep the Project Properties free from liens and encumbrances occasioned by its operations hereunder, except only the lien hereinafter granted to Operator, provided that adequate funds are provided Operator to discharge obligations which might occasion such liens.

(d) to furnish the Operating Committee on or before the 20th day following the close of each calendar month with a statement of minerals produced from the Project Properties.

(e) to pay from available funds all royalties payable under the terms of each lease or agreement, as provided in the Accounting Procedure, a copy of which is attached hereto as Exhibit A;

(f) to pay from available funds all costs, expenses and liabilities accruing or resulting from Project Operations and to account to Non-Operators in accordance with the provisions of the Accounting Procedure; in the event the terms of the Accounting Procedure conflict with any of the provisions hereof, this Agreement shall be deemed to control;

(g)

(No Change)

(h)

(No Change)

11.

(a)

(No Change)

(b) Any party hereto who has elected not to commit itself to a proposed Development Plan which becomes an effective Project Plan shall not, for that reason alone, be deemed to have withdrawn from the Project, but such Non-Committing Party shall be deemed to have relinquished to the Committing Parties its share of any production from such Development Block, or the proceeds therefrom, and shall have no further interest in such production or proceeds until such time as the non-committing party has paid to the committing parties in the same proportions as the respective interests of the committing parties at that time bear to each other an amount equal to the total of the following:

(i) 300% of all Exploration Operations costs and expenses, plus

(ii) 200% of all Development Operations costs and expenses, plus

(iii) 150% of the Project's royalty, overriding royalty and other lease burdens, if applicable, and the production taxes accruing on and with respect to the ores received by the Committing Parties;

provided, however, that unless the Non-Committing Parties has within twelve months from the commencement of the Development Plan paid to the Operator for the collective account of the Committing Parties, an amount equal to the total of (i) plus (ii) plus (iii) above, the interest of the Non-Committing Party thereafter shall be subject to dilution provisions of subparagraph (c) of this Section 11. In the event the interest of a Non-Committing Party in the Production from such Development Block, or the proceeds therefrom, is reinstated by payment of the amount set forth above, that interest shall commence only upon such payment in full and shall not be retroactive.

(c) In the event the Non-Committing Party has not paid the amounts described in (i), (ii), and (iii) of subparagraph (b) above within the twelve-month period provided therein, the Non-Committing Party's undivided interest in the Development Block and the Development Plan therein shall be reduced to that percentage of the entire undivided interest therein that the Non-Committing Party's pro-rata share of Exploration expenditures for such Development Block bear to total exploration expenditures for such Development Block provided that if such non-Committing Party's undivided interest in the Development Block is reduced to ten percent or less, such Non-Committing Party's undivided interest in and to the Development Block and in and to the Project Properties constituting the same shall terminate subject only to the retention by the Non-Committing Party of a non-working 10% "Net Profits Interest" (as described in Exhibit B attached hereto and made a part hereof) in and to the proceeds, if any there be, taken by the Committing Parties, their successors or assigns, from the Project Properties constituting such Development Block (as such Project Properties exist as of the date of such termination).

12. Transfer of Interest

(a) Should any party desire to dispose of part or all of its interest in this Agreement to a prospective purchaser, such party shall advise the other party in writing of its desire and of the terms and conditions of such desired disposition including the consideration in lawful money of the United States or its equivalent which it is willing to accept for such interest together with all other pertinent terms and conditions of such disposition including the identity of the prospective purchaser, and the facts on which the transferring party based its calculations. Within thirty (30) days after the receipt of such written notice, the other parties shall have the option of acquiring the interest proposed to be disposed of on the terms and conditions and for the consideration proposed.



If more than one of the other parties elect to exercise such option, the acquisition shall be pro-rated according to each other parties' interest in the Project. If the interest offered to be disposed of by disposing party is not so acquired by the other parties within the time provided, the disposing party shall have the right for a period of ninety (90) days from the expiration of the aforementioned thirty-day period to dispose of such interest to the prospective purchaser indicated in the aforementioned notice upon substantially the same terms and conditions and for a consideration specified in such notice; provided, however, that such interest may not be disposed of unless the purchaser, concurrently with said sale and purchase, delivers to the other parties in a form acceptable to them a written and enforceable assumption by the purchaser of the obligations of the disposing party under this Agreement. If such interest is not disposed of within such ninety-day period, it must first be re-offered to the other parties prior to any subsequent disposition thereof. Any proposed sale of stock in the corporations which are parties to this Agreement, or their successors interest shall be subject to the provisions of this Section 12.

(b) DELETE

(c) The right of first refusal granted in subparagraph (a) of this Section 12 shall not apply to any mortgage, pledge or hypothecation by the disposing party of all or any portion of its interest in this Agreement and in the Project Properties; provided, however, that no such mortgage, pledge or hypothecation shall be made without the consent of the other parties to this Agreement, which consent shall not be unreasonably withheld. Any such mortgage, pledge or hypothecation which is approved by the other parties to this Agreement and effectuated is and shall be made expressly subject to this Agreement and shall be subject to the condition that on any realization of the security, any person thus acquiring an interest shall deliver to other parties in a form acceptable to them a written and enforceable assumption of the obligations of the disposing party under this Agreement as they relate to the interests so acquired, and any such mortgage, pledge or hypothecation shall not be valid until the written notice thereof has been delivered to the other parties. In the event the holder of any such

mortgage, pledge or hypothecation realizes on its security interest in this Project, the other parties hereto shall have the right, within thirty (30) days after such realization, to purchase from such holder such realized security interest for an amount equal to the unsatisfied obligation of the former interest holder, together with reasonable attorney's fees, interest and cost.

(d) (No Change)

13. Insurance (No Change)

14. Term

Subject to the rights of surrender and withdrawal as provided herein and unless sooner terminated or further extended by mutual agreement, this Operating Agreement shall terminate December 31, 1990.

15. Disposition of Production

Provided that operating expenses have been paid and provision has been made for reasonable operating reserves, each of the parties shall have the right to take in kind its proportionate share of all ores and minerals produced from the Project Properties in such form as the Operating Committee deems appropriate and convenient. Any extra expenditures incurred by reason of the taking in kind by any parties of their proportionate share of said ores and minerals so produced shall be borne by each such party and each such party shall be required to construct, operate and maintain, all at its own expense, any and all facilities which may be necessary to receive, store and dispose of its share of production at the time it is produced. In this regard, each party desiring to take in kind its proportionate share of said ores and minerals so produced shall carry adequate insurance to protect against loss or theft thereof. In the event any party shall fail to make the arrangements necessary to take in kind its proportionate share of ores and minerals, such party shall be fully liable for any costs incurred by the Operator or by the Project in preserving or storing such proportionate share. Operator shall exercise reasonable care in receiving and storing in kind production on behalf of a party, but its liability in

connection therewith shall be limited to a sum not to exceed \$1,000.00. If any party is not taking its share of such ores and minerals in kind, any proceeds received by the Project for such party shall be distributed or accounted for quarterly to such party; provided, however, that Operator shall be entitled to retain and apply any proceeds of Production accruing to any party hereto on any unsatisfied expenses chargeable against such party as herein provided, as well as toward reasonable operating reserves. Under normal circumstances, it is the intention of the parties that ores and minerals produced from the Project Properties shall be shipped to a metal refiner, who will then deduct its costs and either hold refined ores and minerals on behalf of the Project or distribute to Project the sale proceeds thereof.

16. Taxes

Operator shall pay from available funds as the same become due and payable, all taxes (excluding income taxes) levied or assessed against the Project Properties and the production therefrom and against all personal property acquired in operations hereunder including, but not limited to, ad valorem, production, severance, sales, use and like taxes; provided that the Operating Committee or any of the parties shall have the right to contest in the courts or otherwise, the validity or amount of any such taxes if it deems the same unlawful, unjust, unequal or excessive and to take such other steps or proceedings as it may deem necessary to secure a cancellation, reduction, readjustment or equalization thereof before the same shall be required to be paid.

17. Rentals and Other Obligations

Operator shall pay from available funds any and all rentals, if any, which may become due and payable on the Project Properties. Operator agrees to follow good and customary practices in the matter of administering said properties and to do all work necessary and to make all payments necessary within the time required by any instrument under which interests in the Project Properties were acquired and to do whatever else is reasonably necessary to maintain the interests of the parties in the Project Properties and charge the Joint Account for the same.

18. Operator's Lien

Non-Operators hereby grant to Operator a lien upon their respective interests in the Project and the Project Properties and in

the jointly owned equipment and other property and upon their interests in all production as security for payment of costs chargeable to them, together with any interest payable thereon. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien.

19. Change of Operator

(a) Operator may resign from its duties and obligations at any time upon written notice of not less than 180 days given to Non-Operators. If Operator shall become bankrupt, subject to compliance with requirements of Section 12 hereof, it shall cease to be Operator without need of any further action other than selection, by the Operating Committee, of a successor operator. Provided that TEI has contributed capital of at least \$200,000.00, the Operating Committee may, subject to the provisions of paragraph (b) below, discharge the Operator upon no less than one-hundred-eighty (180) days prior written notice by a vote of the Operating Committee representatives holding a majority in interest in and to the Project. In the event that a shorter notice period is desired, Operator shall be paid for each day less than the normal 180 day notice period, an amount equal to an average day's compensation for the 180 day period immediately preceding receipt of the aforesaid notice.

(b) If any Non-Operator shall at any time consider that the Operator is in default of performance of any of its duties and obligations hereunder, such Non-Operator shall give the Operator and other Non-Operators written notice thereof setting forth in detail the matters wherein default is claimed. If, within thirty (30) days from its receipt of such notice, Operator does not either correct the matters of which complaint is made or show cause why such matters do not constitute a default, then thereafter, subject to the provisions of paragraph (a) above, one or more Non-Operators then owning a majority of the interest in the Project may, upon a finding of such a default of Operator and that the default is continuing, remove the Operator and select a successor. The Operator, upon ceasing to act in such capacity for any reason, and upon being fully compensated, including such costs as may be occasioned by the aforesaid termination, shall deliver to its successor the custody of all of the assets, records, books and other property, both real

and personal, of the Project, and shall not acquire, nor consult upon, any mineral properties within the area of interest for a period of two (2) years. The successor Operator shall assume the responsibilities and duties of, and shall have the rights granted to the Operator pursuant to this Agreement.

20. Relationship of the Parties . (No Change)

21. Laws and Regulations and Force Majeure

(a) This Agreement shall be subject to all valid and applicable laws and official rules and regulations; and, in the event this Agreement or any of the provisions hereof or the operations contemplated hereby are found to be inconsistent with or contrary to any such valid laws or official rules or regulations, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly and, as so modified, to continue in full force and effect.

(b) In the event of Operator being rendered unable wholly or in part, by force majeure applying to its operations, to carry out its obligations under this Agreement, it is agreed that the obligations of the Operator so far as they are affected by such force majeure shall be suspended during the continuance of any inability so caused, but for no longer period; and such cause shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure", as employed herein, shall mean acts of God, strikes, lock-outs or other industrial disturbances, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, any state or federal laws, regulations or other matters beyond the reasonable control of the Operator, whether similar to matters beyond the reasonable control of the Operator, whether similar to matters herein specifically enumerated or not; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that the Operator shall not be required against its will to adjust any labor dispute or to question the validity of or to refrain from judicially testing the validity of any state or federal order, regulation or law. This Agreement shall not terminate while operations hereunder are prevented by reason of any cause in this subparagraph.



22. Notices (No Change)

23. Information to Parties; Confidentiality  
(No Change)

NOTE: The word "prohibis" in the fourth line  
from the bottom should be "prohibit"

24. Termination; Furnishing of Data

Each party shall, as soon as possible following termination pursuant to Section 14 hereof, complete the discharge of all of its proportional share of accrued or outstanding obligations to the other parties or to third parties incurred under this Agreement and not previously met. Any party, upon termination and upon discharge of the above mentioned obligations, may, if it so chooses, quitclaim to the other parties its interest in the Project Properties, or in any portion thereof. Upon termination of this Agreement, each of the parties shall be entitled to all information acquired under the Project, including copies of all maps, data and reports which can be reproduced and which have not theretofore been furnished, but any original work product of Operator shall remain the property of Operator.

25. Headings for Convenience Only (No Change)

26. Miscellaneous

- (a) (No Change)
- (b) (No Change)
- (c) (No Change)

(d) In the event the interest of a party in the Project Properties involuntarily becomes subject to the claims of that party's creditors, and such creditors seek to realize on the party's interest in the Project Properties to satisfy obligations owing to them, then the other parties hereto shall have the right to purchase the interest of such Party in the Project Property pursuant to the terms of Section above.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement effective as of the date first set forth above.

TOMBSTONE EXPLORATION, INC.

By: \_\_\_\_\_

AUSTIN EXPLORATION & MINING CORPORATION

BY: \_\_\_\_\_

This shall serve to acknowledge that SOUTHWESTERN EXPLORATION ASSOCIATES, INC. ("SEA") as the initial Operator under the preceding Operating Agreement, acknowledges that it has read and understands the provisions thereof. The execution by SEA shall serve as its agreement to serve as Operator pursuant to and in accordance with the terms and conditions thereof.

SOUTHWESTERN EXPLORATION ASSOCIATES, INC.

DATE: \_\_\_\_\_ BY: \_\_\_\_\_

EXHIBIT A  
ACCOUNTING PROCEEDURE

I. GERERAL PROVISIONS

A. Definitions (No Change)

B. Accounting Records

Operator shall maintain the accounts and records required by the Agreement in accordance with generally accepted accounting principals consistently applied, including such separate accounts and records as are required for any Exploration or Development Block. Operator shall not dispose of any such records for any calendar year within five (5) years of the end of such calendar year without the prior written consent of the parties. Subsequent to such five (5) year period, and prior to disposal of such records, Operator shall offer to transmit the same to the parties at their expense. Thereafter, the parties shall have thirty (30) days within which to make satisfactory arrangements with Operator for the transmittal of such records. Following such thirty (30) day period, Operator shall be free to destroy accounts and records which are at least five (5) years old.

C. Audits

1. (No Change)

2. (No Change)

3. Reasonable expenses incurred by Operator with regard to an annual audit of project's account as aforesaid shall be an expense of the project.

4. Unless objected to in writing by the Operating Committee within twenty four (24) months from receipt, all financial statements and audit reports shall conclusively be presumed to be true and correct. In the event of such written objection, only the item or items specifically objected to shall remain open for adjustment until resolved by the parties pursuant to the agreement.

D. Accounting Period (No Change)

II. CHARGES TO THE JOINT ACCOUNT FOR DEVELOPMENT AND OPERATIONS

Charges to the Joint Account shall mean all costs pursuant to transactions under this Agreement, including preliminary costs of investigation of the area of interest by Operator, including report preparation and associated expenses, as well as all costs of prepar-

ation and review of the agreement to which this exhibit is attached and costs related to further exploration, development, construction, mining, the concentration and beneficiation of production and smelting refining, or treatment of such production, the loading and transporting of production, weighing, sampling, assaying and impurity penalties, laboratory and testing costs, and all other operations related thereto conducted according to industry practice, including, without limitation, costs such as:

A. Rentals and Royalties (No Change)

B. Travel and Related Expenses (No Change)

C. Services

1. The cost of contract services (including those of Operator as set forth in greater detail in Exhibit E of the Agreement to which the Exhibit A is attached) including cost of power, light, heat and effluent disposal, outside consultants, attorneys, and auditor's fees and travel and related expenses (except for special audits or legal services performed for or requested independently by any party).

2. (No Change)

D. (No Change)

E. 1. (No Change)

2. (No Change)

EXHIBIT B

"NET PROFITS INTEREST"

The term "Net Profits Interest" as used in the Operating Agreement to which this Exhibit is attached shall mean the share of net profits from the operation of the subject premises retained and reserved by a party pursuant to subparagraph (c) of Section 11 thereof. Net profits for any calendar month shall be determined by deducting from gross revenues all costs and expenses incurred in connection with or attributable to the exploration, development and exploitation of the subject premises. 'Gross revenues' shall mean the gross receipts from the sales of the products resulting from the exploitation of the subject premises. With regard to the distribution in kind of production, such distribution shall be assigned a value equal to their market value at the time of such distribution for purposes of computing "gross revenue" as aforesaid. Costs and expenses in connection with or attributable to the exploration, development and exploitation of the subject premises' shall mean all those costs and expenses incurred by the non-withdrawing party in the exploration, development and exploitation of the subject premises from and after the date on which the withdrawing party withdraws, as evidenced by notice in writing. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, administrative overhead, including legal and accounting expenses, freight, insurance and marketing the products resulting from the exploration, development and exploitation of the subject premises; all royalties, rental payments, taxes, (other than taxes on income) and property payments resulting therefrom; the costs of all buildings, structures, machinery and equipment; and in the event of plant or mine expansion involving construction or replacement of buildings, machinery, structures and equipment, the cost of all such items. Interest charges incurred by the non-withdrawing party in financing its operations on the subject premises shall be chargeable in determining net profits. Net profits for any calendar month as determined above, shall be reduced by the costs and expenses of any prior calendar month or months which previously have not been recovered from gross revenues of such prior calendar month or months. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.



EXHIBIT C

SCHEDULE OF INSURANCE COVERAGE

(No Change)

EXHIBIT D

EXHIBIT E

(S.E.A. shall insert a description of its standard charges)

Vault

MEMO

To: JAB, P-418 Project File  
From: CDG  
Date: May 22, 1979  
RE: TERMINATION OF LAND ACQUISITION ACTIVITIES IN  
P-418 PROJECT AREA

It is my understanding, from a communique by Thomas E. Waldrip Jr. on this date, that you, in cooperation with Mr. Thomas Schloss and Mr. Dwight Lee, wish all land acquisition activities for the Tombstone Project Area (P-418) to be terminated as of this date.

Your signature below, verifies your knowledge of, and agreement to, the above.

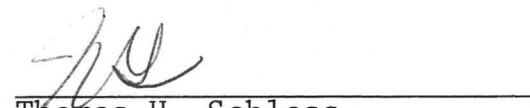


James A. Briscoe

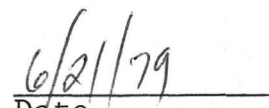


Date

CDG:dlr  
P-418



Thomas H. Schloss



Date

Dwight Lee

Date

May 22, 1979

P-418  
add to

Letter Agreement  
3/7/79

Mr. Thomas H. Schloss  
Chairman of the Board  
FAMCO  
1700 Broadway, 22nd Floor  
New York, N. Y. 10019

Re: Project 418 - Amendment by Mutual Agreement  
of Letter of Agreement of March 7, 1979

Dear Tom:

As per your telephone call to me at my room (1194) in the Los Angeles Hilton Hotel, 5/22/79, from 6:36 to 7:37 A. M. California time, we have agreed to extend our Letter Agreement of March 7, 1979 in the following way:

WHEREAS the March 7, 1979 Letter of Agreement between James A. Briscoe and Thomas H. Schloss - Dwight E. Lee was signed 60 days ago, and that because of various circumstances beyond the control of both parties, no Joint Venture Agreement mentioned in that letter has been consummated, NOTICE is hereby given that it is the intent of both parties to continue under that letter of March 7, 1979 until the Joint Venture Agreement is consummated.

In paragraph 6 of the March 7, 1979 letter the date referred to as 5/31/79 for the contribution of \$100,000 minimum capital to achieve 40% interest shall be changed to: "unspecified date dictated by the requirement of capital" to achieve that same interest.

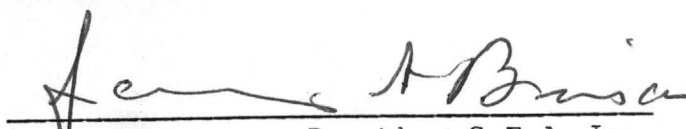
Our signatures below indicate agreement to the above.

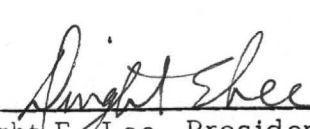
I'll look forward to working toward completion of the Joint Venture Agreement upon my return from Japan in about three weeks.

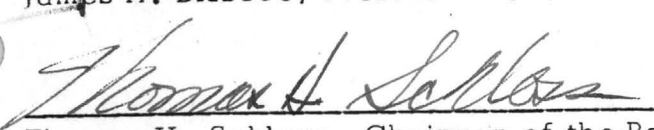
Best regards,

  
James A. Briscoe

SIGNATURES INCLUDING  
AGREEMENT TO THE ABOVE:

  
James A. Briscoe, President S.E.A. Inc.

  
Dwight E. Lee, President FAMCO

  
Thomas H. Schloss, Chairman of the Board FAMCO



FAMCO/

1700 Broadway • New York, New York 10019 • (212) 247-0428

RECEIVED JUN 2 1979

May 25th, 1979

Mr. James Briscoe  
SOUTHWESTERN EXPLORATION ASSOC.  
4500 E. Speedway  
Suite 14  
Tucson, Ariz. 85712

Dear Jim:

I appreciate your letter of May 22, 1979. Our ability to proceed based upon financial considerations rather than legal, makes this project run more smoothly.

I hope you had a good trip to Japan and both Dwight and I look forward to hearing all about it upon your return.

Very truly yours,



Thomas H. Schloss  
Chairman of the Board

cc: Mr. Leo Smith

THS/avc

Encl.

RECEIVED JUN 18 1979

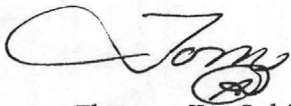
June 13th, 1979

Dear Jim:

Enclosed please find the preliminary agreement between TEI and John Dean.

I look forward to seeing you next week.

Very truly yours,



Thomas H. Schloss  
Chairman of the Board

THS/avc

Encl.

FAMCO / 1700 Broadway • New York, New York 10019 • (212) 247-0420

## A G R E E M E N T

BY and BETWEEN a joint venture of TOMBSTONE EXPLORATION, INC. at 1700 Broadway, New York, New York and AUSTIN EXPLORATION AND MINING CORPORATION hereinafter referred to as the combined TEI.

and  
John G. Dean, Chemical and metallurgical consultant of N. Scituate, R.I., hereinafter referred to as DEAN,

and  
Whereas TEI is concerned with processing ores and related materials, particularly for the recovery of gold and silver by heap leaching,

and  
Whereas DEAN is specially qualified both by training and experience in the processing of ores, particularly for the recovery of precious and other metals by extractive chemical metallurgy,

It is agreed by the parties as follows:

1. PROGRAM AND OBJECTIVE:

A. DEAN will consult with Richard Hewlett and report to TEI on the following areas:

1. Will devise adequate scientific procedures for determining reliable test information for the laboratory in Tombstone.
2. Deep chemistry analysis of effectiveness of extraction processes on different ore types to facilitate the processing of the gold, silver, and other ores by TEI.
3. Aid in interpretation and summation of data from the lab to arrive at economic alternatives and decisions to be used in the preparation of the heap leaching process.

2. SCHEDULE AND TERMS

- A. DEAN will devote a minimum of two days a month to this program and will reserve an additional two days a month to be applied flexibly in accord with the needs of the project with the written agreement of the other party.
- B. DEAN's activities will be based at his R.I. facilities, but time will be partially made available for work elsewhere in accord with the reasonable needs of the project.
- C. TEI will pay DEAN at the rate of \$300.00 (three hundred dollars) a day and will also pay expenses associated with work such as for travel, special services, supplies, equipment, etc., if agreed to in advance, in writing or by phone, followed up by a confirming letter.
- D. This Agreement will become effective on the date of execution and will extend on a monthly basis for a minimum period of six months. It will continue thereafter subject to termination by either party on giving one month's advance notice in writing.

3. RIGHTS AND LIABILITIES

A. DEAN agrees to keep confidential all of TEI's confidential business and technical information as long as it shall retain a degree of confidentiality giving value to its protection from competitors. All information disclosed



by TEI to DEAN in the performance of this Agreement will not be without TEI's prior written consent to any third party or used by DEAN for DEAN's benefit. This Agreement shall not apply to any information which is now public knowledge; which is properly provided to DEAN without restriction by an independent third party; or which DEAN can show already in his possession at the time of receipt from TEI. It is understood however, that the similarity or identity of such confidential information discussed above to any information already within the public domain shall be considered and treated as "confidential information".

B. DEAN recognizes an obligation to perform all work on a best efforts professional basis, but it is agreed that DEAN cannot and will not accept liability or responsibility for the methods used, the character of the experiments and tests carried out, the results obtained, the conclusions drawn, casualties drawn, casualties to personnel or property, or for any use which shall be made of the work performed. TEI will protect and save DEAN harmless from any claim arising out of the program.

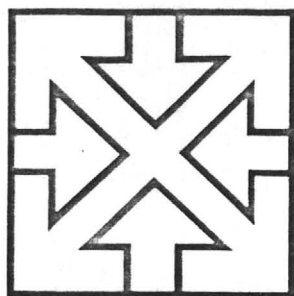
IN WITNESS whereof, the parties hereto have caused this Agreement to be executed in duplicate this                      day of                      , 1979.

BY: \_\_\_\_\_  
John G. Green, Ph.D.  
Chemical & Metallurgical  
Consultant

BY: \_\_\_\_\_  
Thomas H. Schloss  
  
TEI

Consultants in:

- base & precious metals • uranium
  - coal • geothermal • environment
  - remote sensing • color aerial photography
  - interpretation-image processing
- Worldwide Mobilization



**Southwestern  
Exploration Associates, Inc.**

June 22, 1979

P-418 Day File.  
4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

James A. Briscoe, President  
Registered Professional  
Geologist

Mr. Richard F. Hewlett  
Vice President  
S.E.A. Hydromet, Inc.  
Nellie Cashman Apts.  
Cottage # 2  
121 E. 5th  
Tombstone, AZ 85638

Re: Tom Schloss, Dr. John Dean Visit - Evaluation of  
Progress - Setting of Objectives, Activities, and  
Record Keeping for the Next Week and Plans for the  
Future

Dear Dick,

Since yesterday afternoon, I have spent approximately eight (8) hours reviewing progress at Tombstone with Tom Schloss and metallurgical consultant John Dean. John was engaged by Tom to help us with what appear to be definite problem areas, but particularly because of unsatisfactory performance at Tombstone to date. Without going into a great deal of detail, we are at least four (4) weeks behind your projections, and 400% over budget.

Our original objectives of Tombstone were to expend in the range of \$25,000 to make insitu tests of your metallurgical techniques, which you warranted would verify the techniques and put us into profitable production with a substantial cash flow. Up to this time, we have:

1. expended approximately \$100,000,
2. changed metallurgical approaches several times with inadequate documentation, and
3. have not scientifically verified nor documented even the negative results, to my knowledge.



Obviously, it is imperative to do the following:

1. Pick one metallurgical test at a time and follow it through to completion, with careful documentation that can be corroborated by other engineering or metallurgical investigators -- negative as well as positive information to be reported in an unbiased manner.
2. Layout the goals and specific objectives of a meaningful, concise, and reproducible metallurgical program.
3. Layout a tight operating budget for such a testing program.
4. Determine a realistic timetable and action plan for the above.

If the above is carefully done and realistic, I am sure that I will be able to endorse it, and I feel that Tom will underwrite it, assuming John Dean's technical approval. Without such a careful re-evaluation and plan, I would have no option but to recommend termination of further work.

The above summarizes in only very brief outline form our problems to date and the intermediate term solutions to these problems. Of even more critical importance is what we do in the next seven (7) days. Tom, John Dean, and I have discussed this in great detail. It is absolutely imperative that you carry out, to the best of your ability, and in the highest professional manner, the following seven-day action plan to meet the stated objectives. I think it is obvious that the continuation of the program depends on this. I think it is also obvious that no changes should be made without documentation and verbal O.K. from Tom and/or myself.

The activities and objectives to be reached are as follows:

#### ACTIVITIES

1. a) as a maximum, construct the following:

Area #1 - 3 lifts  
Area #2 - 2 lifts  
Area #3 - 2 lifts

- b) set up test leaches exactly like the USBM-Reno for  
1) North slope dump "ore" and 2) Manganese dump  
"ore";
  - c) after completion of the above, terminate the dozer  
for the present;
  - d) prepare documented proposal of chemistry to be used  
and wait for approval.
2. a) do not work on any other pads until written notice from  
Tom or myself;
- b) put Dusty in charge of heap. Have him do all physical  
work there during the day and have Ed Rice take over  
the night shift and report to Dusty. Dusty should  
report to you. You are not to take any physical part  
of the heap activities but only concern yourself with  
engineering work, i.e.:
- 1) chemistry-metallurgy
  - 2) budget
  - 3) engineering and quantification
3. Leach areas 1, 2, & 3.
4. Melt precipitates daily. Mail these to Tucson daily by  
return receipt requested mail.
5. Keep accurate, concise, records which can be checked by  
any independent professional. This should be done on a  
form or forms of your own design, to include, but not  
limited to, the following:
- a) daily record of dimensions of dump under leach and  
tonnage calculated for that area, plus supporting  
data, measurements, etc.
  - b) record of through-put -- hours of leach per shift,  
down time, etc.
  - c) titrate return hypo solution to determine barren  
strength, and for presence of zinc.

- d) determination of  $H_2O$  balance per shift; i.e.  $H_2O$  added to replace that lost to evaporation, absorption in dump, or loss through pad.
- e) weigh out of zinc used per shift.

NOTE: Materials balance is the key.

- 6. W. Edward Speer will take sample of:
  - a) Emerald ore -- high  $MnO_2$  ore from dump
  - b) North Ramp ore
- 7. Prepare a two (2) page memo specifying your opinion of the best option for leaching Mn ore.
- 8. Come up with a realistic budget for the above.

#### OBJECTIVES


- 1. Document silver production from a specific amount of heap ore, specifically from areas 1, 2, & 3, processed from 6/22/79 to 6/27/79.
- 2. Have documented budget for the above by the evening of 6/23/79.
- 3. Have test leach pads (as in Activities, #1b, sections 1 & 2) and an action plan with proper miner-like record keeping forms and budget by 6/26/79.
- 4. Have two (2) page "best options" report on metallurgy to use on Mn Ox ore by 6/26/79.

On or before the dates specified above, mail, by registered, return receipt requested mail, one copy of all paperwork required above to Tom Schloss in New York, one copy to John Dean in Rhode Island, and one copy to myself in Tucson. Also be prepared to discuss all of the material in concise, brief terms on the morning of June 27, 1979.

Richard F. Hewlett  
June 22, 1979  
Page 5

Dick, I do not expect to have to tell you the details of how to do and document your job. I do expect, at minimum, the above outlined documentation, but it should not be limited to the above. It is your responsibility to do what is necessary for documentation and you will be held accountable for any omissions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Jim Briscoe".

James A. Briscoe

JAB:cmd  
P-418

cc: Tom Schloss  
Dwight Lee  
Dr. John Dean

DAY/TIMER

Time-Saver

Southwestern Exploration Assoc., Inc.  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712

(602) 795-6097

LETTER

IN REFERENCE TO:

Perry Durning  
SampleFIRST CLASS MAIL ☐INTER-OFFICE ☒

FOR

R. F. Hewlett  
Nellie Cashman Apts. Cottage #2  
121 E. 5th  
Tombstone, Ariz. 85638

HOW TO USE THIS.

DAY/TIMER

Time-Saver LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

DATE:

6/23/79

FOLD

Dick: I talked with Perry Durning at 2:15 this afternoon. He's wondering where your written report is with supporting data. He did mention that the verbal recovery rates you gave him weren't backed up with head & tails assays. I hope this wasn't an oversight on your part - I expect only the highest professional product to be submitted to our clients. Further, my understanding was you directed the accounting staff to bill Perry \$1,000 in spite of absence of the written report.

Please write me an explanation of the above, and a summary report on all clients, work, etc you've engaged in since January 1979. -- as soon as Tombstone is resolved but not later than July 1, 1979.

REPLY

DATE:

BY  
JAB

BY



Southwestern Exploration Associates  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712

DAY-TIMER  
*Time-Saver*

LETTER

IN REFERENCE TO:

FIRST CLASS MAIL ☐ INTER-OFFICE ☐

FOR

*Jim*

HOW TO USE THIS

DAY-TIMER

*Time-Saver* LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

DATE

*5/5*

*Pls. note attached -  
Pat still needs to  
know ① how many shares  
of Stock & ② How  
paid for*

SIGNED

*Mark  
Chen*

REPLY

DATE

*7/5/79*

*I think we should  
do it just like  
SEA Photo Inc  
JTB*

SIGNED

TOMBSTONE  
July Summary Report

REVIEWED  
AUG 7 1979  
By JMB

Messrs. Briscoe, Lee, & Dean

There are two main assets on the Tombstone Development property. One is the heap and the other is the open-pit and underground ore yet unmined.

The heap still contains values in the following:

1. Fines that have not been leached due to blinding
2. Clays that inhibit percolation and lock values
3. Coarse ore that the leaching solutions can not penetrate
4. The manganese ore (iron & manganese locked values).

Previous work with the small dozer of Robert Cowans proved that percolation can be induced mechanically by dozing from the top of the heap and forming "thin" layers of 5 feet. The coarse rolls down ahead of the fines, which end up on or near the top of the lift. Use of a larger and faster dozer would allow pushing 30,000 tons per ton for heap leaching. Obviously, the fines are only going to be leached. However, by leaching the fines with the dozer-shallow lift method, cyanide can be used to recover some gold and silver values. Pre-treatment for the manganese ore could follow the construction of shallow lifts. Presently, all work is concentrated on the evaluation of the heap and open pit ore during July, with the following results:

Surface Sample Location	Average Grade		Value (\$250/\$8)		
	Au	Ag	Au	Ag	Total
Top of Heap	.014	.19	\$3.50	\$1.52	\$5.02
Contention Dike	.050	2.28	12.50	18.24	30.74

Based on results of cyanide leaching comparisons, as summarized above, Tom Schloss wanted to evaluate the open pit area.

Required for the evaluation of the Contention Dike area are basically geological mapping and sampling, followed by shallow drilling. Ore reserves and grade control are the resulting technical data obtained from an evaluation.

AUG 7 1979

By 

-2-

Test leaching of the Contention Dike proved an initial success from the point of view that the preg's were very high during the initial circulation. Also, it was shown in a barrel test designed by Dr. Dean that the ore from the top of the heap leached slowly and was not very high in values, while in 10 minutes the similar (230 #'s) test made on ore from the Contention Dike was saturated (+6 ounces silver per ton). All flask leach tests with cold cyanide show the same results; very fast dissolution of precious metals. Detailed metallurgical tests (barrel and pilot tests) will quantify these relationships.

Required to complete are:

- A. Crusher tests; leaching recovery for various screen sizes-optimum crushing size
- B. Brushing for geologic mapping and sampling
- C. Sampling of north end of the Contention Dike and elsewhere
- D. Finish testing of pilot ore on pad
- E. Set-up metallurgical testing (pilot/barrel)
- F. Prepare lab for shaking and atomic absorption
- G. Map compilation and plotting of geology and structure from old maps and reports.
- H. Surveying of sample sites-topo
- I. Assessment fro 18 un-patented claims

Sincerely,



Richard F. Hewlett

RECEIVED AUG - 3 1979

COREY & KITTLE, P.C.

ATTORNEYS AT LAW

BARRY M. COREY  
JAY S. KITTLE  
PATRICK J. FARRELL  
THOMAS A. STOOPS

SUITE 509 TRANSAMERICA BUILDING  
177 NORTH CHURCH AVENUE  
TUCSON, ARIZONA 85701  
(602) 882-4994

August 1, 1979

Southwestern Exploration Associates, Inc.  
4500 East Speedway Boulevard  
Suite 14  
Tucson, Arizona 85712

Attention: James A. Briscoe  
Re: SEA Hydromet, Inc. / Richard F. Hewlett

Dear Jim:

Enclosed herewith please find the following documents relating to the termination of Richard F. Hewlett from his involvement with SEA Hydromet, Inc. as a Director and Vice-President:

- (a) Minutes of Special Meeting of Shareholders, together with accompanying notice thereof.
- (b) Minutes of Special Meeting of Board of Directors, together with accompanying waiver of notice.
- (c) Draft letter from you to Dick Hewlett explaining the proposed action.

In reviewing our file, it has come to my attention that Dick Hewlett is also a Director of SEA Hydromet. Therefore, it will be necessary to terminate his status as a Director of the Corporation prior to removing him as Vice-President. His removal as a Director may be accomplished by a special meeting of the shareholders, and accordingly, I have prepared minutes for such a meeting with that purpose in mind. Those minutes also serve to decrease the current number of Directors of the Corporation to one so that you will be the only Director thereafter.

After Dick Hewlett is removed as a Director of the Corporation, you may then hold a special meeting of the Board of Directors to remove him as Vice-President of the Corporation and General Manager of the Corporation's heap leaching project in Tombstone. The minutes of that meeting set forth those items of business.

Dick will have to be advised of the special meeting of the shareholders of the Corporation pursuant to the Bylaws. Therefore, it will be necessary to send to him the enclosed notice of such meeting. I suggest that it be sent to him along with a letter from you, similar to the draft copy which I am enclosing, indicating the nature of the problem and the proposed action to be taken by you. Thereafter, the meeting may be held, and he may attend it if he so desires.

0982 Inc.

COREY & KITTLE, P.C.

ATTORNEYS AT LAW

Southwestern Exploration Associates, Inc.  
August 1, 1979  
page two

You will note that I have omitted some dates in some portions of these documents. I have done that because I am unfamiliar with your time table with regard to this action. Therefore, you may simply insert any dates which you feel are appropriate.

Finally, with regard to the Notice of the Special Meeting of the shareholders, it is necessary to provide Dick with at least ten days notice thereof. Therefore, the meeting may not be held until at least ten days after the Notice is sent to him.

Both Jay and I will be on vacation as of August 4, 1979, for two weeks, but I do not anticipate any problems occurring until possibly after the shareholder's meeting. However, please feel free to contact Barry Corey should you need additional assistance with regard to this matter while we are out of town.

Sincerely yours,

COREY & KITTLE, P.C.



Patrick J. Farrell

PJF:ceg  
enclosures

P.S. Please return all of the minutes, the notice and the waiver of notice after they are signed in the enclosed, self-addressed, stamped envelope.



NOTICE OF SPECIAL MEETING

of

SHAREHOLDERS

of

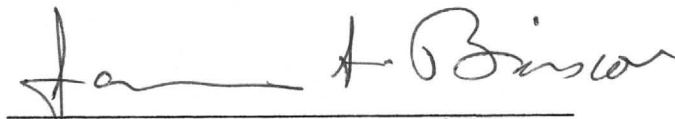
SEA HYDROMET, INC.

NOTICE IS HEREBY GIVEN that a Special Meeting of the Shareholders of the Corporation shall be held on August\_\_, 1979, at the principal office of the Corporation, 4500 East Speedway Boulevard, Suite 14, Tucson, Arizona.

Such meeting has been called by the President of the Corporation pursuant to Article II, Section 4 of the Bylaws of the Corporation, to discuss the following items:

- (1) The removal of Richard F. Hewlett as a Director of the Corporation.
- (2) The amendment of Article III, Section 1 of the Bylaws of the Corporation, changing the current number of directors of the Corporation to one (1).

DATED this 31 day of August, 1979.



James A. Briscoe, President

MINUTES OF SPECIAL MEETING

of

SHAREHOLDERS

of

SEA HYDROMET, INC.

A special meeting of the Shareholders of the Corporation was held at the request of the President of the Corporation on the date and at the time and place set forth in the written Notice of Special Meeting of Shareholders, signed by the President of the Corporation, fixing such time and place, and prefixed to the Minutes of this meeting.

There was present James A. Briscoe, the President of Southwestern Exploration Associates, Inc., the majority Shareholder of the Corporation, and Richard F. Hewlett, the other shareholder of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The first order of business dealt with the removal of Mr. Hewlett as a Director of the Corporation pursuant to Article III, Section 6 of the Bylaws of the Corporation. Mr. Briscoe stated that Mr. Hewlett was being removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the IPS system developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various

types of ores, together with the application of various chemical solvents, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems.

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article III, Section 6 of the Bylaws of the Corporation, Richard F. Hewlett is hereby removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and the Corporation.

(2) The failure of the IPS system developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of various chemical solvents, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as a Director of the Corporation shall become effective immediately.

The final order of business dealt with the amendment of Article III, Section 1 of the Bylaws of the Corporation changing the current number of Directors of the Corporation to one (1). After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article XII of the Bylaws of the Corporation, Article III, Section

1 of the Bylaws is hereby amended to provide that the current number of Directors on the Board of Directors of the Corporation shall number one (1). Article III, Section.1 of the Bylaws of the Corporation, as amended shall read as follows:

" The business and affairs of the Corporation shall be conducted by the Board of Directors who shall number no less than one (1) nor more than ten (10) and until changed at an annual or special meeting of the shareholders, shall number one (1). The directors need not be residents of the State of Arizona nor Shareholders of the Corporation and shall be elected at the annual meeting of the shareholders to serve until the next annual meeting of the shareholders and until their successors have been elected and qualified."

There being no further business to come before the meeting, upon motion duly made, seconded and carried, the meeting was adjourned.

DATED: August 31, 1979

James A. Briscoe  
James A. Briscoe

WAIVER OF NOTICE OF SPECIAL MEETING

of

BOARD OF DIRECTORS

of

SEA HYDROMET, INC.

WE, the undersigned, being all of the Directors of the Corporation, hereby agree and consent that a special meeting of the Board of Directors of the Corporation be held on the date and at the time and place designated hereunder, and do hereby waive all notice whatsoever of such meeting and of any adjournment or adjournments thereof.

We do further agree and consent that any and all lawful business may be transacted at such meeting or at any adjournment or adjournments thereof as may be deemed advisable by the Directors present thereat. Any business transacted at such meeting or at any adjournment or adjournments thereof shall be as valid and legal and of the same force and effect as if such meeting or adjourned meeting were held after notice.

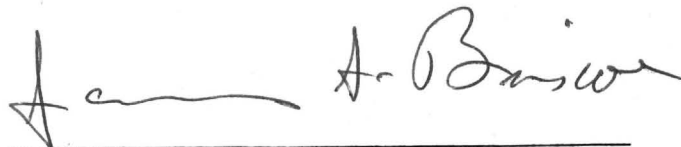
Place of Meeting: 4500 East Speedway Boulevard, Suite 14  
Tucson, Arizona

Date of Meeting:

Time of Meeting: 10:00 a.m.

DATED:

August 31, 1979

  
\_\_\_\_\_  
James A. Briscoe



MINUTES OF SPECIAL MEETING

of

BOARD OF DIRECTORS

of

SEA HYDROMET, INC.

A special meeting of the Board of Directors of the Corporation was held on the date and at the time and place set forth in the written Waiver of Notice, signed by all the Directors, fixing such time and place and prefixed to the Minutes of this meeting.

There was present James A. Briscoe, being the sole Director of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The only order of business dealt with the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona. Mr. Briscoe stated that this action was being taken for the reasons that the project is being managed in an inefficient manner, causing a financial burden on the project and the Corporation, the IPS system developed by Mr. Hewlett is not sufficiently effective in the heap leaching process, and the soundness and integrity of the investments of those persons who have invested in the project may be jeopardized as a result of the foregoing. After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article IV, Section 3 of the Bylaws of the Corporation, Richard F. Hewlett is hereby removed as Vice-President of the Corporation and General Manager of the heap leaching project cur-

rently being conducted by the Corporation in Tombstone, Arizona, for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the IPS system developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of various chemical solvents, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice- President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona, is, in the judgment of the Board of Directors of the Corporation, in the best interests of the Corporation; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice President of the Corporation and General Manager of The Corporation's heap leaching project in Tombstone, Arizona, shall become effective immediately, and Mr. Hewlett shall be notified of this action taken by the Board of Directors by way of a letter to him written by James A. Briscoe, the President of the Corporation, on its behalf.

There being no further business to come before the meeting, upon motion duly made, seconded and unanimously carried, the meeting was adjourned.

DATED: August 31, 1980

James A. Briscoe  
James A. Briscoe

ATTEST:

James A. Briscoe

D R A F T

Richard F. Hewlett

*This was sent -  
never  
and  
5/15/80*

Re: SEA Hydromet, Inc./Tombstone Heap Leaching Project

Dear Dick:

I am writing to you after a great amount of thought and deliberation with regard to the current status of the heap leaching project in Tombstone.

As you are aware, the project has not progressed as both of us had hoped it would. The reasons for this may be numerous, but I sincerely believe that your association with the project is not working out as we had planned.

I am enclosing a Notice of Special Meeting of Shareholders of SEA Hydromet, Inc. which will serve as notice to you of an up-coming meeting of the shareholders of the Corporation and the items to be discussed at such meeting. As I indicated previously, I have given this matter much thought, and I think the only feasible solution to the problem is to terminate your involvement with the project so that it may possibly be turned around. The reasons for my decision will be discussed more thoroughly at the meeting, but briefly, my action is the result of what I consider inefficient management of the Tombstone project, resulting in financial burdens on the project and the Corporation, the failure of the IPS system to work as both of us had hoped it would, and my real concern for the investments of those persons who have contributed funds to the project. I certainly have an obligation to them, and I have received several inquiries from them with regard to the problems involving the project.

Of course, the termination of your involvement with the Tombstone project and as an officer of SEA Hydromet will not affect your shareholder status in the Corporation. If you wish, that is something which we can discuss later, but at present, it certainly will not be affected in any way.

Please take note of the date and time of the special meeting of the Shareholders, which will be held at my office. I am looking forward to seeing you at the meeting so that we may discuss this matter in more detail in person.

Sincerely yours,



James A. Briscoe

REVIEWED

AUG 7 1979

By JMB

TOMBSTONE DAILY PROGRESS REPORT

August 1, 1979

Messrs. Briscoe, Lee, & Dean

Sampling of the north end of the Contention Dike is progressing, according to Jim Briscoe's procedure.

Dr. Dean believes that sodium sulfide ( $\text{Na}_2\text{S}$ ) will help us to identify high silver zones. We are able to run between 50 to 100 samples per hour. However, it is very difficult to determine the silver value under .5 t.oz./ton solution. The procedure that I use is as follows:

- A. Pulverize ore or use "run of sample"
- B. Add 30 grams ore to flask
- C. Add 90 ml of warm  $\text{NaCN}$ ; we do not have a hot plate.
- D. Agitate for 30 minutes & filter
- E. Add 10 ml. of filtrate to a 100 ml beaker and add drops of 5%  $\text{Na}_2\text{S}$  solution. One drop gives a colormetric indication of over .5 t.oz./ton solution, but this is 1.5 t.oz./ton ore due to my solution dilution factor.

Note that at \$9/t.oz. silver, that the minimum level of detection using sodium sulfide is \$13.5 per ton ore. This is not even adequate for ore control, because our costs would be under \$5/ton ore. Also, the gold is not detected using sodium sulfide. Until the atomic absorption unit arrives and is set-up and working, some other test must be utilized. James Briscoe had some experience with a scintillometer using gamma ray bombardment. Radioactivity is measured based on the emission of light by certain crystals under impact by gamma rays. Jim Briscoe has found that certain gold-related minerals emit radiation, which must be further tested in order to determine if it could be a "ore-control" tool.

Two objects, a dozer and a reservoir, were used for local control for scale for the aerial photos being prepared by S.E.A. Photography. The largest scale map will be 1 in. = 20 feet, which is very adequate.

Mr. Vernon Dale, the State Mine Inspector (for our area) visited and RFH showed him our heap and open-pit area (Contention Dike). Vernon cautioned me on safety, and suggested to check the State Agencies for underground maps in the Contention area-in addition to geology and assay plans. Vernon suggested Mr. Jett of the



REVIEWED

AUG 7 1979

By *MB*

August 1, 1979

State Department of Natural Resources, the BLM, the Arizona Bureau of Mines, etc..

Also, I am contacting as many "old timers" who worked in these mines and they have much information, and many have maps. I have not yet determined the best strategy to obtain copies of their maps.

Map sorting was done and study made of the various level maps and cross-section. Obvious are the following:

- A. Many maps of the Tranquillity, Empire area
- B. Some maps of the West Side, Toughnut, and Silver Thread.
- C. Few maps of the Oregon-Prompter, Bunker Hill, & Rattlesnake.
- D. No maps for;
  - 1. Contention Mine
  - 2. Little Joe Mine
  - 3. Grand Central Mine
  - 4. Lucky Cuss.

I am most interested presently in maps from the Contention Dike area. Could it be that Newmont bought no maps when they purchased the Contention-Grand Central-Lucky Cuss? Ownership prior to Newmonts aquisition could lead to the maps.

Sincerely,

*Richard F. Hewlett*

Richard F. Hewlett



P418

# Office of State Mine Inspector

705 West Wing, Capitol Building  
Phoenix, Arizona 85007  
602-255-5971

## HEALTH AND SAFETY INSPECTION REPORT

COMPANY NAME: SEA HYDROMETALLURGY

MINE/PLANT NAME: 71 Minerals Leach Dump

ADDRESS: P. O. Box 370  
Tombstone, Arizona 85609

PHONE NUMBER: 457-3733

ID #:

INTRODUCTION: This report is based on an inspection made pursuant to Arizona Revised Statutes 27-124 and 27-128.

TYPE OF INSPECTION: SPOT

DATE OF INSPECTION: August 1, 1979

INSPECTION #: 7

### GENERAL INFORMATION:

EMPLOYMENT: 3

COMPANY OFFICIALS:

Richard Hewlett, General Manager

### WORK SCHEDULE:

Hours per shift: 8  
Shifts per day: 1  
Days per week: 5

TYPE OF OPERATION: Dump Leach

NEAREST TOWN: Tombstone

PRINCIPAL PRODUCT: Silver

COUNTY: Cochise

INSPECTION PARTY: Richard Hewlett, General Manager  
Vernon Dale, Deputy Mine Inspector

RECEIVED AUG 10 1979

cc: SEA HYDROMETALLURGY

6/79

James A. Briscoe - 4500 East Speedway, Suite 14, Tucson, AZ. 85712

SEA HYDROMETALLURGY  
71 Minerals Leach Dump  
8/1/79

WITHDRAWALS: PRIOR INSPECTION OF MAY 30, 1979

Violations #1, #3, #4, #5, #6 and #7 from this inspection have been withdrawn.

NOTE: Violations were withdrawn because the metallurgical plans have changed and Mr. Hewlett has advised that no sulphuric acid will be used for probably six months.

COMMENT: At present a sampling program of the contention mineral structure is being carried out. If sample results are favorable, ore will be mined from an open pit and transported to a cyanide leach pad adjacent to the 71 Minerals Leach Dump.

It was recommended to Mr. Hewlett that he obtain all underground mine maps in the proposed pit area and draft an overlay of each mine level workings so that men and equipment do not drop into one of the old underground workings.

/s/ Vernon Dale  
Deputy Mine Inspector



P-418  
legal

# Office of State Mine Inspector

705 West Wing, Capitol Building

Phoenix, Arizona 85007

602-255-5971

## NOTICE TO ARIZONA STATE MINE INSPECTOR

In compliance with Arizona Revised Statute Section 27-303, we are submitting this written notice to the Arizona State Mine Inspector (705 West Wing, Capitol Building, Phoenix, Arizona 85007) of our intent to start/stop (please circle one) a mining operation.

COMPANY NAME \_\_\_\_\_

CHIEF OFFICER \_\_\_\_\_

COMPANY ADDRESS \_\_\_\_\_

COMPANY TELEPHONE NUMBER \_\_\_\_\_

MINE OR PLANT NAME \_\_\_\_\_

MINE OR PLANT LOCATION (including county and nearest town, as well as directions for locating by vehicle)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

TYPE OF OPERATION \_\_\_\_\_ PRINCIPAL PRODUCT \_\_\_\_\_

STARTING DATE \_\_\_\_\_ CLOSING DATE \_\_\_\_\_

DURATION OF OPERATION \_\_\_\_\_

PERSON SENDING THIS NOTICE \_\_\_\_\_

TITLE OF PERSON SENDING THIS NOTICE \_\_\_\_\_

DATE NOTICE SENT TO STATE MINE INSPECTOR \_\_\_\_\_

☐ I would like assistance from your office in writing the lesson plan for my mining company as required under Part 48 of Public Law 95-164.

RECEIVED AUG - 6 1979

P-418  
file

COREY & KITTLE, P.C.

ATTORNEYS AT LAW

BARRY M. COREY  
JAY S. KITTLE  
PATRICK J. FARRELL  
THOMAS A. STOOPS

SUITE 509 TRANSAMERICA BUILDING  
177 NORTH CHURCH AVENUE  
TUCSON, ARIZONA 85701  
(602) 882-4994

August 6, 1979

Southwestern Exploration Associates, Inc.  
4500 East Speedway Boulevard, Suite 14  
Tucson, Arizona 85712

Attention: James A. Briscoe

Re: SEA Hydromet, Inc./Richard F. Hewlett

Dear Jim:

Enclosed herewith please find the following documents relating to the termination of Richard F. Hewlett from his involvement with SEA Hydromet, Inc. as a Director and Vice-President:

- (a) Revised pages of the Minutes of the Special Meeting of the Shareholders.
- (b) Revised pages of the Minutes of the Special Meeting of the Board of Directors.
- (c) Revised draft letter from you to Dick Hewlett explaining the proposed action.

I have revised the Minutes of the Special Meetings of the Shareholders and Board of Directors in accordance with our telephone conversation on August 3, 1979, and in addition, I have inserted an additional paragraph in the draft letter from you to Dick Hewlett with regard to his maintaining the morale of the employees of the project in Tombstone, as well as the friendly atmosphere among the employees and the townspeople of Tombstone.

You may simply substitute the enclosed pages of the minutes for the ones which were previously sent to you, and the draft letter as revised may now be typed on your letterhead.

I hope these modifications comply with your desires in approaching this problem.

As I indicated to you on the telephone, should you require any additional assistance or information with regard to this matter, please feel free to contact Barry Corey while Jay and I are out of town.

Sincerely yours,

*Claudia E. Greer*

for Patrick J. Farrell

PJF:ceg



MINUTES OF SPECIAL MEETING

of

SHAREHOLDERS

of

SEA HYDROMET, INC.

A special meeting of the Shareholders of the Corporation was held at the request of the President of the Corporation on the date and at the time and place set forth in the written Notice of Special Meeting of Shareholders, signed by the President of the Corporation, fixing such time and place, and prefixed to the Minutes of this meeting.

There was present James A. Briscoe, the President of Southwestern Exploration Associates, Inc., the majority Shareholder of the Corporation, and Richard F. Hewlett, the other shareholder of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The first order of business dealt with the removal of Mr. Hewlett as a Director of the Corporation pursuant to Article III, Section 6 of the Bylaws of the Corporation. Mr. Briscoe stated that Mr. Hewlett was being removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of

various types of ores, together with the application of the IPS system, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems.

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article III, Section 6 of the Bylaws of the Corporation, Richard F. Hewlett is hereby removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of the IPS system, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as a Director of the Corporation shall become effective immediately.

The final order of business dealt with the amendment of Article III, Section 1 of the Bylaws of the Corporation changing the current number of Directors of the Corporation to one (1). After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article XII of the Bylaws of the Corporation, Article III, Section

MINUTES OF SPECIAL MEETING

of

BOARD OF DIRECTORS

of

SEA HYDROMET, INC.

A special meeting of the Board of Directors of the Corporation was held on the date and at the time and place set forth in the written Waiver of Notice, signed by all the Directors, fixing such time and place and prefixed the the Minutes of this meeting.

There was present James A. Briscoe, being the sole Director of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The only order of business dealt with the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona. Mr. Briscoe stated that this action was being taken for the reasons that the project is being managed in an inefficient manner, causing a financial burden on the project and the Corporation, the chemical solvents developed by Mr. Hewlett are not sufficiently effective in the heap leaching process, together with the application of the IPS system, and the soundness and integrity of the investments of those persons who have invested in the project may be jeopardized as a result of the foregoing. After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article IV  
Section 3 of the Bylaws of the  
Corporation, Richard F. Hewlett is  
hereby removed as Vice-President of  
the Corporation and General Manager

of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona, for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of the IPS system, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona, is, in the judgment of the Board of Directors of the Corporation, in the best interests of the Corporation; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the Corporation's heap leaching project in Tombstone, Arizona, shall become effective immediately, and Mr. Hewlett shall be notified of this action taken by the Board of Directors by way of a letter to him written by James A. Briscoe, the President of the Corporation, on its behalf.

There being no further business to come before the meeting, upon motion duly made, seconded and unanimously carried, the meeting was adjourned.

D R A F T

Richard F. Hewlett

Re: SEA Hydromet, Inc. /Tombstone Heap Leaching Project

Dear Dick:

I am writing to you after a great amount of thought and deliberation with regard to the current status of the heap leaching project in Tombstone.

As you are aware, the project has not progressed as both of us had hoped it would. The reasons for this may be numerous, but I sincerely believe that your association with the project is not working out as we had planned.

I am enclosing a Notice of Special Meeting of Shareholders of SEA Hydromet, Inc. which will serve as notice to you of an up-coming meeting of the shareholders of the Corporation and the items to be discussed at such meeting. As I indicated previously, I have given this matter much thought, and I think the only feasible solution to the problem is to terminate your involvement with the project so that it may possibly be turned around. The reasons for my decision will be discussed more thoroughly at the meeting, but briefly, my action is the result of what I consider inefficient management of the Tombstone project, resulting in financial burdens on the project and the Corporation, the failure of the IPS system to work as both of us had hoped it would, and my real concern for the investments of those persons who have contributed funds to the project. I certainly have an obligation to them, and I have received several inquiries from them with regard to the problems involving the project.

Of course, the termination of your involvement with the Tombstone project and as an officer of SEA Hydromet will not affect your shareholder status in the Corporation. If you wish, that is something which we can discuss later, but at present, it certainly will not be affected in any way.

I am confident that I can count on your support and cooperation in the transmittal of the various data and information relating to the project to those persons who will be involved with it hereafter. In this regard, I am sure you realize that a smooth transfer of such data and information is vital to the protection of the project. I am equally confident that you will continue to maintain good morale among those involved in the project and continue to encourage a friendly atmosphere among the project employees and the townspeople of Tombstone.

Please take note of the date and time of the special meeting of the Shareholders, which will be held at my office. I am looking forward to seeing you at the meeting so that we may discuss this matter in more detail in person.

Sincerely yours,

James A. Briscoe



REVIEWED

TOMBSTONE DAILY PROGRESS REPORT

August 6, 1979

AUG 7 1979

By 

Messrs. Briscoe, Lee, Dean

Robert Cowan took the dozer and his other equipment that we were renting. He was prommised his payment(over \$3,000) and was not paid last week. He was paid \$500 Monday morning, which is several days late and \$2500 short. Bobby Cowan is upset with our lack of payment, and I would not be able to ask him to use his equipment again, as he puts faith in the local people to get him his payments.

Moved into the '71 Minerals building, storing chemicals, etc., in the locked cage. We will use the office until this Friday, when the remaining portion of the "Gun Runners" equipment will be taken to their new building at Bisbee(bench and blueing tanks).

Talked to Al Watterson and he said that he had talked with Jim Briscoe on Sunday and that he was starting to work this coming Wedsnday. Al will be a real important addition to our staff due to his experience in Tombstone with '71 Minerals and his wide practal experience in surveying and heap leaching.

Frank Molina, who previously worked for me underground at Tombstone(Goodenough-Toughnut-Empire-West Side) stated that his father would tell him of the high-grade gold mined from the 1st to the 3rd levels of the Contention. My best estimate is that we are 150 feet above the first level of the Contention Mine. Drift maps would help us direct our exploration.

Also, the Little Joe has high-grade ore starting on the 50-foot level(sampled by Carlos Raymundo) and Frank Molina leased there in the 30's.

I must contact John Beeder of Minerals Engineering in Denver to obtain his Tombstone maps and drill-hole results.

Sincerely,



Richard F. Hewlett

REVIEWED

AUG 7 1979

By *JHB*

TOMBSTONE DAILY PROGRESS REPORT

August 4, 1979

Messrs. Briscoe, Lee, & Dean

O.C. Miller did not work, and Keith Scroggins worked a very brief period due to the bugs-nats that attacked while he was brushing. Brushed to date are the workings/cut from the north end of the Contention Dike to the Boom Shaft, and working over toward the Pump Shaft. To finish this job completely, and including the Flora Morrison down to the Little Joe and along the Contention Dike, another week is required (two men).

RFH spent the morning with the 1 inch = 20 feet photographs on the ground around the Contention Dike, locating all sample sites on overlays. This is not finished, as the correlation of higher silver samples ( $\text{Na}_2\text{S}$ ), sample locations, geological mapping, etc. progresses with field checks very frequently.

August 5, 1979

Continuation of plotting, and field checking the locations was done today.

Also, there were some bad areas noticed Saturday along the Contention Dike, especially on the east wall close to the north end of the Dike exposure (glory hole) where the rock spalled on RFH and other larger loose slabs are obvious. Also, many areas do not have adequate exposure due to sluff, old dump material, etc.. The slabs and the un-exposed walls must be cleaned-up and made safe for sampling and mapping. Vernon Dale keeps pointing out that safety is our responsibility.

Sincerely,

*Richard F. Hewlett*

Richard F. Hewlett

TOMBSTONE DAILY PROGRESS REPORT

August 3, 1979

REVIEWED

AUG 7 1979

By *JMB*

MESSRS. Briscoe, Lee, & Dean

Vernon Dale, the mine inspector revisited today to inform us that he was removing our acid requirements.

The crusher is being made so it is portable, with Ernie Escapule's help. In addition, it is possible to get Ernie's ball mill working next week with the drive also from the V-8 auto motor that powers the crusher.

Brushing is being done to enable rapid mapping of the exposed rock faces.

The surface and underground maps are being studied for features relating to ore mineralization that can be incorporated with the mapping by James Briscoe and the aerial photo utilization for exploration planning.

Sample plotting continues and report writing.

Sincerely yours,

*Richard F. Hewlett*

Richard F. Hewlett

REVIEWED

AUG 7 1979

By *JB*

TOMBSTONE DAILY PROGRESS REPORTS

August 2, 1979

Messrs. Briscoe, Lee, & Dean

Worked on Lithology and structural data for descriptions of rock units mapped and sampled in the rail-road cut area. Locations must be field checked.

Met with Bill Hight and Frank Gallup from 8:00 o'clock until James Briscoe arrived around 3:00, at which time we all went to inspect the 18 unpatented claims that belong to Tombstone Development Company.

Messrs. High and Gallup have bought for the Tombstone Development Company the Southern Pacific railroad right-of-way from the town of Tombstone (near 9th street) past the USDA quanset building, past the plant (east), through the Houghton claim, and around the south side of the hill SE of the Contention Dike and up to the Contention shaft (Pump Shaft). We inspected this area, and looked at the Contention Dike area. Appreciation for the need of large equipment to mine-load-haul the ore was recognized by Frank Gallup and Bill Hight.

Upon James Briscoe's arrival, High and Gallup went with us to look at the area southeast of the Contention Dike area where the 18 unpatented claims are located. RFH has previously directed the assessment when he was a general partner of '71 Minerals. Previous work has consisted of road-building, air-trac drilling (Watterson), and dozer cuts and trenches. Mapping by Beeder and his drill-hole results are not available through '71 Minerals.

Of most interest in the Tombstone Extension area is the alteration and the igneous intrusive. There are limited maps of the workings. Exploration under the cover between the Tombstone Extension area and the Contention could be very interesting for new ore body discovery.

Sincerely,

*Richard F. Hewlett*

Richard F. Hewlett

August 6, 1979

REVIEWED

APPROVED

AUG 8 1979

AUG 6 1979

By

By

Memo:

To; James Briscoe  
From; Richard F Hewlett  
Subject; Consultation Contacts

In response to your recent memo concerning "outside consulting" I wish to inform you of the following:

1. I have not contacted any clients since Jan, 1979.

I remember specific references to client contact I believe since that time in Utah, Nevada, New

2. Any contacts made with clients concerning consultation of heap leaching has been made by James Briscoe

3. I have not done any work for anyone except Peri Durning.

Richard F Hewlett



August 6, 1979

REVIEWED

AUG 8 1979

By

Memo :

To; James Briscoe

From; Richard F Hewlett

Subject: Peri Durning Report

Analysis of the oxide Pb-Zn-Ag-Au  
ores Peri Durning supplied  
was made by leaching with  
 $H_2SO_4$  - NaCl - NaOCl and  
"follow-up" leaching with CN.  
After crushing to  $\frac{1}{2}$ " a  
very high recovery (+90%)  
resulted. The report is  
complete with respect to  
results.

Also, Chris Dobson has been  
informed of all of my  
proposals; I have numbers  
for all proposals and projects.  
There is no attempt to  
deceive you. — Richard F Hewlett

Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Molybdenum
- Worldwide Mobilization



Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

Richard F. Hewlett  
Vice President and General Manager  
Chemical Engineer  
Mining Engineer

## S.E.A. Hydromet, Inc.

August 7, 1979

Mr. Richard F. Hewlett  
P.O. Box 370  
Tombstone, AZ 85638

Re: S.E.A. Hydromet, Inc./Tombstone Heap Leaching Project

Dear Dick,

I am writing to you after a great amount of thought and deliberation with regard to the current status of the heap leaching project in Tombstone.

As you are aware, the project has not progressed as both of us had hoped it would. The reasons for this may be numerous, but I sincerely believe that your association with the project is not working out as we had planned.

I am enclosing a Notice of Special Meeting of Shareholders of S.E.A. Hydromet, Inc. which will serve as notice to you of an up-coming meeting of the shareholders of the Corporation and the items to be discussed at such meeting. As I indicated previously, I have given this matter much thought, and I think the only feasible solution to the problem is to terminate your involvement with the project so that it may possibly be turned around. The reasons for my decision will be discussed more thoroughly at the meeting, but briefly, my action is the result of what I consider inefficient management of the Tombstone project resulting in financial burdens on the project and the Corporation, the failure of the IPS system to work as both of us had hoped it would, and my real concern for the investments of those persons who have contributed funds to the project. I certainly have an obligation to them, and I have received several inquiries from them with regard to the problems involving the project.

Of course, the termination of your involvement with the Tombstone project and as an officer of S.E.A. Hydromet, Inc. will not affect

Mr. Richard F. Hewlett

August 7, 1979

Page 2

your shareholder status in the Corporation. If you wish, that is something which we can discuss later, but at present, it certainly will not be affected in any way.

I am confident that I can count on your support and cooperation in the transmittal of the various data and information relating to the project to those persons who will be involved with it hereafter. In this regard, I am sure you realize that a smooth transfer of such data and information is vital to the protection of the project. I am equally confident that you will continue to maintain good morale among those involved in the project and continue to encourage a friendly atmosphere among the project employees and the townspeople of Tombstone.

Please take note of the date and time of the special meeting of the Shareholders, which will be held at my office. I am looking forward to seeing you at the meeting so that we may discuss this matter in more detail in person.

Your termination as Project Manager of the Tombstone Project will be effective as of this date. In order that a smooth transition of management on the Tombstone Project take place, I request you not to visit the project area. If there are any matters you need to discuss with me, we can do so at a mutually convenient time in my office in Tucson.

Sincerely,



James A. Briscoe

JAB:cmd

P-418

Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Molybdenum
- Worldwide Mobilization



Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

Richard F. Hewlett  
Vice President and General Manager  
Chemical Engineer  
Mining Engineer

## S.E.A. Hydromet, Inc.

August 7, 1979

### NOTICE OF SPECIAL MEETING

of

SHAREHOLDERS

of


S.E.A. HYDROMET, INC.

NOTICE IS HEREBY GIVEN that a Special Meeting of the Shareholders of the Corporation shall be held on August 17, 1979, at the principal office of the Corporation, 4500 East Speedway Boulevard, Suite 14, Tucson, Arizona.

Such meeting has been called by the President of the Corporation pursuant to Article II, Section 4 of the Bylaws of the Corporation, to discuss the following items:

- (1) The removal of Richard F. Hewlett as a Director of the Corporation.
- (2) The amendment of Article III, Section 1 of the Bylaws of the Corporation, changing the current number of directors of the Corporation to one (1).

DATED this 7th day of August, 1979.

  
James A. Briscoe, President

P07 7004257

# RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—  
NOT FOR INTERNATIONAL MAIL  
(See Reverse)

SENT TO		Richard F. Hewlett		
STREET AND NO.		P.O. Box 370		
P.O. STATE AND ZIP CODE		Tombstone AZ 85638		
POSTAGE		\$ 15		
CERTIFIED FEE		.80 c		
SPECIAL DELIVERY		c		
RESTRICTED DELIVERY		c		
CONSULT POSTMASTER FOR FEES	OPTIONAL SERVICES	RETURN RECEIPT SERVICE	SHOW TO WHOM AND DATE DELIVERED	.45 c
		SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	c	
		SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	c	
		SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	c	
		TOTAL POSTAGE AND FEES	\$ 140	
POSTMARK OR DATE				

PS Form 3800, Apr. 1976

RECEIVED AUG 10 1979

● SENDER: Complete items 1 through 5. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).  
☒ Show to whom and date delivered. . . . . 45 c  
☐ Show to whom, date, and address of delivery. . . . . c  
☐ RESTRICTED DELIVERY  
 Show to whom and date delivered. . . . . c  
☐ RESTRICTED DELIVERY.  
 Show to whom, date, and address of delivery. \$  
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
 Richard F. Hewlett  
 P. O. Box 370  
 Tombstone, AZ 85638

3. ARTICLE DESCRIPTION:  
 REGISTERED NO. CERTIFIED NO. INSURED NO.  
 7004257 91

(Always obtain signature of addressee or agent)

I have received the article described above.  
 SIGNATURE ☒ Addressee ☐ Authorized agent  
 R F Hewlett

4. DATE OF DELIVERY  
 8-9-79

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS  
 g

POSTMARK  
 AUG 9 1979  
 TOMBSTONE, AZ

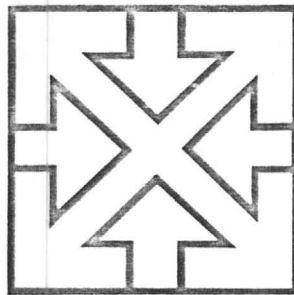
RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1977—O-234-337



Consultants in:

- base & precious metals • uranium
  - coal • geothermal • environment
  - remote sensing • color aerial photography
  - interpretation-image processing
- Worldwide Mobilization



**Southwestern  
Exploration Associates, Inc.**

August 7, 1979

Mr. Perry Durning  
Fischer-Watt Mining Co. Inc.  
P.O. Box 402  
Oatman, AZ 86433

Re: Metallurgical Testing Report,  
prepared by Richard F. Hewlett

Dear Perry,

I am in receipt of your letter voicing dissatisfaction with the Metallurgical Testing Report prepared by Mr. Richard F. Hewlett. May I assure you that I was also greatly dissatisfied with that particular report and, had I been in town and available to review it before presentation, the report would not have left this office.

Your many points regarding the omission of pertinent material are valid and, as such, we will not require nor expect payment for the work done.

I trust that our past associations indicate that this report is in no way representative of the work S.E.A. has built its reputation upon; future work will most assuredly be of the caliber S.E.A. prides itself upon.

Sincerely,

James A. Briscoe

JAB/cmd  
P-14

*P-14 file*  
4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

James A. Briscoe, President  
Registered Professional  
Geologist



Fischer-Watt Mining Co. Inc.  
P. O. Box 402  
Oatman, AZ 86433

August 6, 1979

REVIEWED

AUG 7 1979

By 

Southwestern Exploration Associates  
4500 E. Speedway, Suite 14  
Tucson, AZ 85712

Dear Jim:

After waiting so long I was greatly disappointed by the Metallurgical testing report submitted by Dick Hewlett, July, 1979. The report contains no documentation of the testing procedures and results which could be used for either duplication of Dick's test work or calculation of cash flows. To be more specific I will identify some of the more serious omissions.

- 1) page 1, line 4 - 1-Very high recovery - Very high is meaningless without being quantified.
- 2) page 2 - Process chemistry. I feel it is essential to show the probable chemical reactions for each solvent and to identify the solvent concentration and solvent consumption. Without this information it is impossible to make preliminary cost and cash flow projections.
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Although there is much interesting information in the Appendix, the first six pages are the guts of the report. This part of the report is almost devoid of the useful quantitative data needed to make further decisions on the property. Until this information is presented in a business-like manner I cannot justify payment for the work done.

Sincerely,

*Perry*  
W. Perry Durning,  
Chief Geologist

REVIEWED

AUG 7 1979

By JB

TOMBSTONE DAILY PROGRESS REPORT

August 7, 1979

Messrs. Briscoe, Lee, & Dean

Tom VandenBrock said that the "Briscoe Apartment" would be finished today (painting, etc.) and that it can be occupied on Wednesday. It will be furnished and rents for \$140/month.

Sample storage is being organized in the red building that was previously a repair parts shop. Until there is enough of the 71 Minerals building available, numerical storage for the sample sacks must be accomplished so that rapid retrieval of any sample number can be made and either geological, metallurgical, or assay data obtained.

Will go to Tucson for a meeting with Jim at 4:30 PM.

Working on reports.

Sincerely,

*Richard F. Hewlett*

Richard F. Hewlett



Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Tungsten
- Worldwide Mobilization



Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

Richard F. Hewlett  
Vice President and General Manager  
Chemical Engineer  
Mining Engineer

## S.E.A. Hydromet, Inc.

August 7, 1979

Mr. Richard F. Hewlett  
P.O. Box 370  
Tombstone, AZ 85638

Re: S.E.A. Hydromet, Inc./Tombstone Heap Leaching Project

Dear Dick,

I am writing to you after a great amount of thought and deliberation with regard to the current status of the heap leaching project in Tombstone.

As you are aware, the project has not progressed as both of us had hoped it would. The reasons for this may be numerous, but I sincerely believe that your association with the project is not working out as we had planned.

I am enclosing a Notice of Special Meeting of Shareholders of S.E.A. Hydromet, Inc. which will serve as notice to you of an up-coming meeting of the shareholders of the Corporation and the items to be discussed at such meeting. As I indicated previously, I have given this matter much thought, and I think the only feasible solution to the problem is to terminate your involvement with the project so that it may possibly be turned around. The reasons for my decision will be discussed more thoroughly at the meeting, but briefly, my action is the result of what I consider inefficient management of the Tombstone project resulting in financial burdens on the project and the Corporation, the failure of the IPS system to work as both of us had hoped it would, and my real concern for the investments of those persons who have contributed funds to the project. I certainly have an obligation to them, and I have received several inquiries from them with regard to the problems involving the project.

Of course, the termination of your involvement with the Tombstone project and as an officer of S.E.A. Hydromet, Inc. will not affect

Mr. Richard F. Hewlett  
August 7, 1979  
Page 2

your shareholder status in the Corporation. If you wish, that is something which we can discuss later, but at present, it certainly will not be affected in any way.

I am confident that I can count on your support and cooperation in the transmittal of the various data and information relating to the project to those persons who will be involved with it hereafter. In this regard, I am sure you realize that a smooth transfer of such data and information is vital to the protection of the project. I am equally confident that you will continue to maintain good morale among those involved in the project and continue to encourage a friendly atmosphere among the project employees and the townspeople of Tombstone.

Please take note of the date and time of the special meeting of the Shareholders, which will be held at my office. I am looking forward to seeing you at the meeting so that we may discuss this matter in more detail in person.

Your termination as Project Manager of the Tombstone Project will be effective as of this date. In order that a smooth transition of management on the Tombstone Project take place, I request you not to visit the project area. If there are any matters you need to discuss with me, we can do so at a mutually convenient time in my office in Tucson.

Sincerely,

  
James A. Briscoe

JAB:cmd  
P-418

Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Tungsten
- Worldwide Mobilization



Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

Richard F. Hewlett  
Vice President and General Manager  
Chemical Engineer  
Mining Engineer

## S.E.A. Hydromet, Inc.

August 7, 1979

### NOTICE OF SPECIAL MEETING

of

SHAREHOLDERS

of

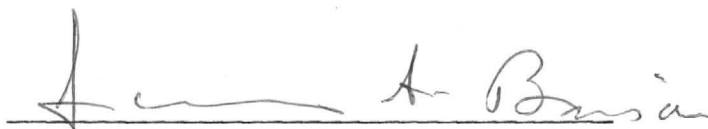
S.E.A. HYDROMET, INC.

NOTICE IS HEREBY GIVEN that a Special Meeting of the Shareholders of the Corporation shall be held on August 17, 1979, at the principal office of the Corporation, 4500 East Speedway Boulevard, Suite 14, Tucson, Arizona.

Such meeting has been called by the President of the Corporation pursuant to Article II, Section 4 of the Bylaws of the Corporation, to discuss the following items:

- (1) The removal of Richard F. Hewlett as a Director of the Corporation.
- (2) The amendment of Article III, Section 1 of the Bylaws of the Corporation, changing the current number of directors of the Corporation to one (1).

DATED this 7th day of August, 1979.

  
James A. Briscoe, President



Consultants in:

- base & precious metals • uranium
- coal • geothermal • environment
- remote sensing • color aerial photography
- interpretation-image processing
- Worldwide Mobilization



4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

James A. Briscoe, President  
Registered Professional  
Geologist

**Southwestern  
Exploration Associates, Inc.**

August 7, 1979

Mr. Perry Durning  
Fischer-Watt Mining Co. Inc.  
P.O. Box 402  
Oatman, AZ 86433

Re: Metallurgical Testing Report,  
prepared by Richard F. Hewlett

Dear Perry,

I am in receipt of your letter voicing dissatisfaction with the Metallurgical Testing Report prepared by Mr. Richard F. Hewlett. May I assure you that I was also greatly dissatisfied with that particular report and, had I been in town and available to review it before presentation, the report would not have left this office.

Your many points regarding the omission of pertinent material are valid and, as such, we will not require not expect payment for the work done.

I trust that our past associations indicate that this report is in no way representative of the work S.E.A. has built its reputation upon; future work will most assuredly be of the caliber S.E.A. prides itself upon.

Sincerely,

James A. Briscoe

JAB/cmd  
P-14

Fischer-Watt Mining Co. Inc.  
P. O. Box 402  
Oatman, AZ 86433

August 6, 1979

REVIEWED

AUG 7 1979

By [Signature]

Southwestern Exploration Associates  
4500 E. Speedway, Suite 14  
Tucson, AZ 85712

Dear Jim:

After waiting so long I was greatly disappointed by the Metallurgical testing report submitted by Dick Hewlett, July, 1979. The report contains no documentation of the testing procedures and results which could be used for either duplication of Dick's test work or calculation of cash flows. To be more specific I will identify some of the more serious omissions.

- 1) page 1, line 4 - 1-Very high recovery - Very high is meaningless without being quantified.
- 2) page 2 - Process chemistry. I feel it is essential to show the probable chemical reactions for each solvent and to identify the solvent concentration and solvent consumption. Without this information it is impossible to make preliminary cost and cash flow projections.
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Sincerely,

*Perry*  
W. Perry Durning,  
Chief Geologist

SOUTHWESTERN  
EXPLORATION ASSOCIATES  
6783 CAMINO PRINCIPAL  
TUCSON, ARIZONA 85715

(602) 885-2319

DAY/TIMER

Time-Saver

LETTER

IN REFERENCE TO:

Keys to SEA  
offices - *Hand Delivered*

AIRMAIL ☐ FIRST CLASS MAIL ☐ INTER-OFFICE ☒

FOR

*R.F. Hewlett*

HOW TO USE THIS

DAY/TIMER

Time-Saver

LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

REPLY

FOLD

DATE

*8/7/79*

DATE

FOLD

*Dick,*

*I have received from you today in my office here in Tucson, as part of your resignation from SEA Hydromet Inc. and the management of the Tombstone project: one (1) SEA Inc Front Door key one (1) interior Door key and one (1) silver key to the 71 minerals building in Tombstone*

SIGNED

SIGNED

*Richard F. Hewlett*

# Dusty Escapule

REVIEWED

AUG 3 1979

By

JMB

## PROJECT ITINERARY

### 1. COMPLETE CRUSHER

TO COMPLETE THE CRUSHER WILL CONSIST OF INSTALLING PROTECTIVE COVERS OVER THE DRIVE LINE AND V-BELTS, ALONG WITH SETTING IT UP IN AN AREA SUTIBLE FOR CRUSHING SAMPLES.

### 2. COMPLETE BRUSHING

THIS WILL TAKE TWO MEN ONE DAY TO BRUSH BACK 25 FT AND THE FULL LENGTH OF THE CONTENTION CUT.

### 3. SAMPLE NORTH END OF CONTENTION CUT

IT WILL REQUIRE TWO MEN ONE DAY TO ROCK CHIP SAMPLE THE NORTH END OF THE CONTENTION CUT.

### 4. REMOVE ORE FROM NORTH & SOUTH END OF NEW PAD

THIS WILL REQUIRE THE JD-310 FOR 16.5 HRS TO REMOVE THE ORE AND 16.5 HRS. TO REPLACE THE ORE AFTER SEALING OF THE PAD.

### 5. SEALING OF NEW PAD

THIS WILL REQUIRE A THIN LAYER OF MUD JELLY SPREAD OVER THE PAD AND POSSIBLY ANOTHER LAYER OF SLIME TAILS OVER THE MUD-JEL.

### 6. BARREL TESTING

THIS WILL REQUIRE BUILDING BENCHES TO SET THE BARREL TESTS ON. THE LUMBER THAT WAS USED ON THE PLANT BENCH WILL BE USED



AUG 8 1979

By JRM

## PROJECT ITINERARY

## 7. CRUSHING OF SAMPLES

THIS WILL REQUIRE ONE MAN TAKING THE SAMPLE TO THE CRUSHER WHERE IT WILL BE HIS RESPONSIBILITY TO CRUSH THE SAMPLE, KEEPING ACCURATE RECORD OF THE SAMPLE NUMBER.

## 8. SAMPLE SHAKER

WE WILL HAVE TO PURCHASE A SAMPLE SHAKER IN ORDER TO BE ACCURATE WITH THE FLASK VACUUM TEST. IF ONE IS UNAVAILABLE FOR PURCHASE IT WILL TAKE ONE MAN 8 HOURS TO BUILD ONE. THIS WOULD COST APPROX. \$100.00; THIS WOULD BE A BOX TYPE SHAKER

## 9. PREPARATION FOR A.A.

AIR COMPRESSOR

AIR REGULATOR

AIR FILTER

VOLTAGE REGULATOR

BENCH OR TABLE

## 10. TESTING ORE ON PAD

AFTER ORE HAS BEEN REPLACED ON PAD, SPRAY PAD AND PRECIP WITH SMALL PLANT



AUG 8 1979

By HR

## EQUIPMENT INVENTORY

## EQUIP. OWNED BY ESCAPULE BEDDING

1. JOHN DEERE 310 BACKHOE
2. WATER TRUCK
3. DUMP TRUCK
4. PRECIP PLANT.
5. CRUSHER
6. BALL MILL
7. LABORATORY FACILITIES
8. MISC. HAND TOOLS, PIPE WRENCHES, DRILLS, ECT.
9. PLATFORM SCALES
10. FUEL PUMP

## EQUIP. OWNED BY T.D.C.

1. 1952 UCLID SCRAPER
- 2 50 HP 2 STAGE PUMP
3. 600 GAL STORAGE TANK
4. 1,750 GAL. STORAGE TANK

## EQUIP. OWNED BY TOM COLVIN

1. 3" PUMP
2. COOL WATER CAN
3. MISC. ELECTRIC WIRE
4. SWITCH BOXES
5. 6 FT LEVEL

## EQUIPMENT OWNED BY ROBERT COWAN

1. D-6 B CAT
2. NO 12. ROAD GRADER
3. TRACTOR & TRAILER LOWBOY

AUG 8 1979

By JRB

## EQUIPMENT + INVENTORY (CONT.)

## EQUIP. OWNED BY S.E.A.

1. 8 C-65E FILTERS
2. 6 3IN BALL VALVES
3. 6 3IN 3WAY HAYWARD BALL VALVES
4. 16 1½IN BALL VALVES
5. 4 4IN CHECK VALVES
6. 4 4IN BALL VALVES
7. 1 25 HP. ELECTRIC MOTOR
8. 1 25 HP. MAGNETIC STARTER BOX
9. 1 50 HP. MAGNETIC STARTER BOX
10. 1 10 HP. ELECTRIC MOTOR
11. 1 SET OHAUS GRAM SCALES
12. 1 5,000 GAL STORAGE TANK
13. ZINK FEEDER
14. 2 NORELCO FLOOD LIGHTS
15. 1 60 AMP G.E. SERVICE BOX
16. 1 100 AMP ITE SERVICE BOX
17. 1 200 AMP G.E. SERVICE BOX
18. 1 3 KVA. TRANSFORMER

## TOOL AND EQUIP. OWNED BY Ed RICE

1. STEP LADDER
2. HAND SAW
3. EXTENTION LADDER
4. SOCKET SET ½" + ¾" IN DRIVE
5. OPEN AND BOX END WRENCHES
6. TOYOTA PICKUP.

## TOOL AND EQUIPMENT OWNED BY DUSTY ESCAPULE

1. SKILL SAW
2. EXTENTION CORDS
3. 25 GAL BUTANE BOTTLE
4. 5 GAL BUTANE BOTTLE



AUG 8 1979

By AB

## EQUIPMENT INVENTORY (CONT)

EQUIP. OWNED BY DUSTY ESCAPULE, (CONT)

5. 3 5 GAL GAS CANS
6. 2 55 GAL. DIESEL BARRELS
7. SOCKET SET
8. END WRENCHES
9. 24" PIPE WRENCH
10. 18" PIPE WRENCH
11. ELECTRIC DRILL WITH DRILL BITS
12. CHAINS
13. MISC. TOOLS

AUG 8 1979

By J.D.

## MAN HOURS ON ESCAPULE GEODESIC EQUIP.

### 1. WATER TRUCK

#### A. TOTAL HOURS

24 TWO MAN HOURS

#### B. SUMMARY

DICK HEWLETT MADE ARRANGEMENTS WITH E.H. ESCAPULE FOR THE USE OF A 1949  $1\frac{1}{2}$  TON TRUCK FOR THE PURPOSE OF A WATER TRUCK. THE TRUCK NEED REPAIRS AND THE INSTALLATION OF A 1,350 GAL TANK.

THE REPAIRS ON THE TRUCK CONSISTED OF, REPAIR BRAKES, REPAIR REAR MOTOR MOUNT, REPAIR TIRES, CHANGE OIL & FILTER, REPLACE ALTERNATOR & REGULATOR, A 1,350 GAL TANK WAS MOUNTED ON THE TRUCK WITH A  $1\frac{1}{2}$ " CENTRIFICAL PUMP POWERED BY A 7HP BRISTOL-STRAITON ENGINE.

### 2. DUMP TRUCK,

#### A. TOTAL HOURS

10 ONE MAN HOURS

#### B. SUMMARY

THE DUMP TRUCK NEEDED THE BRAKES REPAIRED OIL AND FILTER CHANGED AND TWO TIRES REPAIRED.

### 3. PRECIP PLANT

#### A. TOTAL HOURS

10 TWO MAN HOURS

#### B. SUMMARY

THE PRECIP PLANT WAS NEEDED FOR TEST LEACHING. THE PLANT WAS SET UP STATIONARY AND REQUIRED IT TO BE MOUNTED ON A TRAILER SO IT COULD BE USED BY US AND E.H. ESCAPULE.



REVIEWED

AUG 8 1979

By

*[Signature]*

## MAN HOURS ON ESCAPULE GEODESIC EQUIP. (CONT.)

### 4. CRUSHER

A TOTAL MAN HOURS (16 TWO MAN HOURS)

#### B. SUMMARY

AFTER NUMEROUS PHONE CALLS TO OBTAIN A SMALL CRUSHER IT WAS FOUND THAT NONE WAS AVAILABLE IN ARIZONA. AFTER TALKING WITH ERNIE ESCAPULE ARRANGEMENTS WAS MADE TO USE HIS 6'X8" JAW CRUSHER. THE CRUSHER IS MOUNTED ON A MOBILE FRAME STRUCTURE AND POWERED BY A V-8 FORD ENGINE. TO MAKE THE CRUSHER OPERATIONAL IT WAS NECESSARY TO HOOK UP A DRIVE LINE AND PLACE PROTECTIVE GUARDS OVER THE DRIVE LINE AND V-BELTS. AT PRESENT TIME THE DRIVE LINE HAS BEEN COMPLETED LEAVING THE PROTECTIVE GAURDES TO COMPLETE.



# REPAIR HOURS ON EQUIPMENT

REVIEWED

AUG 8 1979

By

*[Signature]*

## MAN HOURS ON Tom Colvin's Equip.

### 1. 3" PUMP

#### A. TOTAL HOURS

12 ONE MAN HOURS

#### B. SUMMARY

MR COLVIN LET US USE A 3" STAINLESS-STEEL POSITIVE DISPLACEMENT PUMP. THE PUMP WAS WITHOUT A BASE OR A MOTOR. WE MANUFACTURED A BASE OUT OF 12" CHANNEL IRON. A 25HP ELECTRIC MOTOR WAS PURCHASED AT HEMCO INC., 3938 E. PIMA, TUCSON. THE MOTOR WAS THEN MOUNTED AND COUPLED TO THE PUMP.

#### C. DOWN TIME DUE TO BREAKDOWNS

1 1/2 HRS TO CLEAN IMPELLERS

8 HRS TWO TRIPS TO TUCSON, MOTOR BURNED OUT.

# REPAIR HOURS ON EQUIPMENT

REVIEWED

AUG 8 1979

By

JR

## MAN HOUR ON TDC. EQUIPMENT

### 1. 1952 EUCLID SCRAPER

#### A. TOTAL MAN HOURS

22 TWO MAN HOURS = 44 mh

#### B. SUMMARY

AFTER RECEIVING PERMISSION FROM TOM PITCHER OF TDC. TO USE THE SCRAPER THAT WAS LEFT ON THE PROPERTY BY 71 MINERALS. A VISUAL INSPECTION WAS MADE TO DETERMIN THE COST TO MAKE IT OPERATABLE. IT WAS CONCLUDED THAT IT WOULD BE POSSIBLE BY INSTALLING BATTERIES, CHANGING MOTOR OIL, ADD HYDRAULIC OIL AND WATER. AFTER INSTALLING THE BATTERIES IT WAS FOUND THAT THE STARTER DID NOT WORK. THE STARTER WAS REBUILT AND THE SCRAPER STARTED. THE SCRAPER SEEMED TO SOUND IN FAIR SHAPE, OTHER THAN A FEW MINOR ITEMS THAT NEEDED TO BE REPAIRED. SUCH AS REPLACE GAUGES, REPAIR AIR LEAKS, AIR TIRES LUB ALL FITTING.

Cost

### 2. 50 HP TWO STAGE PUMP.

#### A. TOTAL MAN HOURS (14 ONE MAN HOURS

#### B. SUMMARY

AFTER RECEIVING PERMISSION FROM TOM PITCHER, OF T.D.C. TO USE THEIR PUMP FOR THE PURPOSE OF A SPRAY PUMP IT WAS INSTALLED WITH T.D.C. 1,750 GAL STORAGE TANK. AFTER VERY FEW HOUR OF USE THE BEARINGS AND SEAL BURNED OUT ON THE PUMP. THE NECESSARY PARTS WERE LOCATED IN TUCSON. THE PUMP WAS REPAIRED WITH TWO DAYS DOWN TIME



REVIEWED

AUG 8 1979

By HJB

MEMO:

TO: TOM SCHLAUS

RE: EOCENE LOADER

FROM: DUSTIN ESCAPULE

DEAR MR. SCHLAUS

IT HAS BEEN BROUGHT TO MY ATTENTION BY DICK HEWLETT THAT GEORGE JEWITT IS REQUESTING APPROX. \$1,900.00 FOR INTERNAL DAMAGES TO THEIR JOHN DEER LOADER. MR. JEWITT CLAIMS THAT THESE DAMAGES ACCURED DURING THE TIME THAT WE WERE USING THE LOADER, POSSIBLY WHEN BUD ANDERSON WAS OPERATING THE LOADER AND STALLED DUE TO MECHANICAL FAILURE CAUSING HIM TO LOSE CONTROL DUE TO LACK OF BRAKES OR STEERING. BUD ANDERSON UNABLE TO CONTROL THE LOADER RAN INTO THE SRAPER. THIS CAUSED DAMAGE TO THE BUCKET OF THE LOADER AND WAS ALL THAT I COULD SEE WAS DAMAGED ON THE LOADER.

IT IS MY OPINION THAT THE INTERNAL DAMAGES DID NOT ACCURE AT THE TIME OF THIS ACCIDENT BUT ARE THE RESULT OF NEGLIGENCE OF MAINTENANCE TO THE MACHINE.

I HAVE BROUGHT TO MR. JEWITT'S ATTENTION PRIOR TO THE ACCIDENT THAT THE BUSHINGS ON THE ARTICULAR STEERING WERE VERY BADLY WORN CAUSING THE DRIVE TRAIN TO BE OUT OF ALIGNMENT AND WOULD CAUSE DAMAGE UNLESS REPAIRED

SOUTHWESTERN  
EXPLORATION ASSOCIATES  
6783 CAMINO PRINCIPAL  
TUCSON, ARIZONA 85715

(602) 885-2319

DAY/TIMER

Time-Saver

LETTER

P-418

IN REFERENCE TO:

Report on Tombstone  
project

AIRMAIL ☐

FIRST CLASS MAIL ☒

INTER-OFFICE ☐

FOR Messrs Tom Schloss - Dwight Lee  
of FAMCU & Dr. John Dean

HOW TO USE THIS

DAY/TIMER

Time-Saver

LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail  
the white copy to us and keep the pink copy for your files.  
You'll save time and effort, and we'll have your answer  
much faster! Thank you.

MESSAGE

REPLY

Report for 8/7/79

DATE

8/8/79

DATE

FOLD

(1) Enclosed please find daily summary  
report & daily reports from R.F. Hewitt  
Aug 1-7, 1979 totaling 9 pages

(2) Project schedule, inventory & letter  
re: the Jewett Front End loader  
from Dusty Escapule - total 10 pages

(3) R.F. Hewitt terminated as of evening  
of 8/7/79 (4) Mr. Al Waterson was  
hired, starting Wed. Aug 8, 1979 at \$2500/month  
payable in the following way:

on an as needed basis.

A. \$1350/week for present  
226.92/week wages &  
interest if the project  
gets off the ground & is  
profitable.

(5) J.A. Briscoe & T.E. Waltrip  
will take over on 8/8/79

A. Waterson & D. Escapule  
will remain -  
others will be used

SIGNED

RE-ORDER FORM No. B2352L

© DAY-TIMERS, Allentown, Pa. 18001

SENDER - KEEP THIS COPY FOR YOUR FILE. MAIL WHITE AND PINK COPIES INTACT.

8/8/79

Checks written from acct after  
receipt of \$5,000<sup>00</sup> per T.C. from  
D. Lee

Robert Cowan	2,500 <sup>00</sup>
Escapule Geodesic	250 <sup>00</sup>
Nellie Cashman	140 <sup>00</sup>
Tombstone Development Corp.	180 <sup>00</sup>
Payroll	1,359 <sup>00</sup>

Total	4,429 <sup>00</sup>
-------	---------------------



Copy For JAB F, L.

To: Tom Schloss, Dwight Lee, FAMCO  
From: James A. Briscoe  
Date: August 9, 1979

RE: Daily Progress Report Tombstone Project, 8/8/79, Cochise County, Arizona

In the morning preparations were made for JAB and TEW's (Thomas E. Waldrip, Jr.) departure for Tombstone. This included gathering of equipment, maps, checks from the Accounting Department for payroll and for suppliers and subcontractors who had previously done work at Tombstone.

Five thousand dollars was confirmed as having arrived from New York to the Tombstone general account that morning - transmitted by Dwight Lee at the request of JAB. An itemization of these checks was mailed 8/8/79 in the morning with the previous day's report.

As mentioned in yesterday's report, Mr. Richard F. Hewlett was terminated from project management on 8/7/79. At approximately 10:30, JAB and TEW departed for Tombstone. At approximately 12:15, JAB and TEW met Dusty Escapule and spent approximately 1/2 hour with him in the Wagon Wheel Cafe discussing RFH resignation and management change. Dusty Escapule enthusiastically received this news and indicated a willingness and enthusiasm to work with JAB and TEW. He indicated that increased cooperation from Ernie Escapule and Messers Charlie and Louie Escapule could also be expected.

A chain of command was established with FAMCO at the top flowing through JAB then to TEW then to Mr. Al Watterson and to Dusty Escapule and others who might be employed as the project progresses. It was explained that detailed time records, budget projections, cash record and short, concise, meaningful daily reports would be required.

Various aspects of the mining and metallurgical operation were discussed and after these have been more thoroughly reviewed by all parties at the site, as well as discussed with Dave Rabb and compared with the experience of the State of Maine mining operation, specific suggestions will be made.

However, briefly and most importantly on these suggestions are as follows:

1. Substantial danger may exist from open stopes below the Contention open cut. Extreme hazard may be involved in driving heavy equipment across the Glory Hole Area. At this point no one is sure how to alleviate this danger but working from the side of the cut with a long reach backhoe is probably the most viable. Safety considerations must come first in this operation.

2. The sides of the cut are raveling and slabby because of its echelon and parallel vein structure. This causes dangers from overhangs and falling of several pounds to several tons and possibly several tens of tons. A substantial rock fall could cause death or injury. The sides must be slabbed down or barred down by some method. Some work has been done with the small Ernie Escapule backhoe, but this is inadequate to the task.
3. Orientation sampling with smaller samples should be made prior to large barrel tests and still larger heap tests.
4. Mining the open cut by scraper is not appropriate because of;  
a) the danger of falling into an open stope in the old Contention workings; b) inability to selectively mine ore.

Dusty Escapule again indicated enthusiasm for the project and JAB reiterated that he expected complete honesty and candor in all relationships with Dusty as well as clear and concise constructive comments from him on all matters.

Dusty's truck is the only one being used at Tombstone and he indicated that he desired a formal method of compensation for its use. We agreed that \$.20 per mile and \$10.00 per working day would be agreeable - and I strongly recommend this be instituted immediately. Mileage is to be calculated only on business associated mileage - not personal mileage, and records will be kept on standard S.E.A. auto mileage forms.

We then inspected the S.E.A. office/apartment at the Nellie Cashman Apartments. It is still in the process of being painted but should be ready Thursday or possibly Friday. JAB and TEW as well as other personnel involved with the project will stay at this apartment in order to keep costs down and avoid motel charges. The rent is \$140.00 per month. A telephone will be installed in this apartment Friday as well as phone installation at the 71 Minerals Plant.

We then drove to the 71 Minerals Plant and inspected it and the inventory. Material has been moved from the Willet truck into the 71 Minerals Plant. The gun people are still in the plant but they must be vacated by Friday at which point we will have its complete floor space available to us. The value of this plant building is \$35,000 to \$40,000. Monthly rental from TDC is \$180.00 per month.

We then met Al Waterson at approximately 1:30 and I reviewed with him Dick Hewlett's resignation and asked whether he had any inseperable loyalties to RFH. He explained that they were close friends but that he understood the situation and this would not interfere with his work for the Tombstone Project. He indicated a willingness and capability to work with Dusty Escapule and I explained to him the needs for close record keeping and complete candor and truthfullness in all dealings with company personnel and associated parties.

Tom Schloss, Dwight Lee  
August 9, 1979  
Page 3

We inspected the brushing work being done by O.C. Miller and Norman Scruggin. This is being done in order that JAB can carefully and in detail map the geology in and surrounding the Contention open cut. This work can be improved and speeded up as it is not going as rapidly as I had anticipated. On Thursday we plan on getting a pitchfork and an extra saw as well as possibly a brush hook. We also anticipate paying Miller and Scruggin's on a job basis, (piece basis) rather than hourly in order to give them some incentive to wrap up the work. I anticipate this job will take until Friday to complete but it is critical so the mapping can be done in a careful efficient manner.

The remainder of the afternoon was spent in "fence mending". JAB, TEW, DE, and AW drove to the Robert Cowan Ranch which happens to be the largest in southern Arizona, and gave him a check for \$2,500.00. However, he had added up the time charts from the time clock on the bulldozer and found that we still owed him another \$875.00 (see Attachment 1). I said that I would get this to him next week so that he is fully paid. He also indicated a strong willingness to work with us in the future and he indicated that future transactions would be on a more formal basis with time cost estimates - informal written contacts, careful time keeping, and prompt payment for equipment useage.

We then drove back to Tombstone and stopped to visit the State of Maine mine area and the Escapule operations. We spent approximately 45 minutes talking with Louie Escapule. Charlie and Bailey Escapule had left for Tucson. Louie indicated a strong willingness to work with us under the new management situation. We inspected work that he had been doing with the new International Trackmounted hydraulic backhoe and found it to be very effective and a likely tool to use in mining operations in the Contention area. Its use would allow: a) selective mining of potential high grade streaks in the Contention ore, b) operations from a safe distance from underground workings which otherwise might result in loss of equipment and life.

Plans for Thursday, 8/9/79, were discussed with AW and DE. They will get together immediately in the early morning and itemize lists of necessary equipment, costs, and their concepts of a general operating outline. Both of these gentlemen have detailed experience with this type of operation and are capable of making this input. At approximately 10:00 Tom Waldrip will start working with them in order to get this equipment into a cash flow budget projection.

At 5:06 JAB and TEW left for Tucson in order to attend an AIME professional meeting and talk entitled, "Technology for Processing Low Grade Gold and Silver Ores" by George Potter, Mountain States Engineers. We arrived in Tucson at 6:39 and prepared for the meeting.

At the AIME meeting I talked with Mr. Dave Rabb regarding the situation at Tombstone and solidified our meeting for Friday morning, describing what we require of him. Mr. Potter's talk was then given. The information was quite timely and useful to our Tombstone Project and several new ideas were generated. We have a tape recording of Mr.

Tom Schloss, Dwight Lee  
August 9, 1979  
Page 4

Potter's talk available for any interested personnel from the project or FAMCO. After the talk, I talked with Charlie and Bailey Escapule, whose equipment was featured in some of the slides. I informed Charlie of the ~~some of~~ the changes at Tombstone. He expressed great enthusiasm with working with me and expressed a desire to help in any way he could. He also expressed without my asking, his willingness to do AA assaying work for us. I also indicated that he could get delivery of a reconditioned AA unit from the middle west and if he could get an order from us he would fill out an order for four machines which should lower the cost to all parties. Approximate cost would be \$2,500.00 and these machines would be delivered by air freight. I highly recommend that we take Charlie up on this. If we do not obligate for this group deal - we can do it later at a higher cost on our own. I think the AA is absolutely vital to our work in Tombstone and feel that we should take advantage of this kind offer.

James A. Brisoe

JAB/mh  
P-418

Nº 1455

# FRONTIER EQUIPMENT COMPANY

P. O. Box 908 — Tombstone, Arizona 85638  
Phone 457-3447 or 457-2283

Date Ordered

Completion Date 8/8/79

Sold To:

Tombstone Exploration

Ordered By:

☐ Bid Price

Materials Used

Cost

## DESCRIPTION OF WORK

108 hrs at \$35  
2 hrs 1 \$35

Dozer

3805.00

Grader

20.00

Backhoe

Other

3875.00

Credit 2 check  
R.E.C. CK # 1021

3000.00

875.00

Mileage

TOTAL

Materials

Sales Tax

Finance Charge

Balance Due

875.00

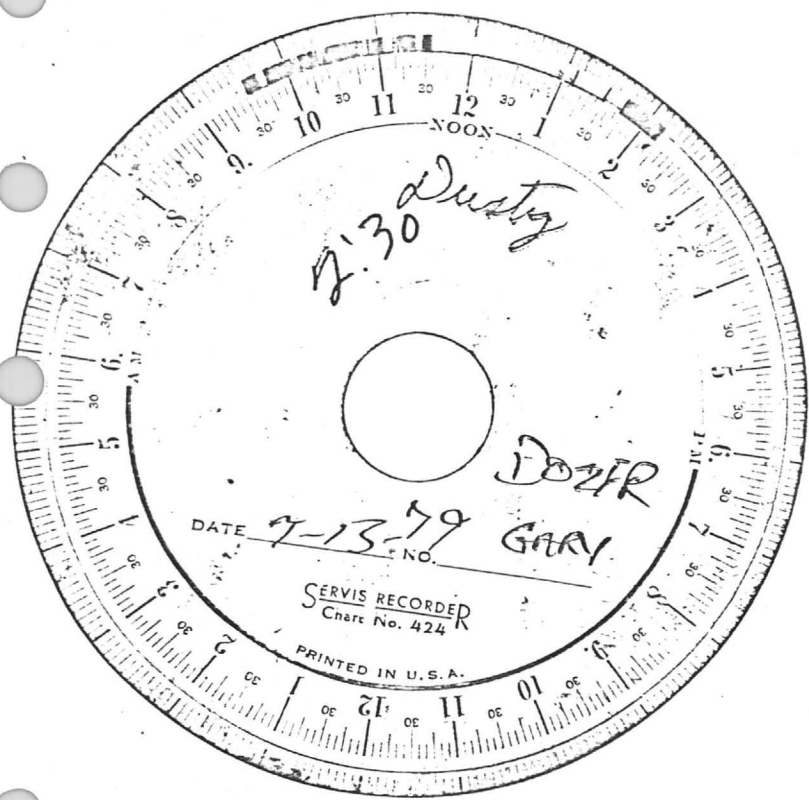
Total Materials Used

Sales Tax

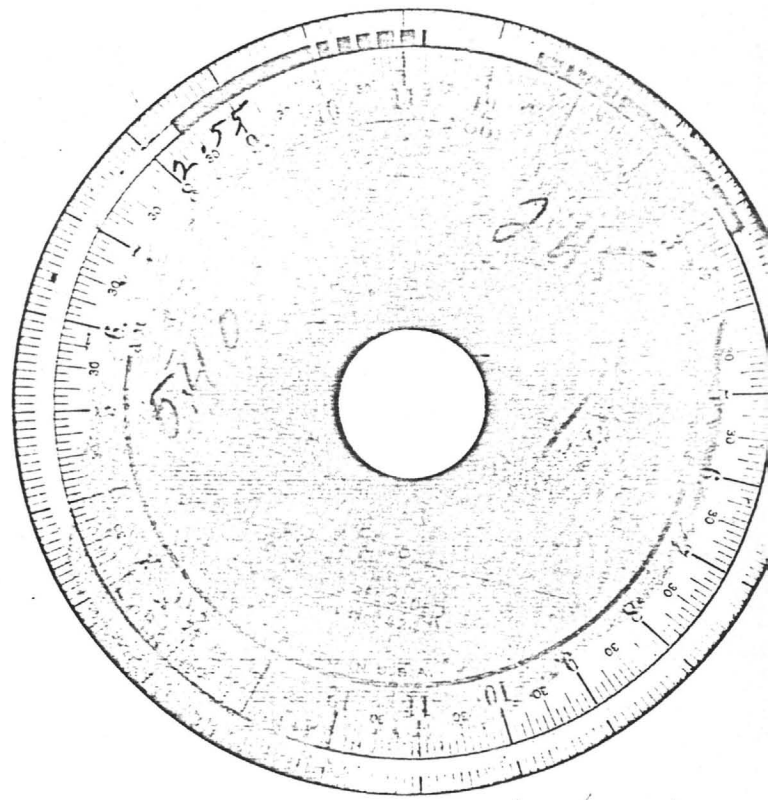
TERMS: Balance is due upon receipt of this statement and becomes delinquent if not paid by 10th of following month of completion date. Finance charge of .833 per month charged (ANNUAL PERCENTAGE RATE 10%) on unpaid balance if not paid by the 10th of the month following completion date. To avoid additional finance charge pay balance due before 10th of each month there after.



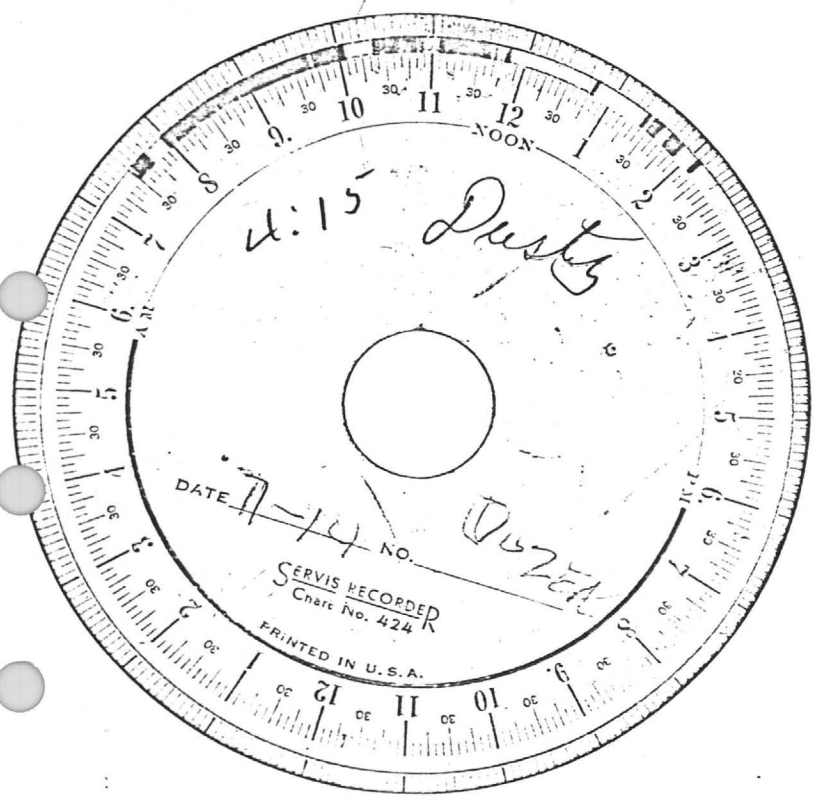
7/13/79



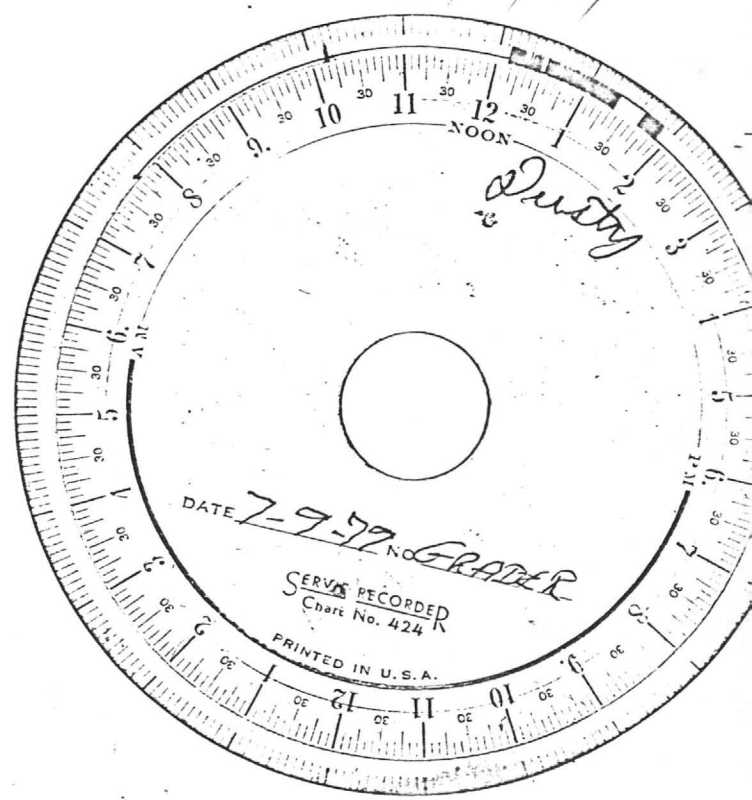
7/13/79



7/14/79

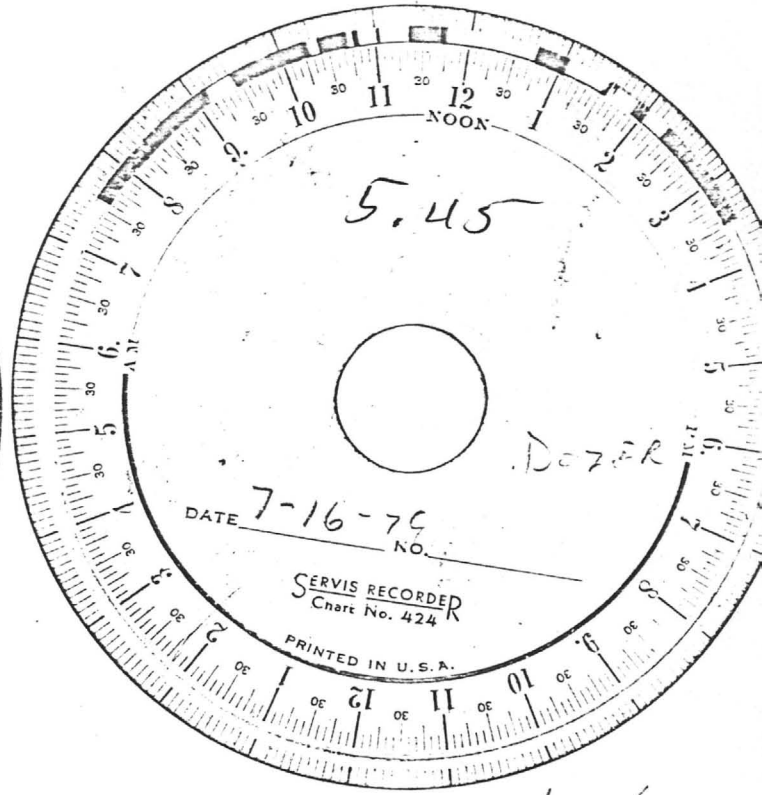
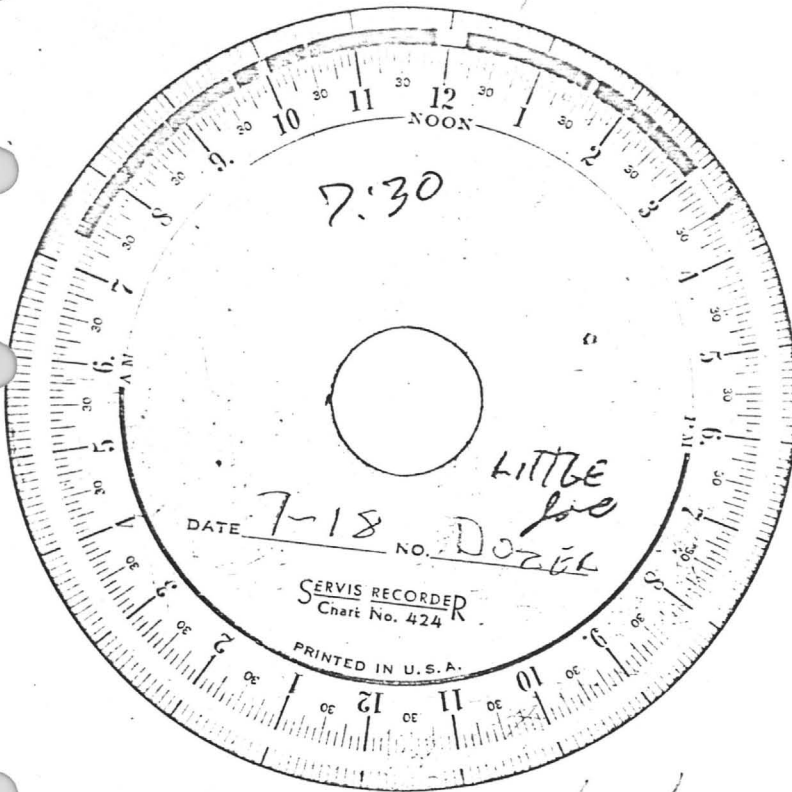


7/9/79

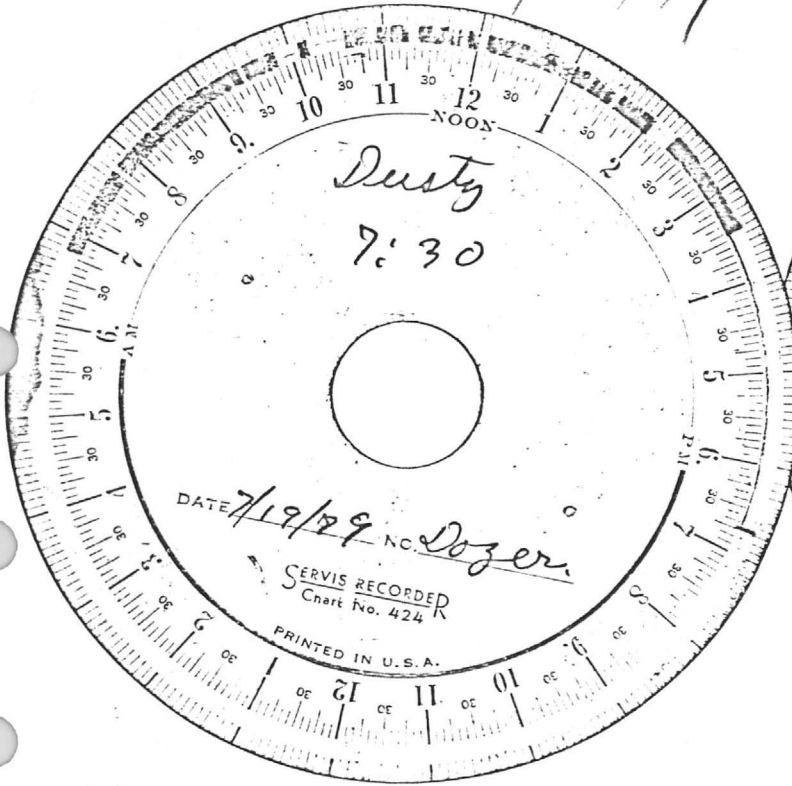


AH 1  
page 3 of 4  
7/16/79

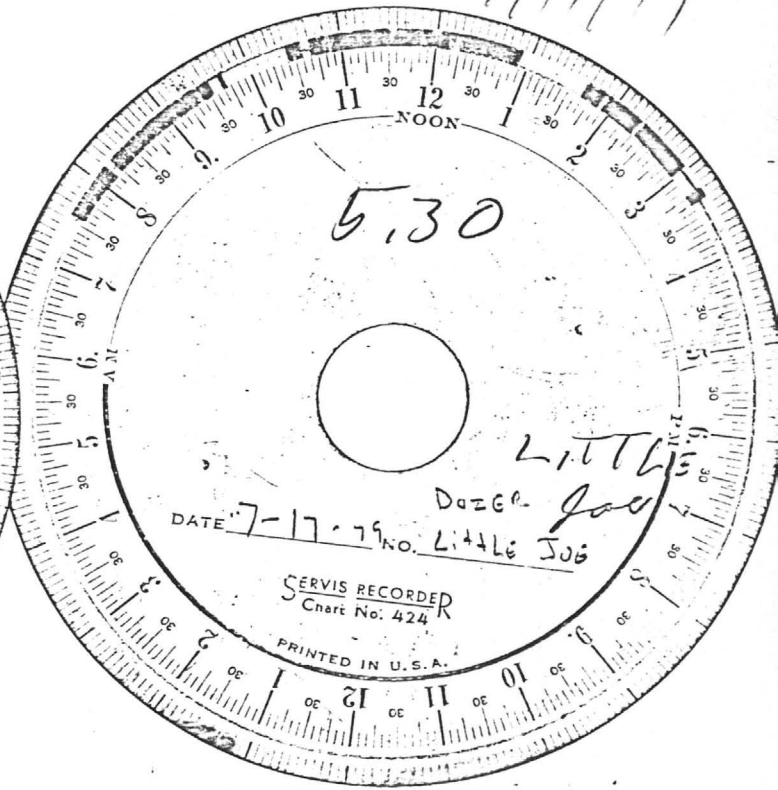
7/18/79



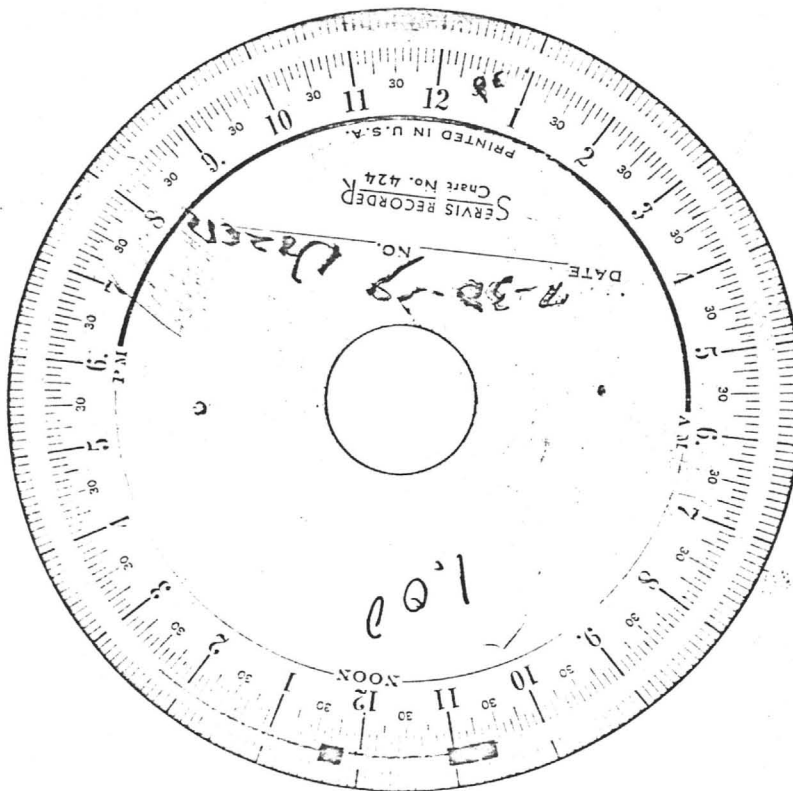
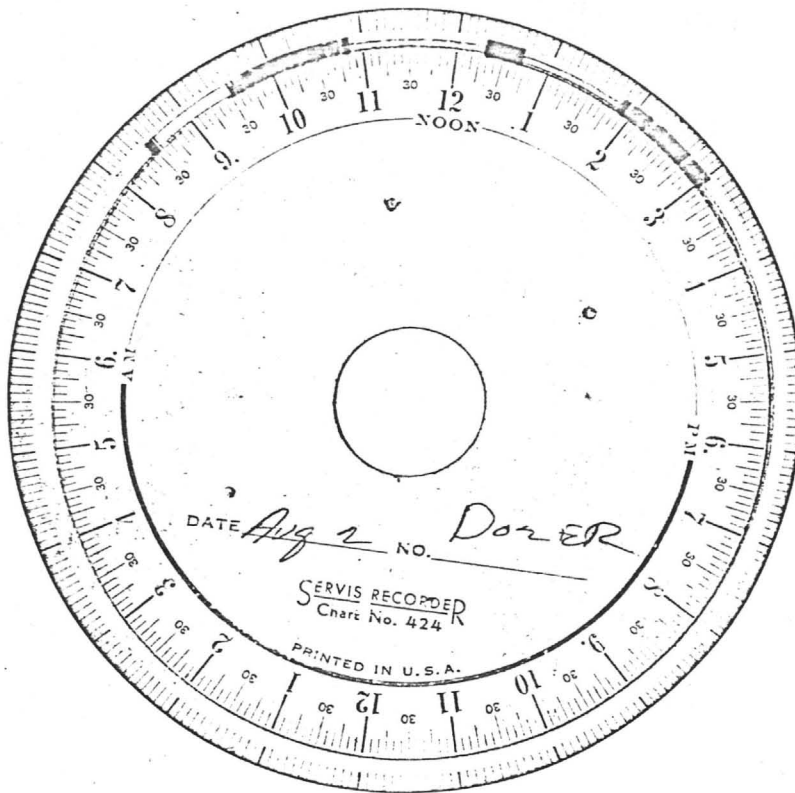
7/19/79



7/17/79



ATT 1  
 103-424  
 8/2/79



8/30/79

JAB

MEMO

To: S.E.A. Staff

From: JAB

Date: August 9, 1979

Re: RESIGNATION OF RICHARD F. HEWLETT AS PROGRAM MANAGER  
OF P-418 AND VICE PRESIDENT, S.E.A. HYDROMET, INC.

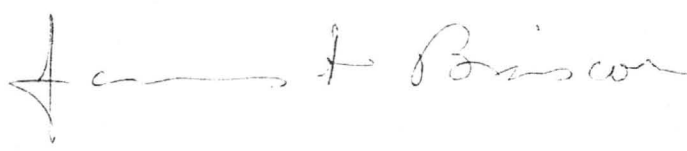
This memo will serve as notice to all S.E.A. personnel that, effective August 7, 1979 at 5:30 p.m., Richard F. Hewlett is no longer associated with S.E.A. Hydromet, Inc., Southwestern Exploration Associates, Inc., or the Tombstone Project, (P-418).

This resignation was mutually agreed upon by Dick and myself, as his association with the Tombstone Project was simply not working out as originally planned.

Tom Waldrip will be handling much of the Tombstone Project in the future, with myself as backup to this activity. This will, of course, put a strain on the workloads of both of us and will necessitate our being out of the office with greater frequency during the coming months. Your cooperation with this management change will be most appreciated.

Be assured that the Tombstone Project still holds good potential for S.E.A. -- our trip to Tombstone yesterday, August 8, 1979, re-assured both Tom and myself that we have the cooperation of the workers and the townspeople and suppliers with whom Dick had worked. We're confident that, with this cooperation and the changes in management, the Tombstone Project can be turned around.

JAB:cmd  
P-418



DAY/TIMER

time-Saver

Southwestern Exploration Associates  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712

(602) 795-6097

LETTER

IN REFERENCE TO:

P-478  
Tombstone Proj.  
Cat. DGB Rental

FIRST CLASS MAIL ☐ INTER-OFFICE ☐

FOR

Mr. R. E. Cowen

P.O. Box 908

Tombstone, Arizona 85638

HOW TO USE THIS

DAY/TIMER

time-Saver LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

REPLY

FOLD

DATE

8/9/79

I enjoyed meeting with you yesterday, and appreciate the use of the closer time cards which are enclosed. I'd like to apologize for my ~~late~~ inconvenience as our late payments may have given you. I hope to have your check for \$875 in the mail next week. I look forward to working with you in the future.

SIGNED

J. J. Benson

DATE

FOLD

SIGNED

DAY/TIMER

time-Saver®

REORDER FORM No. 82419L, DAY-TIMERS, Allentown, Pa. 18001



DAY/TIMER

Time-Saver

LETTER

Southwestern Exploration Associates  
 4500 E. SPEEDWAY, SUITE 14  
 TUCSON, ARIZONA 85712

(602) 795-6097

IN REFERENCE TO:

FIRST CLASS MAIL ☐ INTER-OFFICE ☐

FOR

HOW TO USE THIS

DAY/TIMER

Time-Saver

LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

REPLY

FOLD

DATE

8/9/79

DATE

8/9/79

FOLD

John mentioned a check  
 to Robert Cowan for  
 Cat rental agreement  
 to \$800 - He said you  
 be getting clearance on  
 this & that it should be  
 paid by next Thursday  
 8/16 - Just a reminder

SIGNED

Chris

We'll have to  
 put it in a  
 request for it  
 to FAMCO.  
 When the money  
 comes in we'll  
 pay Cowan  
 Thanks JB

SIGNED

Consultants in:

- Hydrometallurgical recovery
- Heap and conventional leaching
- Precious and base metals
- Uranium/Vanadium
- Tungsten
- Worldwide Mobilization



P-418  
Division of  
Southwestern Exploration Associates

4500 E. Speedway, Suite 14  
Tucson, Arizona 85712  
(602) 795-6097

## S.E.A. Hydromet, Inc.

August 9, 1979

Mr. Dusty Escapule  
Nellie Cashman Apts.  
Cottage #2  
121 E. 5th  
Tombstone, AZ 85638

Dear Dusty,

This letter is to confirm our conversation yesterday, August 8, 1979 with regard to the use of your 2 wheel drive,  $\frac{1}{2}$  ton pickup by S.E.A. Hydromet, Inc. in its operations in Tombstone, Arizona.

S.E.A. Hydromet, Inc. has agreed to pay a rate of \$0.20 per mile and \$10.00 per day for use of this vehicle only while on the job. In keeping with this agreement, your obligation is to keep records of the miles traveled. This record keeping must be done on standard S.E.A. Vehicle Mileage forms which must be turned in to the S.E.A., Inc. offices in Tucson at the end of each month. It is from these forms that reimbursement is made; therefore, these must be accurate and up to date.

If the above is agreeable to you, please indicate your approval and compliance by signing below.

Sincerely,

*Thomas E. Waldrip, Jr.*

Thomas E. Waldrip, Jr.  
Program Manager

*Dusty Escapule*      *Aug 11, 1979*  
Dusty Escapule      Date

:cmd  
P-418

Aug 13, 1979

Dear Mr. Bnscoe,

I have asked Mr. Rappaport to  
talk with you again regarding  
Dick's situation.

Thank you for your  
time.

Mary Hewlett

Southwestern Exploration Associates  
4500 E. SPEEDWAY, SUITE 14  
TUCSON, ARIZONA 85712

(602) 795-6097

LETTER

IN REFERENCE TO:

S.E.A. Hydromet Shareholders  
Meeting P-14

FIRST CLASS MAIL ☐

INTER-OFFICE ☐

FOR JIM

HOW TO USE THIS

DAY/TIMER

time-Saver

LETTER TO SAVE TIME.

Type or write your reply in the space below. Then mail the white copy to us and keep the pink copy for your files. You'll save time and effort, and we'll have your answer much faster! Thank you.

MESSAGE

REPLY

FOLD

DATE 8/17/79

Attached is the copy of notice we sent RFH on the Shareholders meeting today; also attached is the copy from Kittle's office from which I typed RFH's notice onto letterhead. On final examination before putting this meeting 'to rest' I noticed that, although the date was specified, August 17, the time was not(!) Sorry!! Somehow, 10:00 a.m. stuck in my mind, but that must have been from a previous meeting.

Anyway, perhaps RFH will be in sometime today afterall and I wanted to alert you of this possibility.

P-14

SIGNED

Chris

DATE

FOLD

SIGNED

WAIVER OF NOTICE OF SPECIAL MEETING

of

BOARD OF DIRECTORS

of

SEA HYDROMET, INC.

No Change  
on this  
Waiver  
chris

WE, the undersigned, being all of the Directors of the Corporation, hereby agree and consent that a special meeting of the Board of Directors of the Corporation be held on the date and at the time and place designated hereunder, and do hereby waive all notice whatsoever of such meeting and of any adjournment or adjournments thereof.

We do further agree and consent that any and all lawful business may be transacted at such meeting or at any adjournment or adjournments thereof as may be deemed advisable by the Directors present thereat. Any business transacted at such meeting or at any adjournment or adjournments thereof shall be as valid and legal and of the same force and effect as if such meeting or adjourned meeting were held after notice.

Place of Meeting: 4500 East Speedway Boulevard, Suite 14  
Tucson, Arizona

Date of Meeting:

Time of Meeting: 10:00 a.m.

DATED: 8/17/79

James A. Briscoe  
James A. Briscoe

New  
Material →



MINUTES OF SPECIAL MEETING

of

BOARD OF DIRECTORS

of

SEA HYDROMET, INC.

*New, revised  
material has  
been inserted.  
Chris*

A special meeting of the Board of Directors of the Corporation was held on the date and at the time and place set forth in the written Waiver of Notice, signed by all the Directors, fixing such time and place and prefixed the the Minutes of this meeting.

There was present James A. Briscoe, being the sole Director of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The only order of business dealt with the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona. Mr. Briscoe stated that this action was being taken for the reasons that the project is being managed in an inefficient manner, causing a financial burden on the project and the Corporation, the chemical solvents developed by Mr. Hewlett are not sufficiently effective in the heap leaching process, together with the application of the IPS system, and the soundness and integrity of the investments of those persons who have invested in the project may be jeopardized as a result of the foregoing. After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article IV  
Section 3 of the Bylaws of the  
Corporation, Richard F. Hewlett is  
hereby revoked as Vice-President of  
the Corporation and General Manager

of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona, for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of the IPS system, in connection with such project.


(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the heap leaching project currently being conducted by the Corporation in Tombstone, Arizona, is, in the judgment of the Board of Directors of the Corporation, in the best interests of the Corporation; and


FURTHER RESOLVED that the removal of Richard F. Hewlett as Vice-President of the Corporation and General Manager of the Corporation's heap leaching project in Tombstone, Arizona, shall become effective immediately, and Mr. Hewlett shall be notified of this action taken by the Board of Directors by way of a letter to him written by James A. Briscoe, the President of the Corporation, on its behalf.

There being no further business to come before the meeting, upon motion duly made, seconded and unanimously carried, the meeting was adjourned.

DATED: 8/17/79

  
James A. Briscoe

ATTEST:

  
James A. Briscoe

MINUTES OF SPECIAL MEETING

of

SHAREHOLDERS

of

SEA HYDROMET, INC.

New  
Material

A special meeting of the Shareholders of the Corporation was held at the request of the President of the Corporation on the date and at the time and place set forth in the written Notice of Special Meeting of Shareholders, signed by the President of the Corporation, fixing such time and place, and prefixed to the Minutes of this meeting.

There was present James A. Briscoe, the President of Southwestern Exploration Associates, Inc., the majority Shareholder of the Corporation, and Richard F. Hewlett, the other shareholder of the Corporation. Mr. Briscoe presided and acted as Chairman. He called the meeting to order, noting the presence of a quorum, and recorded the minutes of the meeting himself.

The first order of business dealt with the removal of Mr. Hewlett as a Director of the Corporation pursuant to Article III, Section 6 of the Bylaws of the Corporation. Mr. Briscoe stated that Mr. Hewlett was being removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and financial burdens on the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of

various types of ores, together with the application of the IPS system, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems.

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article III, Section 6 of the Bylaws of the Corporation, Richard F. Hewlett is hereby removed as a Director of the Corporation for the following reasons:

(1) Inefficient management of the heap leaching project currently being carried on by the Corporation in Tombstone, Arizona, resulting in disorganization of the project and the Corporation.

(2) The failure of the various chemical solvents developed by Mr. Hewlett to sufficiently increase the efficiency in leaching of various types of ores, together with the application of the IPS system, in connection with such project.

(3) Concern that the soundness and the integrity of the investments of those persons who have invested in such project may be jeopardized as a result of the aforementioned problems; and

FURTHER RESOLVED that the removal of Richard F. Hewlett as a Director of the Corporation shall become effective immediately.

The final order of business dealt with the amendment of Article III, Section 1 of the Bylaws of the Corporation changing the current number of Directors of the Corporation to one (1). After deliberation and discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED that pursuant to Article XII of the Bylaws of the Corporation, Article III, Section




1 of the Bylaws is hereby amended to provide that the current number of Directors on the Board of Directors of the Corporation shall number one (1). Article III, Section 1 of the Bylaws of the Corporation, as amended shall read as follows:

" The business and affairs of the Corporation shall be conducted by the Board of Directors who shall number no less than one (1) nor more than ten (10) and until changed at an annual or special meeting of the shareholders, shall number one (1). The directors need not be residents of the State of Arizona nor Shareholders of the Corporation and shall be elected at the annual meeting of the shareholders to serve until the next annual meeting of the shareholders and until their successors have been elected and qualified."

There being no further business to come before the meeting, upon motion duly made, seconded and carried, the meeting was adjourned.

DATED: 8/17/79

  
James A. Briscoe



# Office of State Mine Inspector

705 West Wing, Capitol Building  
Phoenix, Arizona 85007  
602-255-5971

P-418  
RECEIVED SEP 15 1979

## HEALTH AND SAFETY INSPECTION REPORT

COMPANY NAME: SEA HYDROMETALLURGY

MINE/PLANT NAME: Contention Mine & 71 Minerals Leach Area

ADDRESS: 4500 East Speedway, Suite 14  
Tucson, Arizona 85712

PHONE NUMBER: 795-6097

ID #:

INTRODUCTION: This report is based on an inspection made pursuant to Arizona Revised Statutes 27-124 and 27-128.

TYPE OF INSPECTION:

DATE OF INSPECTION: August 27, 1979

INSPECTION #: 1

### GENERAL INFORMATION:

EMPLOYMENT: 3 Full-Time  
1 Part-Time

WORK SCHEDULE:  
Hours per shift: 8  
Shifts per day: 1  
Days per week: 5

### COMPANY OFFICIALS:

Jim Briscoe, President  
Tom Waldrip, Assistant Manager  
Al Watterson, Plant Superintendent  
Dustin Escapule, Mine Superintendent

TYPE OF OPERATION: Open Pit

NEAREST TOWN: Tombstone

PRINCIPAL PRODUCT: Silver

COUNTY: Cochise

INSPECTION PARTY: Dustin Escapule, Mine Superintendent  
Vernon Dale, Deputy Mine Inspector

NOTE: Please complete the enclosed "Notice to State Mine Inspector" form and return it to this office. (For Contention Mine)

cc: SEA HYDROMETALLURGY

6/79

SEA HYDROMETALLURGY  
Contention Mine & 71 Minerals Leach Area  
8/27/79

NOTE: A backhole resting on the footwall side of the Contention vein is recovering ore from a shallow open cut. Underground markings have been opened up. The footwall appears to be reasonably firm. Some old mine maps have been recovered. It was recommended that the old mine workings be tied to the present surface.

/s/ Vernon Dale  
Deputy Mine Inspector



## Office of State Mine Inspector

705 West Wing, Capitol Building  
Phoenix, Arizona 85007  
602-255-5971

### RESPIRABLE MASS DUST MEASUREMENT METHOD

Our sampling incorporates the use of a Model RDM-101 Respirable Dust Monitor, an advanced instrument designed for on-the-spot measurements of mass concentrations of the respirable fraction or the total mass loading of dust particles.

The instrument utilizes a two-stage collection system for respirable dust measurements. (For total dust determination, the precollector is not used.) The first stage consists of a cyclone precollector for the retention of the nonrespirable fraction of the dust. The precollector retains essentially all particles larger than about 10 microns in diameter (spheres of unit density) and passes all particles smaller than 2 microns. Particles not retained by the cyclone are then collected by the second stage of the instrument. The second collection stage consists of a circular nozzle impactor-beta absorption assembly with a manually operated indexing polyester impaction disc. The dust collected by impaction on the thin plastic film increasingly absorbs the beta-radiation reaching a Geiger detector from a carbon-14 source.

The all-solid-state electronic programming and computing circuit provides the operator with a read-out directly in the units of mass concentration of air (milligrams per cubic meter).

The normal sampling time is 7 minutes, but this can be varied.

Measurements taken during this inspection follow.

RESPIRABLE DUST MEASUREMENT REPORT  
(GCA 7 minute sample unless otherwise noted)

COMPANY: SEA HYDROMETALLURGY

MINE/PLANT: Contention Mine & 71 Minerals Leach  
Area

7/79



## NOISE EXPOSURE REPORT

COMPANY: SEA HYDROMETALLURGY

MINE/PLANT: Contention Mine & 71 Minerals Leach Area

7/79



## Office of State Mine Inspector

705 West Wing, Capitol Building  
Phoenix, Arizona 85007  
602-255-5971

### NOTICE TO ARIZONA STATE MINE INSPECTOR

In compliance with Arizona Revised Statute Section 27-303, we are submitting this written notice to the Arizona State Mine Inspector (705 West Wing, Capitol Building, Phoenix, Arizona 85007) of our intent to start/stop (please circle one) a mining operation.

COMPANY NAME Tombstone Exploration Corp.

CHIEF OFFICER Thomas Schloss

COMPANY ADDRESS \_\_\_\_\_

COMPANY TELEPHONE NUMBER (212) 738-0032

MINE OR PLANT NAME Contention Mine & 71 minerals leach area

MINE OR PLANT LOCATION (including county and nearest town, as well as directions for locating by vehicle)

Tombstone, Cochise County  
71 minerals plant "on the side of the hill", Contention Mine & 71 minerals leach area

TYPE OF OPERATION open pit PRINCIPAL PRODUCT silver and gold

STARTING DATE July 1979 CLOSING DATE \_\_\_\_\_

DURATION OF OPERATION \_\_\_\_\_

PERSON SENDING THIS NOTICE \_\_\_\_\_

TITLE OF PERSON SENDING THIS NOTICE \_\_\_\_\_

DATE NOTICE SENT TO STATE MINE INSPECTOR \_\_\_\_\_

PLEASE NOTE: Any operation found operating, without having sent this notice to the Arizona State Mine Inspector, will be charged with a petty offense.

D R A F T

Richard F. Hewlett

Re: SEA Hydromet, Inc. /Tombstone Heap Leaching Project

Dear Dick:

I am writing to you after a great amount of thought and deliberation with regard to the current status of the heap leaching project in Tombstone.

As you are aware, the project has not progressed as both of us had hoped it would. The reasons for this may be numerous, but I sincerely believe that your association with the project is not working out as we had planned.

I am enclosing a Notice of Special Meeting of Shareholders of SEA Hydromet, Inc. which will serve as notice to you of an up-coming meeting of the shareholders of the Corporation and the items to be discussed at such meeting. As I indicated previously, I have given this matter much thought, and I think the only feasible solution to the problem is to terminate your involvement with the project so that it may possibly be turned around. The reasons for my decision will be discussed more thoroughly at the meeting, but briefly, my action is the result of what I consider inefficient management of the Tombstone project, resulting in financial burdens on the project and the Corporation, the failure of the IPS system to work as both of us had hoped it would, and my real concern for the investments of those persons who have contributed funds to the project. I certainly have an obligation to them, and I have received several inquiries from them with regard to the problems involving the project.

Of course, the termination of your involvement with the Tombstone project and as an officer of SEA Hydromet will not affect your shareholder status in the Corporation. If you wish, that is something which we can discuss later, but at present, it certainly will not be affected in any way.

I am confident that I can count on your support and cooperation in the transmittal of the various data and information relating to the project to those persons who will be involved with it hereafter. In this regard, I am sure you realize that a smooth transfer of such data and information is vital to the protection of the project. I am equally confident that you will continue to maintain good morale among those involved in the project and continue to encourage a friendly atmosphere among the project employees and the townspeople of Tombstone.

Please take note of the date and time of the special meeting of the Shareholders, which will be held at my office. I am looking forward to seeing you at the meeting so that we may discuss this matter in more detail in person.

Sincerely yours,

James A. Briscoe

NOTICE OF SPECIAL MEETING

of

SHAREHOLDERS

of

SEA HYDROMET, INC.

NOTICE IS HEREBY GIVEN that a Special Meeting of the Shareholders of the Corporation shall be held on August\_\_, 1979, at the principal office of the Corporation, 4500 East Speedway Boulevard, Suite 14, Tucson, Arizona.

Such meeting has been called by the President of the Corporation pursuant to Article II, Section 4 of the Bylaws of the Corporation, to discuss the following items:

- (1) The removal of Richard F. Hewlett as a Director of the Corporation.
- (2) The amendment of Article III, Section 1 of the Bylaws of the Corporation, changing the current number of directors of the Corporation to one (1).

DATED this \_\_\_\_ day of August, 1979.

James A. Briscoe, President