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Volume 8 ; Book 6

0127

# TOMBSTONE

Mining District

Cochise County

ARIZONA

Taped Phonecall Transcripts  
1979 to 1980

T.E.I. LAWSUIT TAPE TRANSCRIPTIONS

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J: Hi Tom.

T: How are ya?

J: Good, how are you?

T: Very well.

J: I finally got Leo Smith's letter agreement about 6:00 or 6:30 last night.

T: Ya.

J: And have looked it over a couple of times, and it looks pretty good to me.

T: Good.

J: Have you had a chance to discuss it with him at all?

T: He just read it to me, and you know, it looked alright to me. I read an earlier draft and, you know I don't know what this one says.

J: Ok. Do you hear me alright?

T: Yes I do.

J: Ok, I am on a new speaker phone so I just thought that I would check. Ok, there are several things which I think will make it a little bit nicer from my point of view, and I don't think will be objectionable to you. Shall we go through these?

T: Sure. Just a second.... let me get set up. Ok. I am ready for you.

J: Do you want me to go completely through it? Just to give it continuity?

T: Ya, go ahead and tell me what you had in mind.

J: Ok.

T: Lets see where that gets us, whether I can follow you or not.

J: Ok, well skip down to paragraph 4 where it says "operating unity", and let me just read the first sentence there. "It is anticipated that the project will be conducted by an entity formed by investors...."

T: Ya, I have that all in front of me.

J: Alright. "...formed by investors and Briscoe whereas investors individually shall assume no personal liability. Ok, lets stop right there. I would like to read that "where under investors and Briscoe individually shall assume no personal liability" since I don't want to shoulder all the liability any more than you do.

T: Ah shucks. Alright, but here is the problem, we have got to have some entity, has got to sign that lease, and see, Dick wanted me to sign the lease. Well I don't want to sign the lease. If he wants to sign the lease, he can go ahead and sign it, but I don't want to sign that lease. Do you see the problem?

J: No.

T: The lease says that we have to spend \$200,000 in "x" period of time, and \$90,000 advance royalties before you can pull out of the lease.

J: Ya.

T: Well, I don't want to be liable for that. You don't either.

J: Well, lets let Dick sign it then, as he already has.

T: Or, let us, I think we may have another way of working it.

J: Well, that's fine except I just don't want to be placed in the position of having all the liability.

T: We will work it out, no problem.

J: Ok, fine, I didn't really figure it would be. Lets see, let me flip forward here a little ways.

T: I mean if there is one, I would come back and figure out some other way of doing it.

J: Ya, ok, ya, I think that that is just fancy footwork or something or other, but I think you can see my point. You know, if you don't want to assume it, I don't want to assume it either. Because the only thing that would make it a real problem is is if indeed we don't get this cash input, and that is out of my hands really.

T: Yes.

J: Under #6, interest acquired by the investors, I don't know whether there is a typo in here or not, but he has got 6/30/79, rather than May 30, 79.

T: I don't know, I think that it is something that we have to discuss. I think the May 31, 1979, may be too early to

complete it, but that is something that I think you Dwight and I ought to discuss on Monday. Ok, so just put a note to be discussed.

J: Alright.

T: But I don't know whether that is a typo or not.

J: Ok. Well, I don't mind that extra lee-way, but the way it is written, it is June 30 plus 20 plus 20, which makes it August 10, which is substantially different than May 31 or 30.

T: I don't have this in front of me, go ahead read it to me.

J: Ok. On that same page, #3, 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 the investors shall then have to remain at the percentage specified in the table above.... Ok, I would say fine except that if further investment is deemed to be required, investors will be diluted by the amount of further capital input required by the investment committee. Upon investment of the \$200,000, investors will be considered to be fully vested, and should any further capital be required, then Briscoe and investors will have the option to make such necessary investment. Should a party elect not to make such investment, they will be diluted on a pro-rata share by those making the required investment.

T: I got to think about what that means.

J: Ok, well let me simplify it as to what it means to me. If you come in and invest \$25,000, and get 25% interest, that is not in the spirit of the agreement to invest the \$200,000 to really get the whole project off the ground, and therefore, further investment is undoubtedly going to be required. If, in fact, that \$25,000 gets it off the ground and no further investment is required, then that is great, and we will go ahead and invest in a pro-rata share of the, of whatever is necessary. But if further investment is required, then I think we have to go out and search for outside capital.

T: After the \$200,000?

J: Well, we can't predict, but if you get fully vested, as is your intention, and then we go out and look for, or for some reason we need more capital....

T: Right.

J: ....again, which we can't predict, lets say the copper market really looks hot and we want to get \$150 million

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dollars to get a plant, then we might want to go out and invest that.

T: And then we get diluted porportionately.

J: Ya right.

T: I agree. That's no problem. I wasn't sure, fine if that is what it is saying, fine, ya, that's fine.

J: Maybe I didn't say it properly, but at least that is the idea that I have in mind.

T: Ok, is that what it is saying?

J: I think so.

T: Ok. The problem is not having it right in front of you. I don't have that part in front of me.

J: Ok, well.

T: If that is what it is saying, ya, because, ya, conceptionally, there is no question about it.

J: Well, I haven't passed the Bar yet so. At any rate, that is what I have in mind. Ok, lets see, termination, unless, oh lets see, oh, Ok, lets go back up to in the same paragraph that the further investment thing came. The first part of that paragraph reads "the project shall make no calls at intervals more frequent than 20 days per call, and no call shall be made prior to the establishment of the entity described in paragraph 4 above". Well, I would like to make an addition to that. That's fine, except that it gets us in, potentially into a time bind, and I would like to say "except that such entity shall be formed within 20 days of signing this document, which date can be extended by mutual agreement. If so extended, the next call can be immediately made, if not extended by the investors, then the agreement becomes null and void."

T: Well I think the problem comes, Jim, is, alright, the first monies are to be used, as far as I am concerned to establish the hyperchloritic method, and to do some small amount of crushing to make sure that Dick's system works.

J: Ya.

T: When that is done, and or the agreement is signed, Ok, and more funds are needed, then that is fine. Conceptually, are we saying the same thing?

J: I think so. The only thing that I don't want to do is have some hangup that is not due to either one of those things,

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not due to the thing being tested, nor anything within our control. In other words, I just don't want for some reason someone in the investors to simply be dragging their heels because whoever signs this paper that you don't want to sign, is then obligated to make these payments come hell or high water, and if we don't sign the, don't get the, what is it called, the entity organized, then we are in a state of limbo, at great expense to whoever signed the agreement. So I don't mind not signing it as long as we do so by mutual agreement, and if that is mutually agreeable, then there must be some mutually agreeable reason, and then we should be able to go ahead and continue on without mining and processing.

T: I am having a little trouble following you. What you are really saying is, Ok, you don't want to hold up the agreement because we haven't signed the agreement, is that what you are saying?

J: No, I don't want to hold up....

T: The payment of funds because we haven't signed the agreement?

J: Right, nor the progress of the mining. See, what I get the bind on Tom, is all of these things cost me money directly out of my pocket.

T: Right.

J: We have got more contracts and more work than we can hardly handle, and I am extending myself to get around these. But, if at any point, I am held up through no fault of my own, then I am out a substantial amount of money due to things beyond my control, and I really don't intend to get myself in that position. Now....

T: I am not sure I understand. Is the thing that is not in your control the signing of the agreement?

J: Ya, right. Or the establishment of the entity. In other words, what we are saying is that we've spent, or what could be the situation is that we have spent \$25,000, we need another \$25,000 to continue on at a economic rate to get this thing underway, yet there is some hangup on the establishment of the entity. Now it could be because Leo Smith stepped out in traffic and was run down by a bus, and therefore we have got to start from scratch, or something like that. But, that has the effect of holding everything up.

T: I understand what you are saying, obviously no problem. But, lets break it into parts. I can see where it can take a while, this agreement is going to get pretty complicated

because we are going to have a Sub Chapter S corporation, I don't know what we are going design on your side, we are going to design something on your side to limit your liability, probably with a joint venture agreement tying the two of us together is the way I see it today.

J: Ya, right.

T: Ok, now, the real meat of the thing, ok, is in the joint venture agreement on how we will progress. That has to be done lets say in the next period of time before the next money is advanced.

J: Well, that is fine, but if it is not, then lets simply agree to go ahead or to terminate because we neither are going ahead, nor terminating, then I end up being the fall guy, and I really can't afford that.

T: Ok. I think I know how to compromise it so that.... what I want..... There is nothing like incentive to get these damn agreements done. Ok?

J: I think what we both want is to go forward, I just don't want to.....

T: There are parts of it that are more difficult that we just need everybody focusing in on to get them done. The other part that the lawyer is going to have to draw up, which, Jesus, it may take him longer, I don't really care, alright?

J: Ya, I don't really care if it takes him 6 months.

T: I mean to draft up this Sub Chapter S corporation, I don't really care how long it takes him. You know I mean we want to get it incorporated, get it started so.... but I don't really care. So, let me just make a note, ok?

J: Well I think that he can probably see what I am getting at, and if we can just....

T: You want to....

J: I don't want to have it go into a period of limbo where we can neither go forward nor go back. Obviously, at this point we both want to continue and if we both want to continue, we can continue by a letter agreement.

T: Right.

J: And if we don't want to continue, then we should quit and..

T: Just move aside.

J: Ya, right.

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T: I don't have any problem with that. I think that timing is what is going to worry us and we are going to talk about that on Monday.

J: Ok, well that is why I say we can mutually agree to extend it for 20 days, and I don't care if we want to go on 20 day increments until 19- or to the year 2,000. Just as long as we continue along.

T: Ok, I don't think that that is going to be... you know we're working on that.

J: Ok, super, that sounds great. Lets see. Ok on termination, it says "unless extended in writing by investors and Briscoe, this letter agreement of 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". Well, I think that we also ought to say that we can extend by mutual agreement.

T: Ok.

J: Provided, however, that investors shall be entitled to the reimbursement of the initial \$25,000 payment described in paragraph 3 from first proceeds obtained by Briscoe or his assigns from production from the TDC lease. Well, I am certainly interested in your getting your money back, but I am also interested in getting my money back. So I have worked out a general procedure of operation for just this eventuality in that we can never be sure that all of these things are going to, or we can never be sure that these things are going to come out with a positive cash flow.

T: Ya, right

J: Or at least with enough positive cash flow to repay the investment. So what I have said in other agreements is that we have an order of priority of payment, and so I would like to say that the partners will be reimbursed for expenses in the following order of priority until all cash resources are expended: 1. Out of pocket expenses will be reimbursed. Ok, now this should be attractive to you too because I assume you are getting some outside investors, or at least outside of your corporation or partnership, so out of pocket expenditures will be reimbursed. This will include telephone calls, legal expenses, food & lodging, travel, etc., you know anything that is cash out of....

T: So what about \$25,000?

J: Well, Ok, 2. Time will be reimbursed at an agreed upon billing rate, and investment capital will be reimbursed.

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T: Ok. So time and dollars invested is #2.

J: Right, because my time is valuable to me as your money is to you. At any rate, I want to get it on equal footing.

T: Ok.

J: Ok, after payment of the above remaining profits will be reimbursed as per the ownership ratios.

T: Ok. Let me think about that. Ok, I understand what you are saying.

J: What that really means is that everybody that is putting time and input into this should be reimbursed first, regardless of the ownership interest because sometimes certain people have a substantially greater amount of time than the agreed on, or time and expenses than the agreed on ownership ratios.

T: Ok. What else.

J: Well, that's it.

T: That's it?

J: Ya.

T: I think that it is a pretty reasonable agreement.

J: Ya, I do too.

T: Good

J: I don't see any problem with it at all, aside from those little items, which I don't think you'll have any problems with at all, or will have any problem in getting those editions made.

T: What was your first point Jim? Oh, you didn't want the liability.

J: Ya, I didn't want all the liability on me.

T: Ya. Thought that I could get away with that one.

J: You don't think that I am that naive, you wouldn't want to work with me if I was.

T: Oh no. No, we thought you might assign it on your side to a S.E.A. Corporation, we have to, its one of those things that Leo is very aware of, and he should be pretty good at working those things out.

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J: Ok, well, now for obvious reasons I guess I don't want to do that any more than you want to.

T: No, I don't have any problem with that.

J: Ok.

T: Well, we may have to have somebody, and if it is, it ought to be Dick.

J: Well, I guess so because he is the only one that...

T: He has got nothing to loose.

J: He has got nothing to loose, really. I guess that he could declare bankruptcy and it wouldn't hurt him any.

T: Ya.

J: Whereas, conceivably it could be very painful to either you or I.

T: Ya, we don't want to do that, you don't either. No we will work that out. Ok, I will talk to Leo first thing in the morning and get these changes and draft them in, and I will talk to Dwight and get back to you.

J: Ok.

T: Good, I think that those changes are reasonable.

J: How prepared are you to go ahead with some of our other exploration areas?

T: I had a super meeting last night.

J: Did ya? Well you tell me about your super meeting, then I will tell you about some of our super developments.

T: Ok, I just, the guy that I had dinner with last night I have known for, I am 36, for 34 years. He is recently taking a job with one of the wealthiest guys in the world, and what I call R.E.A., if we can get him, he hasn't taken it yet, alright? But if we can get him to get interested in this, it would significantly impact his net worth, and there are very few investments that I think can do that.

J: That's great.

T: I want to get him involved in the Tombstone project, personally. My friend is not nearly that wealthy, but he would take a small participation, but the guy who he is going to be working for, unbelievably wealthy. This is a perfect investment for him. Those are the kind of guys that

we should be going after.

J: Ya. Absolutely.

T: I got to put it together. He was certainly positive.

J: Well, let me say the time is of the essence. Dana was in Denver all of last week and we have put together, I believe, a consortium of petroleum companies including Phillips, Texaco, Mobil, Anchutz and several others, all of whom I can't name, to fly immediately, and these are verbal commitments so we certainly feel will go through, fly immediately the area bounded by the Mexican border on the south, lets say Phoenix on the north, Tucson on the west and the RioGrande River on the east to fly color aerial photography over this whole region. As an area II, we will be flying a similar region, similar block to the north which will probably be bounded by the Colorado River and Area III will encompass the remainder of the Basin & Range Province in Arizona. So, if we go ahead with all three areas, which Phillips has said well, lets go ahead with all of them, we will have color aerial photography, matching color and color infrared over the entire Basin and Range of Arizona. Ok, the reason these people are interested is that this is the newest, newest, most recently recognized portion of the overthrust belt, and this part of Arizona is the hottest oil exploration area within the Continental United States now. I have said that S.E.A., or R.E.A., or some entity like that will participate in this. What this means, ok the next step will be, or the next part of our proposal, which an even stronger interest was expressed in is the accumulation of a literature data base over this area, and interpretation of the aerial photography. This, the aerial photography, if everyone goes ahead and gets prints, will be approximately 1/2 a million dollar piece of business for us. The interpretation and literature accumulation, if we do it in a detailed manner, which I think is meaningful, could run in the range of about 2 million dollars.

T: The interpretation and literature?

J: Yes.

T: Wow.

J: We hope to get as many as 20 companies but no more than that interested in this. That means that it will run about \$100,000 per company. What this will mean is that S.E.A. will probably know more about this region than any other on entity because of course we will have the geologist that and the people that did all of this. Ok, related to oil exploration, it is of course going to be great. That also covers the largest porphyry copper province in the world with potential for porphyry molys and precious metals such

as Tombstone. Of course Tombstone lies in this area as do other camps. So what it means is that we will probably have a better crack at any mineral commodities within this, particularly using the S.E.A. approach of looking for anything that is profitable, wherein most of these other partners are oil companies and they are looking for the oil potential. Ok, so I think it is terribly exciting and I certainly.

T: It is what we were talking about.

J: Ya, ok, so this is precisely it. For \$100,000, or \$120,000, or no, about \$103,000, we will have the opportunity of having about 2 million bucks worth of information.

T: Why do you say it is \$100,000? You buying in a share for \$100,000, is that what you are saying?

J: Ya, because that is what it would cost to buy into the whole thing.

T: Why are you charging R.E.A. \$100,000 to do this?

J: Can't do anything different. It would be a partnership deal with the....

T: With the other 20 companies?

J: With the other 20 companies.

T: Why don't they keep that as their equity interest in it? S.E.A. Because you want to raise another \$100,000 to exploit whatever you find out. When you start to deal with the 20 companies.... you are going to retain an interest or an ownership, or whatever, of 1/20 or 1/21 of this property, and not pay \$100,000 for it.

J: Ya, but I want to keep arms length from S.E.A., and secondly, I don't think that anyone is going to want to go for that. It is going to have to be an entity because I cannot release that to anyone else, which is again part of the deal. These companies are not going to buy it without having that proprietary.

T: Aren't the 20 companies in competition with each other?

J: Ya, as a matter of fact, they don't even want to know who the other one is.

T: They don't?

J: No, that is part of the deal too. That is standard oil company procedure. If you will look back at about 3 months ago in Fortune Magazine, you can read an article about

bidding on the off shore.

T: I did, I read the article.

J: Well, ok, if you will go back and review that, I think that you will see references to essentially the same type of operation. Now the other thing is that we think we have pinpointed what may be another Dade Creek Basin uranium occurrence. It has one problem with it, it happens to be on a government bombing range, however, that is supposed to come back into the public sector soon, but let me just put in round figures what that means. This area has identical descriptions of what the Anderson Mine, which is northwest of Phoenix had in the literature. The Anderson Mine is now owned by Union 76 Minerals. It has contained metal value in Uranium of approximately 1 billion dollars, and the remainder of it is owned by a combination of companies, Urangesellschaft of Germany, Cypress Mines, and a whole slug of others. So, then there is probably at least another billion dollars, I expect on the Urangesellschaft/Cypress ground. We thought that it was off of the bombing range, and I told Tom to leave yesterday to start putting in claims, but unfortunately it is on the bombing range, so we simply want to be ready to move if and when it becomes open to mineral entry. So that is a super, super exciting target of several hundred square miles in extent.

T: Can you get me a write up on this Jim?

J: Ya, I expect.

T: Ok, because I'll move with it. We have to wrap up, you know we have a lot of work to do. We have got to wrap up R.E.A. too, how we are going to approach that.

J: Well, I guess that all I am saying is that now is the hour so lets press ahead, and we keep getting these things that are really pressing time-wise. There is another fella that has a small organization that works with literature research, and he has been out there recently. Recent flooding cut away a cliff which collapsed exposing some fresh ground with carnotite and bonadinite, actual uranium mineralization exposed in this stuff. This is, well, a few claims on that would simply be well, worth their weight in gold is one way to say it. Could be immediately optioned to a variety of companies.

T: Ok, we want to have an approach to this thing. You want to do it by District. I think you ought to do it by opportunity.

J: Well, I don't want to be so bound up that we can't move on opportunities.

T: No but that is what I think is going to happen. Is you are going to get interested in opportunities, I can sell an opportunity better than I can sell a concept.

J: Ya, however, you find your opportunities....

T: Put it in an overall conceptual framework.

J: Ya, that is fine, except your opportunities come much more rapidly when you are doing things on a district wide basis. This has come about because we have been doing things on a very systematic basis for a good long while now. This is just not something that dropped in out of the sky.

T: But it is hard to raise money on a contract. We might find minerals in this area by doing the basic research.

J: Ya, but that is really, from a practical standpoint, the only way we are ever going to make any headway.

T: I don't think that is what we really got to sell, but here is the reason why, because the aerial photography we've done in here, here is why we think this is a good area for us to start at. If we started out with an overall conceptual framework, ok, now here is the aerial photography from the U-2 and this is why the area we ought to concentrate in. Alright, then we have married both of them.

J: The only thing is we have got to have the capitalization to get that initial stuff. We have already got pretty close to half a million dollars worth of work involved in just this type of thing.

T: Ok.

J: Alright, well, do you want to get together, lets see, you are going to talk with Leo Smith tomorrow morning then?

T: First thing tomorrow morning, ya. I don't know whether he has an answering service but do you want to call him and ask him to call me first thing in the morning?

J: Well, I think that he gets there about 8:30, why don't you give him a call.

T: Fine, no problem. You going to be around?

J: Ya, I have got a bunch of other irons in the fire, but I will be here so just call me whenever you are ready.

T: Great, have a good evening, Jim.

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3/5/79 1:43-1:52

Toll Call #007205 to Tom Schloss

D: Jim?

J: Hi.

D: Dwight, how are you?

J: Good, how are you, Dwight?

D: Good. Tom has stepped out for a second, and I know he just got off the phone with Leo. We didn't receive the stuff he sent us on Saturday yet.

J: Ok. Does that mean that we are not making any progress, or are you doing something with Leo via telephone.

D: Well, we are doing it by phone and we are going to see if... it should come in tomorrow mornings mail.

J: I thought that you guys were going to be here tomorrow.

D: I think that Tom is going to be there Wednesday. Today is Monday right?

J: Right. Ya, I thought that he was going to be here tomorrow.

D: The day that he has been talking about is Wednesday, now I don't know when he was planning to go out.... have your travel plans gotten confused?

J: I don't know. Obviously there must be some confusion. Ok, well, why don't you find out what the total situation is.

D: Ya, I will have him back to you. He literally just got off the phone and I had stepped out when he was on with Leo, and he should be back any minute. How was your meeting with Miguel?

J: Very nice. We had lunch and showed him around our facilities. He was impressed with that and discussed some of the things that we were doing. He showed a strong interest in all of that. He has got some kind of a patent for precipitation of copper or electrolytically refining it.

D: The Majala process?

J: Right. Which he sent us the data on, and it is sitting on my desk. So, ya, he seemed to be quite well disposed of the whole situation.

D: He is a nice man.

J: Ya, he seems very personable. How did you happen to first

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make contact with him?

D: I have known Michael now for three or four years. I met him originally through a mutual friend here in New York. He and I are directors together of this national fishing conservation organization, and we have become friends.

J: He felt that it was no problem to raise limited partnership capitals to the tune of 1/2 to 3/4 to 8/10 of a million dollars on specific projects such as Tombstone, although we didn't really talk about that specifically, but just the general concept.

D: I think Michael tends to make statements like that and then go try and do them.

J: So, in other words, you think that thats.....

D: I think that it is possible, having looked at a lot of Michaels deals, some of which have not gotten done. I know it is not always as easy as suggested. He has shown me specific deals that he has tried to raise money for, and I don't mean that in any way disparingly, I just... Hang on a minute....

J: Tom?

T: How are you?

J: Good, how are you?

T: Very well.

J: What's our current status?

T: Well, we are waiting for the document to get here from Leo Smith, and we are hoping that it will come in the afternoon mail, but I don't think it will. If not, it will be here at 8:00 in the morning. I just talked to Leo Smith, and he objected to having the legal bills paid so early.

J: Huh?

T: I am just kidding Jim.

J: Ok.

T: He wasn't even sure whether.... he thought it was your legal bills and not ours.

J: Oh, I see.

T: I said "no", it includes all the legal stuff. I am coming out tomorrow afternoon. I arrive on the 8:30/9:00 flight.

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- J: Ok. 8:30 tomorrow evening.
- T: Ya. I was considering coming out tomorrow morning, which I could if need be. It doesn't really make any difference to me. I have to be out on Wednesday. We have an investor coming out on Wednesday who I would like to have her see your operation in the morning, and then I will drive her down to Tombstone, you need not go with us unless you want to, and then we will go to Dick Hewlett's house, and take her back to the airplane. And then I am going to stay on and meet with Leo Smith in the afternoon.
- J: Alright. Well, why don't I suggest that you come in tomorrow as early as possible so we can get this thing towards getting underway. Are you prepared to wire some money or bring some, or what is the situation there?
- T: How about I bring a check?
- J: Alright. By all means then, come tomorrow morning.
- T: I didn't know I was so popular. I thought it was the color tie that I wore.
- J: What is this about a colored tie that made you so popular?
- T: I didn't know that it was the color of my tie.
- J: I would prefer us getting together as soon as possible just because I am getting into a real time crunch.
- T: I don't see any problem at this point.
- J: Good, well I don't either.
- T: Alright, then I will take an early flight out tomorrow.
- J: Ok, we will make.... and you are going to be here through... are you going to attend that seminar with us?
- T: I thought I might attend Thursday and see whether it is beneficial, if not I will just come on back.
- J: Thats fine. Well, why don't we make reservations for you then through Friday evening, and if you decide to stay, you can, and if you decide not to, we can just simply cancel it.
- T: Fine. Any place convenient. I don't need a fancy place.
- J: Ok, fine, well.
- T: But it would be nice if it had a phone.

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- J: A phone? I don't understand why, but ok, we will get a suitable accomodation for you. Close as possible. Are you a running, gym enthusiast type, because if you are, I can make your reservations at the Rodeway which has access to a racketball club and so on.
- T: That would be very nice. Whatever, it doesn't make any difference.
- J: Ok, fine.
- T: Knowing you, I won't have any time to do it.
- J: Well, that is true. We might get in the sauna or something or other and discuss business. Ok, well, I will make arrangements for you then, and we will expect to see you sometime tomorrow. Will you get here before or after noon?
- T: I will let you know when I get my reservations.
- J: Ok, sounds good.
- T: Talk to you later Jim.
- J: Ok.

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Telephone conversation between JAB and Mickey (RFH's wife)

J: Hi Mickey, this is Jim. How are you?

M: Pretty good, how are you?

J: Is Dick around?

M: No, he is probably out. Did you try the office?

J: No, I haven't yet, I thought I would try home first.

M: No, he usually goes straight out with the men and you have to call early to catch him. Then he said that he wouldn't be at the office as much today though, at all, because I think he is going to do some lab work. You might try down there.

J: O.K., what is the number there?

M: Let me see, I have to look it up, but I doubt if he would even be there yet because they were going to smelt some more this morning, I think.

J: Oh, they were?

M: I think so. So, I am looking it up now. 3907, or I can have him call you, he said that he would be home at noon.

J: Ya, as soon as you see him, do have him call me because it is quite important that I get in contact with him.

M: O.K., well I don't think that it will be, I probably won't see him until noon, and I don't have the car to go find him. O.K., then if you haven't gotten him by noon, I will have him call you at noon. Will you be in the office then? Cause when he says noon, it might be after 12:00

J: Well, just tell him that if he doesn't reach me first, I do have an errand to run at about noon, I will probably try and call him from wherever I end up, but have him get hold of me sometime around noon because it is quite important.

M: O.K., but you can try that lab, but I would wait a little while.

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JAB & RFH

J: What was your impression of the visit of Tom and John?

R: Kind of hard to tell. John is a very, I don't know, very negative type person. It seemed to me that Tom as reasonably satisfied with everything.

J: What is the status at this point?

R: Well, we are still circulating on a 24 hour basis, and we have got, we are smelting about every day. We are not going to smelt today or tomorrow, we are upgrading the precepts, and so we will smelt on Monday and Tuesday, and ship then. We are knocking down, we just got this other row of filters in, so that can precipitate in eight filters or at about 2 tons a minute, and our preg has been running, you know this crust is not as high a grade as the stuff below it because Ralph and the rest have been leaching it and leaching it, but we are maintaining about a 1,500 preg. In the pond, you know, with the dilution that we get, you know the preg is higher than that, but we have to, you know we don't have our pond liners and we can't control very well the water saturation or the evaporation that we have so we have to make that up.

J: Why do you make it up in the pregnant pond?

R: We don't have the liner yet for the other pond. Do you follow me? That is in Tucson now, ready to be picked up, and it will cost about \$1,000.00. So far we have just been able to use that one pond that you remember seeing. So then, of course, we always have to get dilution when we add the fresh water. But anyway, just on that basis with these aid filters now, we are generating even at a low preg, about \$2,000.00 a day.

J: And you are putting through how much water?

R: Now we are putting through the plant 2 tons a minute, over 400 gallons a minute. And we have pushed on, which will start leaching out on Monday, some, you know, we are getting higher grade ores, we have pushed down into the heap, and on the east side, so we have got some, very, well we got a preg of 4/10 when Tom was here. It was between 3,500 and 5/10, and averaged about 4/10, well we have pushed a lot more of that down over the last couple of days, and we will have the rest of it finalized, pushed down and leveled on Monday, so that we would have a considerable tonnage to leach, oh gee, that would give us a preg of 2 to 3/100 for oh, a couple of weeks.

J: Now this is....

R: This is on the far northeast corner, on that old Contention

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ore, close to the plant.

J: In relation to what Tom and you mapped out, this area is what?

R: 1.

J: 1. O.K. Well, why are we still weeks behind your original projections?

R: Oh, one of the things, we have not been able to push as much ore with this 6 as we, you know Tom had talked about getting a bigger dozer. We were, on this first pour, the preg was averaging 13/100, coming into the plant, you know the preg minus the barren, so we were recovering 13/100, and in an 8 hour shift and one filter, we should have theoretically recovered 13 ounces. Do you follow that? It is 1/10 divided by, or multiplied, or 13/100 times the rate of the flow rate of that filter, which is 50, and then you got to convert that to a tons per gallon so you divide that by 240 to get the number of troy ounces per minute. And then you multiply that by 60 to get it to hours and then by 8 to get it to one shift. So that is 480, you know the 60 times 80, I am sorry, 60 times 8, and that is 480 divided, and then there is that 240, you know gallons per, tons per gallon, or gallons per ton, in the denominator, so that is 2 times your 50, so that is 100 times your heads, do you follow me? So we should have recovered 13 ounces, and we only recovered 10.5, and the difference there is due to the fact that we had quite an awful lot of unspent zinc. You know, we didn't have the right efficiency. But that is still 80% efficiency, which isn't too bad, I don't think. And so we are able to recover 10 ounces in each filter every shift. And that is what we are doing. Now, what we are doing now, yesterday, we built a system whereby we put the precepts back into the system, and use up that unspent zinc. Do you follow what I am saying? We put the precipitate back into the zinc feeder instead of putting in fresh zinc because we have a high percentage of unspent zinc is what we have been smelting, and that way, we use up the unspent zinc, we don't lose anything, in other words, the metallic silver that goes back in doesn't go into solution at all, you know you need hot nitrate to dissolve metallic silver, so the silver is just recollected again and upgrades the precipitate, and then we don't have to take as long to smelt the silver, for a larger number of pounds of silver, so we have made that modification yesterday, and that is working very well. I have taken, I looked at the silver beads under Charlie and Louis microscope, and you can determine, compare it with their precipitates that they have smelted down, and it is really increasing the amount of silver, the ratio of silver to the De, and in a filter, there is only about 4 pounds of De and the rest should be silver, but on our first pours, because of the grade of the preg, well we had a lot of unspent zinc.

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- J: What do you think about the fact that the preg is only at 15/100 rather than.....
- R: Well take those fire assays from Skyline you know on the crust, did you see those?
- J: Ya.
- R: On that very initial crust that we have been able to push down so far, you know we are using Bobby Callens D6, well everybody, Ralph has leached the crust, that upper 5 feet you really wouldn't expect an awful lot in it, would ya?
- J: Well, that goes back to a basic question. Our original plan was to leach the sides of the heap. Why are we leaching on the top at all?
- R: Well, because what we are pushing down percolates very well, and we are past that initial crust now, and we are getting that side slope material, do you follow me.
- J: What?
- R: We are getting that side slope material mixed in with the crust on the top because we doze into the bank, do you follow me? To level it out and then we push some down from the top and doze into the bank again. That allows us to get into the bank, and get better percolation of the material than when we were just directly spraying the slope.
- J: Ok, so realistically, what you are saying is spraying the slope didn't work?
- R: Didn't give us the right percolation. That is right. We got a good preg, but we weren't able to maintain it long enough because it wouldn't saturate in far enough or percolate into the slope far enough.
- J: Ok, I think the final line Dick is that we are in a very serious situation, simply because we are way over budget, and we are way beyond projected times. Wouldn't you agree with that?
- R: Ya.
- J: Ok, and I think that at this point, we are either in a do or die situation, regardless of what the reasons are.
- R: That is true.
- J: And I think that you have got to do a lot better job in clarifying and documenting what you are doing, because quite frankly, I don't feel that I am getting adequate reports, and

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if it is not clear to me, it certainly is not clear to me whether it is clear to you, and we have done a bunch of different things, which we don't even have clear negative information on. Now, in my own personal work, I exert literally hundreds, if not thousands of hours, I and my staff, to make things so incredibly clear to any other geologist that if there is any bones of contention, they are quite easy to work out or discuss, and I think that you are falling down in that aspect. Be that as it may, we simply have got to change things or the whole thing is going to fold up in a matter of days realistically. I know that there have been problems, but our original intent was to run a \$25,000 test, which should have yielded some cash flow, and verify the method but we are using different methods now and have gone through several without really carefully testing. So, at any rate, I spent about 8 hours with Tom and John, and regardless of John's qualifications, which I really don't know anything about except verbal discussions with Tom, he is the umpire shall we say at this point, although it is certainly conceivable that you might have to deal with other umpires in the future, but whatever, the situation is you absolutely have to have clear concise records of what has been done and what is planned, so, at any rate, that is the ultimate goal aside from making the whole thing work, which of course I am very concerned about because I have got a hell of an investment in it that I am not recouping at all, as well as Tom, as well as you do too. Ok, I have written you a letter which relates to my discussions with Tom and John, which I want to read to you and I am also having Ed bring a copy down, he ought to be there in about an hour. Let me read it to you, and then I will be happy to discuss it with you, and Tom is in his office this morning and he can discuss it with you too. Ok?

R: Ya.

J: This is addressed to you and it is

RE: Tom Schloss, John Dean visit - evaluation of progress, setting of objectives, activities, record keeping for the next week and plans for the future

Dear Dick:

Since yesterday afternoon, I have spent approximately 8 hours reviewing progress at Tombstone with Tom Schloss and Metallurgy 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 weeks behind your projections, and 400% over budget. Our original objectives at 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

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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
3. Have not scientifically verified not documented even the negative results to my knowledge.

Obviously it is imperative that we 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. Lay out the goals and specific objectives of a meaningful, concise and reproducible metallurgical program.
3. Lay out a tight operating budget for such a testing program.
4. Determine a realistic time table 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 reevaluation and plan, I would have no option but to recommend termination of further work. The above summarizes only in brief form, our problems to date and the intermediate term solution to these problems. Of even more critical importance is what we do in the next 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 highest professional manner the following seven day action plan to meet the stated objectives. I think that it is obvious that the continuation of the program depends on this, I think that it is also obvious that no changes should be made without documentation and verbal Ok from Tom, and/or myself. The activities and objectives to be reached are as follows:

Activities

1. As a maximum, construct the following:
  - A. Area 1, three lifts
  - Area 2, two lifts
  - Area 3, two lifts

R: Area 2 is 2 lifts?

J: 2 lifts, right

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R: 3 lifts is 2 lifts?

J: 2 lifts

R: Now that is to construct that?

J: Ya, now this is what, I have already gone over with Tom and John, and you will have a copy of this in your hands within an hour so we don't have to take detailed notes.

R: Is this, now I want to be sure on this area, that is to add another three lifts to area 1, or.....

J: I'll tell you what, let me go through the whole thing and then lets go back to any specific points so that we don't loose the continuity.

B. Set up test leaches exactly like the U.S.B. in Reno for:

1. North slope dump ore.

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.

(And that is for the manganese and north slope dump)

2. Do not work on any other pads until written notification from Tom or myself.

3. Put Dusty in charge of the heap. Have him do all the 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.

4. Leach areas 1, 2, and 3 for 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

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tonnage calculated for that area plus supporting measurements, etc.

(Quite frankly, I would use your camera and take pictures of that at specific times every day, and furthermore, to verify the date, I would enclose a daily newspaper of that date.

- B. Record of throughput, hours of leach per shift, downtime, etc.
  - C. Titrate return, hypo solution to determine bearing strength and for presence of zinc.
  - D. Determination of water balance per shift, i.e., water added to replace that lost to evaporation, absorption in dump, or loss through pad.
  - E. Weigh out zinc used per shift.  
(Note, material balance is the key)
6. Ed Speer will take a sample of Emerald ore and North ramp ore.
  7. Prepare a two page memo specifying your opinion of the best option for leaching the manganese 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 and 3 processed from 6/22 through 6/27.
2. Have documented budget for the above by the evening of 6/23.
3. Have test leach pads as in activities 1B, sections 1 & 2, and an action plan with proper mining like record keeping forms and budget by 6/26.
4. Have a two page best options report on metallurgy to use on the manganese oxide ore by 6/26.

On or before the dates specified above, mail by registered, return receipt requested mail, one copy of all paper work 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 material in concise, brief terms on the morning of June 27.

Dick, I don't 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

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above. It is your responsibility to do what is necessary for documentation, and you will be held accountable for any omissions.

Very truly yours,

James A. Briscoe

J: Ok, that is fairly hard and specific letter Dick, but I think that the situation demands it. Now, lets go back to the activities that you had a question about and lets see if we can review those things, or you can give me your comments on it.

R: We should have, I hope what you mean there, is to have a total of three more lifts on area 1, two more lifts on area 2, and 2 more on 3,

J: Ya, that is precisely it.

R: We can't be leaching what we have already leached and expect to get anything. It doesnt test anything so, I just wanted to be sure of that.

J: That is precisely....

R: You need ore to test.

J: Apparently that is just what you and Tom discussed, but that is going to have to be the last remaining test and we have to run that though the plant and melt the precipitates, and that is going to be the proof of the pudding.

R: That's fine.

J: Now the other critical thing is that you work, not on any of the physical things, which you can delegate to Dusty, but simply concern yourself with getting these budgets down, the metallurgy squared away and the forms made out and adequate documentation. We simply cannot fly by the seat of our pants. We could have done that for one \$25,000 test, maybe, but we are way beyond that.

R: Now down towards the end of your letter, you have item #2, I think it was, anyway, you know where you have the dates for completion. The budget was 6/23, isn't that tomorrow.

J: No, it is today as a matter of fact. We would like to get a budget for what we are going to spend on..... 1, 2, 3

R: Everything that we have talked about. O.K., what is 1, 2 & 3.

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J: Well, that is essentially doing areas 1, 2, 3, setting up the test leaches on the manganese ore on the north slope dump ore.

R: O.K., that was what you call B. Ok so it is just really activities A & B, pushing down and leaching, the three lifts on 1, the 2 lifts on 2 and the 2 on 3, plus the manganese test.

J: Actually, it is everything through 7. You don't have to worry about the cost of Ed coming down to take samples, but everything else, and it doesn't have to be in typed up detail, but it should be pretty precise for the next, through next Wednesday, the 26th.

R: We won't be able to finish all of that by next Wednesday.

J: Well you will have if you melt everyday, we are going to be getting something out.

R: I am saying, pushing down this ore and leaching it won't be through by this coming Wednesday.

J: Ok, well that is precisely.....

R: The leaching of it will take at least a week, after it is down, so it would be a week from Wednesday.

J: Then lets get a precise daily budget that we can monitor on a day by day basis, but we will know how much metal we are getting out on a daily basis. And you will also, the other thing that I have specified is that we have a daily record of the dimensions of the dump under leach and the tonnage calculated for the area under leach. So you should end up with...

R: And then we will sample that too, before it is leached. What I would do is sample after we rip it, go along a sample behind the dozer, taking a large, really large quantity, and then that gives us a really good idea of what, and then running the tests on what we should recover from it, then we can compare that with what we actually do recover. So that is something that we would add too, but that is just something that I would do.

J: What size sample you getting?

R: One lift in area 1 would have about a 200 pound sample, but I would take at least 20, or probably 40 10 pound samples or maybe 5 pound samples. 40, 5 pound samples, you know, all along that, and that would be about 200 pounds. Then barrel test it. First run cone and quarter it and buck it down and run solvent tests to determine what the effectiveness of area

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solvents are on it, and then barrel leach the rest of it to see what you should recover.

- J: Are you crushing that or just using.....
- R: No, as is. Because that is how we leach it.
- J: I think that you ought to essentially cone and quarter that 200 pound sample and put it in a sample bag without doing anything else to it and send it up here via whatever the best method is. Let us run an independent assay on that.
- R: It would help to have a fire on it.
- J: It is quite important that you lay it out in a good environment where is it not contaminated with anything and essentially go through a pretty good coning and quartering procedure since we are going to be taking a split of something that is not crushed, but even so, it will be a split of a 200 pound sample, which is a composite of various 10 pound samples from a larger area.
- R: And then what you should do up there is not only, is have Ed or somebody, screen. Take 20 pounds, cone and quarter it, have it crushed and grind, pulverized one section to see what the fire assay of the total heads would be and then screen the fines, and then have them just run the fines because you know that is what you are going to be leaching. That would give you an estimate of what percentage recovery you could get upon leaching.
- J: Lets put this in your recommendations that I want you to start working on immediatedly, and this will be essentially part of the engineering work.
- R: That gives you a good estimate of what you should be able to recover with any solvent. Then the selection of the solvent is independent of what the recovery is. Then you are working towards selecting the right solvent or combination of solvents to yield you that
- J: Well, I certainly agree with that. Now lets pinpoint, spend your time in pinpointing the problem areas, I want to get this thing on a really professional basis, and I am sure that you do too. We ran the danger of trying to do this on a low budget with all the ramifications of that, I think Tom is obviously interested in making the thing go, he is obviously not interested in loosing his \$100,000+, and that is largely up to you.
- R: That is understandable. No one can argue with that.
- J: So lets pinpoint the problems that we have got, lets get it back in shape, but we have got to do it in a super

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professional manner, and we have got to realize that we are going to be under scrutiny by, at minimum, John Dean, quite probably, others. You have got to leave careful tracks that can be interpreted by anyone.

- R: Are you going to ever have any time next week to come down for a half a day?
- J: I am sure that I will, but I am sure that it won't be until the end of the week. I have got some other things that I simply have got to attend to also.
- R: That will help bring you up to date on everything that has gone by. I think that it will be a lot more obvious to you when you come down and look at it than trying to guess from Japan or someplace.
- J: I have no doubts of that, and I certainly know some of the things that you have been up against.
- R: Then you can have some suggestions too. I will spend as much time with Ed today as he...., I am going to try and point all of these things out to Ed, although he is quite familiar with that, I would say, and then he can discuss it with you, and whenever you do get time to come down, you can do that.
- J: Ok, the most important thing, though, is being able to get the metallurgy down, I want you to tell me, specifically, as well as Tom, if something doesn't work, why it doesn't work. I want you to collect negative information as well as positive, and I don't think that I have been getting the feedback on that properly.
- R: No, you haven't. Now what about all those records they took. Are they xeroxing them and sending them back?
- J: They are sitting here, a shit, Ed didn't bring them down. Quite frankly, I just overlooked it.
- R: I need those. Now getting back to making out this budget today, boy that is going to be hard to do.
- J: It shouldn't be, you have been in operation for 4 months.
- R: But I don't have a lot of that information from Tucson. You know, I have wanted to get a copy of all of our expenditures.
- J: Why don't you just go ahead and make it without that record.
- R: For example, I don't know exactly how much the payroll runs. I don't honestly know. I know it is over \$1,500 a week now, and it is probably closer to \$2,000, but that particular detail, I don't exactly know, and we can be specific about it.

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- J: Well, why don't you make it out and then I will see if I can't search that up and get it to you.
- R: How do you want me to translate this budget. In other words, you say to have it finished by today.
- J: Write it up and stick it in the mail this afternoon, and then simply call it in to me, and I will have it transcribed.
- R: Then you are going to call Tom and tell it to him?
- J: Either that or you can.
- R: Well, I am just wondering how you would like to have it done because, if I have to, I will come up there this afternoon, or late tonight, if that would help you in any way.
- J: No, I think that it is better that you stay right where you are and work on all the other details. You can just read it off.
- R: Then, would you just prefer that I read it to you and you can read it to Tom. I don't care.
- J: You read it to me and I will talk to Tom about it, and if he wants to, he can call you. I may try and give Ed a call and see if he is completely out of town or not. Why don't you go ahead and work on that. Do get Dusty squared away, take all of that burden off yourself, it is important that you do the engineering but not the day to day dirt shoveling type of thing. Sit down and start working on the budget and this record keeping pages.
- R: You are going to be there all afternoon?
- J: Ya, and all day tomorrow.
- R: So I will be able to get a hold of you then.
- J: Tom did tell me to tell you that he would be in all day today, however, he is going to take the day off tomorrow.
- R: I wonder if you should mail those files back down to me.
- J: I can if you like. If I can't get a hold of Ed.
- R: I have given then all the results of the test work that I haven't submitted, but that is all in there.
- J: Well, you have got to organize it more carefully Dick, there is 800 pages of the stuff.
- R: I know, but the data is there and I need it. I would like it

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by Monday. When is Ed going to take these samples, today?

J: Ya.

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JAB AND TS .... FOLLOWING RFH CONVERSATION ? 6/23

J: Obviously, I spent the last 30 minutes talking with Dick, and he was not terribly surprised and very cooperative, so I think the proof of the pudding is whether he will perform on that.

T: It always worries me, Jim, I get the same reaction, I make a suggestion, he is not surprised, he is not angry, he is kind of a yes person.

J: Well, at this point he could have reacted in two ways, he could have say gee, I can't do that and I am going to quit, which I thought that there was maybe a 50/50 chance of him doing, or said ya, we'll go ahead. The real question is whether he is going to sit down and do that, and of course, where Dick went astray and I was somewhat remiss in letting it go on this long was, again, we over optimism as far as he kept saying and I kept assuming that he was right, that things were just around the corner, where, in fact, we should have stopped when we hit about \$35,000, and gone back to square 1.

T: Remember when I kept saying it doesn't make sense to order a large dozer? ??????????????

J: Ya, unfortunately, you were talking directly with Dick, but I would agree that was a turnaround in what he had been previously saying.

T: .....tape cannot be heard

.....so why don't we order a new..... if we are going to make all this money. That is his style. You got to be aware of it. It is very difficult. Go ahead.

J: What we were talking about prior to that, the days, possibly weeks prior was that we did need a well equipped laboratory, and so on. Now, inspite of the expense, and of course that is the reason for the expense, we can do laboratory test work at Hayes or Mountain States, or there maybe possibly another place in Tucson that we might be able to do that. There are several other metallurgical consultants. Long range, that district does have a great deal of potential regardless of the metallurgy, you know, as we previously discussed, but obviously, we have got to decide the present, resolve the present problem, and I have recorded, and as a matter of fact I am recording this, Tom, I though that I would essentially mention that to you because it is essentially continuity with Dick's conversation which I recorded, which I will be happy to have you listen to, but..

T: Inaudible question

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J: Quite frankly, I forgot to do so.

T: Inaudible

J: I frequently record things simply because it helps me keep things straight.

T: Inaudible

J: At any rate, because I really wasn't sure what reaction I was going to get, and I certainly wanted to have it for the record. But I did point out to him that if we didn't get it straightened out, that is is finished within the next few days, and I think that I got that across, on the other hand, I tried to not be belligerent or demeaning to him, because I think that that would have been counter productive, and he was considerably more mullified than his usual self, which I think, considering its Dick, that is really something. I carefully went over and read verbatim the letter, Ed is within 45 minutes of Tombstone with a hand delivered letter, and there is a letter going by registered mail, so there won't be any doubts about him getting the details in the letter and, you know, he did agree with the documentation, I told him specifically that I didn't think that there was proper documentation, and whether it is John Dean or some other metallurgical consultant, I actually spent hundreds if not thousands of hours of mine and my staff's time in doing all of our geologic work crystal clear so at least it could be discussed in a professional manner between other professionals, and I told him that that is what I expected him to do too.

T: Inaudible

J: With the documentation

T: Inaudible

J: Did he have any objections to it?

T: Ya.

J: No, as a matter of fact, he agreed that it had not been properly documented, and he did say that it was all documented in that material that he gave to you and John Dean. And I say well that may be true, but you have got to consolidate that type of thing.

T: Inaudible..... it is not documented

J: Its not documented properly if the data is not in an easily retrievable fashion, that is like cutting up a whole deck of encyclopedias, page by page, mixing them in a big bin and then saying everything you want to know is there, all you got

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to do is find it. That, by definition is not proper documentation. That is an extreme example, but I think that Dick has a tendency to do that, or at least that may be a ploy, and I....

T: It is probably a subconscious ploy.

J: Ya, I tend to think so. But, I think that I made it quite clear that that wasn't acceptable.

T: Ok, now let me tell you what I think, have gone through the paces at..... which was well worth the time,

J: Probably, this is what I should have had you done to begin with because I think that you can see kind of what is required in a well organized lab, and realistically, in spite of John's pretty negative comments on Dick, I think you have to see the handicap that he has been working with.

T: Unaudible..... John understands that very well. Dick is not attempting to do anything properly, nor putting on the piece of paper, for example, the sample size, how far he split it, there is a screen in the lab, there is ..... ok, but ..... how valid are the results? Would you invest \$100,000 based upon inadequate sample sizes? No. There are other ways of doing it. I think the test in that small leach pad that we have sitting out there..... inaudible

J: Precisely, what he was supposed to be doing was doing barrel tests, and so forth. Well, if he has, they are not documented. Now I had assumed that he had been doing tests.

T: Inaudible

J: Well, even if he has, if he doesn't have proper documented, it doesn't mean a thing, which I guess is the critical point. Because then all he says is I have, and somebody else says that he hasn't. I said, you said situation, which is a waste of everybody's time.

T:

J: Ok, where that leads us

T:

J: Well, now, we did get straight the areas that he is talking about leaching on.

T:

J: What were the size? Well, I assume that the size was determined when you and John Dean were down there. I specifically went through the lifts, 3 lifts on area 1, two

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lifts on area 2 and 2 lifts on area 3.

T:

J: No I did not because again I didn't really want to get involved in a long conversation and transmission of data by telephone. That is hard to take notes on the phone at best, and that is the type of thing that I have already got listed in here under Item #5, keep accurate concise records which can be checked by any independent professional and then under Sub A, daily record of dimensions of dump under leach and tonnage calculated for that area plus supporting data, measurements, etc., and I suggested that he photograph with him camera that every day and put a daily newspaper in the frame so that we can substantiate the date.

T:

J: So, that is the

T:

J: He is running 0.15 preg. Now one thing that he did say was that it will take a week to leach those lifts, and I said well that is fine, but if you melt daily and so forth, you will be getting a continual reading on that. I pointed out that that was the important thing

T: Inaudible

J: Again, I asked him about that, and he said that this would come up as they got more material off of the crust, then as he got below the crust and into the other material that it should go higher, up to about .3

T:

J: Why are you saying that the sides should be good, aside from assuming that that is what he has told you?

T:

J: Describe to me what criteria you are using for that.

T: Iaudible..... look at all this pretty red stuff... nothing could go through there in a leaching process. He made a lot of sense but, you know, I am not a geologist, and not could he, I find out, unless you take it over there and you run a test on it, so he didn't know either. But that is what he says. So then he can't come back and say well, gee we are still on the crust. We are not on the crust.

J: Well, I think that that is precisely what we are going to see over the next few days, Tom, and if we don't get some

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results, I think that there is one choice, and I think that that is to shut it down and sample the bottom of the dump by whatever means are necessary, where there should be some values. If there aren't, then we will determine what we are going to do next, sublease the ground, develop the open pit, develop some of the high grade ore that has got to exist in the ground that we had options on. There is lots of geologic evidence for that. Further work is just, if these lifts are not putting out any silver, then further work is simply going to be wiggling in quick sand. I think that that is specifically the problem is that Dick should have a sense for what is ore and what is not, and if these tests are not proving it then that sense does not exist or has not been demonstrated, and therefore, we go back to the scientific miner-like way of doing things, which I happen to be particularly adept at doing, but.....

(end of first side of tape)

The ore potential of the zone, but if we don't get anything within the next 5 to 7 days, I think that Dick's test on the heap was a complete wash out at this point, or we certainly should not continue because it has been negative, much as I hate to say that. Coming to any other conclusion

T: Did he think that he could get it up?

J: Well, I didn't ask him to get it up, I simply told him to do these things and what we got out in the next few days was going to determine whether we continued or not. I don't want him to, you know there is always the danger if the direction is to get it up rather than do what is right is that he might go dump a 10 pounds of silver chloride on the dump, which you can buy at any variety of places, then we would be afar afield. The typical thing of salting, which we don't want to get involved in that. But, of course, I don't think that Dick would do that, but I think its clear that we either get something out of this or quit.

T: What did he say about the.....?

J: Well, he didn't say anything about it. I went through that and the way this letter reads, I haven't read you the final draft of that but under Item #2, I said A. Do not work on any other pads until written notice from Tom or myself; B. Put Dusty in charge of the heap, have him do all the 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., chemistry/metallurgy; 2. Budget; 3. Engineering and quantification.

T: That's excellent. You worked on it last night.

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J: Ya, I had it typed up after we talked, and he didn't object to that at all, and then I again reiterated it that it was important for him to be out there doing that type of work, but it was important to for him to sit down and get all the budgets in, and he asked about the first budget which is due this afternoon, and he was concerned that he didn't have some of the figures from Tucson, and quite frankly I was going to send down that list, and when they left I just overlooked it so I said well you go ahead and put in all the figures that you know about and then I will get the other figures together. He said, well should I drive those up to Tucson? I said no, by all means don't, simply call them in and I will transcribe them, and then make the additions and talk with Tom. He said well do you want me to call them in to Tom. I said well, that's not necessary, but you can if you like, and Tom said to say that he would be in the office all day today, and that I'll translate the budget to Tom. So that's about where we are now. I think its pretty clear that he should simply concern himself with those three items, the chemistry, metallurgy, budget and engineering and quantification, and design these forms so that we can get all this down and in good shape.

T: Well, I guess that there is nothing more to do, except I will work on that memo here with John's help we should have something, I will work on it over the weekend, get it to John, let John write it up, alright? As I see the problem and the problem is really an engineering problem

J: I'm sorry, talk just a little bit louder.

T: Engineering problem.

J: They are engineering problems?

T: They sure are. Ya know, you are putting water back into the pregnant, into the preg.

J: Ya, we did discuss that and of course his excuse was of course he didn't have a barren pond, and you know I don't know how to put my finger on that, except that I guess Dick should have jumped up and down and rolled around on the ground and turned purple and kicked his feet and screamed and cussed and done whatever necessary to get a pregnant, I mean a barren solution pond.

T: He's got a little tank. But he's got two tanks up on top.

J: Those are what he is storing the acid in.

T: But he's not using acid so bring it down. It is not my decision to make, its his, but he is stupid to put water back into the preg, or in the pit, to put fresh water in the preg.

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That is really stupid. I understand the problem but it is again where do you spend money, where do you not spend money? You are not going to be using the acid for a while, so bring the acid tank down, but if you can't do that, he says, you will ruin the acid tank. So he says, I can't do that. You have some creative guys in there, figure it out, do you know what I mean? That's the problem, I don't want any more water going into the preg pond, you figure out how to do it, and they will. They are clever, but I don't know whether Dick really understood the significance of it, that is what worries me, its a real management problem.

J: I couldn't agree with you more, and that is why I, as much as I want to get the thing underway, and as serious as the ramifications are of stoping it, if we don't get these things solved post haste, I think that we ought to put a stop to the whole thing, there is no question about it. There simply isn't any real good excuse for putting water dilution in the preg pond, I am not sure that it wouldn't be better to simply spray fresh water on top of the dump, and add it that way.

T: That could very well be.

J: Just so that we don't have any further excuses, it might not hurt for you to give Dick a call and reiterate some of these things yourself, simply because you have been communicating with him on a daily basis.

← talk to Dick in Chicago

T: Don't mind at all. I do but you know.

J: Well, I have tried to take all the steps that I can to be sure that there is no recriminations at some later point like I didn't get the letter or I didn't understand or this wasn't the concensus or whatever, so that might be the last nail of that final board on being sure that that is the concensus.

T: I think you wrote a good letter, I liked it a lot.

J: Well, I have delivered it verbally, by hand and by registered mail.

T: Is Ed going to pick up some samples?

J: Yes. Now Dick, thats another thing that we did talk about, Dick says well I am taking samples of the lifts behind the dozer, and I said well tell me how you are taking those. He said I am taking up, picking up 10 to 20 pound samples behind the dozer after it has pushed off the lifts, and combining that into a 200 pound bulk sample, and then we will be doing a leach test on that. I said, well, that's fine, but the other thing that I would like you to do is lay that down on a clean surface where there is no chance of contamination and cone and quarter it. Coning and quartering is the standard way of dividing a sample and making sure its a homogenous

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thing.

T: I understand. I'm knowledgeable

J: Ok, and then take a split or split it by coning and quartering, then send me a sample up to Tucson. We will then run some check assays on it and then take the remainder of the sample and do whatever you are going to do with it.

T: How is he going to crush it?

J: He is not, he is doing a barrel leach test on it. Now the obvious thing is that it would be nice to have a crusher that you could crush the whole thing down and take a sample as far as our sample goes to get a homogenous sample, however, then the leach test would not mean anything.

T: Right.

J: Or least not unless we could crush the dump. But that is a much better sample and should be fairly representative, again depending on what size fraction he takes. I assume that he is excluding very large chunks, but I will be able to see that when we get it up here. It is not the ideal sample, but then again ideal sampling is quite laborious and even some of the mining companies go astray on that.

T: Sure.

J: But, if we go to a sampling program, yes, then we should go to a very careful screen analysis and assay of the various fractions because in all probability, by screening out the coarse we can considerably upgrade the ore and then apply the agglomeration IPS business, but I don't see how Dick can have any misunderstandings on this. I think under the circumstances, rather than leaving any stone unturned, I would really like to see you call him up and review it with him to be sure that he does not have any misunderstandings and that you are satisfied that he doesn't.

T: Fine.

J: One thing I think you might reiterate to him is the necessity of melting every day because of course first I just got his general impressions of your visit, and he said that he was not going to melt today or tomorrow but let the material circulate.

T: He is wrong.

J: The pregnant solution.

T: Ok, that's wrong. Let me tell you why. The quantity coming out of the filters is so great that with a little melter, the

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little kiln, is so small that he has got to melt every day. What he is really telling you is that there isn't any silver in there.

- J: Ok, now one of the things that he has done is they are have gotten those other 8 filters installed and he is putting the zinc containing silver bearing material back in the lead filters to decrease the zinc consumption and increase the grade of the filtrate.
- T: Ok, John doesn't know whether that is effective. See, John feels, John's complaint is that Dick is shooting from the hip. The definition of shooting from the hip, have you ever shot with a pistol?
- J: Ya, lots.
- T: I can't hit the barn, but from the hip, that is if I stick it up there and eye, I might hit the barn, but if you do it from the hip, it is luck, and that is what he feels Dick is doing on the metallurgical part, and half the time John says some of the chemistry makes sense, but some other is wrong.
- J: Talk just a little bit louder, I can't hear you.
- T: I am sorry, I have a tendency to talk quietly. John feels that some of the chemistry is correct and some of it is wrong, and its all mixed in together, and John does not know whether that will work. What Dick is doing, is he is doing a 24 hour experiment to see whether it will work. He doesn't call it that, and that is what is tricky, and I have only learned that this trip. What he says this is what he is doing, he is doing an experiment, fine, if you are going to do an experiment, I don't object to doing experiments, but document it properly, set it up so that you know - do you have the zinc before you ran it though the second time, do you have the zinc after you ran it through? You are only going to know if you melt down every day. Or take three of your filters and double it, do you see what I mean? He has got to start thinking that way. J: Well, I can't agree with you more, now this is what he told me....
- T: I got to communicate with him I think.
- J: Well, I think that that is important, but this was told to me before I read him the letter, so of course the way I think that the letter obviously would have circumvented any foregoing discussion about what he was going to do. Maybe its a good idea that you reiterate the necessity of melting every day.
- T: See, he wouldn't understand, this is the part that worries me, he doesn't understand that what he is doing is an experiment. He is running the zinc through twice, that is

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what he thinks he is doing. I don't think so, I think that he is doing an experiment, which may work, there is some logic to it, I mean Dick is not an illogical person, he is very intelligent, but it may not work too. Well since you don't know, you got 8 filters out there, every other one of them do it one way, Ok, and on the others do it another way, and then melt them and see whether you get double. Set it up as an experiment. Start thinking experimentally. Quit thinking about getting that fast god damn silver or gold. I wish that we were working in wheat, every body gets enamored with oh, we are going to get silver. Its a business and you put the money in the front door and hopefully it comes out the back door. You got to do experimentation along the way. It is not a quick way to make a fortune, we are going to have to work like a dog to make a fortune.

J: No doubt about that. Well, in most metallurgy there is a lot of tinkering and experimentation that goes on, but I agree with you, it has got to be documented, and you have got to report the negative information as well as the positive, and if you don't do that, you are not using the scientific method so certainly that is a point well taken.

T: John is as smart as Dick, although they are in different fields, and let John cogitate on the chemistry cause he may be able to point something out, and if we don't have it in a form which John can understand it, we are wasting our money. Why pay him if you don't give him anything to work on.

J: This is, again, another point I did go over with Dick independently is that he has got to get the information in a form that can be understood by any professional, and I said I don't know whether it is going to be John Dean in the future it may be somebody else, but it doesn't make any difference who it is, it has got to be interpretable by anyone, clear, consise, and I used that language again. So I think there is very little room for misunderstanding.

T: Oh, I don't agree. I think zinc thing is a misunderstanding. He won't look at that as an experiment. But that is a clear, proper experiment. I think that he should do that, I think that it is a good idea, but it is an experiment. So then run it as a test. I don't care the quantities of silver you get, it is what is it telling us? What are our problems? Otherwise we are never going to solve this thing.

J: Well my last sentence to Dick was it is your responsible to do whatever is necessary for documentation and you will be held accountable for any ommissions, so that is a pretty strong sword right there.

T: Did you send him down a photostat of that textbook section?

J: Oh, you mean on the sampling?

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T: Ya.

J: No, I didn't. I think, Tom, again addressing this situation of the pregnant solution concentration, part of the problem is that we don't have an adequate sampling of the lifts, <sup>lifts</sup> although Dick is getting a substantial sample if he is sampling it in the way that he is describing he is doing, and I don't know whether he has been doing that regularly. Apparently you and John did not see any documentation that showed that he was doing that.

T: That he was doing what? Sampling the lifts?

J: Sampling the lifts, a 200 pound samples.

T: Forget it. I mean you can say we don't have any documentation that he is doing it, Ok, I am intuitive, he isn't.

J: Well, Ok, so what he is probably doing is instituting something new, and all I was saying, kind of asking an interrogative, you didn't see any evidence of this done, and of course you said, just told me that you didn't believe it had.

T: I know that, I am just re-emphasizing really what you are saying in a delicate way, I am saying I know he hasn't done it.

J: Well, Ok, so the only way that we can get a feeling for what is in there is what he gets out, and if his pregs remain at .15, that is due to one of two reasons that is difficult to arrive at: 1. There is not enough in there to get them higher, or 2. The chemistry is not dissolving what is in there. Now if he continues to take those samples and sends them up to Tucson as I have requested that he do, we will have a better handle on that. However, as far as I am concerned, the idea of leaching the sides of the dump was a failure, which we were supposed to get a substantial amount of silver out of. Ok, that is failure #1 because it has simply not worked.

T: He never did it.

J: Well, that is what I asked him. I said you know Dick the first thing you are going to do is leach the sides of the dump and he said well we are doing that as well as leaching the other. I said well what you are really saying is that it didn't work. And he said ya, that's right. So, Ok, that did not work. We were going to leach the manganese, that did not work, or Dick got frightened of it, one or the other.

T: He is frightened of it. No, it doesn't work.

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- J: Ok, so that doesn't work. Ok, we were going to leach the north ramp but that can't be done without a pad, well we should have known that back at the \$30,000 mark. That should have, that was the ore that was never leached so that shouldn't have been any problem with that.
- T: That is manganese ore.
- J: No.
- T: North ramp is mag.....mag....
- J: Manganiferous?
- T: Yes, and it is high quality. It has been assayed and I did the sampling. A poor sampling technique was used by me, but whatever those results were, they were high.
- J: Well, I didnt think that that was that manganiferous. Not nearly as much as the Emerald ore on the south.
- T: No, we figure there is a million dollars there in the north ramp. Very high quality.
- J: And Dick feels that it is manganiferous and that he is worried about that too?
- T: Yes, anything manganiferous he doesn't want to get into. That is one thing, I want that sample going out to John Monday without fail because....
- J: You mean the data he is picking up.
- T: Whoever. Or whatever. I am not being as critical to you all, but I want that sample going to John so he can work on it.
- J: Ya, right.
- T: He will do some barrel testing, he doesn't really want to because he doesn't have any help, he is by himself.
- J: Does he have a laboratory?
- T: Oh, he has a very extensive laboratory. There are some very funny stories about how he got all the equipment, but he has a very extensive laboratory. He is semi-retired, he doesn't have to work, and he is doing this because he is really challenged. He would love to pull this off.
- J: He what?
- T: He would love to pull this off. It is intellectually

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challenging, and he thinks Dick is the right man.

J: Oh, he does?

T: Oh ya.

J: That didn't really come across to me.

T: Dick is the right man there if we can get Dick to do it properly. He understands. George Jewett doesn't know his ass from a hole in the ground. Dick knows whether the proper sample is.

J: Well, the whole situation has really kind of blown me away because of course what I represented to you was that Dick had changed, and this is not very good evidence of that at all because Dick has a much better educational background than I do, if the truth be known. Of course, I always take a very jaundiced view of college professors and others that rely on their educational background because that is a four or eight year period and all the intervening time is more important, but at any rate, Dick has taught mining, geology, computers and has got a hell of a lot, has got more degrees than I do and more time in the classroom. But it doesn't make any difference if he doesn't perform right, and he is not performing up to snuff.

T: I agree with you. He is not doing what I think he knows.

J: I think that that is precisely right.

T: And that is why I say it is a management problem. It is a management problem that you and I have known about for years. And we thought, we we blamed it on SBM.

J: And I think that that is not 100% true. Now of course Dick may have, may still be shell shocked from that whole experience cause he was doing good technical work up to that point, or at least publishing things up to that point. But I think that he is reacting in a frantic manner, and of course we have been trying to do things on a low budget, admittedly spending a lot of money, but still trying to keep the cost down and I am sure that he feels that he has been hampered in some ways, but.

T: But you see that is not valid. Because he would submit a budget and the budget would be implemented to the penny, so that is not true, he had, one time he had a whole bunch of lab equipment, he took it out, we didn't. Felt the money could be better spent someplace else. Up until this time, he had a free hand.

J: Well, at this point, summarizing what I said a little bit earlier, I think that the experiments have not been

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productive, the sides of the dump did not contain what Dick felt they did, or wouldn't come out for whatever reason, he is worried about the manganese problem on both the north ramp and the Emerald, or if this experiment on the areas 1, 2, 3 does not work, then I think that we better call a halt. I do think that there is probably silver precipitated in the lower third of that dump, but we have to verify that before fussing around with any more production experiments, which are quite expensive.

T: Ok, and I think that I disagree with you to a degree.

INTERRUPTION FROM ANOTHER PHONE CALL

J: OK, Tom?

T: Ya.

J: Ok, well we got side tracked for where we are. You were telling me that you didn't agree with me.

T: Yes. Let me see if I can remember where.

J: Ok, I would say the only chance, Tom, is to get down to the bottom third of the dump where we have a chance for re-precipitation of silver values if this current experiment of Dicks does not work. But we have to take a real hard look at the costs of doing so and get some samples of that material and see whether the metallurgy works on it.

T: Ok, the part where I disagree with you is I have a feeling the the chem..., there may be enough, it may be low quality up on top for the first 2/3 of it, but you have to get your chemistry, you have to get your plant running like a, really fine in order to make it worthwhile. We don't know yet. I don't know, or I don't have an answer to that question, and that is of course where we are. Did you ask how much hypo is coming through in the barren? and how much zinc is coming through?

J: No, but those are all things that change practically on an hourly basis, and I think that regardless of what he told me now, I think that what we have got to do is look at the records.

T: I don't disagree with you, I am just saying that those are the things that we need to focus in on, that is what your letter focuses in on.

J: Precisely. But I think that there is a danger in looking at any one assay result or any one titration or anything, because it is kind of like judging a house by looking at the bricks, and gosh, we have just run some big geochemical surveys on this Crescent project that you saw, and we ran, oh

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gosh, I think we have got 600 samples. I see geologists all the time scanning their sample return sheets to see what the assays were, well, gosh you can pick out the high ones and you can pick out the low ones, but you really don't know what they all mean, and we got them all plotted up and contoured with the computer program, and they all mean a hell of a lot when you get them together. But separated, they are just a jumble of bricks, and they don't mean anything, and I don't want us, I don't want to get involved in a daily question and answer period with Dick with a bunch of disjointed data when in fact what we need is careful record keeping and getting the whole thing together. So I guess that is why I tend not to get too specific about that type of thing, where in fact it gives you a little bit of information which might be dangerous, and it also tends to give Dick the excuse of well gosh I already told you that on whatever it was.

T: You've had that huh?

J: I have that from a variety of people including my kids, on up, and so I don't like to be, quite frankly, I don't even like to waste my time on that kind of data transmission because by the time I have had 15 people give me 15 pieces of separated data, then I have got 15 times 15, and you know, I get very confused. I am easily confused, I don't like to consider overly brilliant so I like to see things broken down into very very elementary clear, easily understandable way that doesn't tax my mental powers.

T: What you are really saying is that you are a mortal man.

J: Precisely.

T: Ok, do you know where Dick is?

J: He was at the office, now do you have that number?

T: I'm sure.

J: I'm sure you do. So, he should still be there, unless he is getting Dusty lined out.

T: Ok.

J: Failing that, he should be at his house at noon. Failing that he is also going to spend some time at Eosin Labs, and I assume you have that number. *Socene*

T: Ya.

J: Why don't you give me a call after you have had a chance to talk with Dick, just to reassure me that we do have the message across, and if there is anything else that you have....

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T: I'm glad I came into the office today. It means I get to use the Watts. We had a funny deal, we cleared through Paine Webber, you know, a large brokerage firm, and we are keyed into their system, and I don't think they know we are there. I ain't going to tell them.

J: Depending on how they have their watts set up, I guess it doesn't make any difference really.

T: It saves us a hell of a lot of money.

J: Boy, I'll say. You know, we have looked into watts lines several times, but we can't justify the cost because actually direct dialing is cheaper, particularly if you talk for a long period of time.

T: Ya, it depends on the quantity you use it.

J: Well, if you make a whole lot of little short calls, then a watts is cheaper, but every time we have really had some pretty definitive cost analyses done, and we could never say that we would save anything.

T: When I worked for my uh, when we were in Indianapolis, we had one. We only had one, so you would spend half the day waiting for your chance to use it, which was a waste of time.

J: Ya

T: I never knock on wood have any trouble getting on this line. Sometimes I may have to wait a minute, big deal.

End

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TELEPHONE CALL FROM TOM SCHLOSS FOLLOWING HIS CONVERSATION WITH  
DICK HEWLETT

T: 2 on #3. Ok.

J: Ya.

T: He thought that you had directly said the opposite. I said I don't care what Jim said, this is what he meant.

J: Wait just a minute, let me get letter because I very carefully did that just so that there, I don't see how there could be any.... what I have said, and of course this is without your specific, or without knowing precisely where you guys were, although Ed is down there and is picking up samples and I have a little bit better idea at this point.

T: Is Dick going to call you before he leaves?

J: I just talked with him just a few minutes ago. Ok, I said "activities, 1. As a maximum, construct the following, Area 1, 3 lifts, Area 2, two lifts, Area 3 two lifts.

T: You are absolutely correct, Jim.

J: How can you possibly misunderstand that?

T: I don't know. We will proceed... next. On lifts 2 and 3, he says he doesn't have full lifts on there, its only 3 feet. I said it may be 3 feet but it goes back further into the heap and you already started spraying on it. I thought those lifts were completed. He says, no they are not, then why are you spraying on it? Ok. That's B. C., on putting on the 3rd lift on Area 1, how many days will it take?

J: Now tell me that again? C is how many days what?

T: How many days will it take you to put on the lift on Number 1, the third lift? Ordinarily it should take one day, that is what he has always told me, to put on a lift with that small tractor or whatever. He said it would take two days because he obviously wants to put twice as much on - make sure he gets rate of return. And I said, no, one day, that is what I have been told in the past. He said well that would be alright except the guy that drives the Cat didn't show up on Saturday. I said Ok, well then have him do it on Monday. He doesn't have enough diesel fuel. I said well go get some diesel fuel. He said well I don't know whether I can get it, you know they are blocking up you know and all that sort of bullshit.

INTERRUPTION

J: O.K., that was Dick as a matter of fact.

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T: Oh really? Let me finish. He said well, he doesn't have any diesel fuel. I said well if you don't have any diesel fuel, then what was he going to do on Saturday? I was going to send him for diesel fuel. I said you are going to send a guy who makes \$5.00 an hour to get diesel fuel, send somebody who makes 3. That is why I don't want you up on the heap, you know I think these things out. If he had shown up on today, he wouldn't have anything because there wasn't any diesel fuel. Ok? Talked about he is 100% sure that the chemistry will work, and I said well I am really glad to hear that. He said because you can always use cyanide, and I said Dick, it's not, I know we can always go back to cyanide, I am talking about the chemistry that we are using now, you don't loop cyanide in there with it. We all know we can go back and use cyanide, but we are talking, we are running an experiment, we are trying to see whether the hypo will work. Whatever number I am on. I said you are loosing part of the preg and part of your barren in the heap. And he says, I think he called it evaporation or something, and I said ya, what in the hell is the definition of it. He says well you are loosing 10% on the in the pond because of the dryness, Ok, and you are loosing 10% on the heap because the rain birds are spraying on the back, he has got a list down there, and they are spraying on the back, and that is probably not draining out, that is just being absorbed by the heap. I said, Dick, maybe we shouldn't spray back there if it is not coming out because all we are doing is loosing our barren, and our preg too for that matter. And I don't know where that is resolved, but he now admits that we may be loosing some of the heap. I said how much? He said well you are probably loosing 10% in the pond and 10% in the heap. And I said, you are not measuring, its not 10%, well it averages 10%.

#### INTERRUPTION

J: Some creep with the wrong number.

T: We usually get the plumbing supply. So it was a long conversation and he says I know I am loosing my credibility or I am loosing my credibility. I said no hard feelings, I know the pressure that you are under and all that sort of shit. And he would like John Dean to come out on Monday or Tuesday in order to establish the credibility. I thought that that was rather interesting. I said Ok., Oh, he didn't know, he said what kind of test leach do you want? And I said I want the same type as before for the U.S. Bureau of Mines. He said 100 tons. And I said well what was the study. Did you read that study by the way?

J: Which study was that?

T: U. S. Bureau of Mines, I'll say Hypo Leach. I am sure that I

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haven't got the right name for it. And that John Dean showed me, and that's exactly what Dick is doing, and that is why John wanted to go up to Reno, but I am glad he didn't, but that is why he wanted to go up there. But you know, they did 5 tons, well that is all you need to do is 5 tons. They had it down to the penny, and I don't think that we have to go to the extremes that they do, but certainly within the ball park. Well I said, call John directly, but wait until Monday, give the guy a break over the weekend, you know, he is older than we are and I think that he is probably pretty tired. So he is going to call him on Monday. I said if you want him to come out, I will pay for it, I don't object to paying for it, but you have got to convince him that it is worth it for him to come out there. That is where we are Jim.

J: Ok.

T: And I would like to think that it isn't me.

J: Well that is precisely why I wanted to talk with you before I talked with Dick again about coming to Tucson because....

T: ..... the zinc, and I said Ok, I will be interested to know what the return is. I said I want you to melt first thing Monday morning, and he said fine.

J: And you did agree not to melt today? or tomorrow I mean.

T: Tomorrow is Sunday, I don't know if everybody is working on Sunday.

J: Ok.

T: I said.... he started going through the, well you were unaware as much as John and I are, the formula, .13 times 8 hours a day, you know, three shifts, all that sort of bullshit, it nets down to, you'll see it when he comes up with Ed Speer, that is \$2,000 a day. I said fine, then I expect 2,000 for Friday, 2,000 for Saturday, 2,000 for Sunday, and then on Monday I expect that when you melt down, you have 6,000 or whatever that is dollars worth of silver. That is all I am interested in. And, you know, I said that is the only thing that means anything to me. I said now if its less, I am not going to say I am going to cut off the project, but I want to know, I want to know where we stand, we are trying to prove out the chemistry. I don't know where I am, Jim. I don't know whether, and then I, I mean you know, the tension around this house is pretty raw says Harry, because I don't know whether I am going crazy or what.

J: Well, I feel like I am in the same boat. Now Ed was quite enthusiastic and felt that Dick had accomplished quite a bit. On the other hand he is not aware of all of Dicks predictions

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and prognostications, so there is a lot of work I am sure that has been done for \$100,000

T: Oh ya.

J: But I don't feel that that is where the problem is and I am sure that you don't feel that way either, and I think that the fact that Dick is now talking about cyaniding again is particularly frightening as far as.....

T: Oh he admitted it.... excuse me for interrupting, he admitted that the manganese ore he couldn't do, alright?

J: Ya, but see we haven't gotten our report or anything saying that. We are dragging admission out of him.

T: Literally dragging it out of him, and that is the first time that he has admitted it. I said Ok, fine, lets get a sample off to John, and the two of you sit on the phone, John in his lab and you out in Tombstone, and you guys figure it out.

J: Ya.

T: You know because he has felt that maybe John was going out there as a hatchet man, which was not the case, in my opinion. But, you know, the two of them should work together. Dick saying he would like to have John come out so that they could work together. I don't know whether John should come out. Do you know? I am not sure he would, but lets forget about that.

J: At this point of criticalness, I think he should, Tom, quite frankly, because there seems to be some unresolved problems I think we can't seem to put our finger on why that barren solution pond was not built, but I think that that may be a critical thing, but on the other hand, even if we have to stop everything at this point and go back to some bench tests, which are quite easy to do, I am not sure that we should even go ahead and build a barren solution pond. I am in a real quandry. And of course the other thing is is that I certainly can't afford payroll for these guys, and I would prefer to call the whole thing off tomorrow unless you want to warrant to me that you want to cover these extra days worth of work.

T: I don't want to warrant anything. I want some answers here.

J: Well, if that is the case, then I would prefer to go down there and fire everybody tomorrow and call it to a halt because I cannot afford to pay them, and I can't afford to have them on my neck.

T: Well, Jim, I think that we ought to carry it through until Monday or Tuesday, Ok. I mean gee you got to see what the

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melt down looks like.

J: Well...

T: Don't you?

J: Well, ya, if you want to pay the bill for it, but otherwise I would prefer to cut it off tonight because quite frankly if the melt down is not favorable, there is no way that I can pay those folks.

T: Well I think that that would be cutting it prematurely before you have the melt down. You know, I have taken all of last week in effect off, taking all last week and going out to Tombstone, certainly at my own expense, and probably have paid for John Dean at my own expense with the risk that it may be been a waste of time taking John out. You know, you never know.

J: No, I know, but I do know one thing that is certain, I cannot pay any of those expenses out there, so if we are dealing in certainties and uncertainties, that is a certainty.

T: Well, I think that we have to continue until Monday. Now I don't think you can go down there on Sunday and fire everybody.

J: Well, I would imagine that nobody is going to be working on Sunday anyway.

T: That probably a pretty good time to go down and fire everybody then.

J: You know, if the funding on this is on me, it certainly is beyond my capabilities and I am the first to admit that and I want to terminate everybody Monday morning if that is the case.

T: Well, I think that you got to go through the melt down, and I would not tell Dick that you are going to fire him on Monday. That is too great of incentive to play around.

J: I would agree with that, but

T: I think on Monday night, I told Dick to keep me informed during the day and we will talk to John Dean. I do not want to call John over the weekend, I think he needs a break. It would be inconsiderate to call him over the weekend. I think that we would wear out our welcome. It is just not fair. So on Monday Dick is going to call me as soon as he gets everybody set up and I will talk to John Dean. They are going to melt down on Monday, and....

J: You are kind of fading away.

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- T: I'm sorry, I have that tendency to talk more quietly when, depending on what I am saying..... The more important it is, the quieter it is. I am saying on Monday, Dick and I are going to talk in the morning, we are going to talk to John, and we'll make a decision Monday afternoon.
- J: Now Dick is aware that he is to melt on Monday.
- T: Oh, is he aware of it. Yeah, verly, yeah. I mean, if, and you see the advantage of my having been there is hey there is no excuse for not melting down. I understand it, and I understand it very well. I have learned, I know quite a bit about the mining business now. It is harder to pull the wool over my eyes, and, how big is a lift, what is the definition of a lift?
- J: Well there isn't any.
- T: Ok, I didn't think there was. But what he wanted to do was to shove more tailings onto the lifts. Do you follow me?
- J: Ya.
- T: I don't want him doing that. I don't want him playing those games with me. Now if he wants to put more tailings on the lift, then lets discuss putting more tailings on the lift. Don't say that the lift is because it is only 3 feet thick is inadequate. If you were starting to spray on it, it was adequate.
- J: What Ed is saying is one of the reasons that they are making up in the water, lost fluid, is that the thing is not saturated itself yet, now did Dick tell you that?
- T: No.
- J: Well, of course that may not be Dick's opinion, it may simply be Ed's.
- T: It could be, you know they have only been doing it for two days. But their hypo is way low. I mean it is endless. Their hypo is low, well they have ordered more hype, I said when is it going to be there, Tuesday or Wednesday?
- J: Is that what they said?
- T: Ya. \$2,000. He says do you want me to cancel the hypo and I said no, I authorized it, go ahead. You can always cancel it on Monday. You got to let it go through this stage. We know there is plenty of value there, we could always go back to the cyanide. I don't want to go back there. Not, because I don't think we haven't disproved Dick's theory, and I don't know half the time whether Dick is telling me the truth or

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not, that is the trouble. That is why I asked John to come out. Boy, we did get some action. It was the cheapest money the two of us ever spent. We are focusing in on the right problem, and we are getting some action and we are going to get some decisions made. So it is the right decision, I feel good about that. Sometimes I know it would be more pleasant to be ignorant, do you know what I mean?

J: Ya, no doubt. Well I would say that we ought to melt down Monday, but if you don't want to put any more money into it, I was never going to get personally into the financing end, and I am already over extended, so I will shut her down on Monday unless you want to continue.

T: Well, I don't think, I am a businessman

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Conversation between JAB and RFH, no introduction

J: What's up?

R: Ed told me I should call you.

J: Oh, ok. Well he said that you were going to come up to Tucson tomorrow.

R: Ya.

J: That is the last thing that I want you to do.

R: Ok.

J: I want you to stay right there and get all those things done. That is absolutely critical. You can call all that stuff into me but I don't want you wasting 4 hours driving back and forth.

R: Ok. Did you get that accounting? He said that that wasn't done, and I thought that if that was ready, then I could just pick it up in the morning. I hate to have a day or two delay on getting that. But if you can get it done and send it out, fine.

J: It is all set.

R: Has he done it?

J: No I sent off your records today. Quite frankly I did not include that accounting, but that is something that I can read to you over the phone in 5 minutes.

R: Ok.

J: Are you talking about the...

R: Well Tom wanted a breakdown of the expenditures all the way to date, what percentage was capital, what was labor and all these breakdowns. According to the budget that I have made up and gave copies to Ed of.

J: But that is just the recent thing.

R: He wanted to go back to, you know, zero for all the money he has invested, and I couldn't give him that. I talked to him

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Telephone conversation between JAB & RFH

J: Hi.

R: Hi.

J: How are you doing today?

R: Fine.

J: How are things coming?

R: Oh, pretty good.

J: Ok, I got the stuff that you sent back with Ed.

R: Oh, ya.

J: The budget and...

R: Ya.

J: Dick, that really isn't acceptable. There was no letter of transmittal of that, and no signature on it indicating even what it was. I do want you to - in all future things of that nature, send me a letter of transmittal stating what the thing is, and sign it. Ok. The pages should be numbered on the thing, one of whatever it happens to be, in that case it was three pages, so you ought to have one of three, two of three, three of three, so that we know that we have got your official budget and estimate. Now I also got two silver ingots and that form of transmittal is unacceptable too. No label on either one of them. I don't know what they represent, no location, no dates, no weight, I don't know what they result from, you know that is what I was referring to when I said that you have got to document these things. Do you see any - do you have any difficulty understanding what I am after?

R: No.

J: Well, it is absolutely critical - do you understand why that doesn't do me any good.

R: Well there is two - ya, I do, I understand what you are saying - that isn't - you know Tom wants some kind of a different budget than that. And I was misled with a letter as to what we were really going to do according to what Tom said we were going to do, you know, yesterday. He said he wants to just see tomorrow how much silver we pour, and that he doesn't want to put a lot of additional lifts down on the south end - on areas two and three.

J: Well, we discussed that in great detail, and is that

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different than what...

R: Totally. Totally different from what your letter says compared to what Tom said what he wanted. And I told him that I had - you know - had prepared that monthly - well its a monthly budget, but on a weekly basis which can be related on a daily basis. And he says, well I have got that pretty much from you. It would be nice just for Jim to be sure he has a copy, but he said really all he wants to do right now is to see tomorrow how much silver we produce.

J: Well, what was the silver you sent me from?

R: Oh, that was just from that clean up pour that we had done before, and I gave it to Ed just to see how fine it was. Because I think Tom probably took that other ingot, didn't he?

J: Well, he had an ingot with him.

R: Ya. And I don't know what the fineness is, and this is what was left in the crucible, you know, from that pour - you know you never get it all out. And so I gave it to Ed to find out what the fineness was.

J: Well, it is really important that we get all that stuff documented. You know, I just can't over emphasize that. Tom thought that he had all of it that there was.

R: Ya. Well, no he was told - you know - that went into the - between the brick and the crucible it broke when they were pouring it, and he was there - I wasn't. He was there when they poured it so... he knew that that happened.

J: Well, Ok, I think that we better have future calls, as conference calls between you and Tom and I because there seems to be a real...

R: You know on that - what I had prepared for Ed there on - by way of a sequence of leaching - you know - for areas one, two, and three - you know - I had the dozer, how much dozer time was required, how much level and rip, and then going down to the next one - well he wants to modify the lift that he wants to do, and so he said he was going to talk to John Dean about that the first thing Monday morning. So I still don't honestly know if he wants to do any more on the south end. You know, to finish up what we had talked about. So he said that he was going to talk to John Dean about that first thing in the morning, and then he wanted me to call him. And have a conference call with him and John to be specific as to what that meant, or exactly what they wanted to do. Same way with what was specified as the leaching test by the U.S. Bureau of Mines method. You know, it doesn't quantify how many tons. I am not sure if that means a barrel test,

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if it is to be on that separate pad that we have - Tom said that he actually didn't know so that he was going to find that out from John and we could discuss it in the morning, and then quantify specifically how much more he wanted to do. I can't really make a - you have what would be an ongoing budget on a weekly basis that is valid on a monthly basis but to do as your letter specifies, the testing that Tom wants - it is still not clear how much he wants to do. That is to say, he wants to discuss it with John Dean on Monday, and see what John felt or would think about that Areas 2 and 3, and so right now, I just don't know how much dozer time or how much anything else would be required. So like I am saying, as we ended our conversation last night, he said well lets just put it off, or lets just see - you know, for example - I have got hypo on order which Tom told me to order. He said well, I would really rather just wait until Monday - this was yesterday - and see how many ounces you pour. And so that has left me kind of in a state of limbo. In other words, I have got - we have got some bills which I had on one page there that are to the best of my knowledge the only ones, but there are probably a few more, but the ones that I am aware of that we still owe, and so like I say, Tom left it that he just wanted - said well its hard to plan all of this, and I can see the letter isn't clear because he couldn't tell me what was really meant by some of the things. So he said lets just see how many ounces are gonna be poured on one filter tomorrow - I am sorry, that was Saturday - he said on Monday. He wanted us to pour the first thing Monday morning. So that is basically the way that he left it.

J: Ok.

R: And I don't know any more on how to quantify - you know - how long anything will take than that.

J: So the directions to put three lifts on Area 1, two lifts on Area 2, and two lifts on Area 3 are not clear?

R: No. And he wasn't sure - you know - he didn't really know how much was really on Areas 1, 2, & 3, as a result of his visit. And so he said he wanted to - he said he had those pictures coming back that I sent him, or gave him - that he had took, and he wanted to look at those. I told him that that lift on Area 2 & 3 was very shallow, only about a foot and a half, and that isn't a complete lift, and the same way on Area 1. So he wanted to discuss that with John on Monday morning, and see what John's - how much really he would like to do, and then like I say, he wanted me to call him first thing in the morning tomorrow and discuss it with him.

J: Ya.

R: So I can't really say much more than that. After I talk

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with him, then I will know exactly what the costs will be, and like I say, you have a copy of what our weekly expenses are.

J: Is that what you sent up with Ed?

R: Yes. But until I know really what they want to do in this test program, I can't be any more precise than just scaling down that weekly budget on a daily basis - do you follow me?

J: Ya.

R: And I pointed that out to Tom and he said well I know - he said I have got to be more sure on what we want to do on those extra lifts because that is of course what takes time - pushing it down and leaching it. So then, like I say, he left and then he said well I guess this probably wouldn't be too important to any of this if you get a good melt on Monday. We know how many ounces we should have in the filter - Tom suggested we just clean one, you know, just melt one because we can't melt all 8 in one day, and...

J: If you just melt one and he has got 8, which one are you going to melt? That is not going to tell you anything.

R: Melt the precip - oh, they would be basically the same. Melt the precip, and....

J: Why should they be the same? They are in series.

R: No, they are individual. You don't pass from one filter to another filter.

J: They are all in parallel?

R: Ya. Ya they are all completely in parallel.

J: Why aren't they in series, I thought that was the normal way of doing things.

R: No. Then if you put them in series, your capacity would be 50 gallons a minute.

J: Ok.

R: That plant throughput would be then the capacity of one filter which would be 50 gallons a minute. We are getting over 400 gallons a minute through the whole system. And so we are recycling the zinc - that is the precip - so the unspent zinc is being constantly re-precipitated as far as replacement with the silver vial sulfides system and is precipitating as silver, so we are constantly upgrading that, instead of adding fresh zinc is what I am saying.

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- J: Ok. Now you are circulating today, is that correct?
- R: Oh yes. Ya, we circulate 24 hours a day.
- J: What is your preg running?
- R: 1500.
- J: Ok. What is the barrens running?
- R: Oh, 0 or 01. Essentially a zero barren.
- J: Is there zinc in it?
- R: No there is hardly any zinc at all in the barren.
- J: Ok. What is you loss into the heap, or have you reached saturation at this point?
- R: No, we haven't, but we loose about 10% a day by evaporation, but we are still in saturation right now, and again, it takes about 10% of the saturation.
- J: Are you keeping records of that in any way.
- R: Ya.
- J: How do you do it?
- R: Measure the flow.
- J: And how do you do that?
- R: Well, the only one that we can't measure indirectly is our return so we had to do that with a bucket, but the spray pump has a pressure meter on it, and we calibrated that to get gallons per minute. Again, we don't have any flow meters so we have to measure them with buckets.
- J: Are you keeping track of that with a record keeping system?
- R: Yes.
- J: Ok. When will you be melting tomorrow.
- R: Well, we will start but see it takes us - you know it takes quite a while to get the furnace heated up, so we will be finished by tomorrow afternoon.
- J: Ok. What do you think about John's comment that fifteen hundredths preg is way too low?
- R: Well, it is low. It is low - you know this very initial crust material that we pushed down has been leached by

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everybody. But when you multiply - if we get a zero barren, Jim... You know that budget that Ed brought up?

J: Right.

R: Which is our expenditures on an expanded basis - not really during this test period, but I gave Tom a copy of it and I thought you should have one. Again, like I said, as Tom said, well you know - he can scale that down on a daily basis. But anyway, if you take a fifteen hundredths preg, that is 15 ounces every eight hours, isn't it - assuming the plant doesn't go down - that is 15 ounces every 8 hours, right?

J: Well, I don't know - what was your throughput?

R: 50 gallons a minute in each filter.

J: Ok.

R: So that is fifteen hundredths times 50 times 60 times 8 divided by 240. Are you with me?

J: Ya, ok, go ahead.

R: You understand that?

J: Ya.

R: Ok, so it really reduces to get how many you have in a filter in 8 hours and multiply your heads by 100. Because the 240 you divide by, the denominator goes into the 480 - that is the 60 by 8 twice so that is two times... past the filter of 50 or 100 so it is 100 times your preg so that is 1500ths, so that is times 100 is 15 ounces in 8 hours. That is times 3 for that particular filter, and that is times \$8.00 an ounce, that is \$360.00 for the 24 hours, that is three shifts for that filter. That is times 8, that is twenty eight eighty a day.

J: Well, is that what you think you are going to get?

R: Ya. Sure.

J: So you think that you will have that melted down tomorrow?

R: Well, what we are going to do is...

J: Or you will have 1/8 of that.

R: Ya. That is right, we will melt down - we should have 100 ounces to be in the ball park. Now if you multiply that by your 30 working days in a months, that is \$86,400 a month. You with me?

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J: Ya.

R: You know, and its like I say, if we - as you'll notice on that itemized list of expenditures on a weekly basis, which is \$10,000, that that includes a bigger dozer and a lot more things that we are not doing now. But anyway I am saying that is \$40,000 a month for the expenses. And that is awfully accurate. So at this rate, at 1500ths, that would be at least a net profit of \$40,000 \$46,000 I mean. So I can't argue with the fact that 1500ths preg is low, but on the other hand that is not - you know when you are just starting up on the lowest grade ore first - that isn't a bad rate when you have 8 filters, and for \$2,500.00, we'd put in that extra bank of filters. So all we have in the plant is \$5,000 so far, just the physical plant now, not the pumps or anything else. Now if we put in another bank, you see that pump, and Ed noticed that, you know our preg pump? That is only operating on the first notch from dead closed, and there is nine notches. We could support a plant three or four times the size of 8 filters. Now even at a 1/10 preg, that would make you some darn good money, wouldn't it.

J: Well, if you can recover all of it.

R: Ya, we are recovering it. Ok, so if you recover it, sure.

J: Well, ok, well lets see how things go tomorrow then. You don't see any hitches at this point?

R: No. See, we are recovering - you see that 10 ounces - that 10.5 ounces that Tom had - represented 25 pounds that were recovered in 8 hours in one filter, and of course 25 pounds is all you can get in one filter, isn't it.

J: Well, I don't have the faintest of ideas.

R: Ok, but anyway, that is the maximum capacity of those filters. It doesn't matter what it is, that is all you can get out of it. So we melted that 25 pounds down and all we got was 10.5 troy ounces, and that was disappointing to Tom. But he failed to recognize that at the heads we were averaging, 1300ths, you know 1500ths preg and 02 barren? We were netting 1300ths. Using my simple equation that I related, you know, multiplying your heads by hundred, we should have if the filters at the plant was working 8 hours, without stopping, we should have recovered 13 ounces - right? 1300ths times the hundred, and so it couldn't have possibly have recovered more than 13 ounces so we got 10.5. That is not too bad.

J: Ok.

R: Then one of the other things I was - you know, like Tom

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wants to see the metal, so that is all there is to it. That is why he is - at least in the conversation with me, which was very very lengthy last night - kind of diverted away from all this budgets and all of this and that and saying well lets just see what you can melt tomorrow. He just wants to see the metal from one filter so I said alright, fine, we are going to do that anyway - you know because we have been upgrading them for three days now, you know, running them right back through, and it really is working - we have to clean the filters a lot more often. We cleaned them - well lets see - what was it - 5:30 when I went out, and then again at 9:30, but it is constantly upgrading them and you see more metallic silver in the precipitates each time that you keep putting them back through. That is, you are using up the spent zinc. So anyway, now we can push with the dozer that I have on that budget, more of a D8 type than the D6 that we have - easily 15,000 tons, off of the top of the heap onto a pad, a little bigger area than what we are leaching on those narrow benches now on the east slope - we can push 15,000 a day easily with that dozer - if we would only recover 1/8 of an ounce of silver per ton each day, no more, that is \$15,000 gross a day. And if we can't recover 1/8 of an ounce per ton of the ore - we are doing that now - that is not hard. That is where the future cash flow is.

J: Ok. Well lets see what we get on Monday then.

R: Ok. Well the way Tom left it, it just kind of gave up on trying to get all these other things done because he said well it is so complicated - he is not sure where they stand on these lifts, and I told him about some of the complications I had on getting diesel fuel and you know, we always have completion problems, and I am almost out of hypo. I haven't really been able to add any. So, etc. etc., well anyway, he focused in on seeing what kind of silver we have, and we should have around 100 ounces - that is just very simple. Anyway, I did - took some of that manganese ore that is from the north ramp that Ed - Ed took some samples of it, and used a 1/2 strength sulfuric and 1/2 strength ferrous chloride solution on it, and in about 15 minutes of just hand swirling it, the silver precipitate was 2.5 troy ounces of silver per ton of solution. That ferrous is reducing the manganese dioxide, and I have been doing it with just plain sulfuric and in a much longer period of time, I only got .7 troy ounces per ton, and that stuff should run 6, 7, 8 ounces.

J: Ok, so that will be part of your recommendations on the manganese metallurgy.

R: Ya, that really works.

J: Ok. Will you have that ready.

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R: Ya. Well I have really completed - I am going to do some more work on it, but I have really completed it to my satisfaction today. I have been running the digest for quite a while and comparing different solvents and nothing really works like this ferrous chloride.

J: Ok. Well I will look forward to seeing your report then on that. In the interim, keep me posted on what happens tomorrow.

R: Oh, I will call you as soon as we get our melt because that is really the critical thing, and that is really all I can get any quantitative feels from on Tom, as far as really all the things that are in your melt. In other words, he wanted to modify how much he puts on the different lifts, and he said yes, we need the hypo, and yes we need to get the liner, and I don't know if I - ya I put that on there as one of the things that I didn't have on there - its about \$1300 - its in Tucson - for our pond, but then he said - so he knows he has made those obligations, that is he has told me to order those things, and so his posture was that well if you can get what you should have according to the preg, and like I say, it is close to 100 ounces - if you can get that from 1 filter, it doesn't matter which one you clean - which would be then the upgraded, that would be the cumulative - that would be the total for the four days - that he would be satisfied with that part of it. So that is about as best as I can express what his feelings were, because they had changed some, and I don't know if he had actually forgotten what they had, what you all had discussed about the lifts and about that Bureau of Mines test or not - but anyway, he said I just can't remember and he said we will have a conference call with John Dean on Monday on that.

J: Ok, well keep all this stuff documented.

R: Ok.

J: Alright, talk with you later.

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Conversation between Tom Schloss and JAB

J: How was your swim?

T: Oh, terrific.

J: Good. I just got off the phone with Dick, and tried to get him most of the afternoon. Finally did around 4:15. You haven't talked with him since I talked with you have you?

T: No, I haven't.

J: Ok. He told me that you were indecisive about the lifts and told him not to really bother with those.

T: No. Just work on the first lift.

J: Well, he said that you decided that you really didn't know what you meant and therefore there really wasn't too much that he could do.

T: Listen, God damn it, God Damn it isn't you - on the first lift - there were two lifts on it - on the second lift, there were 2 lifts, and on the third lift there were 2 lifts. On Friday, he was supposed to be putting the 3rd lift on the first lift - on the first section. Now, he said on the second lift and on the third lift he didn't put a full lift on there. I said why are you spraying? - meaning I don't believe him. Now Ed Speer was down there - what does he think?

J: Well, it is hard for him to determine what it was that you all talked about. But he says that he doesn't have very much material there. Ok, you know this....

T: Then why did he stop pushing it on and go to another lift?

J: Well...

T: Then he is not using good God damn sense.

J: Ok. Well, Tom...

T: It doesn't make any sense.

J: I think <sup>saw</sup> what is happening is that you and I are being whipsod, and I would suggest that neither one of us have any further conversations with Dick without being on a conference call.

T: Fine.

J: Because we are in a you said, I said, he said situation.

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T: Do you have the ability to conference call at your office?

J: Yes.

T: Ok, because I have one at my office - obviously I am not at my office. See what doesn't make any sense then, if he doesn't have enough material, then why did he start on a new lift? That doesn't make any sense.

J: Well, what he is telling me, and I am recording this, by the way, and I have recorded every conversation I have had with you and with Dick...

T: I better watch my language.

J: Ha, ha. I don't think a few four letter expletives will interfere with anything. But at any rate, I think they may be, in fact, in order at this point. But, you know, I can't get it straight at this point what Dick thinks you are talking about and what I am talking about. It is quite clear he said that you felt that the letter - that I just got through sending to him - was unclear.

T: That I thought it was unclear?

J: Ya.

T: I haven't received the letter.

J: Ok, no well, ok, but he...

T: I said if it is unclear, here is what Jim meant. Ok, now I will put on my recorder, which I don't have on now, ok, but if that is what Jim meant - or if that what... here is what he meant, or here is what I meant - which was exactly what I think your letter said.

J: Well, that was my understanding too, and I am not trying to brow beat you, I am just repeating...

T: You can brow beat me all you want...

J: Ya, well, I am just repeating what....

T: I am telling you what I think is going down. See what doesn't make any sense is - then he is using poor engineering. You finish the lift before you start spraying. And then don't go back and start putting more spray on the first lift - on the first section. Let me repeat that... so you understand me...

J: Ya, ok, at this point I am not sure that that is the critical problem, Tom. I am really...

T: Oh, I agree with you...

J: Ya. I am really concerned about what we are doing.

T: Ya, but he can't do anything until Monday anyway - do you see?

J: Ya.

T: And Monday he said he couldn't do anything because he didn't have diesel fuel. So continue spraying on sections 2 and 3 and build up section 1 which we know has been played out because that was really a lot of crust.

J: Ya.

T: Which would seem to me would make engineering sense.

J: Ya, ya. Ok, what is our criteria going to be as far as continuing at this point? Now, again, Dick feels that we are going to have - should have 100 ounces tomorrow - I have got that on tape and also in my notes.

T: 100 ounces times.... is \$1,600.00?

J: Ya.

T: Good, I hope he is right.

J: Ok, of course he says that he can't melt all that down tomorrow. He can just melt the precipis.

T: He can melt half of it so he has 50 ounces on half the precipis.

J: Ya.

T: Terrific.

J: He says that he can only melt the contents of one filter so it is going to be 100 ounces divided by 8 or 12 1/2 ounces.

T: Fine - that is fine with me. I mean I can multiply and divide. It isn't a questions - I mean I don't want the money or I don't want the silver. I want the - I am worried about the chemistry. I am not as worried about the amount of ore in the heap. That doesn't worry me. What worries me is the chemistry and I am also worried about the engineering.

J: Ok. Well, I am super dissatisfied with this whole situation. It is not the way I run my business, it is not the type of thing that I would like to be associated with, and I want to get it back on a reasonable basis.

T: Ok.

J: I do think, at this point, Dick has so compromised himself that I think we have got to have somebody else down there. If that is John Dean, fine, if it is somebody else, I think we have to do that.

T: Well I don't know about that.

J: Well, I am not...

T: Who do you have other than John Dean? John Dean won't go down there - won't live there.

J: Well, he may not even have to be there full time. But I think that we have got to set up a very carefully structured program which Dick has not done. I depended on him to do this, and - you know - as far as I can tell, he has simply copped out on the whole thing - you know - for whatever reasons.

T: I am planning on doing that on Monday with John Dean. Ok, so, I am saying I am doing that Monday.

J: Ok.

T: I didn't want to call John over the weekend because that is not fair to him, and I am liable to loose his good will. That isn't worth it. Ok?

J: Ya.

T: So on Monday morning, my first call will be to John, appraise him of what has gone on over the weekend, and get him working on how we approach it. Get him talking directly to Dick, and explain to John whats gone on about what hereinafter is called the lift problem, and ask his opinion - you know - what is the right way.

J: Well, ok, now, well Dick's comment was that you wanted to have a conference call with he and Dick to discuss the lift situation as well as the chemistry.

T: Fine.

J: Well, I mean, was that the conversation you had with Dick?

T: I guess so. I don't mean - yes it was.

J: Ya.

T: I had - you know - I have been thinking of survival today.

J: Ok.

T: Ya, no, that was. And I don't think - ya, I think that will go smoothly, I don't - you know - I don't understand what Dick is saying, and maybe John can - maybe Dick is right. I'll give him the benefit of the doubt.

J: Ok. You know, when I can't understand what somebody is saying, then I have the feeling that I am being misled or...

T: Ok, do you understand what I am saying?

J: Yes, I am not having any trouble with what you are saying.

T: Ok, because I don't want to make - you know I always have a problem when I feel people don't understand what I am saying. I am trying to be very clear to you what I am saying.

J: Ok. My question is we have sent what I thought was an extraordinarily explicit letter to Dick - now the other thing was that he sent me up essentially the same budget he sent you, which he said that - as a matter of fact, I haven't event compared them - they may be exactly the same thing...

T: Well, we did them together.

J: Ya. But... that is his response to having the budget for the above prepared by the 23rd.

T: Ok.

J: Ok, and he said that that was fine with you. Is that correct?

T: (no answer)

J: Ok, let me go on, obviously we are getting into a he said, I said, you said situation...

T: Well, when we were talking about it down in Tombstone, that was the budget we were looking at. I didn't approve it or disprove it. Thinking about it - I wanted to think about the whole thing together and make a plan.

J: Ok. The next thing....

T: And the key thing in there - I don't know what he has got on the top part of that paper but he has probably got point thirteen times eight times - oh, I don't remember - times something....

J: Ya.

T: If that works, then hell yes we will go ahead with that budget. Alright?

J: Ya, well, ok, he gave me no - these are just written down on three sheets, no letter of transmittal, no signature on them or anything - so that is about as unofficial as you can get, and I really don't like that kind of communication because it is not obligatory - in order words, it could have been from anyone, or some of his notes, or anything.

T: Did he even date it?

J: No. Undated. Undated, unsigned, untransmitted with any kind of a note.

T: Ok, I would phrase it that this is not dated and not signed and - you know - no description. It is the same problem that John Dean has. It is slightly different but it is the same sort of thing...

J: Well, it is the same thing - if you never date anything, never sign anything and never transmit it with any kind of verbage, then obviously you never have any responsibility.

T: That's right.

J: Ok. I also got two small silver ingots, unlabeled, unweighed, no explanation.

T: Where are they from?

J: Well, they were from, supposedly, the cracked liner in the bottom of the crucible, which he said that you were aware of - or should have been aware of.

T: The cracked liner... What do you mean the cracked liner?

J: Well, apparently there was some silver...

T: How much was it - oh give me an approximation.

J: Oh, I would expect they are probably almost as much as you brought back with you.

T: Really?

J: Ya.

T: You know I brought back 10 ounces.

J: Ya, well I would imagine there must have been another 5 ounces at least.

T: Where did they come from?

J: Well, that is what I asked him, and he said the cracked liner in the crucible - and I said well Tom thought that he had every bit of it. And he said well he was there and I wasn't. So...

T: And so what did Dick say to that?

J: Well, no that was Dick's comment - that you were there and Dick was not - when it was melted.

T: Well, let me ask a technical question. You melt, you pour it into a triangular shaped - pyramid shaped form...

J: Ya.

T: It cools, you turn it over, and it drops out.

J: Ya.

T: You have a rectangular square, which is the silver.

J: Ya.

T: There could be a small amount of silver dispersed at other places. Small amount...

J: Well, ya, apparently what happened was the lining in the crucible had cracked and allowed a substantial amount of silver to fall down in there - or leak down in there.

T: So we didn't get all the silver out...

J: Apparently not.

T: Jim, that is strange.

J: Well, you know thats....

T: You got all these professionals standing around - when I went back there the next morning - I did not look at the crucible, but nobody had moved anything. If we had found double - everybody was very disappointed about only finding 10 ounces - ok...

J: Ya.

T: If we actually found 20 - don't you think that I would get a phone call?

J: Well, you can imagine my surprise when I got two more chunks of silver in Ed Speer's hand with no explanation - no label

on them, nothing. I thought they had performed another melt. So, you know...

T: I don't understand that.

JAB & TS Continuation of conversation re RFH silver ingots and shutting down

J: Well I don't know how much it weighs, but I would guess it must be half a heavy as the piece that you have.

T: What is it, maybe 5 ounces?

J: Ya.

T: Well, that could be. There were some pieces left there but they were in the water.

J: Pieces of silver?

T: Ya, but I wouldn't think they were 5 ounces.

J: Well, I don't know - since you have got the other piece and I don't have a weight on...

T: Is it in the form of an ingot?

J: Well, ya, kind of rough ingots, ya.

T: I mean similar to what I have.

J: There are two - ya, right - two of them.

T: Two of them?

J: Ya, one larger one and one smaller one.

T: Well, I think that John Dean and I will take care of that tomorrow morning.

J: Ya.

T: Because John has had an awful lot of experience - you know - off the record on this sort of thing.

J: Ya.

T: And I would say that that kind of worries me.

J: Well, the whole thing is just so complex at this point, as far as I am concerned, that I am very concerned as obviously you are too, but one thing - well I think that we ought to go ahead and melt tomorrow and then I think regardless of the results I think we better shut it down, put these guys on furlow, and find out what the hell is going on down there because I can't warrant you one iota, and every time that I talk with Dick, it sounds like you have said something different than what I talked to you about 2 hours before,

and gosh, I deal with all kinds of people, and I never have communication problems like that.

T: Ya. And I think that I am being very clear what I am saying. And I think that I am making logic - logical sense. I even think that I am making engineering sense.

J: Well, ya, I think so too. Obviously you have spent a lot of time working on this, and I - as I think you know - am a person who very much is a man of my word, and quite frankly, I cannot warrant you what is going on and I am supposed to be the guy that is responsible, and I just don't like the situation at all. Now the other thing is, we do have a cash problem. Regardless, I want you to either decide that you want to go ahead and foot the bills on this, or certainly I have got to shut it down tomorrow afternoon, regardless.

T: Well, lets talk tomorrow, Jim, ok? I will be working on this project all day tomorrow. Lets see how the melt down, lets see how the conversation goes with Dick, I want to see what the explanation is on those ingots, etc.

J: Well...

T: I may agree with you.

J: Pardon?

T: I may agree with you.

J: Well, I guess the question is are you going to cover the costs up to date?

T: I don't know.

J: Well, in that case, I will allow them to melt, but I will shut it down tomorrow if I don't have a check for next week's work. I don't really have any choice in that, Tom.

T: I meant I will give you my verbal answer tomorrow. You don't need the check... You know, my word is good, I presume.

J: Well, I don't know, it depends on what you are telling me.

T: If I tell you something - what I tell you is good. Right?

J: Well, ok, what I am telling you is....

T: You and I have know each other long enough...

J: Ya, I know, but I am telling you that I have got to have a check for next week's work and the back stuff that we have ordered by tomorrow or I am going to cancel everything.

T: Jim, I am not going to wire funds out tomorrow morning. That is flat.

J: Well, ok, then I will shut it down tomorrow afternoon.

T: Now Jim, you are the one who is supposed to be the operator here. As far as I am concerned, you have done a very poor job. I have taken it over. Now I am not wiring funds out tomorrow morning until I find out what is going on. We may close down Monday afternoon, but I am going to wait until Monday afternoon. The funds that are owed can wait until Tuesday, believe me, they can.

J: I am not worried about the funds that are owed, Tom. I am worried about the bills we are putting up.

T: Fine, we will make that decision on Monday.

J: Ok, but if I don't have any cash in the back on Monday, I am going to have to shut it down.

T: I am not going to wire any funds out on Monday.

J: Well, in that case I will have to shut it down and cancel all the stuff.

T: Jim, listen, you tell me what you have been doing over the last 2 weeks, or 3 weeks. If I hadn't gone out there, ok, we would still be putting money into this God damn project.

J: Good, well I understand that.

T: Ok, now I will tell you when to shut it down.

J: No, as long as I am responsible for paying these bills...

T: You have not been responsible for 4 weeks on this thing. I have been the one who has been responsible for this.

J: Ok, but you have just told me, Tom, that you are not going to pay any more bills.

T: I didn't say that.

J: You told me that Friday night before you left.

T: I want to know what is going on. I will know more on Monday.

J: No, if your words of Friday night are still correct, which you said you were not going to send any more money to Tucson, then I simply cannot run up those bills on that...

T: What bills are you running up on Monday?

J: We have got a whole 'nother days wages.

T: Are you saying cut off the wages on Monday?

J: Monday afternoon after they have melted that down.

T: Fine, I am saying you can cut them off on Monday afternoon. I may agree with you on Monday afternoon, but I am not going to agree with you on Monday morning. Now if you are not a business man or a gambler enough to wait, Jim, then maybe this is not your cup of tea.

J: No, you are going back on what you agreed to, Tom.

T: What did I agree to?

J: Which was to fund this thing.

T: Ok, what happens if I stop funding it?

J: Well, that is essentially what you have said.

T: Ok, and how long do I have? I have 7 days. I am not playing that game with you.

J: You have 7 days for what?

T: Oh, I don't know - it is 7 days I guess from when you called for it or something like that. But I am not playing that game. I mean you know that is going by the letter of the agreement.

J: Well, ok.

T: I am not playing that game, Jim. That is...

J: Well ok, but

T: I mean lets don't play that game against each other.

J: I would agree with that, but you must be able to see the position that I am in.

T: I am, and I am saying you wait until Monday afternoon.

J: Well, ok, I want you to tell me whether you are going to stand behind the bills that we have run up so far.

T: Well, which bills are we talking about? Wages?

J: Wages and equipment that we have ordered to date.

T: What equipment have we ordered?

J: Well, we have got bulldozing fees, we have got \$2,000 worth of hypo coming, we have got back wages, which I have got taken out of my account, and whatever other lingering expenses there are.

T: Well I will stand by some of them - you are really - it is not very wise to ask me at this time. I am telling you you are better to ask me Monday afternoon. And it isn't going to make that much of a difference. I will stand by Monday's wages. I will make no further commitments because there is no reason for me to make it today.

J: Well, except for...

T: Its Sunday evening, there is no reason for me to make it.

J: Except for the expenses up to date.

T: Fine, Jim, I am saying that I am making a commitment for Monday's wages, alright? Now I don't intend to walk away from this project. I wouldn't have come out there if I was walking away from the project. I may have to get on the God damn plane next week and fly out again.

J: Well, ok, but what you told me when you left has given me a great deal of concern, and I think that that is unwarranted.

T: This whole thing has given me a great deal of concern. It gives me a great deal of concern that there is nobody out there who I can depend upon to really understand this deal. Now, I have not come down upon you on this.

J: Well, I understand that Tom, and my recommendation is after they melt Monday, is just shut it down.

T: But you may not be right. You have not been down there - for reasons that I don't understand - you haven't even gone down there. You sent Ed Speer who I do not consider the most qualified manager around.

J: Yes, I understand that.

T: Do you disagree with that?

J: Well, I am probably the most qualified here.

T: Right, ok, but I don't think that Ed is. Now I have nothing against Ed, except that he is probably a good geologist.

J: Agreed, I am not arguing with any of that Tom, but what I am saying is is that I put Dick down there for somebody that I could depend on to take care of it. I do have other things, and I never warranted that I didn't. At this point, I have

no confidence in Dick's decision making capability nor projections, therefore,...

T: But you don't even take the time to go down there and find out.

J: Gee, Tom, I have got another emergency project that is just about as equally important.

T: Well, I don't care about that one.

J: Ya, I realize that you don't.

T: In all due respect, I don't care about it..

J: Ya, I realize you don't.

T: You know, I don't think that this thing ought to be recorded, Jim. Ok?

End of discussion on tape.

1104  
1/30/99  
796  
75

7/30 7709 8:42  
8:32 occurring prior to JS tap (right before)

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First side of tape - conversation between TS and JAB in progress

J: Well, I don't know whether there is any point in going over spilt milk, Tom, what I am telling you is that I think that we can pull this out, I think that we can - should bring in some added help on it, if you so desire - are you there?

T: Ya, I am here. But I want to have - you know I have been backing this project for the last \$50,000 to \$75,000

J: Ya.

T: Ok, and I want it very clear before I leave town or I am not paying one God Damn thing - Ok - starting as of today - Ok - until there is an understanding of what the financial relationship is. Because you and I had reached a deal - now as far as I am concerned, we are going to have to pay something to Dick - Ok - and then John Dean wants his share - you know - wants part of it - he was talking about a big cash flow with what he wants - when you bring in this new guy, you are probably going to have to pay him something, and the capital budget is higher.

J: Ok.

T: Look it - we have gone through about 150.

J: Alright. Well lets take it from the point that we are - I think that at this point or at at \$150 I believe the deal was you earning 50%, I think that was it.

T: Listen, I would have dropped out. When I went down there and I saw what was going on, I came back and I said look, as an operator, I am going to be the operator - I want you to be the geologist. I don't want you to be the operator because - and I feel strongly, Jim, and I hope you can hear me - Ok - as an operator you were not doing the job that needed to be done. You didn't - we had Rabb - who wouldn't charge us one God Damn cent was never even called in. Now we found Rabb - not you - and you should of because you knew him and we didn't. Your job as an operator is to find those guys, and you haven't done it.

J: Ok, Tom. I think that I would have been down there had I been able to justify my expense which I told you in detail that I could not, if I was not reimbursed, and that is in our original written agreement.

T: Fine. That is what it was in the past. We can't afford - that was when for \$25,000 we get into production or for \$50 we get into production. We didn't see dog shit.

J: Alright - all I am saying is that...

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T: Which meant that your analyses was off. You said that you did some geological surveying of that heap. I would like to see those results and I would like to see you reproduce one of those.

J: I did some geologic surveying...

T: Yes? Justifying - backing up - checking Dick's numbers.

J: No, I don't think that that was the case. I said that I believed that his numbers were correct.

T: But did you do any checking of his numbers? Any checking of his geological assays?

J: There wasn't - there was not any assay or check procedure done, Tom. What we were supposedly going to do was run a \$25,000 test.

T: Alright, and we ended up running a \$100,000 test, and I stepped in. Now how much room do I need to give you?

J: Well, you had kind of stepped in and taken over direct control with Dick...

T: Ok, because I became more and more concerned, and as it turns out - its justified, Jim.

J: Ya, and I have never gotten any reimbursement for any of my ongoing expenses Tom.

T: Either have I.

J: Well, I know, but the agreement was that you were going to...

T: The agreement - what was the agreement? The agreement was we were going to put in \$25,000, we were going to turn the machine on that was going to start producing.

J: Ya, that's right.

T: Ok, now, what happened? The deal has changed completely.

J: Well, I think the realism of it, Tom, is that we are talking about something that will probably get underway, will probably produce lots and lots of revenue, and for an initial error, I think that its unfair to expect that kind of a demonition in my interest - all things considered....

T: Why didn't you complain then - when I was willing to fund it? You had a month to complain.

J: Well, in part because I have not had the opportunity to sit

down and really think the thing through clearly.

T: Well Jim, thats - you know - what pisses me off is that I have been funding it - taking money out of my pocket and you say you haven't had the chance to sit down and really think it through. Well, I have, and I have paid for it.

J: Well, you have also taken over the....

T: You are darn right...

J: Position of operator...

T: Absolutely. And I would like your help as a geologist - I would like your help in finding the Rabbs of the world, because I think that it is going to make you and I a lot of money.

J: Ok, I would agree. What I would certainly agree with, Tom, is that you go ahead and get that additional expenditure back - but I think that we are going to make literally lots and lots of money down there if it is done geologically and metallurgically properly.

T: Alright - who put in the sampling technique? No you - I did. Ok. Who put in that we switched from hypo to cyanide? I did. Who put in that we switch from the heap to the Contention? Who went from one de-aeriation tower to two? I did. Now that is what an operator does. I am not convinced, Jim, that you can be an operator. You have not convinced me at all.

J: Well, Tom, my original agreement was never simply to operate that on my own string, and I cannot be an operator on my own string. Now what I will do is I will...

T: You haven't proved to me that you have got the ability to do it as an operator.

J: Tom, I have got plenty of ability. Now whether....

T: No, I don't mean ability in that way...

J: Ya, ok...

T: And I don't mean that...

J: But I have got plenty of ability...

T: Ya, but you have got a lot of fish to to fly, Jim, - Ok - we are just one fish that you are flying and you haven't sighted for seven months.

J: Ya, my biggest mistake was not getting rid of Dick

immediately, and part of that was because you had stepped in as essentially operator - and my big mistake actually...

T: I stepped in and got the information so we could get rid of him. I stepped in and got the information so that we would have alternatives. Your alternative was Jack - whatever Jack's last name is - ok - and Tom Waldrip - who I don't really know. But Jack I do know, and the answer is absolutely no. I think that he is....I don't know - maybe I should't knock him that much but he...

J: Well, I don't think that you should either because he has been involved in mills and milling. I don't think that he is the one that we need down there.

T: He doesn't have the personality to carry it off.

J: I am not arguing with you on that.

T: Ok. But I am saying - alright now Rabb should be able to find us somebody - or - you know - or a couple of guys on that list - calling them. We'll find somebody but we can't look at the S.E.A. organization - that is such a small population to look at - our sample isn't large enough.

J: Well, I don't - Dick was supposedly the metallurgist, and he has completely washed out.

T: Ok, but Dick as been suspect for at least a month.

J: And I told you, I think a month ago, that I thought that we ought to get rid of him - didn't I?

T: But you didn't have an alternative. We are not looking for that alternative. You didn't have a way of getting an alternative. That is what an operator does.

J: Well, you didn't agree with me at that point - I think was the big problem.

T: Well when we talked about Jack, we talked about Tom Waldrip, Ok - I didn't necessarily disagree about getting rid of Dick, I said lets give him - you know - lets keep our eye out. I said looking for somebody else. I remember saying that to you, Jim. I doubt whether that would be in my notes, but I would say that to you. But I remember saying yes, lets keep on, lets look for somebody. I have been looking - we should be looking for somebody for a couple months in the past, and I think we have. I have. I mean that is why I jumped at the opportunity when John Dean called me about Rabb.

J: Ok, well...

T: You see my point?

J: Ya, but Tom, you have kind of hit me in my Achilles Heel in a bad time, and you know, I am not particular happy about it, but it has resulted in a great deal of expense to you and a great deal of consternation for me. And I am not trying to find fault, and I am not even trying to tell you that I am going to take any cash out of your pocket, but the one thing that is clear - if there is more reserves discovered down there, in all likelihood, it is going to be me that is going to be responsible for outlining them.

T: But you know, Jim, the reality is - I mean - you know - I sent down Ed Speer - ok - and I don't think he did a very good job at all. I think that it was a waste. You came down...

J: I don't really agree with you Tom. That is really pretty typical for a very quick one or two day examination. I think that he spent a total of 2 days...

T: Fine.

J: On the project.

T: Ok, but the point was he didn't - you know we did a barrel test - Ok - we indicated that there really wasn't probably much there. He came up with a high value - we could never reproduce it, and my point is that I can't use the Ed Speers with these very high values - they are too expensive. I have got to hire my own geologists. Not at an overhead rate of S.E.A., but as I said, I got to hire the guy on a part time or a full time basis.

J: Well, I think that what you are going to find is that the cost is pretty close to being the same. You know, there is a reason for the overhead - that is that it is supporting a lot of facilities. Now, you know, the geology is not that complex down there - well its complex - but it is not going to be that time consuming now that we have a photographic base map to...

T: Did that 1' to 20' get done? 1" to 20'?

J: It is not yet. I am not even sure what status it is at. I will check into it.

T: Ya, because I - Dick said ya, he was looking for that because he had reworked all the old workings - underground workings - and he wants to put that on that photograph. I said how long will it take - I said you really ought to do that before you talk to Jim - I am trying to get him to impress you so that he doesn't get fired. You know, there is a side of me that is sympathetic to Dick.

J: Ya.

T: So he says, ah, it will take me 5 minutes. Oh?

J: Jesus. Well, ok, I am not even sure what he is talking about when he says the underground workings - but - do you?

T: What?

J: Do you understand what he is talking about when he says he has plotted all the underground workings?

T: Well, there is a map of the underground workings of the Contention area - I am seen it. And he wants to plot it on the photograph. But when he said it would take maybe 15 minutes - well - you know - I mean - what is the value of that?

J: Well there is no reason that he can't plot it on the 1" = 100' map that he has already got.

T: But he says he has.

J: He has?

T: Ya, but it is so close, you can't really tell anything.

J: Well, I would agree with that, but I am not sure that the added scale is going to make much difference.

T: Could be, could be.

J: Well, I don't know. I can't argue that one way or the other.

T: It is just that - you know - it like he is always shooting from the hip, and...

J: Well I am not sure what value that is going to be. Is there some reason he even wanted to do it - at this point? Something that should be done?

T: It indicates where there were old values in the past.

J: Ya, ok, I would agree with that, but I haven't seen any copies of the hundred scale stuff, and furthermore, I haven't seen any daily reports either so...

T: Ya, well why don't you call Dick and get brought up to date. Call me in the morning - Ok - because the financial arrangement has to be resolved before I leave town.

J: Well, since it is not really coming out of your pocket, Tom,

what are your...

T: I got a summary of the expenses and \$4,000 for this week and who is going to pay it?

J: Well, I expect if you don't pay it, I will simply shut things down there and pay it myself.

T: Alright - but that is just - I am telling you - the budget is so big - ok -

J: No, I agree with you 100%.

T: That obviously does not include the \$7500 for the Farmers.

J: Ya, I agree with that too.

T: So, that is what I am saying. It has got to be resolved before I leave town. I mean I am very unhappy that the night before I leave you bring it up. I wanted to make sure before I left that there was an understand because it isn't in writing - you know - its our word.

J: Well, and, you know, we...

T: I am glad you are not dis-acknowledging our agreement. That would make me very unhappy - I am not - you know - what you are saying is I want to re-negotiate it again.

J: Well, now what you are saying is you wanted to re-negotiate it, but after looking back at that, Tom, - now of course I was in Nevada and did not have the chance to review that, but...

T: You had a month, Jim.

J: Pardon?

T: You had at least a month.

J: Agreed. But reviewing that thing - you know - I am already being penalized as any expenditures go on. Now...

T: When there is a cash flow - I mean, look, Jim, there would make me nothing happier than to pay you all sorts of money. I don't object to paying you money.

J: Ok, then that's fine.

T: But I can't pay you right now, and right now we are so far behind that - you know - we are in jeopardy of loosing the whole deal - not paying you the money we need.

J: Ok, lets do it this way, Tom. Lets just simply - we will go

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ahead and find somebody to hire. I will go down and put in the necessary time, but since I have not been paid anything at this point - and you are simply reimbursing Dick on his - essentially on a salary basis - lets go ahead and lets keep that thing at the agreed on point because I feel very strongly that we are going to make lots and lots of money down there, and I also feel very strongly that it is going to be largely up to me to pull the whole thing off geologically. That is the basic thing that has to go in there. And - you know -...

T: I am not willing to go back to a 60-40 deal. And that is final.

J: Well, Ok, lets hang the whole thing up then because I don't...

T: You want to go back for a 60-40 deal? You know, that is just fucking rude. Because one, Dick was getting 20% - we know he is not going to get 20%, and you are asking for his 20.

J: Why are you saying he is not going to get his 20%?

T: Are you going to give him 20%?

J: Well, that is what I told you this morning.

T: That you were going to give him 20?

J: It is written into our contract, Tom, that he gets half of whatever I make.

T: Fine. Then go drop down to 12, and take it as a - not a retainer - but as a consultant - take it that way. I mean I can get you around that one. God Damn, after he has fucked me over - you better believe that he is not getting 20.

J: Ok, well then lets see if we can't...

T: In other words, I will work with you because I don't think that you have ever, Jim, tried, knowingly to do me - you know - to hurt me in any way.

J: Well, I sure haven't Tom...

T: I know that so I will work with you anyway you want - I don't have any problem with that. But - no wait - Dick has tried to - I mean if you put the things together - what I told you - hey, he has really - no, I really think that he is crazy.

J: Well, I think he is too. I think that he is absolutely not right. So, fine, lets....

T: In other words, I will pay you 12% - ok - which you can split with Dick, which gives you 6 - 6 and 6, and then we will accrue a retainer fee for something and we will figure out what the percentage of that will be. It will get you right back where you want to be.

J: Ok, as long as we can get me right back where I want to be.

T: But if you want to be at 40%, forget it.

J: I want to be at 20%, and then we can negotiate with Dick whatever is necessary. I think that Dick has offered us a service in getting us the deal with the Farmers, and that is about it.

T: That's right. And he has cost us a lot of money and time.

J: I certainly agree with that. Not only you, but me. I am sure that I have got \$50,000 worth of time involved in this and God knows how much in expenses.

T: That is 6 months of time in here.

J: Ya. You know it has damn near sunk my operation too so I am not any happier than you are, and it is going to strain the hell out of me to continue to put in the effort necessary, and I will do it, I have said that I will.

T: Jim, lets get back tomorrow morning. As soon as you get into he office, give me a call because I am on a very tight schedule tomorrow.

J: Ok, what do you want to do about Bill Hight, Tom?

T: I don't want to call his - John Meselp? just died.

J: Oh balls.

T: And I have written him a letter and I have a draft of it, and I will read it to you tomorrow.

J: When did he die?

T: About a week ago. So you can't call and discuss - you know - we have to put something in writing to him, I think.

J: Ya, I think so too. I don't know what the ramifications of that are. That is unfortunate because Mefelt?, according to Dick, was more reasonable than Hight was. And I don't mean to be bringing bad news on top of an already complex situation, but...

T: Oh, I know that, and I have written a letter to Gallup, who

was supposed to be out in the Tombstone area - I asked him to stop in and see you, etc.

J: Ok.

T: Ok, and I will work on that and I will read it to you tomorrow. Maybe I will send it out to you and it can come from the two of us.

J: Ok.

T: Ya, I have written the first draft. That guy was really kind of an interesting guy.

J: Ya.

T: That is a shame from every way you look at it.

J: Ya, what are your feelings as far as that being thrown into probate. I don't know how that is going to affect the negotiations. I guess that it is a corporation though so Hight should have jurisdiction, isn't that right.

T: Excuse me?

J: It is a corporation and Hight is the President, is he not?

T: Ya.

J: So that shouldn't really affect things.

T: But Hights nemis was Mefel? so it should really help Hight. I mean he was always looking over his shoulder - what would John say.

J: Right.

T: That is pretty fucked up.

J: Ok, well lets go ahead and review this tomorrow. What time do you want to get together.

T: Jim, you are not going back to the status that you were before because things have changed entirely. Lets discuss it, we will get Dwight on the phone, get his opinion in the morning - and I am fresher in the morning - I haven't had dinner yet.

J: Ok, that is fine.

T: But lets get it resolved before I leave town, and - you know - lets get it resolved.

J: Well, I agree with that, Tom. You know, I am not going to

simply push over either. I don't want you to get that mis-information.

T: But listen - you know - where have you been for the month? You are not going to push over while I - you know - forget it. I am not either. And just because - you know - the night before I leave town, you want to say well gee I have been thinking about it - well, so have I. And when we find the little reserves, now you have been thinking about it. When we were back on the heap you weren't thinking about it. You know it is really not very fair. I want you to give that some thought, Jim. Now lets go back two weeks where we were when we were still on the heap, and I didn't see you wanting to come in here and be the operator - at all.

J: Well now, you said that you were going to be regardless, Tom.

T: That is right, and I am still going to be, regardless.

J: Alright then, lets make it worth my while to continue on.

T: Well, lets make it worth your while not to.

J: Alright.

T: Because - you know - we can find another geologist - I don't want to - I want to start a business with you that is going to go on for a long time - Ok - but at the rate that you were charging us, we couldn't afford it.

J: Well, I think that that is very questionable because had I been down there and had I been being reimbursed where I would have not had these other problems... we probably would not have had the problems that we have already go.

T: Jim, you tell me what contributions you have made to this project.

J: You tell me how much pay I have got on it so far.

T: You tell me how much pay I have got on it. Now I want to talk about what contributions you have made. Lets forget about - anybody can bill out at any rate they want. What contributions have you made to this project? I want you to give that some thought.

J: Ok, well lets get together tomorrow. You set the time and I will get together with you.

T: As soon as you get in the office. Lets say 8:00, that is 11:00 my time.

J: Ok, you are generally in at 9:00 aren't you?

T: Ya, I am in early, but I have got - you know I am catching a plane tomorrow night.

J: Ya, ok, good enough. I will talk to you then.

T: Bye.

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91

Conversation between JAB and Tom Schloss - day of departure for Tom

J: Hello

T: Hi, Jim.

J: Hi, how ya doin?

T: Fine. Would you call - I just talked to Bill Hight.

J: Oh, you did?

T: Ya.

J: Ok.

T: I brought him up to date. He does not want to - he wants us to pay the money today. Ok, he will be in Tucson tomorrow, arriving on Frontier Flight 109.

J: Frontier Flight 109.

T: At 10:46 in the morning. He and a Frank Gallup - Frank Gallup is a hell of a guy. A good businessman. He is about our age - I mean it is all relative out there. Ok. And he is the only guy that has got any business sense.

J: Ok.

T: Ok. I guess that he is going to be doing more work on this project. I said hey we need your help here. And so, typical Bill Hight said tough shit, we will take it back and give it to our children. So you got \$7,500?

J: Do I have \$7,500?

T: Do you have \$7,500?

J: I am sorry, say that one more time.

T: Do you have \$7,500.00?

J: No, I sure don't.

T: Ok, well you are the operator, you better come up with it. Call me back when you get that done. Dwight and I are here talking - I am trying to bring him up to date before I leave town.

J: Well in that case I guess we probably ought to let it go, then.

T: Well, you let it go, and I will pick it up by myself. I am

very unhappy with our conversation last night. Now, I am going to bring Dwight up to date - call Hight, Bill Hight at 308-382-3147.

J: Ok, hold it, give me that again.

T: 308-382-3147.

J: 308-382-3147.

T: Right.

J: Ok. Now you want me to call him up and tell him what?

T: Well I suggest that you go down to Tombstone with him.

J: Ok, well I don't object to that, but what was the - why don't you run through the jest of your conversation again.

T: I told him that we had made a lot of mistakes on top of the heap - we probably have to crush the heap in order to get anything out of it - that is the capital expenditure - unknown how much is there - we have been working on the Contention ore - we think that we have discovered high value, but it is going to take a lot of capital in order to bring it into production. We are going to need the following pieces of equipment. We are going to need a dozer, a front end loader, a 30 ton off the road truck, a water truck, etc. We are going to have to build a plant in order to meet those productions - that is going to take a lot of time. We are taking the month of August and we are going to be doing sampling. The month of September, we hope to start it into production. I need his help in putting off those payments - now.

J: Ok. And what you would like me to do is convince him that he should?

T: Yes, unless you have got \$7,500.00.

J: Ok.

T: You got \$7,500 - you don't have to talk to him.

J: Ok, well I will give him a call and see what he has to say.

T: Ok, and he is going to come in with Frank Gallup tomorrow, and I don't think you want to say much today.

J: What's that?

T: I don't think you want to say much today. I think you either want to meet him down there or drive down there with him, etc. - but he is not the guy that you really want to

talk to.

J: Frank Gallup?

T: You want to talk to Frank Gallup. Bill Hight is 75 years old, Frank Gallup is probably 40 - 45. Sharp businessman. Not in a good sense of the word. Now you know John Mefelt died?

J: Ya, you told me that last night.

T: So you want to say how sorry you are about that.

J: Ok, well let me give him a buzz, and I assume that you just got off the phone with him. And then you would like me to call you back?

T: Right.

J: Ok, good enough, I will do that.

T: Thank you.

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94

Conversation with Tom Schloss following calling Bill Hight

J: Ya, Tom?

T: Ya Jim.

J: Ok. You want to call me back on the watts or what do you want to do?

T: Just bring me up to date on Bill Hight and then I will call you back in 10 minutes.

J: Ok. I am going to meet with him tomorrow as soon as he gets in, and we will review everything at that point.

T: Great. And that's it?

J: Ya, that's it.

T: Ok, are you going to be around this morning?

J: Ya. Right.

T: Ok, I will get back to you in a few minutes.

J: Well, ok, shortly or...

T: Shortly - within a 1/2 hour.

J: Ok, well I have got another meeting I can attend then, so I will just wait for your call.

T: Ok.

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Conversation between Tom Schloss, Dwight Lee and JAB - just prior to Tom's departure for Italy

RE: Termination of Dick and percentages - determination of operator

J: Tom?

T: Hi Jim.

J: Hi, how ya doin?

T: Oh my God...

J: Hectic.

T: Jesus - the guy still hasn't called me back on that AA.

J: Well, for Christs sakes. Uh, is that the one from Phoenix or is that the one from...

T: Located another one - I may have - we may have - there may be a - we may have more than we think. I don't know - trying to leave - you know, you are having a cut off to your time...

J: Ya.

T: If you leaving the country - is extremely difficult.

J: I know what you mean.

T: Somebody has got to call the Arizona Bank. I will try and do that.

J: Got to call them?

T: Ya, we got to switch our accounts over there. You know they won't do business with your bank any more.

J: Who won't?

T: The Arizona Bank in Tombstone.

J: Ok, what is the reason for that?

T: They won't cash the checks because they have had to do too much work, and they haven't been compensated.

J: Ok.

T: I have had Jane start the process of getting the signature cards signed - or I guess maybe he hasn't started because I

haven't had a chance to follow it up.

J: Ok.

T: It is just endless - this project.

J: Ya, I know what you mean. Well, Ok, Jane's already got that in hand, I assume.

T: Well, I don't know. Give me the status on the pictures.

J: Well, ok, which pictures are you talking about?

T: The ones I asked - Slaymaker's partner.

J: Robin Brown - is that who you asked?

T: Yes.

J: Ok.

T: Do you know the status?

J: No, I don't. Are those photographs already taken?

T: I don't know - we will have to figure it out with Dick. You are going to go down to Tombstone anyway tomorrow, right?

J: Ya, maybe tomorrow evening. I have got an important appointment at - or had one at 11:00, which I pushed forward so that I can take Bill Hight and Frank Gallup through the office - go over that with them and then probably go on down to Tombstone later on that evening.

T: Ok. Ok, now you know they are going to be spending there maybe until Saturday. I don't want Dick tied up - or I want everybody working down there. Which is going to be difficult.

J: Ya.

T: Especially if we pay them the money. Dwight and I have been talking over what you suggested last night.

J: Ok.

T: And, quite frankly, I think that we will decline, and we will continue with the offer that we have which is that 24% goes to you and to Dick, and 76% to the financial interests - and to the operators.

J: Ok, what specifically are we talking about, Tom, because that is probably not clear. I think the operating agreement that we lined out is good and clear - tell me specifically

what you are suggesting - again - because we...

T: It is the agreement that you and I had reached when I took over being - when Famco took over being the operator of the Tombstone property down in Tombstone, Arizona, witnessed by a operating agreement which was in draft form - and that was that Dick's interest would be reduced to 12%, Jim Briscoe's interest would be reduced to 12% - and we would put up the money needed, and we will probably have to raise additional funds in excess of that. We will probably have to get in a partner - either some people that you know that you mentioned last night or quite a few people that we know here that are interested in this project. And we will have to - it is not - well one we have already spent \$150,000 - so we only have \$50,000 more to go, and that is not enough to get us through the month of August - maybe the month of August and September - especially when you put in the \$7,500 that is owed today.

J: Ok. Well, you know I certainly want to work with you guys and I want to do whatever is fair. What is not clear is - what that means is that a diluted - is that a working interest, is that a carried interest, gross interest - what is it that we are specifically talking about.

T: Lets combine the two. It is a 24.76% interest. If we have to raise additional money, it is diluted with ours. Now lets say we had to raise over \$200,000 - an additional \$200,000, then we are all diluted - we are all in this together. I am not asking to be carried or is this operator asking to be carried any more than I would ask you. It is a dilution for everybody in the same proportion as their interest. And then, of course, you would take it down to the - maybe the provision that we had in there - so that you are not diluted down below zero or 1%?

J: So we end up with a 10% profit carried....

T: Put that in, you can't be diluted down lower than 10%. Ok?

J: That is fine except I don't think that that applied to us at all.

T: I don't know, Dwight? We didn't cover that point. Well, do you want to be diluted down all the way?

J: Well, obviously I certainly don't.

T: Before we were talking that we would be the minority interest. We would own 25% and you would own 75% of it. You didn't want to be diluted. Now it is the other way around, and I am suggesting to you that you could be diluted down to nothing in here - I will make you the same deal that you made us - I think that it is fair.

J: Ok. Then what are you suggesting we do about our costs and contributions?

T: Well, if the project is successful - ok - I think legitimate costs that are charged to the project certainly should be paid - back as soon as possible. I have no objections to that. Now that is not costs for negotiating these legal agreements. That is - that is an equity owner. You know, that is for geological time. Ok? You know, for your professional - you want to pay me for a - I am more of a lawyer than you are - pay me for my professional help - with a sense of humor, Jim.

J: Ya, ok.

T: You know - I mean - for geological time spent - ok? In other words, you are a professional at what you do - well I have no objections to paying for that out of the earnings of this operation. And, therefore, it is in your best interest - everyway you look at it - to get this thing as profitable as soon as possible - it is also in your best interest to keep the capital expenditures down as low as possible so you don't get diluted.

J: Ok, I will tell you what, Tom, at this point, from what I figure I have got into it cost wise, we are at about - and assuming you put in another \$50,000 cash - we are at about 75%-25%. I don't want to - because it complicates my position because of the agreements and documents that I have already got with Dick - I don't want you to negotiate separately with Dick.

T: Fine. You and I will work - look, lets decide what we want to accomplish, and then we will work together.

J: Ok, that's fine. What I - I want to think about this a little bit - but let me just throw it out as a suggestion. No, I don't think that I will. Ok, so what you are really suggesting is that we be penalized - or I be penalized - by 20% of the \$200,000 expenditure.

T: Can you put in \$200,000?

J: No, no, no, no.

T: You said it was 75-25 - that is the 75.

J: Well, at this point - where are we saying that the 24% that you are talking about really begins?

T: Now, I suppose, I don't really know what you mean by the question.

J: Well, because we are talking about both of us taking further dilution, and...

T: From the point of 200, Jim. At 200 we take further dilution. In other words, we agreed to put in 200, but we will put in that \$200,000, but that - God damit, we have got to prove up some more so that we can go raise some money. We got to document it. I mean we have got so much work to do in the month of August that it - I am not sure August is going to be long enough, and I would - if there was a way that I could cancel my trip - I would. But I would be disowned.

J: Ok. What - alright then that puts me right back in the position of operator does it not?

T: No, Dwight is here. You are in the position - remember when we discussed this I said look, I want to pay you Jim 5% as a finder and 7% as a geologist? - I want your input as a geologist, and I want Dwight when I am out of town - now I will be talking to Dwight - Dwight and I have worked very well together - we have already been together for what 10 years? - He has got to make a number of decisions - now what are they? How much money and time do we spend on the sampling, two, how much money and time do we spend on the metallurgy, three, what are the capital requirements - what capital do we need, four, how are we going to raise the money - how are we going to set up a program to actually raise that money? Five, six, and seven. But that is what he has got to do, and that is really not your strong suit, sir?

J: Ok, well that's fine.

T: What we need you concentrating on is the geology, two, who is good in the area to replace Dick, and start interviewing a packet of people, three just keep your eyes and ears open looking for things that are going wrong. I mean, I don't know what it is going to be, but don't you don't get involved - in all due respect to you - in areas that probably Dwight can do maybe as well or better than you can do.

J: Well, I think thats

END OF SIDE 1 OF TAPE

T: ...his demise on that property is difficult.

J: Well, I am not sure that I agree with you that it is as difficult as it is. One thing - I think that our sampling and our ore reserve calculation is the most critical thing to do right now, and as long as he is in charge of it - I

think that we continue to put that under a shadow, and I am not sure that we are not doing a lot of work that may need to be re-done because I don't know that we can depend on anything that Dick...

T: Well that is why I tried to get Bailey Escapule down there.

J: Ok.

T: And I got to have somebody who is....

J: Ok, well lets take the first step first, Tom, lets boost Dick out of there as rapidly as possible.

T: Ok.

D: How would you suggest doing that Jim?

J: Well, I talked with Jay Kittle yesterday, and as far as I am concerned, Dick really has not - there is no reason that I can't fire him on the spot. I want to do it where he remains - retains his cool, if that is possible, and I don't want to get embroiled in any future legal hassels with Dick - which is simply consumptive of time and money, and generally doesn't do anyone any good. But I think the sooner we get him out, the better, and I am having Jay write up a letter of termination for Dick to be sure that we have covered all bases, and as I have mentioned to you, Tom, I think that it is reasonable to reward Dick for the part that he has play here - which might include crucifying him or tarring and feathering him, but I have considerably more control over that reward than I had realized. And I don't think that that need concern the two of you - in other words, I do want to make it worth my while to pursue this in a enthusiastic manner, and I prefer that you let me deal with Dick on terms that are reasonable. And I am going to be fair to the guys which is more than he was to me in Cordeiro - for example - but I am not going to be overly generous.

T: Well, can you tell you what you have got in mind?

J: Well, unfortunately, the way that we worked things out, Dick is a 50% - or I am sorry - a 49% owner in both S.E.A. Hydromet and The Austing Mining & Exploration Company. However, since he is a minority owner, there is no reason that I cannot call a Board of Directors Meeting and terminate him. However, our agreement is written such that the income flows to Austin Mining and thence to Dick. However, I am under a variable degree of requirement to declare dividends at any particular time, and I can do pretty much with that money pretty much what I see fit. I have the option of investing it, doing research with it, paying myself a large bonus with it - within reason - before

declaring any dividends. So that gives me a great deal of flexibility. And I think that I will simply use that flexibility in a way that will reward Dick for his input, but not make it so lucrative to him that he is not penalized for his shenanigans - if we can call them that.

D: Are you going to dismiss him entirely from your organization?

J: Absolutely, I want nothing more to do with Dick.

T: I would put in a caviar. He will get whatever you are willing to pay him, based upon the following: that he not do anything to disrupt, etc. either your organization or the Tombstone organization.

J: Ya, absolutely.

D: And Jim, I think the other thing we have to do is determine whether he would have a course of action against us in that circumstance.

J: Ok, well I would certainly be happy to have you, Dwight, talk with Jay and I on this, but I don't think that there is. As a matter of fact, I think he has no leg to stand on whatsoever. But certainly we want to assure ourselves of that. The last thing we need to do is get to haggling with Dick either now or at some future date. Now one thing I would suggest, is that we go ahead and give him 2 weeks worth of pay -

T: Wait until all the bills are in.

J: Well, ya, I want to say that we will give him two weeks worth of pay, but I want to deduct whatever he can't account for properly. Which includes rent on his house.

T: Well there is going to be rent, telephone bills, utility - you'll be surprised at what comes out of the woodwork.

J: Ya, I am sure.

T: Now, what are we going to do - Dick gets 12%. What are we going to do with that 12%? Now part of it is going to go to - has the potential of going to him. What happens to the rest? Well, my understanding is - and what I think I would certainly be willing to do is have 24% go to the Austin Company, and then Dick may get 12% of that, but that is literally pretty much up to my control, I believe.

T: Well, ok, but what I say on that, Jim, - I am not saying - hear me out on that. I say he ought to get lets say 5% as a finder, and that 7% that I am paying you as a geologist, theoretical - ok? - well - and I discussed this with Dick -

I am paying 7% to him as on site operator - now that 7% that he is not entitled to since he will no longer be the operator down there, goes to the new guy we find - or a part thereof. Because we are going to have to pay him percentage points. Now we are not going to be able to pay anybody we bring down there enough salary to get him to go down there. We are going to have to pay him a percentage. I would say you have got those 7 points to work with. Now that is how I envision it. You may have to - there is nothing magical on the 5 and 7 that I worked out - you may have to compromise with Dick - you know - at 6 or 4 or whatever, but he has raked all of us over the coals.

J: Ya, no I agree, but see what complicates that is my agreement with Dick, Tom, and...

T: I can handle that another way. I can always pay you a consultants fee. I can pay S.E.A. for supervising the contract, and nothing ever goes to Austin.

J: Well, I am not sure that that is not going to get us in some real legal hassels.

T: Well, when we bring in this new operator - whoever he is...

J: You mean the new employee.

T: Operating officer on location.

J: Ok, well first I think that we ought to think about that very carefully. Because I am not sure that we need somebody of an extremely high degree down there. In other words if it is Dusty Escapule or Charlie - I think thats - I am not sure that that is in order.

T: No, it is not in order. You cannot hire Dusty to do this. It is way over Dusty's head. So far over Dusty's head it is frightening.

J: Did I say....

T: Charlie has got other fish to fry.

J: Ok.

T: You got a whole list of people that you discussed with Rabb - anybody look interesting?

J: Except in one case, they all currently have jobs.

T: Ya, I know - you are going to have to offer them something.

J: So, that is a bit of a tough nut to crack.

T: Why is that a tough nut to crack?

J: Well, because you are offering somebody something that is very ephemeral and...

T: Sold us - sold it to us, we ought to be able to sell somebody else.

J: Ya. Well, it is a little bit harder to sell that type of thing to a young college student, which is what we are talking about.

T: I am talking about somebody that is in his 30's. Been out of school - not wet behind the ears - and you pay him - you see 5% of the net profit. In other words, you figure out some system. That is what it is going to take to get somebody good. Dusty Escapule cannot do it. He doesn't have the - he can't do it.

J: Well, ok, I don't think that during August we even need somebody down there because all we are doing is sampling.

T: No you don't understand what we are doing in August.

J: Well, obviously I don't.

T: Ok, I would like to review it so - I have gone over it with Dwight - but I would like to go over it again.

J: Ok.

T: We are doing a sampling program. We are doing three different things - the way I see it. We are doing a sampling program where we have taken a hell of a lot of chip samples. We are only able to do a chemical test to that because we don't hae an AA. Two, we have scraped the alluvium off of the ore body, and have ripped it. We are going back with a backhoe and pick it up and we are going to run a lot of barrel tests.

J: Ok.

T: Three...

J: Until we get the AA, what good are the barrel tests going to do us?

T: Because you can save the pregnant from it, and you can run them all in a day when you get the AA.

J: Well, I don't think that we better do that until we get Dick out of there, Tom.

T: That may be. Let me just tell you what the program is.

D: Why do you say that, Jim?

J: Well because salting of that type of sample is the easiest thing in the world to do, and I certainly wouldn't put that past Dick. It is hard enough to keep somebody from sampling a rock sample - but a liquid sample - it would simply take a little pipet of silver bearing solution.

T: Ok, well let me just tell you what the program is, and then you guys tell me how to implement it.

J: Ok.

T: Ok, anyway, so we do the barrel tests. We then take some of the ore and we do a screen analyses and do barrel tests on those screen analyses to determine the crushing.

J: Ya. Wait - we are still talking about stuff from the Contention.

T: Only the Contention.

J: Ya, ok.

T: Nothing gets done to the heap. Absolutely nothing. Ok. Then we do a barrel test, then we do barrel tests on crushed ore to determine whether we should crush it or not, and how far we should crush it down. Ok. That is one little area. That is called the sampling area. Part two, is you document that, which is what your specialty is in such a way so that it has some meaning to it. Ok.

J: Ya, ok, the documentation has to go before - well at the time of sample collection.

T: Fine, at the time, during or whatever, but it is an intregal part. Roman numeral three - we have ore that is on the pad, half of that should be crushed, and half of that should not be crushed. Two separate - underlined - small heap leach tests should be run. Dwight, and or you, should go down there to receive the gold and silver in your hands when it is poured.

J: Ok.

T: That is Roman Numeral Two, Roman Numeral Three is planning - how much measured ore do we have, what do we think the anticipated amount we are going to get back from it is. What is the capital budget needed to accomplish it, how much time, how many people, what is the overhead, etc.

J: Ya, ok.

T: I would like this all done by August 31 on my desk. Dwight, put your finger down.

J: Ok, do you have this written out, Tom?

T: No, but Dwight has got it.

(Dwight talking in background)

T: Dick knows all the sampling. He knows all the sampling areas - the documentation - he is working on it today, Jim, and I can't tell you whether it is adequate or not. You are going to go down there tomorrow and find out. Alright?

D: Was it your plan to fire him when you went down there?

J: Not until I get a specific document from Jay. Now I may tell him verbally that, but I am not sure that I am going to give him any documents until I make sure that they are correct.

D: You can't separate those events. I mean once you tell him - it is all over.

J: Ya, I agree.

D: And you don't know what - I mean once you tell him, you basically - when you have to have all stuff he has done to date - otherwise he has taken 400 chip samples - or some number - according to Tom - which are going to be meaningless. So you don't want to fire him yet.

J: Wait a minute. Why do you say that these chip samples are going to be meaningless?

D: Well, unless you have the documentation that goes with them - I don't think that you fire him right now.

J: Well, if he has done it correctly - they should be marking in the field...

D: Fair enough. Then you want to determine that before you fire him.

J: Ya.

T: Jim, I don't think that you are going to want to fire him right now, sir.

J: Well, Tom, I....

T: I got to have a replacement down there before you fire Dick.

J: I don't agree with you, Tom.

T: Your point well taken - how can you have him do anything if you don't trust what he is doing?

J: Ya, no I think that we simply ought to get Dick out of there, and until we get a replacement - to simply either close things down or...

T: But \$7,500 a month - it is kind of hard to close things down.

J: Ya, ok.

T: But - ya know - you need somebody on site all the time to watch what is going on. Now you are down in Tombstone, Arizona, which is the sticks - I mean you have not got self motivating, highly creative individuals. You have got the salt of the earth.

J: Ya.

T: I mean, you give any one of the three of us a project, and we will get it done by golly - in what we like to think is the shortest time. Now do you know an Al Waterson?

J: Is that - ya - is that the guy that Dick has got down there?

T: Ya, he is coming down in a couple days.

J: Ok, I think that we ought to tell him to turn around and go back.

T: Ok.

J: He is Dick's man - I don't know him. Dick says he is highly qualified - that is great - but Dick is supposedly highly qualified. Al Waterson apparently worked down there, worked on the dump - that is well and good, but until I interview him and know what his qualifications are - I don't think that we ought to have him come down.

T: Jim, I don't disagree with you at all. I mean - yes - I agree with you completely - but I wanted to tell you - I didn't have his name before.

J: Ok.

T: But, he still may be good - you want to interview him. Ok?

J: Ok.

T: What I am saying is that I need somebody in there.

D: I am pulling out that list of Rabb's...

J: Ok, lets go through what we want to accomplish again, Tom. What do - do you have it noted down?

T: I can give them to you again. Let me give them to you and just take notes.

J: Alright - hold on just a second. Ok, shoot.

T: Roman numeral one - Sampling - take rock chip samples on the faces - on the faces - period. You know what I mean...

J: Exposed faces in the cut.

T: Exposed faces in the cut. Two - by the way which has already been done -

J: And this is where we have got 400 already taken?

T: Ya.

J: Boy, oh boy, I don't like that.

T: Not all 400 of them are there. Two, take a dozer and scrape off the alluvium. It has been done. Three - just tell me when you are ready -

J: Ok.

T: Three - take the ripper and rip it so that you can take a backhoe to it. Its been done. Four - this is being done today - take a backhoe and make a backhoe cut. Five - take from the backhoe cuts, a sample and run barrel tests. Six - take some of those barrel tests, or some of that ore - and do a - you know, a crushing analyses?

J: Ya.

T: I don't know what you call it.

J: Screen analyses.

T: A screen analyses - but using barrel tests.

J: Wait a minute - screen analyses of what.

T: Of some of the ore from those backhoe cuts.

J: Ok, so we are on...

T: You gotta determine which ones to do, Jim.

J: Ok, we are on seven - screen analyses...

T: From ore from some of the backhoe cuts.

J: Screen analyses of ore - of crushed ore - right?

T: Yes. And you and John I am sure will agree on a technique.

J: Ok, now I understand that somebody - or Dusty - or somebody is making up a screen.

T: Exactly.

J: Ok.

T: You are part of the way there - I haven't left you in the lurch.

J: Ok, can you hold on just a minute? I will be right back with you - I will put you on hold. Ok, are you with me?

T: Jim?

J: Ya.

T: I went to the bathroom.

J: Ya, well, ditto.

T: That is where Dwight is.

J: Ok, we are on seven now and we are talking about screen analyses of crushed ore.

T: Right. I got another one too. Put down at the top of your paper Employees, ok? We will come back to that. Ok. So crushing a screen analyses. Screen analyses done with barrel tests. Do you follow what I mean?

J: Ok.

T: The only thing that is valid are barrel tests. Everything else you want a yea or nay.

J: John feels that way.

T: Ya. You don't care what I feel, right?

J: (chuckle, chuckle)

T: Anyway, ok, that is the sampling, and then again you document it and you are measuring out the ore - trying to come up with - gee - the objective is there enough ore to justify capital expenditure? And today, we don't know that. We are really in the blind. Now everybody thinks, and everybody is thinking that there is a lot of ore - gee - we

thought that about the heap.

J: Ya, absolutely.

T: So, I don't think - I am not going to listen to anybody's thoughts -

J: You shouldn't.

T: And then, all I really want done in August - I want other things - but that is really the most important thing. Because prove that, we can all - I mean we can approach your guys, we can approach our guys to raise money - ok - but without it, you can't do anything.

J: Ok.

T: Ok, now that is Roman Numeral One. Roman Numeral II...

J: Wait, wait, wait - how did we get to Roman Numeral I?

T: Sampling is Roman Numeral One.

J: We were up to Roman Numeral Seven.

T: No, that was number seven.

J: Oh, ok.

T: You don't know how to outline.

J: I just didn't hear what you were saying.

T: Now, Roman Numeral Two - which is a separate area - which is why we need so many people - I am going to ask you to do an analyses of the employess - have we got too many or too few. Hopefully we have too many. But anyway Roman Numeral Two is the metallurgy test that John and I went out for - ok - was it inconclusive - don't write yet - was it inconclusive in its conclusions and disasterous in its implementation? I want to re-do it. There is enough ore there.

J: Ok, now are you talking about the heap leach test?

T: Yes.

J: Ya, ok.

T: Ok. I mean it was really poorly done. As far as I am concerned, you can fire Dick on that one. I mean there is no excuse for what was done there. And - boy - anyway - you have got about another 200 tons there - take half of that - split it in half - mix it up, do whatever you want to do. Take 1/2 of it and crush, the other half put into a heap so

that you have got two heaps - and run two - underlined - separate tests with that small plant.

J: Ok, crush 1/2 and mine run - test both.

T: Yes, right.

J: Heap leach both..

T: But separately for God's sake. I mean it is obvious to you - but to put them together is so stupid - and - document it - on what the throughput on the plant is, how much cyanide you are putting in, how much zinc - you know, the whole thing. I think these are obvious - should be obvious.

J: Well, ok. What I would like to do, is I would like to get specific directions from John.

T: Fine, you will have no trouble in getting that from John. I mean John will do anything.

J: I am sure of that.

T: I mean, there is no problem. But I understand what we are trying to do, and he can give you the details of how to implement them. And then, still on Roman Numeral Two, I asked Dick to do an analyses of the pad to determine whether the pad is leaking. Now you should discuss this all with Dick when you are down there - so you can get brought up to date. He wrote a memo on it - ok - and what he wants to do is put diesel fuel on it as a binder.

J: Ya, I know.

T: I said well Jesus - what will that do chemically? Well, you know Dick doesn't know.

J: Well, as a matter of fact, have you talked that over with John Dean?

T: Yes. He doesn't know.

J: I would think that cyanide reaction - tends to react with organics - diesel fuel is an organic - I think it might be death - I mean we might get a layer of silver on the diesel fuel.

T: Ok, check it out with John or Rabb - but I talked with John this morning - John feels that Rabb is not as much a metallurgist as he is a mining engineer.

J: Well, now I don't know whether he told you or not - but he did a thesis on cyanide leaching when he was in school, and actually did some work down in Tombstone.

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T: Remember John's partner wrote the book.

J: Ya.

T: The two of them are not in competition as far as I am concerned. John feels that by the way he answered his questions, that he is better as an engineer than he is as a metallurgist, although he is knowledgeable in metallurgy. You might want to ask them both.

J: Well, his title is mining engineer - however, his degree is in metallurgy.

T: I know. But ask both of them whether if you put diesel fuel on that - is that going to cause problems. You cannot trust anything that Dick tells you. But you know that. Ok, Roman Numeral Three - is really - you have to supply the information to the mining engineers - gee, what is the throughput of our plant? What size equipment do we need? How long is it going to take us to get it into production? When can we expect a cash flow? How many people. I will go slower - ok - One, how much ore have we - ok - under Roman Numeral I think Three - One, how much ore have we measured out; two, the value of the ore; three, the throughput on the plant; four, the size of the pad; five, the equipment needed to move the ore onto the pad in such a manner...

J: Ok, hold on a minute - the plant throughput...

T: to be utilized 12 hours a day - two sun up shifts - see you don't work at night but you work from 5 in the morning until 7 or 8 at night. Do you follow me?

J: I am sorry - now tell me that again. You are talking about the size of the pad...

T: In relationship to the equipment. In other words, lets say you have a dozer, front end loader and a truck - and it takes 5 hours to fill the pad and you have all that equipment sitting there doing nothing - you know - while you are leaching it? That makes no sense. Get smaller equipment. Ok. This is what an engineer should do for us.

J: Mine planning.

T: Ya, to me it is basic. I mean why we are having so much trouble on this, I don't know. But it is basic.

J: Ya, it is, no problem.

T: You know, Jesus, I am not even sure that my friend Jack couldn't do that part?

J: Who?

T: Your friend Jack.

J: Ya, I think that he probably can because I think he has done that type of thing before.

T: Ya, I mean that is not really difficult. Once you give him the raw information - he should be able to do that. Or Rabb could do that because he is an engineer. Or he could check Jack's work. Do you follow me?

J: Yes, absolutely.

T: I mean there is some combination. Ok, Roman Numeral - we are still on Three - I don't know what number...

J: You are on six. I have got pad requirements as four and mine equipment as five.

T: And six is what capital are we going to need.

J: Capital requirements.

T: And seven is what are we going to have to give up to get it. And eight, what are our alternatives. I think that that is all I can think of. Now these can be expanded. Ok. Next Roman Numeral - I think it is Four - is the employees. For each stage, how many people do you need? Now Dick seems to forever be adding to his payroll.

J: Ya.

T: And I have very little ability to control that from here - because I don't trust Dick. Very difficult to work with somebody you don't trust.

J: Absolutely. How many employees, how many people do we need.

T: That is for each of the stages - to do the sampling program, lets say you needed three people. On the barrel tests I think you only need one. Use somebody like Scruggs to run it - or no not Scrugs - OC to run it under a professional supervision.

J: Ok, fine - have you got anything else here?

T: No, I don't.

J: Ok, let me make these suggestions, Tom. One, lets get rid of Dick, lets turn Waterson around - I will be happy to interview him if he wants - and if you want to do that, then I would suggest that we pay his way down here to talk to him. Maybe he is the guy, maybe he isn't - but I am very

very leary because he and Dick are friends - Dick has a way of mesmerizing folks, as we unfortunately know - I think that it would be very dangerous to have him involved at all.

T: I agree. I mean - no further discussion. If he wants to come down to interview you, Jim Briscoe, fine - otherwise forget it.

J: Ok. Lets get rid of everybody except Dusty Escapule as soon as possible. Let me put people from my staff on doing these things on an as needs basis and I will charge you their daily pay rate and burden - which is essentially their salary plus 26% - which covers FICA and all the other things the government requires - but only have them work on an as needs basis - then we will go ahead and start looking for somebody to work permanently, but that is going to take a while - for one thing - anybody that we get that already has a job is not going to leave on less than two weeks notice if that. So if you decide tomorrow - it would be two weeks down the road before they could be on stream. There isn't anything in here that can't be handled particularly if we can get Rabb's help. Ok. What do you think about his proposal as far as a vehicle goes?

T: How much is his vehicle?

J: I am getting a bid on a small vehicle now on a lease basis, and I would think that that would be the way to go.

T: How much would that be?

J: Probably - a '79 Chevrolet Luv pickup 4 speed transmission, with an air conditioner - 36 month lease would be \$132.00 per month.

T: Ya, but that is a full pay out lease.

J: Well - that - your out of pocket costs on the lease. Now I don't know...

T: Ya, but you own the truck.

J: Ya, well there isn't any other way to do it, really. That I can see - you may have some suggestions. But I don't know what they would be. What we would be doing is we would be getting 4 days a month of a guys time for \$132.00

T: Well, obviously that price is right but you have got a contract there for a long time. Have you got a piece of equipment that you are not using that you would like leave to it? Do you see what I mean? Lets take one of your Blazers. I am not picking on that piece of instrument - but lets take a Blazer. Lease it to me, and then if we decide he isn't being helpful to us - we turn it back to you - or

lease it from a kid going away to college - you know what I mean?

J: Why don't we.

T: Or are you going to need a Blazer in 6 months - maybe.

J: I really can't predict that. We are already short on vehicles so I simply can't give you one of mine - and anyway, a Blazer is very expensive.

T: I picked on a Blazer because I know that is what you drive. But a vehicle that you might have a use for, Jim. Do you see what I am saying.

J: Ya. We are already tight on vehicles. How about simply doing this. How about simply buying it and then we will sell it when we don't need it.

T: I don't want to buy a new one - can you get a used one?

J: Oh, I am sure that we can.

T: Fine.

J: Ok, let me have Jack look into that and see if we can't get a used Chevrolet Luv pickup or something or other. I think that that is a reasonable thing to do.

T: Because I want to see how he works with everybody before we go into a real obligation here.

J: Ya, ok, well, we are going to need some kind of a - well we are going to need a vehicle - or vehicles as needed - which I can supply on a mileage basis - but I don't think that we want to get - he didn't ask for something that is expensive as a four wheel drive vehicle, and a Blazer is about a \$12,000 vehicle.

T: I will send out one of my volkswagons - I got four in my yard now.

J: That would be ideal - as a matter of fact that is one of the things that he suggested - except that volkswagons are pretty expensive too.

T: Ya, but if he got a volkswagon - I would buy it - alright? Because it has got a resale value. A high resale value.

J: Well, that is fine with me. Do you want to buy a volkswagon - I am sure that it would be fine with him.

T: Well see if you can look around - I think those volkswagon are going to be more and more valuable.

J: Probably.

T: I got one I bought for \$200.00 five years ago - still running. I don't know how good it is on the road down there.

J: Well, he does have to have something that is dependable - we are talking about driving back and forth the 100 miles or so.

T: Does he not have a car? Is that the problem.

J: That is the problem. They don't have any budget for gasoline or a vehicle so what it does is it comes out of their overhead operating expenses and so forth.

T: How about we lease his car?

J: Well, that is a thought. What he wants is a vehicle and gasoline - whether it is his car or something else - so maybe we could have him get whatever he wants and we will lease it from him for as long as it is required.

T: Ya, I think that that is a better way.

J: Ok, well let me talk with him - he is off - he is out of town until Thursday, but let me talk with him on that. Ok. Secondly, everything that we have talked about is not very difficult.

T: I know.

J: What I would like to do is I would like to get rid of Dick for one thing...

T: Ya, but how can you do that until the Farmers leave town?

J: Well, I don't see anything wrong with telling the Farmers what we are doing.

T: Ok, my discussion with them, they probably won't object. They said to me when I said I brought in John Dean - well John Dean and everybody else is going to have trouble working with Dick.

J: Ya, well - I told them we have been having trouble with Dick and Bill Hight said well I told you so. So what can I say? He doesn't object - I am sure that he doesn't object.

T: Ok.

J: So, I don't think that we are going to have any static from them at all. Ok. Then there is no point in having anybody down there except Dusty, as far as I am concerned. And

Dusty only for continuity. I think that we can supervise...

T: It has got to be thought out better than that, Jim.

J: Ya, but I can't....

T: A lot of it can be supervised and done by these very cheap individuals - OC is very cheap, Ed Rice is good and a steady guy.

J: Well, then lets hire them on an as needs basis, but I think that Dusty...

T: Lets say we want to hire them on an as needs basis to be supervised by S.E.A. people. Lets don't lay them off, lets hire them as an as needed basis.

J: Alright - but let me evaluate who we need and what we need to do this. Because I don't think we need anybody by Dusty, quite frankly.

T: Well, how many people are you going to use from your office?

J: Probably 1 guy at a time, and depending on what is necessary to be done...

T: Can you get all this work done by the end of August?

J: I think so. I think that if I plan it out - I want to go down there and see what has been done on the sampling and how it has been taken.

T: Ok. My opinion, Jim. Don't fire Dick yet. Dick - find out everything that he has done - or everything that he has done will be wasted. Get it documented and then fire him if you want.

J: Ya, ok, well, as I told you, I am not going to have any documents until tomorrow for sure - but...

T: And talk to Dwight before you do it.

J: Well, ok, Tom but...

T: I am not questioning...

J: Dick is my employee, and I don't want to have him down there any longer than is absolutely necessary. It is absolutely chaotic and no damn good.

T: Ok, but I don't want you jumping the gun until you get the information from him.

J: Ya, well that is fine.

T: That is my point.

J: I will simply probably pick up these samples when I am down there - these 400 that have already been taken. I see no reason to leave them down there at this point - I can always haul them back - that is no big deal. Ok, lets go through these things very briefly, and let me see if I can think off the top of my head what we can do. Ok, under sampling, one, we have already got the 400 samples.

T: But is it documented? Put a question mark. By the way, part of those 400 samples are the backhoe cuts. Go ahead.

J: Then my notes say take dozer and scrap off surface soil, and that has been done?

T: To my knowledge it has. Now they didn't get it done as much as they would have liked but they got a lot of it done.

J: At this point - ok - rip at right angles to the cut.

T: It has already been ripped.

J: And the backhoe cuts are in process.

T: Right.

J: So then it is just a matter of sampling and running barrel tests, right?

T: Right.

J: Ok. Two, we have got the heap leach test - ok - so most of all that has already been done - to your understanding.

T: Ya.

J: Ok, so we don't need the bulldozer any more - or least not until we need it on an as need basis - is that right?

T: Right.

END OF SIDE TWO OF TAPE

Conversation between JAB and Tom Schloss - no introduction

T: ...well in the cookbook of the barrel test...

J: Ya.

T: Its music to his ears.

J: Pardon?

T: Now who are you going to put in from S.E.A. to supervise that?

J: I am thinking very strongly about Tom Waldrip, and I want to do a little more thinking about it and see where see our other responsibilities lie and where Tom is at this point.

T: Ok, now, on Tom, you really shouldn't do it. You should just supervise it and have OC do it.

J: Well, again, I think that it can be done with Dusty. I don't see any reason...

T: What else you got Dusty doing? He can't do everything.

J: Well, ok, lets go through what else we are doing, but we don't want to start heap leaching until we run the barrel tests.

T: Ok, keep going.

J: Ok, so you got #2 heap leach test, the 200 tons of the pad and the... we are going to crush a half and leach...

T: Ok, now how long with that take you? That will take you two or three weeks.

J: To test the...

T: Let me tell you what you have to do. You have to take the dozer, the little dozer and push it around, and then you have to take the backhoe or something and lift it up and put it into the crusher. It is a little crusher, it isn't a big crusher. So you are going to have to have a guy do that.

J: Ok.

T: Ok, now that is something that Dusty could do.

J: Alright then lets hire somebody to do that on an as needs basis.

T: Fine. The thing is, that is at least a weeks work there.

J: For one man?

T: Ya.

J: Alright.

T: I mean I don't know, that is what I want you to determine.

J: Alright, but lets just determine it as we go. You know, we will find out, but lets don't have a bunch of people hanging around on the payroll.

T: I agree with you Jim. But I think that it is more work than you think it is.

J: Alright, fine, if it is, we will put them on, but at this point, I don't know what all these people are doing and I don't see the reason for getting Al Waterson down here, and I think that we are over staffed.

T: I agree.

J: I would rather have two or three people from my staff go down for a week and then split, if that is all that is necessary to get done. Or we can hire appropriate people down there. If we have to have 15 one week, that is fine, but lets bail them out of there the next week.

T: Ok. Jim, you can't hire people and fire them that easily in Tombstone. It is hard to find good people there.

J: Well, I am sure it is.

T: What I am suggesting is that you do a number of these things simultaneously with somebody like Tom Waldrip watching and supervising.

J: Ok, thats fine.

T: Tom Waldrip is honest and is meticulous in his approach.

J: Impeccably so.

T: Ok, so he can supervise everybody and use these young kids to do the work. Ok, lets go through each one of them. What is the next?

J: Ok, then we have got 1. Calculating the ore reserves; 2. Getting the values; 3. Calculating the plant through put; 4. Pad requirements and mine equipment; 6. The capital requirements; 7. What is necessary to raise the capital.

T: You skipped the roman numeral II. We are on number III. We will do that when you get I and II done.

J: Why did you say that I skipped something?

T: Maybe you didn't.

J: Ok, lets go through them one more time. One is the sampling. We have got the rock chip samples take a dozer and scrape all the surface soil off, rip at right angles to the cut, take the backhoe and sample on barrel tests. Number two heap leach tests with 200 tons on the pad, crush a half and test a half... a hundred ton sample each. Ok, that I think we should do on the floor of the plant. Do you agree?

T: No comment. Talk to John.

J: Ya, ok. That is kind of what we decided last Friday but at any rate we will do what is appropriate.

T: Ya, whatever you guys think, I don't know.

J: Three, calculate the ore reserves, which is related to sampling. We arrive at the value of the ore reserves, we calculate the necessary plant throughput and pad requirements and mine equipment which is essential mine and mill planning, and then we calculate the capital requirements, what is necessary and raise additional capital, and then what kind of a deal we want to cut.

T: Right. You are going to send a photostat of this to Dwight, right?

J: Unless you want to send me a photostat.

T: Jim, I haven't written it out.

J: Ok, fine. What is necessary to raise additional capital and then eight, I guess, is what kind of a deal.

D: Ok, how are we going to implement without Dick one, two and three?

T: Jim and I... Tom Waldrip is probably a pretty good guy to handle it, I don't know him that well, I have seen him in the parking lot. Jim says he is meticulous and he is honest.

J: Well, we don't have anybody that is not honest on our staff. I think that we can handle this. The thing is that it is going to take us at least, well we will be lucky if we can find somebody in three weeks to a month to run this thing.

T: I agree.

J: We might find somebody sooner but I will tell you finding

good people is tuff and I am on a continual search as it is. I don't think that there is anything all that complicated.

TAPE CANNOT BE HEARD

J: ...lets hire them on an as need basis.

D: Jim, is it your plan... well you will know more once you are down there tomorrow in terms of the timing of getting rid of Dick and where he really is in terms of what he has done and so on. Correct?

J: Ya, I would say so.

D: But you and I should probably talk on Thursday.

J: Well I am going to go down tomorrow evening, Dwight, and I think that I will spend 1/2 day down there, maybe a full day on Thursday, and make my decision at that point.

D: Ok. So lets just you and I talk after you have done that.

J: Ya, I would say so.

D: And particularly with a plan for I and II since III will follow that.

J: Ya, that is right. Now lets emphasize what I think is most important. I don't think that you are going to find any different opinion from either John Dean or Dave Rabb and that is the sampling has to be done properly. If you don't do the sampling properly, steps 2, 3, 4, you know the whole ball of wax, everything after that is no good.

D: We only need to do so much sampling as a first step because simultaneous with some of that sampling should be the leach tests and the barrel tests.

J: Sure, that is fine with me.

D: Because it is conceivable that there will be enough ore to do... lets assume that the leach tests works. You may know very quickly that there is enough ore to move down there and go through a leach cycle, and that may be economical by itself without creating our preverbial cash flow.

J: Ya. However, Dwight, we should sample as much as is practicable as soon as is practicable because we can sell ore reserves. You know, once they are measured, they are a saleable commodity, therefore, what we call bankable, and that is going to help us raise any additional capital.

D: Who are you going to sell them to?

J: To who ever wants to put in additional money. Whoever. The opposite is true if you don't know what they are, then you don't have anything at all to sell except a conceptual thing.

D: Ok, my response to that Jim, would be right now we are not trying to find somebody as a first step or buy the idea. What we are trying to do is find out if we have got enough to get started leaching to try to create some cash flow, and I think that it is important that we end up agreeing on what the steps are of the sampling so we don't end up spending more time and money than we have agreed to at a given point in time to do that.

J: Ok, well that is fine. One of the things that I am working on now, Dwight, is the is l. A summary of what has been spent on a monthly basis, item by item, and then we will make a cash flow projection probably day by day, week by week, month by month so that we will have an increasingly accurate idea of what it is we want to spend down there. What is necessary and when those expenses will come.

T: Ok, but Jim, don't, you have a tendency to spend too much time on this sort of thing.

J: Well, I don't think so. I think that that is part of the problem...

T: That is past oriented... the more present oriented ????

J: Ok, that is fine, however... it is difficult without some sort of past history to know where we are going.

T: Where we have been in the past has no relationship to where we are going.

J: Ya, but it does relate to some of the expenses and things.

T: We were using hydrochloride.

J: I am trying to think about bulldozer costs and so forth...

T: I mean heap has nothing to do with bulldozer on the Contention. It is not related.

J: Ya, they are on an hourly basis, Tom. We have got a...

T: Alright, we can give you the hourly rate, but Dusty can give you that in a conversation.

J: Ya, ok.

T: You don't have to spend 10 hours to figure that out.

J: I am not going to spend 1 hour to figure it out. It is simply being done right now and I will have it shortly.

T: Ok.

J: Now this will be one of the things that Tom will do, is simply keep track of costs like this so we will see what the mining costs, we will just approach it from a professional standpoint.

D: Ok, Jim, we will talk probably late Thursday.

J: Ok before we hang up, lets go back to this situation of the participation. Is it my understanding that S.E.A. et al will be reimbursed at 24%...

D: We are talking about now going forward and what you do, right?

J: Ya, that is right.  
24%

D: Yes, Jim, but with a caviat that we have got to be clearly in touch so that we know how money is being spent on a very current basis. Ok?

J: No, I am talking about, I think that we are talking about two different things.

D: Oh, we are...

J: I am talking about the 24% interest in the project.

T: Say it again.

J: 24% to S.E.A. rather than 40%.

D: Hang on a minute Jim, ok?

J: Ok.

T: The original conversation was 12% was to go to Dick Hewlett and 12% to Jim Briscoe. Is that correct?

J: That is part of the problem, Tom. It has got to go to S.E.A. and let me worry about getting Dick his interest.

T: Was that our agreement?

J: That is what we discussed in our conversation when I was in Searchlight.

T: What was the agreement that we agreed.

J: Ya, but when I go back and look...

T: Directly to Dick that he would get 12% and he said that was fine. He has never negotiated the price anyway, he thought it was too high. Everybody had agreed to it. Now we have a place where Dick is not going to be around, we are going to have to pay him something. Now if you want to take that 24% and take, you have that 24% the money that has been spent would go to S.E.A. to pay back their overhead, that is another change in the deal.

J: Well, no after reviewing the agreements with Dick and I, it is impossible for you all to make separate deals with Dick.

T: I am not making a separate deal with him. Lets just try and determine what we want to do and then we will figure out how to handle the matter. Believe me, I am not trying to make a separate deal with him.

J: I wasn't necessarily suggesting that you were, but since I have already got... the agreements and details of things Dick could care less for because he doesn't abide by them anyway, so, therefore, whatever you would say, he would agree with regardless of the fact that we already have a very definitive legal agreement between he and I which has to potential for resulting in all kinds of legal hassels which I by no means want to get involved in.

T: Ok.

J: Ok, so the only thing that I want is that 24% go to S.E.A., and then let me take care of Dick.

T: Ok, but what I am saying, you see I think that Dick ought to get my preverbial 5 cents, and that, and again, the part that he doesn't get, part of it has got to go to John, which hey it could all fall through S.E.A., I don't care about that, it has got to go to John, part of it has got to go to Tom Waldrip to go down there. Tom has got to get something. And if it is not Tom, it has got to be somebody else. And if it is Tom, I would like him to have a percentage, not just work for wages here.

J: Well, ok, what, if I get diluted at this point down so low, there is no point...

T: I am stopping your dilution in this area to 12%. If it exceeds 12% - if we have to give up more than 12%, ok, then we all get diluted accordingly. And we will take our share.

J: Well, we are going from 40%, Tom,...

T: No, we went from 40% a couple months ago. We are now at 24.76, we are not at 12 and 12.76. That is where we are

today. Now, alright, the characters are changing again. Ok, Dick is going to be out, with Dick's 12%, we are going to have to let him retain part of that, part of that goes to John Dean and part of that is going to go to Tom Waldrip, maybe not him, maybe somebody else. Somebody has got to have a percentage interest.

J: Why is that coming out of essentially my hide?

T: It isn't your hide. You are continuing to get the 12% as according to agreed. It is not coming out of your hide.

J: Tom, I cannot do that because I am legally bound to give Dick 50%.

T: No, I will figure out a way around that. Don't worry about that right now. Lets agree in principle and I will figure out a way to do it. Please. I understand what you are saying, Jim, and I got a way around that.

J: That is something that I can control. I can't, that just leaves all kinds of legal loop holes open that I am going to have to contend with and quite frankly I don't want to do the things that I have got to do for 12%, or 6%.

T: No, no 12, not 6, 12.

J: At this point, Tom, you all have got \$200,000, alright? Or \$150,000.

T: Well, it is \$200,000 when you add up, not counting any of our time, we are not counting a nickel of our time, we are talking about out of pocket expenses that FAMCO has advanced. We are close to say \$175,000 and you add Dwight's and my time, we are way over \$200,000. Six months of my time, and you got at least probably 2 months of Dwight's time.

J: You got what now.

T: What do you want to bill us out at, what hourly rate? We get your billing rate, Sir?

J: What do you think is reasonable?

T: Twice your billing rate is what I am worth. What can I get? We don't want to discuss what I am worth. Dwight bills himself out at \$500 a day, and was paid \$500.00 a day.

J: I am sorry that I didn't understand that.

T: When we have done it, Dwight just did one for \$500 a day.

J: I think that that is reasonable.

T: I thought that he was over paid but you know. Jim, the agreement is 12%, I am saying you are not going to get diluted down any more than 12% because that was the deal. Now then you can be diluted down by no more than 10% through raising of additional funds, and I think that the raising of additional funds is considerable, so you can always be diluted down those 2% points, not very great. You are in a pretty good position, because we are going to have to raise a lot more money. Right? Now, on the 12% that Dick has, I am saying that part of it is going to him, part of it is going to John and part of it is going to Tom Waldrip, or whoever is going to fill that spot. And how will we handle that? Well, we will handle that by paying the 24% to S.E.A., 24% of the profits goes to S.E.A., and out of that 24%, 12% goes to Jim Briscoe, lets say 5% goes to John Dean, 5% goes to Dick Hewlett, and 2% goes to Tom Waldrip.

J: Well that is very confusing, Tom, and I have to seek the advice of my lawyer because it stands to get me in a bind with Dick.

T: That is not the intent of these parties in New York to get you in that bind. So if your lawyer has another suggestion, I am certainly willing to listen, but that is the intent. Now that is how I solve it.

J: Well, I don't know that it can be solved that easily. You know I can't agree to it until I can determine that it can be. Otherwise, I am simply doing a hell of a lot of exercise...

D: Buy out Dick's interest in exchange for 5%.

J: Ya, but there is no reason that he has to... in exchange for 5%?

D: Ya.

T: Buy his 5% out.

D: Lets say, because of the situation, you do have a certain amount of sway and pressure that you can bring to bear on him because of what has happened. As a result he is probably going to want to be out of your life, and I know that you would like him out of yours. You might be able to make a deal with him where for 5% carried interest in the project, he gives you back his stock in Austin.

J: Ya, I precisely don't want to do that because that means that I have 5% and it is not worth all the hassle for me to do it.

D: You don't have 5%, you have 19% at that point.

J: I don't follow you.

D: You start out with 24, right?

J: Alright.

D: Ok, of that 24, considering you have got 12 and Dick has got 12, right?

J: That is right.

D: Ok, through moral wages, convince Dick that he no longer wants to be the 49% owner of Austin in exchange for his stock, he will get 5 of his 12% of the carried interest.

J: He is going to get 5%.

T: His 12% will be reduced to 5%, not of Austin but of the project, as a carried interest.

J: Ya, but then what this really means at this point, more capital is going to have to be put in and I am going to have to be diluted down to 10% with quite obviousness, and so we are going to end up.

D: You got that problem either way. Right. We all have the dilution problem... When we go raise more money, others have it worse You can only be diluted 2%.

T: What would we have to raise to reduce it 2%? You know, your dilution really becomes insignificant.

D: Ya, we are the ones that really get diluted when we go out and raise additional money.

J: Well, as long as I am getting 24%, let me deal with Dick, which is fine with me.

D: That doesn't solve the problem of, 1. of your and Tom's earlier agreement, and 2. how we handle people like John Dean, people like....

J: Take it out of your 76%.

D: Why? It is already... under the agreement that you had with Tom, that was already taken care of.

J: Well, I think that under re-consideration, that agreement was silly.

T: Well, you know, it is a hell of a, I have to leave in a very few minutes, it is a hell of a time to tell me that it was a silly... you are saying 12% was silly and you agreed to it,

and for a month you have not said anything. You have gone on vacation and you come back and you talk to me last night and you say it is a silly agreement today at 3:00, and I got to leave town. It is a hell of a time to say that it is silly.

J: I did not have the opportunity...

T: Now the agreement is 12% to you and 12% to Dick.

J: Ya, I know but Tom, after reviewing the documents that I have got, I couldn't make that agreement.

T: What documents do you have?

J: My agreements with Dick.

T: No, no, we have solved that problem, Jim. Now if you want to go back and use that as a negotiating tool...

J: What do you mean we have solved it? You were simply talking about possible amities, we haven't solved anything.

T: But there is a way of solving that. There are lots of ways. Solving the problem with Dick can solved. We will solve it and we will solve it together.

J: Well, Ok, now I don't want to sit here and agree to something and then have you badger me that I have agreed to it when in fact it is something that is very difficult to do and putting me in a bind by you indicating that you were going to negotiate with Dick separately.

T: I didn't say, I never negotiated with Dick separately. I was always aware of your Austin relationship, I am not going to negotiate with Dick separately. Dwight offered you a methodology of negotiating with Dick. Now that was a pretty good one. My advice to you Jim since I am going to be out of town, Dwight is very good at these things.

J: Well then, Dwight, why don't you and I get together on that.

T: This is Dwight's speciality - these types of negotiations and figuring out avenues to accomplish this - I mean he is really good at this - he is much better than I am. So, I mean, he will figure out a way to work Dick out of your hide and out of our hide. You know, we are in this, you know, even though, its a partnership really - we will figure it out. We will decide what we want to do and then we will figure out the best way to accomplish it.

J: At this point.

T: You are not in this alone. We will all have to work out how to work him out, and I thought Dwight's solution was a very good one. If I were him, I would take it.

J: Well, I simply cannot perceive what legal ramifications that has, and I am not sure that it gives me the leeway that I need.

T: But do you want to cut him out entirely?

J: Cut Dick out entirely?

T: Ya.

J: No, but I do want to be able to have some leverage with Dick.

T: Alright that doesn't give you the leverage with Dick, that is true, but that is the alternative - you think of which alternative you want to go.

J: Ok, but we are talking about several different things here. Now you are telling me that we are going to be paying John Dean out of that 24%...

T: No, out of Dick's 12%. Not out of the 24, out of Dick's 12, doesn't touch yours.

J: Well now wait a minute... are we agreed that S.E.A. is getting...

T: Doesn't touch yours. It is not the intent of the parties.

J: Ok, are we agreed that S.E.A. has got 24% then?

T: Depends on how you look at it. We are going over the same grounds, Jim. We agreed that Jim Briscoe has 12. We agreed that Dick has an unknown percentage, and what I am suggesting is that unknown percentage, which was 12 be reduced down. And that part that is unallocated to Dick goes to both John Dean and whoever Tom Waldrip is going to

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be. That is what I suggest. Now, all of that is called S.E.A. or Austin or whatever you want to call it.

J: Alright so what have you offered John Dean?

T: What have I offered him?

J: Ya.

T: I have offered him 3. He turned me down.

J: Well so at this point I am not assured of getting anything - possibly 3%.

T: No, you are assured of the 12.

J: I am not either because that is legally bound, I have got to split that with Dick.

T: No, no, no, no. Forget about that. Jim, just talk about what we are trying to accomplish, and Dwight and...

(Inaudible discussion with Dwight)

Jim lets work it out. I am saying my intent is not to dilute you down below 12. I am not trying to dilute you down to six, ok? If that is the result, that wasn't my intent. We will just figure out another approach.

J: Well, see, Tom, we have already got several agreements in writing and I want to get Dick out of the picture as soon as possible. If we get in to protracted arrangements that are counter to this, it is going to cause all kinds of problems and have all kinds of ramifications to me. The only thing that I can see is that I am getting squeezed out completely.

T: No.

J: I can see that I am getting squeezed out where it doesn't make it worthwhile for me to continue.

T: Jim, you are not squeezed out. You are down in the place that we were when you left to Hawaii - way before you left for Hawaii. We did 12%. I am not trying to change that at all. Do you agree with me that I am not trying to change it? Then we have to figure out how to legally implement it. It may be legally impossible to implement.

J: I don't want to say 12% because I have gone from S.E.A. 40% down to 12% by the agreements that are standing on the books.

T: Are you denying our agreement? Because if you are, I am walking out right now. You and I had an agreement, we were

going to be the operator, and with 12 and 12, I mean you know... we are now trying to work it out so that everybody really is happy. If this deal is as big as we think it is, everybody is going to make so much money, it really isn't going to make any difference.

J: Well then why are you haggling about the percent.

T: That is the agreement we had and if the shoe had been on the other foot, I would never have come back and re-negotiate the deal.

D: The other side is we are haggling because we are putting up the money now when it is a long way from a sure thing and we are \$150,000 into it, we are \$125,000 further into it than we thought we were going to be for what we know right now.

T: We don't know anything right now.

J: Well...

T: We have a bunch of filters out there - that's it. And they don't even work.

J: Ok, lets go back to our agreement as we understood it over the telephone, which did you ever write me a confirmation letter on that?

T: No, I was afraid if I put it in writing, it would cause - I knew Dick was going to be leaving, and I was afraid if we did... by the way, I have the agreement in writing because I have written it up with Leo Smith, and I have it here on my desk, and that was the piece of paper that I was trying to pick up at the airport, remember? And I was going to have you sign it and then, my God, we got into so many other problems and then you went to Hawaii. This week, you got back.

J: Ok.

T: You can pick it up from Leo today. But it has got to be rewritten because we got to figure out what to do with Dick. I still don't know what to do with Dick, and you don't either.

J: Well, ok, what I am suggesting is that lets make that 24% to S.E.A. because that accomplishes what you had with Dick, and then let me work out the differences with applying Dick's interest in whatever equitable manner is reasonable with him.

T: Ok, well what do you want to do about Tom Waldrip and John Dean?

J: Ok, if it turns out to be Tom, let me work out the profit sharing in a reasonable way.

T: And what do you want to do about John Dean?

J: Ok, why should that come out of that 24%?

T: Because it is coming out of Dick's 12, not the 24. Why should it come out of my pocket? If you had, if I had not called him, we would have been in serious trouble.

J: Alright, so at this point...

T: He is entitled to it more than anybody else. Certainly I feel he is more entitled to it, as far as I am concerned, than Dick Hewlett. He saved my ass, and yours.

J: Ok, at this point, what is the maximum that John is going to get?

T: Well, somewhere between 3 and 5%.

J: Ok, so then lets...

T: Ok, I mean, lets top it out at 5 and we will negotiate at 3 and see where we get. You know, he hasn't agreed to anything. I offered him 3 and he said no.

J: Ok, give him 5%, I will take 19 and let me worry about Dick.

T: 19 to S.E.A. Now what happens, lets go back to the Tom Waldrip. Do you think that Tom is the guy that we could put down there? See, I don't want to be limited to a choice of just one guy. I want to have a choice of three or four guys. Dwight is going to go out there sometime in August, I want him to interview Tom... Have you ever met him Dwight?... I have never met him. And I can't invest money if I have never even met the guy.

J: Well, I am not at all sure that he is the guy.

T: I am not either.

D: I can see this now... you make a deal with Tom, but nobody would make the same deal with somebody else right? You said that you would take care of Tom.

J: Ya, but, you know, it gets to the shrinking point, I am beginning to wonder whether I would ever get paid back now matter how much money the thing made.

D: I am using your own statement. You said that you would take care of Tom, right?

J: Ya. Right.

D: So I am saying if you take care of Tom then presumably you would take care of somebody else who is in the same position as Tom would be.

J: Ya, that is correct.

D: How is that 19?

J: Ya, which is probably going to be diluted to 10%. What are we going to do about John Dean if we undergo dilution?

T: Well, he gets diluted too because you want the incentive to keep people from dilution, I mean that is why you dilute. If you have no incentive not to dilute to go raise a million bucks, what do I care, I still get this 10%. I don't give a shit, that is why you have that in.

J: Ok. Well, alright, let me handle whatever is necessary for whoever ends up running the thing out of that 19%, which is a hell of a long ways from the 40% regardless.

D: How are you going to handle your problem with Dick in that ?

J: No, I don't think so, Dwight. Simply because as long as I keep it in the corporation, I can award salaries or anything. I don't think that I am ever legally required to declare a dividend unless I pile up large amounts of cash so I can either pay Dick or not pay him as I feel is warranted, within certain constraints. There are certain legal constraints that he would have some legal recourse to require me to pay dividends, but if I got somebody else that is working on the project, and I may want to give him a bonus of lets say we make lots and lots of money and maybe I want to give him a bonus of \$100,000 a year to make it worth his while... and that just simply leaves that smaller amount for dividends.

D: Ok, let Tom and I talk about it and I will get back to you on this.

J: Ok, but I don't want you guys to hamstring me where my incentive for going down there and tossing everything else aside is completely sapped.

D: Well, listen, we have all got a lot of incentive there, Jim, I mean just think, you know as well as I do that because of the way it has come about none of us should be having this conversation.

J: Yes, I would certainly agree with that.

D: So that I think that there are all kinds of incentives here.

We want your economic incentive to be real, if it works, it will be. If it doesn't work, it doesn't matter.

J: Ya, ok, well, if we keep it in that context, Dwight, I can get rid of Dick with no legal ramifications that can't be handled at some point down the road, and I can also use a variety of methods to keep Dick's fingers out of there, which is what to do. If we get into something else, I don't have that flexibility, I don't believe.

D: Ok, we will talk later.

J: Ok, good enough.

D: Thank you.

J: Have a good trip Tom.

T: Thanks Jim.

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S. Fawcett

Conversation between JAB and RFH

J: How are ya doin?

R: Well fine.

J: What's up?

R: Oh, I just, I wanted to find out when you might be coming down so that I could schedule showing you all of the different things that we have sampled and these structures. And I also, I am just mailing today these progress reports, and I have gone into detail...

J: The daily reports you mean?

R: Ya.

J: Ok.

R: You know I have one there that you have through the 27th. You found that?

J: Ya, but I want a daily report too.

R: I have got those, I am putting those in the mail. I just got the typewriter the middle of the week, so I am just...

J: Well, you don't even have to type them. Hand written is fine.

R: Ya, ok, well, anyway, I have got them done and they are quite lengthy, but they discuss what I have come up with on the study of all these maps, you know, that Tombstone Development had, and they have got the surface geology map to a 1:300 inch scale, which as you will recall is the scale of that small photo that you had made for the Contention area?

J: Ya.

R: And then the other one that you had made was the 1:100, and of course all of their detailed underground mapping is on that scale, 1:100. So I would like to have some additional photos throughout the area from the Toughnut down to the Grand Central, just extending the area that you have here to the 1:300 which is your initial one and then 1:100 for more of a general study to show all of the - they have plotted all of the structures and I want to correlate those with the surface. Now, Tom talked to I think it was Robin about having this present photo that we have to the 1:100 blown up to 1:20 so that I can plot all of these results on that.

J: Well, that is simply unrealistic.

R: Is it? I didn't have a chance to talk to Robin about it and I just wondered if it would be practical.

J: I don't know whether it is or not - let me talk with him.

R: Ok, well I didn't know how that conversation came out and I want to be starting to plot these on something like that so either we would make them - you know on a lot of the intervals they are 10' intervals and on lets say the trenches that are going back away from the dike, and so 1:20 is not bad because then we have got a sample location every 1/2" and similarly along the dike or in the railroad cut and in the walls of the dike, you know, a lot of those intervals are quite small when in fact they are a particular strata so the smallest interval might be 3 or 4 feet, like that one that you took in the railroad cut was about 3 feet, 2 1/2 feet, something like that.

J: Are you taking a complete channel chip sample?

R: Yes, and then we have it marked where the sample was taken and I photographed them all. We have got about 300 or 350. I am just overwhelmed by it, and I couldn't - you know what Tom wants to do - now I don't know if he has told you, I guess he has talked to you today hasn't he?

J: Ya, right.

R: He was going to talk to you after he was talking to me around 9:00 or so, and then I just caught him just a moment ago before he left. Anyway, he has got that double A, I guess he has got it bought - you know that 303?

J: Ya, ya I think so.

R: That was what he indicated so I am just going to take the sodium sulfide tests until we get those, but I got a big storage problem. Until we get that double A.

J: Well, I am going to probably be down there Thursday, and...

R: Oh, that would be fine.

J: What I would like to do is pick things up for the time being and simply store them up here. I don't know, I forget what he thought the delivery on that AA would be...

R: Three weeks, but he said he was trying to speed it up to two weeks.

J: Ok.

R: But you see I am going to need to take samples - see we are

going to be able to move in to that '71 Minerals building in the morning.

J: Ok.

R: And there would be plenty of room for storage there. I am going to need to take my samples for the sodium sulfide test and then I am just going to keep those and run them on the Double A when we get it set up so we can go over that and organize it any way you would like, but there would be storage facilities here depending on what you want to do with the samples up there. Tom didn't sound very anxious to make fire assays.

J: Ya. ya.

R: Because of the cost. So that is up to you, how you would like to handle it, but I am still going to need to be taking - now we are working on getting this crusher put together and everything and taking additional samples, so now after we get moved in tomorrow, start making a lot of the sodium sulfide tests and plotting the results because we are way ahead of ourselves on samples. I made a lot as we made cuts with the dozer and so everything is well exposed for you. Along the entire Contention dike area. We have only had that dozer effectively one day, Saturday afternoon and Sunday morning.

J: This is the bigger dozer...

R: Ya, that 20 E, but it ripped everything, and we have made some really deep cuts that I think you will really find it interesting in the Contention dike we followed that dike, you know that dike to the north there, along that gouge or that kalenite, and then we ripped a trench to the west on the north part, you know across where we were talking about drilling where that little hole was, you know, that little subsidence area?

J: Ya.

R: We exposed that for about 10' in depth, and then have our trenches in, going away from the dike for about 100'. Those are all sampled, and like I say, they are all photographed.

J: Ok. You have been taking that with the transparency film that I sent down?

R: Oh ya, ya, ya. Then I already sent those in. We still got more sampling to do on the north part of the dike, well, there is just a lot of things to do.

J: Ok. Tom tells me that you have sent word up to Al Waterson.

R: Ya, that is right.

J: Ok, well, I want you to cancel that and he can come down and I will interview him if necessary, but I don't want to hire anybody else on at this point.

R: Ok.

J: And I have discussed that with Tom so it is really kind of up to him.

R: Pardon me.

J: I say it is really kind of up to Al, I am sorry, I didn't make that clear - ...

R: It is up to Al whether he wants...

J: Wants to come down. But, it would be solely for an interview with myself, and I have got to know what his background is and what his capabilities are.

R: Ok.

J: So you are through with the bulldozer at this point?

R: Yes, that is correct. They took it yesterday morning.

J: And that is going over to Charlie's, is that right?

R: No it came from Charlie's and it is going to Benson for some fellow who rented it there on a sewer job. And he has it rented for a month or two. But they do have a comparable dozer in their yard there at Modern Equipment there in Tucson, which is a 6700. I got the rental prices in the daily progress report.

J: Ok, the backhoe work is progressing, or is it done?

R: Well now which backhoe?

J: On the bulldozer cuts.

R: Well, we have got more to do. One of the things that I didn't get to talk to Tom about was the budget. We always eluded away from that and Bobby Callan wants to be paid his full price for that dozer, and then Ernie wants to be paid for the backhoe - we haven't been using it very much, but he is pushing on that. Did Tom discuss the budget or anything with you?

J: No, he didn't.

R: I have got it all made out. I gave him a copy, the one we

made out here, and then he supposedly left you a copy of it for August and September? Have you found that?

J: Was it on a yellow sheet?

R: I think so. On a carbon or something?

J: I haven't found it yet.

R: Well, I don't know - anyway, I don't have a copy, and I have made up another one which is essentially - well, will really be more accurate.

J: I have got something that says Tombstone budget proposal 7/22/79 on a yellow sheet.

R: Ya, that would be it. That's what Tom would have left, and then I have updated that but Tom wanted me to discuss it with him but I just didn't - we always kept eluding away from it. So I will send that up today with all these progress reports to you.

J: Ok.

R: So you will have that first thing in the morning.

J: Ok.

R: And that is by week for the entire month of August. For each item.

J: This is what you are sending up...

R: Yes.

J: Ok. Who have you got working down there?

R: Just Dusty, Ed Rice, OC Miller as a laborer, and Scruggins as a laborer.

J: Dusty, Ed Rice, who?

R: O.C. Miller and Scruggins. Both of those two are laborers.

J: And what specifically are they doing?

R: Well Dusty and O.C. are working on getting the crusher and the vibrating screens put together. They should have it pretty well finished today, and Ed Rice and Scruggins are sampling. Tom felt he wanted to have Ed Rice take over grade control so he wanted him to work with Scruggins on the sampling.

J: Ok, so Ed Rice and Scruggins are sampling?

R: Yes, that's right. And then there are backhoe trenches to be made so Ed Rice would be, you know he has been doing the backhoe trenches that are across along those trenches away from the dike. We don't have many of those to do though.

J: What are you cutting those in? I mean what rock type are they in?

R: It is just that loose material. It is in the dike material itself, within the confines of the walls of the dike, and then it grades out from the porphyry, going out on those trenches into the sediments again - largely hornfels. There aren't too many different stratigraphic units that we are in right now. It is that hornfel group and that east wall of the railroad cut, where you sampled, where you took your sample, I have only found four distinctive stratigraphic units. One of which you sampled, which of course was another alteration facies of that upper unit, that is all a hornfel, and then a couple of other units. Again they look like they are some sort of facies of sediments and they could be a structural contact too. I just haven't - Tom and Dr. Dean talked to Dave Rabb, and he suggested Bailey Escapule do some geologic work on there, and he quit last Thursday, but he hasn't really been able to do an awful lot on it. And he isn't that experienced. I think it would be so much better to have you spend whatever little time you could to look at the units that at least I have identified and correlate it that way. Because there really doesn't seem to be that much difference so far. We are not that far down in verticle depth.

J: Ok.

R: Which again I think you can recognize from when you have looked at the dike before. Then we are in limbo on getting into the building and doing our leach tests. You know the barrel tests. And the crusher - by that I mean I don't know if Tom mentioned to you, but Bill Hight

(End of side one of Tape)

Tom has an awful lot of obligations and he said well Bill thought that was Tom's responsibility to talk to him about that if he wanted to put it aside or push it back or something so Tom told me this morning that he was going to be calling Bill Hight discussing it with him. Do you know if he did?

J: I think he did, and I think Bill said "no soap". So that is where we stand at this point.

R: Trying to see if there was anything I could do further when Bill comes down here tomorrow. How did Tom leave it? Did

he discuss it with you?

J: Well, they are going to stop in the office here tomorrow and I am going to talk with them before they go down.

R: I suggested to Bill that I would like for him to look at your office. Well I am glad that you are going to do that.

J: Ok, well I have got a meeting that is about starting so I will plan on seeing you down there probably Thursday.

R: Ok, and if you can, I would like to have whatever photos might be available and remember the ones for the 18 claims on that assessment part.

J: Ok. Where are maps of all that? Have we got all the maps in the vault?

R: No, I took them down here.

J: I see, so you have got all of them down there.

R: I have got all of the maps that I am compiling because I wanted to go over it with you when you got here. I picked them up on Friday. And then like I say in my daily progress reports that you will receive in the morning, I discussed different things - what they are basically and what they mean and how I think that we can use them so that we could go over those when you come down.

J: What is here at this point?

R: Excuse me?

J: What is here from those maps at this point?

R: Nothing of the flat maps. Just the ones that were folded. These were the ones that they - you have all of the flat maps, copies of thoses, but what I took were the ones that were rolled up because I had never really looked at them after Ed picked them up, and I wanted to go through them so I could see how we could use them, and I want to - I have got to make an inventory of them for the Farmers. And then you can decide - you can take back whatever you want to have prints made of and things like that - because I am just making the inventory right now. There is a lot of them that we should have prints made of. So then really you can take all of them back with you.

J: Those are all blacklines, bluelines, transparencies?

R: A lot of them - no there are some transparencies that was from the B.S. Butler stuff that Arizona Bureau of Mines that I would like to have some of those prints made. But most of

it is that Newmont stuff, you know prints, and they are tough. They are going to be hard to make reverse sepias or whatever from. That is why I wanted to kind of go over them to see what might may or may not be important, and then I will give you my suggestions and you can take them back and then have done what you think would be most useful for us. But I wanted to have them here so that we could go over them in the field if you like, and, again, I have got to inventory them, I have never done that before. So I will have that done by the time you get down here, and then like I say, you can take them all back and get whatever copies you think would be appropriate. I am sorting the ones out that I think would be useful to have copies of so that will all be done.

J: Ok.

R: Ok. Fine

J: Good enough, I will talk to you when I get down there.

7925 JAG  
8/1/79 DL

7723  
8/1/83  
8:57

143

CONVERSATION BETWEEN DWIGHT LEE AND JAB  
(Very poor audible)

D: Is that accurate?

J: Yes, he gone.

D: And you consider that a marginal value?

J: Some of them will be of use, some of them I think we will simply store for the time being. There is possibly a future interest, it is a situation in which you have got a marble cake and if you want to find out how much angel food there is in relation to devils food, you have got to take a sample of all the angels food and a sample of all the devils food. If you get the two mixed, you don't get anywhere. And fortunately, it is not black and white down there

????

to take samples that are meaningful. I have got the ability to do that, and Dick does not, it is as simple as that.

D: Well, ok. Tom left me with a sampling plan which was an overlay on the aerial photograph.

J: That is the small thing with the railroad track at right angles?

D: Yes, that's right.

J: Ok.

D: Now, are you suggesting that we deviate from that?

J: Well, I don't know precisely what went on when John Dean and Tom were down there, I am not suggesting that we deviate from that, but a lot of samples have been taken parallel to the strike from the mineralized feature and they can be misleading. You need a few samples like that, most of them need to be taken at right angles. Dick did understand that, you will be getting in his reports which describe the problem with the bulldozer which relates mainly to the old well generating down there

?????

But at any rate, used the big bulldozer for one day and accomplished getting those right angle cuts ripped so that we could then get in a cut them with a backhoe. However, they have not been cut with a backhoe and he has gone ahead and taken samples from the rip tritis which is not the way I think it should be done.

????

D: Taken from the rip what?

J: Well, you know how a ripper works don't you? Do you know what a ripper is on the back of a bull dozer?

D: Yes.

J: It is just a big tooth. They put that in and the bull dozer pulls it along and even though the tooth may be down about 3 feet, it tears up the rock. Some of the rock comes to the surface, but most of it is just fractured in place and remains there. Ok, well Dick has taken or has directed his people and got us down there to take samples of that, which under the circumstances was all he could do because he didn't have the backhoe..??? On the other hand,.....?? misleading....

What I want to do is get the backhoe down there where I can get something that I know what it is so that we can make some meaningful determination as to what the ore reserves are...

D: Your plan would be to use the cuts made by the ripper or get the backhoe down there and continue as planned.

J: Yes, that is correct. Now Ernie, with good reason, would not allow us to use the backhoe to do this without it being ripped first.

D: It has now been ripped?

J: Ya, several cuts have been made and I think that those are sufficient for the time being. I don't think any more work has to be done at this point.

D: Do you know whether or not Tom was aware that we owed Calan as much as \$3,000?

J: I suspect he was because it has been discussed. Calan was actually down there and apparently asked Tom or Dick about it in Tom's presence, and quite frankly I can't tell you for sure because the thing that I have got says August budget says \$3,000. I don't know whether you have seen that or not.

D: \$3,000.00, you mean that was what was already owed him?

J: Ya, that was past budget. But it was more or less discussed while I was down there too. The thing is, Dwight, we simply have to have a definitive cash flow budgeting over a long period on a long ledger sheet which we do typically for all kinds of cash flow control purposes. We will do that and

then it will be clear precisely what we are doing.

D: Jim, I agree with that, but I might disagree, I don't know what time frame you are talking about. I think that right now we have got three projects ahead of us, and we shouldn't budget any further than those three projects.

J: Well, I would agree with that, but we want to be sure that we have those covered. Obviously we can't budget too far ahead because we don't know precisely what we are going to be doing.

D: Exactly.

J: Ok, but I want to have it all crystal clear to you what all we are spending and I want to know on a day to day basis what we can anticipate spending and what we indeed spend. I am going to have daily reports from people down there with that type of thing.

D: Did you basically lay everybody off?

J: I have not at this point because it was the end of the week, and it wasn't clear what the situation was going to be related to the '71 Minerals building, what was going to happen to the crusher and so forth. Ok, let me go on to that because I think that we can get into the '71 Minerals building which is absolutely a necessity as far as I am concerned. The Farmers do want rent on that. They want \$180 a month, however, when we get that building, we can dispense with the \$130 truck body that we are using now, so all in all, we come out considerably ahead.

D: Do we still have the office?

J: Do we still have the office?

D: Ya, that we are renting down there?

J: Dusty Escapule moved into that and we have dispensed with the office, however, because I am going to be down there myself and Tom Waldrip, I have asked Dick to see whether there isn't another apartment that we can get, and we will simply rent that so we can have some place to stay when we are down there.

D: Ok.

J: Rather than pay motel bills.

D: Ya, I thought we were going to get that building for nothing.

J: I did too, but the Farmers say it is a matter of principle

and I don't think that that amount of money is worth arguing about and not having the building. Because quite frankly we cannot do anything that is meaningful in the environment that we have got.

D: How would you propose using the building? Would you do leach tests on the floor there?

J: Well, we have got to set up a sampling lab as soon as we get that AA unit, which I assume is on its way. Is that correct?

D: That is incorrect. That AA is not available until around the 15th of this month. It then has to be packed and shipped. I am trying to get a hold of the guy who is the dealer in Phoenix, he is out of town this week, I will speak with him on Monday. He has got the used one out there that we can get more quickly.

J: Ok, fine, well, that is also a critical piece of equipment and we can't make much difference without. In the interim I just got off the phone a couple of hours ago with Dave Rabb. He says that there is an AA unit available at the University which would have to be assembled and shaken down and so forth as long as we have somebody to operate it. We do have somebody that can operate it I believe. So we have a method of assaying these samples. Now unfortunately gold silver cyanide solutions deteriorate and he says that it is unwise to keep them for more than a couple of hours without running assaying them because gold and silver precipitate off - if it is plastic bottles, they precipitate on the plastic, if it is glass, they precipitate on the glass, so you really can't tell where you are if you let them sit down. So we really have to have an AA unit down at the site. So we need to put in an AA unit in that '71 Minerals building, we need to have barrel testing facilities inside, some small bottle roll testing facilities to get a better feeling on the assays, and then heap leaching I think we can do on the floor, you have 100 ton type of things on the floor...

D: How do we get it to drain downhill?

J: The slab in the building is already set up to drain because there is always - the way they - the filters that they were using, there was always leakage and it would have to be drained away and collected so it is just beautifully set up. We couldn't ask for anything better.

D: Ok.

J: To build a building like that I would suspect it would cost \$30,000 to \$50,000.

D: Jim, would you call Rabb this afternoon and ask him if he

knows of a used AA that we could buy.

J: Ok, I can't get him - I will call him Monday morning and ask.

D: Thank you. I don't believe that we are going to get this one until 2 1/2 to 3 weeks at best case.

J: Well, I think that that is very critical, Dwight and we should do whatever we can to do so. Now I have some people here that can run it, I believe. I am interviewing Dick's guy Sunday who has run the AA so that is not much of a problem. Getting the unit is, getting some place to put it in is, being sure that we have samples that mean something after we process them is important. But all of those are in the process of being taken care of. Ok, lets go to Dave Rabb. I talked with him. He has talked with the Dean of the School of Mines and the Director of the Arizona Division of Mines and Metallurgy. They are agreeable to having Dave work with us. Dave is agreeable to having - to using his car - and agreeing to pay him \$.17 a mile for the use of it, which includes its use and gasoline. Ok, two sticklers in there. They don't want him to spend 1/2 day per week on the project, although I pointed out to him that it was critical that more time be spent now. He said well he thought he could fit more time in initially, and I am planning on meeting him Friday morning in Tombstone for four hours to review everything that is going forward.

D: Next Friday?

J: Yes, that is Friday, the 10th. I would suggest that you and John Dean come out. I will just throw that out. Ok, now the other zinger is that the Dean feels that the best way to do this is to reimburse Dave for his salary, and on an hourly basis, and the University tax of 40% markup on that to cover their expenses, and that comes out to \$21.00/hour.

D: Does that strike you as being reasonable?

J: I think that that is a good deal quite frankly. A consultant would charge you \$50 an hour.

D: Right. I want to talk to Tom about that when I speak to him this week, but for the moment that sounds ok.

J: Ok. The one thing I want to do, I am preparing papers via the lawyer to terminate Dick. Dick is being super agreeable - it is painful to do it to him, but I think that the requirement is there. I am sure it is going to be a blow to him and a wrench to me, but at any rate, we will be done. I am going to go down there Wednesday simply because I have a Doctors appointment on Tuesday and I can't change that. In the interim, Ernie - with this check that I sent down, Ernie

is working - Dusty is working on the crusher and hopefully we can get things - the other thing I asked Dick to do is inventory everything. If we can get the agreement with the Farmers which I have asked Dick to get today, we can start moving in to the '71 Minerals building and send the trailer back to Tucson. So everthing is pretty much on the road.

D: Ok, Jim. What about the backhoe to clear those trenches?

J: Well, what I am going to do Dwight, we have got a main account and cash requirement sent off to you in the mail today, which you should have Monday. The approximate amount needed to cover payroll is \$1,200. I am going to be working this weekend and on Tuesday on getting this cash flow analyses and I will send that to you what our true cash needs are going to be to get this underway.

D: What about the \$5,000 that was sent to you on Wednesday?

J: That was \$4,731.10 or something like that? That has been fully expended for payroll, payroll taxes, FICA and so forth. Also to Ernie to Johnny Escapule and to Robert Callan - a \$500 payment on the bulldozer.

End of Tape

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66168  
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JFV,  
AUGUST 7, 1979

TIME 8:06

TOLL CALL #7760

FROM DWIGHT LEE

J: Dwight?

D: Hi Jim.

J: Good Morning.

D: How are ya?

J: Good, how are you?

D: Ok.

J: Tried to call you yesterday, but never did make contact.

D: I didn't get a message, I would have called you back.

J: Well, I called your office and they said you were at your country home. I called there and I didn't get any answer and then I called your New York home, and didn't get any answer there either.

D: I was up there, you must have just caught me out.

J: Well there wasn't any real problem, I just wanted to give you an update of what was happening.

D: Right, I was about to call you infact.

J: Ok. Yesterday we moved most of everything into the 71 Minerals building and got all the stuff out of the trailer that we have been renting. The rent on that 71 Minerals building will be, I believe, \$174.00 a month. We are spending about \$140 on the trailer, so we will turn that back and we are going to be about \$50 difference. At any rate, that is a real good deal.

D: Ok.

J: I interviewed Al Waterson for approximately 3 hours on Sunday, and I think he has all the necessary qualifications to be lead man down there. I don't know whether he can handle the management or not, I tend to think that he can, I was very candid with him and questioned him regarding his honesty, his drinking habits, and of course in great detail on his background. He is a fellow that is about 57 years old, and he has got a high school education, spent 6 years

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in the Navy as a machinist, got out as a machinist mate, his work in underground and open pit mining, small mines and larger mines, he has worked in mills, has both ball mill operator and milling superintendent. He was involved as mine superintendent and I think general superintendent for a while for 71 Minerals and actually ran some of their plants. He is a surveyor, although not a registered professional surveyor, but worked for approximately 10 years with Nevada Highway Department and ran surveying crews. He is also done pavement test work, which that type of experience is very applicable towards building the leach pads that we have to have. He was involved in the building of the pad for the 71 Minerals dump and other pads in Cripple Creek, Nelson, Nevada and elsewhere. So he is a fellow with no formal education but lots of on the job experience. He can run a drill rig and run a bull dozer and run a scraper. Knows enough about diesel mechanics, he also got a certificate in the Navy for marine diesels which are somewhat different than equipment diesels, but, you know, the principles are similar. And so he can evaluate maintenance programs and so forth. I think that he can keep records, I think that he is honest.

D: Do you know that he did have a drinking problem?

J: No, no, I just wanted to be sure that I didn't hire somebody that would end up spending all their off time hours in the bars in Tombstone. I just told him that, that you know Dick has a pension for enjoying sitting on a bar stool, there is nothing wrong with that as long as you don't carry it to extremes, however, it gives us a bad image, and I am as much concerned with getting things done while simultaneously improving our image, so I was just clear to him that I didn't expect to hear that his hobby as sitting in the Crystal Palace every afternoon. What I am trying to do, is I am trying to be very frank and clear with him and everyone else, farmers, you, Tom and anybody that I come in contact with so that we don't have any misunderstandings for lack of candor, and so he told me that when he got out of the Navy like most young guys, he tied one on frequently, but he has gotten away from that. So I really don't believe that he has any drinking problem. Really, as a matter of fact, there was no necessity of even bringing it up, except that I wanted to be sure. Ok, what I have done is that I have offered him \$350 a week with a proviso that if the operation turns a profit, he will be paid back wages at a monthly salary of \$2,500/month so it will be back wages plus interest. That seemed to be very acceptable to him.

D: As I listen to you describe him, it sounds like a lot of his capabilities to some extent mirror Dusty's.

J: Well, ya, except he has had substantially more experience, Dwight, and I think that he can, I think that you are right.

Now I think that it may not be necessary for John to be out there, but indeed, if he is going to be getting a 3% or 5% participation in this thing, and if he is going to be the advisor, then he is going to have to be out here when I need him to advise, and if he doesn't, then I suggest that we get somebody else.

D: Well, I understand that Jim. I understand that he hasn't yet agreed to that 3% to 5%.

J: Ok well that's fine, but all I am saying is that when I need advice I am going to have to have it or the whole thing is going to, or I am going to stop.

D: I am not sure, do you really think that this one cannot be done over the phone?

J: It may work out just fine, particularly with Dave Rabb helping out. Now the other thing is that Al Waterson set up and monitored all of the sampling for 71 Minerals and the barrel leach tests and the whole thing, so he has already done all this before so I think that we can get along probably without any trouble. I just want to continue to emphasize that metallurgy is not my forte and I can set everything up, but I do want to have some definitive corroboration that it is being done just precisely it should be done, and also if John is going to continue to play an important role in this, I don't want to get two weeks work in and find out that there is some piece of menusha that was important, but that we did not get done properly, in other words throwing out that whole two weeks worth of work, and that is easy to have happen. As a good example, Dick's sampling of the pit down there so far I think is inadequate, not through anything but my judgement because the thing was sampled on what would normally seem to most observers a reasonable way, but there are certain peculiarities that my experience background allows me to evaluate that as not being correct, and I just want to be sure that I have the proper advice when we are down there.

D: Ok.

J: Now that may well be handled by Dave Rabb, and that is why I want to be sure that he is down there on Friday. So...

D: I will talk to John today and get back to you on that subject.

J: Ok. After Wednesday and Thursday, I will probably be able to give you a little bit better advice, as a matter of fact, maybe it will be better to probably put it off until this succeeding Friday, that might be more convenient for all concerned if I can get advice from Dave Rabb and if everything goes the way I expect. However, I just want it to

Now we don't want to get ourselves into a situation where we don't have any backup because when you do that, then if he gets sick, hurt, mad and quits, whatever, then we are left in the lurch, so I think its an asset rather than a duplicity of effort to have somebody with those capabilities - both Dusty and Al Waterson - and having those capabilities, however I think that Al Waterson has substantially greater depth than Dusty has.

D: Ya.

J: Al has worked for, well the predecessor to Union Carbide at the Pine Creek Mine, which is a large underground operation, he has worked as an underground miner, and all of these talents we will be needing as things progress, whereas Dusty is a competent worker, he just hasn't had that depth of experience.

D: Ok.

J: Ok. My intention was to lay off everyone except Dusty today, this morning, I just got off the telephone with Dick and they are still moving stuff over and getting the trailer ready to haul. Dusty is working on records and so forth, Ed Rice is working on records and OC and Scruggins are still doing some brushing in the area that I want to start mapping in tomorrow, so I am going to let them continue on for today doing that, I am having a meeting with Dick in Tucson tonight, or this afternoon, around 4:30, at which point I am going to inform him of his termination with two weeks notice, in which he will not be required, as a matter of fact I am going to ask him that he not appear on the property from tonight forward, and that he does turn over all records and data to us post haste. So I will be down in Tombstone tomorrow. What I intend on doing is terminating Scruggins and OC and Ed Rice and replacing them and Dick with Al Waterson and keeping Dusty Escapule. Tom Waldrip will be going down there with me, and he will be working as long as is necessary, as will I to make sure everything is going the way it needs to be going. Now we will be meeting, as I told you earlier, we will be meeting Dave Rabb down there on Friday, and I hope that we can meet you and John Dean down there at that point.

D: I am trying to get a hold of John this morning, Jim, so I don't know anything. My preference, I think, would be once you and Rabb have been down there and had a chance to look it over, try to get us all on a conference call, because I expect John will be wanting to come out when we do the test, the leach test, I am not sure that I am going to be able to get him twice.

J: Well, I want to be sure that I have enough metallurgical help to have everything set up just the way it should be.

} be crystal clear that if I need advice, and it is critical, it has got to come rapidly, and if John is the one to give it, then we will have to get it from him. Otherwise we will have to get some other consultants out or something so that we don't end up spinning our wheels again.

D: No, we are in agreement.

J: Ok. Now have you wired the \$1,200 that we requested for this weeks payroll?

D: That will be done today. I just got this thing in the mail this morning.

J: Ok. Now I have not had a chance to get the other expenses together, but...

D: I was going to send something in today's mail from 7/27 through 8/3.

J: Ya, Ok, that is the estimated payroll for last week's work and for tomorrow.

D: Ok, right, amount needed to cover payroll \$1,200. Now it shows wired to the account on 8/1 4715, now I thought \$5,000 was wired in.

J: Well, apparently not, that is what we got.

D: I will double check that.

J: Ok. The only possibility of change there would be that the bank has gotten something fouled up. Now I would request you Dwight to send us something like \$3,000 or \$4,000, because I know that we have got that many bills pending, and I cannot itemize that at this point, but it is certainly going to get us off to a better footing if we can get all those wrapped up poste haste. I am trying to get everybody's good will, which we don't have down there now, and we have got at least, as I have told you, \$2,500 in bulldozer expenses backed up and other miscellany which will probably add another couple thousand dollars onto that. I will get....

D: If I wired that \$5,000 today that would get....

J: Ok, I think that that would go a long way towards getting us back in the groove there.

D: Ok.

J: Ok, now the other thing I have done, I have asked Dick to get me a furnished apartment down there which he tells me is completed at the Nellie Cashman apartments, Dusty Escapule

moved into the other one that we were using as an office without my prior notice, but I didn't see any point of making a big issue about it. However, we have sent them notice that we are no longer responsible for that rent.

D: Ok.

J: But rather than using a motel down there, Tom and I will simply live in the apartment for \$140 rather than \$25 a day, or whatever the motel rates are.

D: Right.

J: Lets see, what else.

D: Have you worked up that cash flow that we were talking about on Friday?

J: No, I have not, I plan on working on that some today, and having Tom work on it too, but it is underway, we are just kind of continually a bit behind.

D: Ok. You are going to be down there Wednesday and Thursday?

J: Ya, ya. Going to be down there tomorrow and then there is a professional meeting, Mining Engineering meeting in which Mountain States is giving a talk on gold and silver leaching tomorrow night so I am going to drive back to Tucson to catch that, and then I will drive back down the next morning, and stay through Friday, and probably, quite possibly, Saturday and Sunday. I am going to just have to play it by ear.

D: Is it you plan or will you be able do you think to get most of the sampling done in that period?

J: Well, that is what I am going to do, is take Tom, who is a geologist, and Dusty Escapule and Al Waterson, and Waterson has had lots of experience sampling and we probably spent an hour talking about how the sampling was done down there for 71 Minerals, so he is not a geologist but he has spent so much time in underground and open pit mines, as well as the sampling that he is a good sampler, I believe, and understands the intricacies and pitfalls of sampling. So I am going to work with them, all four of us on sampling this open cut until we get proper samples that I am satisfied with and also to be sure that everybody understands the techniques that I want followed, and then I think that they can proceed with the geologic, well Tom can work on the geologic mapping under my supervision and Dusty and Al can work on the sampling under my supervision and Tom's supervision, and I think that we can start to accomplish something really meaningful. Now, I think that I told you that we had access to an AA unit but it is very critical

that we get ours as soon as possible. Now the other thing, one reason I want to get our bills wrapped up over there, Dwight, is because Charlie and Louis Escapule have an AA unit and will do test work on a contract basis. They won't have anything to do with us for a couple of reasons, 1, being Dick, 2, our history of bill paying down there, and so if we can get that straightened around, I want to get their goodwill so that we can have a backup through contracting with them. But, what is the status on that AA that Tom was working on.

D: I think that it is not going to be available until around the 19th or 20th, and then it has got to be shipped and they won't pack it or anything so I have got to find somebody to pack it and ship it.

J: Where is it?

D: Its in New Jersey. That is one of the reasons I mentioned to you on Friday was if you knew of a source out there that we could try and look to for a used one.

J: Let me start looking or get someone on looking around.

D: I have to commit to this guy in the next day or so.

J: Boy, there isn't any way I can do any looking around in that amount of time. Well, let me see what I can do.

D: Ok.

J: I think that we can probably scrape by using the University's or the Escapules, but that is not cost effective at all, as I am sure you can well imagine. Ok, the crusher is also apparently completed, although again that is a jerry-rigged device and I am not too keen on it, but we will use it until we are able to see our way clear to do something better. But the really critical thing is getting that building and having a reasonable environment to work in.

D: It sounds like that will be done today.

J: Ya, that is done, so we are pretty well all set.

D: Ok.

J: Ok, well I think that that is about everything, Dwight.

D: Do you think that you will have any problems with Dick or do you just have no way of knowing?

J: I just have no way of knowing. I think that he is kind of in a position of waiting for the other shoe to drop. Its

conceivable that he could go complete beserk. I am sure that he is not going to understand the reasoning, simply because I feel that about Dick, but.

D: I think that that's right. What are you going to tell him?

J: I am just going to make it short and simple. I have to, he is on the Board of Directors of S.E.A. Hydromet, and the Austin Mining Company, so I have to go through some legal measures, including a Board of Directors meeting and so forth, which I already have the paperwork on relieving him of his position as Vice President and General Manager and on the Board, Director on the Board, or on the Board of Directors. And then I am simply going to tell him that "Dick, things are just not working out, and you haven't come through on anything that you have promised, and I am simply going to have to terminate you". Now, as I told you, I would like to give him 2 weeks pay at this point, and then it is going to be up to him to find himself some other income.

D: Well, are we supposed to pay the 2 weeks?

J: Well, ya, I would say so, Dwight, because we have not made any, the bills that you have been paying are direct to Dick Hewlett and have no profit or hardly even any, or no overhead, so they are way below my costs.

D: Here is a guy that we have basically blown a hundred grand on, and I don't know how Tom is going to feel about paying him 2 more weeks salary. I am trying to call Tom in the next 1/2 hour and I will ask him.

J: Ok.

D: I think that you can understand that. Dick has been for us a rather expensive experience.

J: Ya, I understand. But, of course, that leaves me in the lurch too, because I have zero to pay him with.

D: I am not sure you owe him anything.

J: Well, it is.....

D: I feel he owes you something.

J: Could be, however,.....

D: As far as I am concerned, he should consider himself lucky he is not being sued.

J: Well, it is generally pretty standard to give somebody 2 weeks remuneration and that is kind of what I felt was fair,

all things considered. Well, why don't you guys think about it and....

D: Ok, I will be back to you. And I am also going to try and get John Dean.

J: Ok, fine.

D: Good.

J: Ok, well I will talk with you later, and if you would just fill John Dean in with what we are doing, he may have some suggestions that he might want to call me about.

D: Good. Thank you.

J: Ok, talk with you later.

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8/19/79 DL

7771 819 9:49 158  
CONVERSATION WITH JAB & DWIGHT LEE. AUGUST, 1979, FOLLOWING RFH  
TERMINATION AND JAB MANAGEMENT TAKEOVER IN TOMBSTONE

J: Dwight?

D: Hi Jim.

J: Hi. How ya doin'?

D: Fine, how are you?

J: Good. Ok, let me give you a thumbnail sketch. You have got a daily report that is in the press that will summarize these same items, but it probably won't arrive there before Friday or Saturday. You should be getting something in the mail today, if you haven't already.

D: Have not yet.

J: Ok. I think that I had not terminated Dick when I talked with you last.

D: That's right. We spoke around noon your time on Tuesday.

J: Ok. Well, I did, he took it pretty well, turned over quite a bit of data and the keys and so forth. I still have some material to get from him. When I left him Tuesday night, he expressed a willingness to help in the changing of the guard and so on, so he is being cooperative. I don't know whether I told you this, but I did discuss that pending action with the Farmers and there is no problem there. They are fully willing to cooperate with us. There is a confusion with them of exactly who to talk to, and I think that it would probably be best if they communicated directly with me and then I passed it on to you and Tom, but we can certainly discuss that. At any rate, they have a confusion as to where to go for the information they need, and we will have to get them periodic reports, that is not of immediate concern, however. Ok, yesterday I spent about 1/2 the day in Tombstone and the other half doing things related to the Tombstone work. It was essentially a day of fence mending, introducing Tom Waldrip to everyone, and getting the new people underway, including Al Waterson. I talked with Dusty and explained the situation with Dick to him. There is no problems with Dusty, he is an enthusiastic worker and is going to work well with Tom and I. I explained the situation with Al Waterson. He and Dick are apparently long time friends. He said that he didn't want it to affect his friendship with Dick, but on the other hand it didn't affect his ability to work for me, so I don't see any problems there, and if any occur, then I will simply take appropriate action.

D: Did you lay everyone else off?

J: Pardon? Ed Rice will leave today. OC and Scruggins had not made as much progress on the brushing as I had hoped. We are going to get that in hand today, and they need a couple more hand tools. I think what we are going to do is offer them a piece work basis, in other words we are going to analyze how much work is left to be done, figure out how rapidly they should do it, and say well we will give them "x" number of dollars for the job and they can get it done in 2 days or 2 weeks but they have got to get it done. It is just another example of relatively poor morale and a little bit of management so we will get that squared away by Friday for sure. I wouldn't pursue that any further except that I think that it is critical for my sampling and geologic mapping in the immediate area of the cut. We met with Charlie and, well I met with Louis Escapule yesterday. He has got a backhoe that he is using down there which I think is the type of equipment that we should be using for a couple of reasons. 1. One of the things that came up is that we have a very dangerous situation that Dick had glossed over in relation to the underground openings, the underground stopes under the Contention open cut. And it is very difficult to evaluate because there are no records that we have, but old timers in the area and other just general records indicate that there are substantial openings underground that could swallow up a bulldozer and a man very easily, which would result in the loss of a \$100,000 piece of equipment, as well as a life, so.

D: Hang on one second Jim. Go ahead.

J: Ok, so I want to go carefully and cautiously into that, and I think that that alone indicates that we can simply not drive a heavy scraper and a heavy bulldozer out across that open cut. Regardless of that consideration, I don't think that that is the way to mine that anyway. I believe that there are some high grade streaks, and that we should either mine it with a front end loader and a truck or even preferably even a backhoe and a truck because we can put the backhoe on solid rock and reach out with this long boom and selectively mine material. The backhoe is used in the Wyoming uranium mines and is finding a lot of acceptance all over the work. But that is something that I will simply have to do some more evaluation on. I just want to touch base with you on that.

D: Ok.

J: I attended a conference last night, American Institute of Mining and Metallurgical Engineers conference in which the speaker was from Mountain States Engineers and the title of his talk was technology for processing low grade gold and silver ores. Very appropoe, and we gained some additional insight and some ideas, which I have been discussing with

John Dean before you called. Also met Charlie Escapule down there and told him of the changes. He expressed great enthusiasm for working with me. He said anything that they could do that they would be more than happy to do. He said that he would run samples for us and make his other equipment available on whatever basis was convenient, and of course that certainly means at his convenience. Ok, I have also located via Charlie, an AA unit. He has got several people in Mexico that need one and he wants to buy 4 and if we can go ahead, he will put in the order in which we will get a fairly substantial cost break. That will be about \$2,500, and I am going to get more details today, but it can be air freighted in and we can probably have it set up very shortly.

D: Ya, would you, because Tom, the work that Tom has done, he has found that the Perkin Elmer unit, which was going to cost us 23, certainly go 25 to get it sooner assuming that its comparable or a better unit than what we were going to buy. So ya, keep talking, but that sounds great.

J: Well I think that time is of the essence, and that is just, I feel, its an absolute necessity. I just don't think we can make any headway without it.

D: Ya, I agree. I think, you know, there are probably also advantages, well, will Charlie keep one too? Why would he buy 4?

J: Well, because he has got other people that want them so he is going to buy, he has already got 2 that he will simply turn around and pass on to other people and if we go it will be three, and then he has some other people that will take the 4th one.

D: Ok, see what you can find out about it, warrantee, and that kind of thing.

J: Ya, ok. Ok, we, I paid off Cowan except we found out that his timer on the machine indicates that we still owe him another \$875, which I am sure is valid. I told him that I would get him that next week. But I think that the most important thing is that within 24 hours I think that I made a complete turn around in everybody's attitude, and we are underway and back on track, or at least we have the support of everyone, if we can keep our bills paid and if we can, you know, just do the normal things that a businesslike operation does. Today Dusty and Al Waterson are working on a list of equipment that we need and prices for that equipment. Tom and I are doing some paperwork here related to getting the power switched over, the trailer back so that we don't have to pay on that, telephone in the office there and in the apartment that we will be living in, and some daily reports.

D: Jim, what kind of equipment?

J: Well, we are going to need barrels, testing equipment, nothing particularly costly or complicated, but simply equipment so that we can run these barrel leach tests and leaching tests and set up the AA, and do the crushing and do the screening and do the heap leach test.

D: Ok.

J: So in other words, we have to essentially set up a small laboratory and the testing equipment so that we can go forward.

D: Right.

J: And we have to carefully evaluate what we need, when we need it, and how much it is going to cost and where to get it, and you know, all those little nitty gritty details.

D: Right. Now you are going back down there this afternoon?

J: No, I am going to go back down there just as soon as I can get everything in the car and get away from here. But there is just some paperwork that I had to do related to that project.

D: Ok, and Rabb is going to meet you tomorrow, right?

J: Ya, Rabb. Ya, he is going to be down there tomorrow. He is being very cooperative, by the way, and very helpful, and enthusiastic.

D: Ok, good. So I should, you and I should talk again tomorrow some time.

J: Ya, probably after I get through with our meeting with him. I will be down there probably all day through Saturday, and then I will be back up here Sunday and Monday and then back down there Tuesday, I expect.

D: Ok, when will, when is he going down, in the morning?

J: Rabb?

D: Ya.

J: Ya, he is going to meet us down there tomorrow morning, and he is going to have to leave about 2:00 he said, but we should, that is all that is really necessary.

D: Ok. Should we try and figure out when to try and set up a conference call with he and you and John?

J: Ya, I am going to talk with John about that probably after the meeting and we can, ya, then discuss it.

D: Go from there. Ok. I will be at my cabin starting Friday night, and then I will be back in the office Monday morning. I will be here all day tomorrow.

J: Ok, fine, well I think it is simply going to take us a while to get everything in order and until we do, there is probably not much point in a lot of telephone calls because I think that I can get everything down in black and white and make it a lot more clear than a lot of lengthy conversations.

D: Ya, I agree with that. Any thing else you want to tell me about Dick? And how that unfolded and so on. Is he going to stick around Tombstone do you think?

J: I suspect he will for the time being, I just don't know. I didn't really ask him, there isn't any way that I can coerce him to do anything one way or the other.

D: That's right.

J: He did want to do compilation work on the geology and the underground and his ideas, and I said well I would be happy to receive a proposal from you on what you want to do, and we can evaluate it. Now is not the time to do that type of work, but possibly in the future it would, and if you want to communicated directly with Tom and Dwight, that is fine with me too, but I am not going to Ok any of that, and I want to get all of the records back immediately, and then if we decide to do it later, we can do so and we will provide you with the records if necessary. So, he said Ok that he did want to get some of his material together and he said that he would have it ready by noon yesterday, and I simply did not have a chance to get by and talk with him or pick anything else up.

D: Ok, what did you give him as a basic reason, Jim?

J: For his termination?

D: Yes.

J: Simply incompetent management, the fact that his processes did not work.

D: Ok. You told it to him straight.

J: Pardon?

D: I said you told it to him straight.

J: Ya, I did. I don't pull any punches Dwight.

D: Dick, you fucked up.

J: That is essentially it. Two other things, Dwight. Dusty Escapule, with good reason, wants to be compensated for the use of his truck which is the only pickup that we have got down there and is completely adequate. I suggested \$10 a day and \$.20 a mile for days worked and business mileage. He said that was fine. I think that that is a fair rate, and I suggest that we pay him that.

D: What are we using it for?

J: Everything. It is the only vehicle that we have got down there to move things around in, aside from our vehicles, and our vehicles are more expensive.

D: Ok. What have we been doing now. He has been doing it for nothing?

J: Oh no, he hasn't been doing it for nothing, Dick has been furnishing him gasoline, oil and repairs on the vehicle, which is very difficult to keep track of and I don't think is satisfactory. In other words, if he blows up an engine, then we would be liable for the engine, or if he has a transmission failure, we would be liable for that. It is a very cloudy uncertain relationship, whereas mileage and a daily rate is very easy to review and control.

D: Ok.

J: And that is a fair rate for his pickup.

D: Ok. So you feel that a lot of the problem with Louis and Ernie was Dick.

J: Ya, and fuzzy dealing. They want to be helpful but they also want to be paid, and they want to be friendly, but being friendly doesn't mean doing favors. This project is interesting to them but they don't have any vested interest in it and if they do work they want to be paid in a clear manner and Dick had so many different deals going that pretty soon it was just like all his other technical work, pretty soon nobody new who was doing what to whom and why, and we can handle things on a very straight forward clean basis for fair prices and get their enthusiastic support. That is what Dusty said, he just wanted to handle things on a business-like basis, and doing favors and trading and horse dealing and so forth is simply not an acceptable way to do business in Tucson, New York or Tombstone.

D: Right.

J: And you know, it is just as clear cut as that. Dick was...

D: Anything else?

J: One last point regarding the chain of command, Dwight, that we talked about very briefly as I was rushing off the day before yesterday.

D: Right.

J: I set up a chain of command down there that from me goes to Tom Waldrip, from Waldrip to Al Waterson and Al Waterson to Dusty Escapule. I would prefer to have New York talk with me or Tom Waldrip, simply because those guys get confused when they have more than one thing to focus on at a time. I don't object to you or Tom talking with them in any way, but I think that, well I just don't want to have directions coming from anyone by myself.

D: Let me say this. Obviously, the point your making is a legitimate one I think on the other side, based on my conversation with Tom the other day, he doesn't feel that he wants to give up the operating role either. I think that we are in a transition period, lets keep it a little loose. We have got three projects to get done this month, and that is really going to tell us where we go from there, and I think that this is a kind of problem, you know, you're on notice that there is another side to the issue, and we will resolve it later.

J: Well, Ok, that's fine, but you know I can get things going down there, and I don't have any problems with that. However, if it gets to the point of you know trying to have two bosses, I will simply create one by stepping completely out of the picture, and....

D: Ya, I think that that is a little too extreme, Jim. You and Tom have had discussions about the role that Tom wants to take in an operating sense here, and you have got to keep that in mind.

J: Well, I do, but I also have gotten into, we have gotten into this problem for that very reason, and I have also had other problems related to that type of thing.

D: Wait a minute, we've gotten into this problem for what very reason?

J: Too many cooks in the soup.

D: No, I don't think that that is right, Jim. I think that we have gotten into this problem because maybe there haven't been enough cooks, number 1, and number 2, the cooks we have

had have been stirring with some pretty screwed up ingredients.

J: Well, could be, but at any rate, lets see what happens, but I don't want to get involved in multiple directions, and however we can avoid that is fine with me.

D: Ok, good. Good, listen, good luck down there. I assume that this next couple of days you will be able to really start some mapping and sampling.

J: Oh ya.

D: So we are about to where we are going to get started?

J: Ya.

D: Let me know as soon as you can on this AA.

J: I will try and get back with you this afternoon on that.

D: Ok, super.

J: Are you going to be at the office, lets see, its now about what, 1:00?

D: 1:10. I have a 6:15 dinner and I should be here until then.

J: Ok. Fine, I will try and get back with you later on this afternoon, as soon as I can get the details.

D: Otherwise, first thing in the morning is fine.

J: Ok, now, well sure, that's plenty of time. Ok, I'll talk with you later.

D: Thank you Jim.

J: Alright, bye, bye.

1982  
8/3/79 DL

MONDAY, AUGUST 13, 1979

TOLL CALL #7782

TO: DWIGHT LEE

Famco Trading

J: Yes, this is Jim Briscoe in Tucson calling for Dwight Lee.

Ok, one minute please

D: Good morning.

J: Hi Dwight, how are ya doin?

D: Good, how are you? You in the office?

J: Ya.

D: I'll call you right back.

J: Ok, fine.

Dwight?

D: Hi Jim.

J: Ok. Let me give you a resume of what's happening at Tombstone. Have some bad news and good news, but I am considerably encouraged and really quite excited that we can go ahead and get something really accomplished down there very quickly. The real bad news, I assume by this time you have gotten my daily reports that I sent off mid-part of last week.

D: I haven't even looked at today's mail, unless they are in today's mail, I haven't gotten them.

J: Oh, that's a surprise. Ok, well they will be along shortly. Ok, the big thing is, Vernon Dale who is the inspector from the Arizona Bureau of Mines and his bag is looking for safety and health violations, was apparently down there a week or so back, and has looked at the Contention open cut and is just absolutely scared to death as am I after re-looking at it and talking with people, that we are going to drop, or that we have the chance of dropping everyone down a bottomless hole. What the situation is that that is in the area that was stoped in the early days down to about the 600 level and the concensus of opinion is that there are, in large parts of that open cut, there are simply timbers below that are holding everything up and they are

coming loose and that the cut itself has caved in and so you have got a bunch of loose rock filling the open cut to the current surface, but it is essentially hanging on nothing. And so we run the risk, every time we drive a heavy piece of equipment over it of having the whole thing come undone and simply dropping everything out of sight, including the equipment and operators. Ok, so the obvious thing is that until we determine where precisely those workings are, it is infeasible to work from the inside of the cut. However...

D: Hang on just a second, I am making some notes.

J: Ok.

D: What did you call them?

J: Well, ya the technical term is stopes, and when they have a vein, they essentially mine out the vein and depending on what the width of the vein is, that leaves in the type of mining that they were doing, which was prevalent at that time, its called square setting, and what it means is that they had timbers that simply held the earth apart where they removed the vein material, so what happens is in ensuing years, those timbers start to rot and they fall out without continual maintenance so the ground is probably quite unstable there and some of those timbers have probably criss-crossed and when they fell out and as they criss-crossed, then they would back up rock and so forth, but at any time, that could come out and simply create a big open void. In the stopes are probably 40' wide there and may go down to the 600 level so we are talking about a hole that is 40' wide and 600' deep...

D: Right.

J: Usually enough to swallow bulldozer, scraper and God knows what else. So we simply can't take the risk of driving out across there. However, the good news is....

D: Ha. Ha.

J: Is that I think that I have a method whereby we can mine that safely. In any event what we have to do is we have to get the underground maps if they still exist, and I have got several people in several different areas looking for those, and they were surveyed in, so we have to find out where they survey control point was, and then take a, plot them on a surface map, and then take a transit and start out from their survey point and survey in the location on the surface that is underlain by open workings and then we will know pretty accurately where they are, and then probably the next thing that we have to do is we should take a drill and drill to be sure that there either is or isn't...

D: Is this a big job?

J: Pardon?

D: Is this a big job?

J: Well, it is not inconsequential but it is not overwhelming. It is going to cost some money and I don't know precisely how much until we see what the maps look like but.

D: Can we do the sampling before we do that?

J: Oh ya.

D: To find out whether it or not its worth doing at all?

J: Oh ya, oh ya, absolutely.

D: Ya, ok.

J: Ok. Secondly, I found, I think that we have got a method whereby we can mine that safely. I have got to go, or at least some of it safely, and I have got to go over this with the mine inspector, but the Escapules, the State of Maine Mine, have an International Harvester hydraulic backhoe with about a 1 cubic yard bucket on it which they are leasing for this month from Modern Equipment Company, Lem, the guy that Tom has been talking to. Ok, that is a very good, it is brand new, it is a nice piece of equipment, and I think that we can use that to sit up on the top of the open cut, and mine below us without actually getting on bad ground.

D: Ya.

J: Ok, so I have talked with Charlie, and they are not using it on the weekends, and he has agreed to let us use it this coming weekend to run a mining test, which again is quite critical. What I propose to do is use this backhoe for two days, and the price that he is giving us is \$20 to \$25 an hour which is the best deal we will ever see, I suspect if we were going to rent it from somebody else, it would probably be \$60 an hour plus probably \$500 just to get it down there, but it is already over there so it is really a super opportunity. I think that we have got some things breaking for us that are now going to let us make some progress. At any rate, what I propose to do is on Saturday and Sunday, get the backhoe and rent 2 10 ton trucks and go ahead and make a test mining operation in which we keep track of, well, 1. to see how the backhoe does, until you actually.....

~~First two weeks of August~~

Monday  
8/13/79

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Conversation between JAB and Dwight - believed to be toll call #  
#7782 - continued with toll call #7784

J: ....But using the two trucks, what we will do is keep track of the dipper loads and how rapidly they are able to dig on it, and how long it takes to load a truck, and what the cycle time from the open cut to the pad is so that we can project that into a mining operation and determine what the cost would be.

D: Right.

J: Ok, what I think is that this backhoe is the smallest that International makes of a track mounted hydraulic type. There are two others that are larger that are apparently on hand, the next size and then the next size up from that, and they can be equipped with a larger bucket. What I tend to think is that we should probably get the third larger size up, which is going to run us probably \$6,000 a month, I would estimate. This is running the Escapule's \$3,000 a month. But this is an unknown factor. However, if the Escapules find that this is useful, they will split it with us so that we can - you know, they can have it 3/4 of the time, or we can, whatever it works out with. So it would be a slick deal and would give us an opportunity to get a real good piece of mining equipment that we could get some production on. Whether this goes or not is going to be dependent on how the test runs.

D: Well, I guess my first question to you, Jim, since you have a lot more facts than I do, it all sounds premature to me in terms of the sampling and the leach tests and so on, but maybe you know a bunch of things that...

J: Well, ok.

D: ...We are getting deeply into one section of the report, and I don't have the benefit of the rest of it.

J: Ya, ok, I am going to be a little bit fractionated here. Let me go back a little bit and tell you what I spent most of last week doing because that was really the major problem area - is the fact that we simply can't go in as we had estimated, or assumed, and mine the open cut with a front end loader or a scraper. Ok, most of last week I spent mending fences and there has been a real amount of animosity down there related to the way Dick was running thing, poor payment on bills, lack of ability of the workers to cash their checks promptly, and just a lot of animosity built up. So at any rate, I have gotten...

D: Last Wednesday when you were down there, right? We talked I

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think on Thursday when you were back in the office, and that you were going to go back down on Friday and meet Rabb, so I don't know what has really happened since.

J: Ya, Ya. I'll tell you what, Dwight, I have got a meeting that I have got to get to, could we get back in about 15 minutes?

D: Sure.

J: Ok.

D: You call me, and I will call you back.

J: Ok, fine.

End of conversation - resumed two toll calls later

Time is 9:37, this is Toll Call #7784, continuation of #7782

J: Ok.

D: Hi.

J: Lets see.

D: Your stuff, in fact, arrived this moment.

J: Oh, well, alright. Since I talked with you, I have talked with my literature research staff, and we have already got a search underway through the Arizona Bureau of Mines in their archives for the underground maps, and we do have some. They don't have the stope maps, which are the most critical, but we have a search going in Palo Alto, I believe, in the U.S.G.S. archives for F. L. Ransome's maps, which dated back to about 1912, and so I am optimistic that we will end up with some. When we get those, if we can locate their original survey points - then it will be a relatively simple surveying problem to figure out where the stopes are. Ok. Let me diverge again to the end of last week. It was very fortunate that you got that money out because we are now more or less back in the good graces of the people that we have got to deal with in Tombstone, and I think that it simply is a turning point in the whole operation. However, we will have to go on a cash up front basis, and be sure that we get - meet all of our payrolls, and all of our other obligations in a timely manner, which I don't think should be any real problem because we have spent a lot of time now planning out what we need to do and getting costs together, and I will transmit those - we are still working on it, but its not going to be very long before I will be able to transmit those on to you. Tom probably talked to you - well I think that we were on a conference call relating to crushing of material, and we were supposedly going to use

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Ernie Escapule's crusher for that purpose. Turns out Ernie Escapule is working on another little mine as of about the last week, and he is going to be using it full time.

D: After we paid to fix it?

J: Well, ya, but there are some other bills that we didn't pay, so he figures that we are even.

D: Oh, Jesus. Are we, do you think?

J: I think that we are. I think it is counter productive to even argue about it. Dick's...

D: We must have had Dusty working on the thing for about a week.

J: I will check back and see. Probably 4 or 5 man days I expect. But I am trying to do what we can to make that come out even, but we also used all of his tools, and his furnace, and you know, a whole list of items without any compensation to him at all. So, the whole thing has gotten very complex, but I think what it really boils down to is that we can't expect to do horse trading down there, nor to fix up other peoples equipment without - well I think that it is just a bad way to go. I think that if we want to use something, then we have got to sign a definitive rent or lease agreement, and so that we have something that we can all stick by, and what Dick was doing was trying to trade one thing and another, and it just got so complex that finally everybody just got pissed off and exasperated and said that they wouldn't deal with him at all. Ok, so, we cannot use that equipment, however, Charlie Escapule and Louie Escapule are setting up precisely the type of thing that we need, in actually a better set up so we can use theirs under a verbal agreement that I have got now, which will follow up with a written agreement.

D: Let me put you on hold just a second.

J: Ok.

D: My lunch has arrived so I am going to eat while we talk.

J: Ok, fine. Ok, at any rate...

D: Charlie and Louie have a crusher?

J: Well they are getting one set up that we will be able to use on a toll basis. Furthermore, after all my fence mending operations, both Charlie and Louie are just bending over backwards to help us, and the big problem was really Dick's mechanations and so forth. So they have agreed to do - until we get our lab set up, all of our AA analyses, all of

our crushing and shaker tests for cyanide assaying of our initial samples, and then we will run our barrel test solutions through their AA. We are going to work out some kind of a price on that and Charlie is working on that this morning. I guess he is going to call me later on. But this will allow us to get our assays so we can figure out what we are doing in the pit together, and allow us to get quick returns - well, its the only way we can get any returns on our barrel tests without running the risk of the solutions deteriorating and then not knowing really what we have got. So, that is a real good deal, and of course their other commitment on Charlie's part was to cooperate with us on the use of this backhoe, and even split its use between the two operations if we, indeed, decide to use it or go to a larger backhoe. So that is worth an awful lot of money to us.

D: Right.

J: Ok, Dusty, Al, and Tom spent most of Thursday, Friday, and Saturday between running around and talking with all these people and then getting figures together on the laboratory equipment, how to set it up, and so forth. We discussed that with Dave Rabb. I took Dave Rabb completely through the operation as it exists now and got him familiar with both the heap and the Contention open cut. We are essentially moved into the '71 Minerals building.

D: Jim, you were cutting off.

J: Ok.

D: So lets try again.

J: Ok, we are essentially moved into the '71 Minerals building, although we have got to still build - or we have got to put a door on it where the gun runners left a door off the hinges - or simply just cut a whole in the wall so we have got to have a door there. And we have got to have some office equipment and so forth. Excuse me just a second...

J: Ok, were you asking me a question?

D: Ya, you were telling me about the building and you said Rabb went through the operation.

J: Oh, ok.

D: You were starting to tell me what Dusty, Al, and Tom did on Wednesday, Thursday and Friday.

J: Ok. Thursday they worked on figures - Tom and I didn't get down there until late Thursday afternoon. Friday we met Rabb. Went through the operation, the guys cleaned out the building, and we are in that building although we need some

office equipment and so forth, desks, file cabinet, and that type of thing. We will be in the process of building the benches required for the barrel tests and so forth on Tuesday. The guys are going to take Monday and Tuesday off, I am sorry - and we will start on Wednesday again so that they can work through Saturday and Sunday - working on the mining tests. We need a few things in the building. One of the main ones is is we need to frame a door in where the gun people cut one in the side of the wall and it is open so we have to get that closed off.

D: Jim, what kind of numbers did they work on? I mean did all three of them work?

J: Ya. It is just a matter of sitting down and figuring what is needed, what we have to do and so forth, and getting equipment lists and everything to set up the lab and go about this thing in a workman like fashion. So, and some of it - I took Al Waterson and Tom with me around to meet Callan who I had not met and Dusty went with us on that, and then we also took a tour through the State of Maine Mine operation Friday morning with Rabb, after he had gone over ours, and just looked at how they were doing things. They have a very very nice professional set up - I am really quite impressed, and I don't think Tom has really had an opportunity to see it in the way - in the same way that we did. So, it is very pertinent to our operation because the ore is quite similar, and it was time well spent. So we actually talked with Rabb and Ernie and Louie Escapule from about 10:30 in the morning or 11:00 till about 2:30, we had lunch with them, and discussed various problems in the District, and the general situation. Then Rabb took off to Tucson, and Tom and I and Al - Dusty went ahead with our work. So at this point, we have got some pretty extensive lists of things that - of parts and equipment that we have got to have to set up the lab - they are prioritizing that and getting prices on that - trying to get the total together so that we can go forward.

D: Is there really that much stuff that we need, Jim?

J: To really do any good, Dwight, we have got to set up our own laboratory - operation there - including the barrel tests and so forth so that we can have a continual monitoring of the whole operation. It is - well there is just a bunch of little things, some big things - in order to get the thing on track. Now, one of the things that we discussed with Rabb is where do we go from here. What is the thing that we ought to do next. And, of course, we spent - Dusty and I and Al - spent a lot of time discussing that. Al was intimately involved in the '71 Minerals situation, as well as involved in other leaching operations so he had some interesting ideas on what should be done. What Rabb feels is that there is leachable material left in that dump, and...

D: You mean the heap or...

J: Ya, in the heap, excuse me. And that we can probably go ahead and get some values out of it. Now we discussed this with - in context with the operation that Charlie and Louie are doing and also in relation to Rabb's background on a variety of things - but just putting it in a nut shell, after the dump has set around for as long as that one has, material comes to the surface of the particles and this would include copper and zinc. What he feels is that we should go through a leach operation in a portion of the dump, and we will probably get a lot of copper and zinc which we will simply - we will go ahead with one precipitation run until the values fall off, and then discard the leach solution, and then go in with a fresh leach solution and he thinks at that point we will probably get a substantial amount of additional silver out. Ok. Now let me re-trace a little bit because with my mining test plan, if we go ahead with this backhoe test, which I strongly recommend, we will have about 400 tons of material from the Contention that we can leach and get a definitive test on. Obviously we will be taking a lot of samples off of this starting Wednesday but it will be a definitive mining test as well as a leaching test. I don't want to - I hesitate to quote figures, if Dick's suppositions are right, and if there were \$25.00 in recoverable metal in that 450 tons, we could end up with about \$11,000 worth of silver and gold. I don't want to pre-suppose that until it is actually done, but at any rate, it was certainly worthwhile procedure, and that would certainly more than pay for the test. Now the other thing - there are two things that I would recommend, Dwight - that we purchase immediately one of Charlie Escapules large plants - this is approximately 300 a ton per day of solution plant, and...

D: Hold it, Jim.

J: Well it will process 300 tons per day of solution.

D: Ya, and what do those go for?

J: They are \$16,500. I can't seem to find it in my notes right off hand. Ok, I also think that we ought to purchase a small plant, which is a test plant, and that sells for \$3,750.

D: Three thousand seven hundred and fifty.

J: Three thousand seven hundred and fifty. Ok, now by doing this, we have something that is a tested and proven plant. We can incorporate all the equipment that Dick purchased into those plants which will - so that we don't waste any of our initial or our investment in existing equipment. I have

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already talked this over with Charlie. That will probably lower the cost by \$1,500.00 to \$2,000.00, and we will have something that will work. It is a tested product. If, for some reason, the whole project does not go forward, and I think there is every reason it should, then it is a saleable commodity, you are not losing anything, except for the use of that money for a period of time. Now if we try and do it ourselves, I think it is an unwise expenditure of labor because I am not sure that we can get it together the way they have and secondly, well I just don't think that we can do it for the same amount of money. Charlie and Louie are way underpricing themselves on these plants, I believe, and that is Dave Rabb's opinion too. Ok, if we do that, we can then start, as soon as we get the plant, we can start spraying on the heap, after taking some definitive samples and being sure that that is the way to go, but everybody seems to feel that it is - because Dick never ended up trying to cyanide leach on that - he was simply fooling around with the hypo - which has all kinds of problems, which John Dean has already explained. So we have really never made a definitive test of that. Ok. Assuming we go ahead with that plant, we can start leaching the heap immediately, and it is not going to cost us anything additional in labor simply because the people that are doing the test work, the barrel testing and so forth - that is probably going to be Al Waterson or Dusty - either one which can run it while the other does something else. They have got to be there anyway. They can run the plant at no additional cost until we get our own ore on the heap, and, in fact, everyone seem to think that we need to reprocess the heap anyway, which I tend to agree with. So that we should be able to get a cash flow from the heap even though it might be relatively small initially - using the Escapule plant, we can then buy - if everything goes well - we can incrementally buy a second plant, a third plant and a fourth plant, and put them in parallel so that we have the same through put that '71 Minerals actually had - which was pretty substantial. Their filters, alone, cost about \$40,000 - not including the rest of the plant. The other advantage of this is that if one unit breaks down, it does not shut down the whole operation - you simply let the other three units go and repair the one that has a problem. It is a very slick way of operation, and we can buy them as the need arises. Ok, if my experimental mining works on this 450 tons, we will begin to get results on that by the middle of next week, and it will probably take us a couple of weeks of - or a couple of - well a couple of weeks to be sure of what we are getting, and then lets assume it is positive, then we can actually go into a mining operation on the heap and - I am sorry - a mining operation on the Contention - and if we decide to switch over the big plant to the material that we are mining off of the Contention cut. I feel that we are probably going to end up with some high grade zones which we can selectively mine using this

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backhoe, and probably what we will want to do is put in a cement or asphalt pad so that we can very carefully leach the material that might be quite high grade. We will probably want to treat that with the small plant, which I have recommended that we also get - that way we can continue with a leach of high grade selectively mined material that might run - gosh could run well over \$100 a ton with the small test type plant. We can leach mine run material of lower grade stuff from the Contention using the bigger plant, and if we can go ahead and get a third plant, we can continue on with the heap leach. So we should end up with a pretty substantial cash flow. Ok. In the interim, there are no plants available right now. What I have done is I have negotiated with Ernie to rent his plant for \$200 for the coming month to work on the test heap leach that will result from our mining plan - the mining test using the backhoe.

D: Ernie's small plant?

J: Yes, that is Ernie's small plant that we used before. And that was the one that we used when we did successfully leach material when Tom and John Dean were out here.

D: And that is for next month or do we have it when we want it?

J: No, no, we have it when we want it. My objective is to have it installed on Monday and leaching by Tuesday of next. That is assuming that we go ahead with the mining test. Ok. Also, there is a fella by the name of Gabriel Helay who is has leased some of Charlie Escapules claims, which are surrounded by our ground - TDC claims - in an area that we are not particularly interested in right now. He wants to use part of our ground to put on a pad for his leach tests. It would be a small pad and the ground is too steep where he is - on the claims that he has under lease - interestingly enough, he is just taking delivery as of probably the first part of this week, for another small plant from Charlie. What I propose to do, is negotiate with him, the use of our area to build his pad on in return for the use of his small plant for a month, which will double our capacity on the 400 ton leach on the material from the Contention open cut. So if we go through with all of these things, we will have - and if, of course, I can negotiate this with Gabriel Helay - we will have two small plants which will speed up the leach of the test leach so that we are running 120 tons of solution per day through on that test leach.

D: Ernie's is 60 tons per day?

J: Ya, 65 tons per day is the way I understand it. Ok, the other advantage of having the two plants is that if one breaks down, we just continue until it is fixed, and then continue with 2. In other words, you have a back up.

D: Right. You were down there what, through Saturday or Sunday or what?

J: Ya, I came back here Sunday morning. It rained all Sunday, and it was raining today, I believe.

D: So we haven't done any sampling yet?

J: Yes, that is correct. We haven't - we just have not had the ability to do so, but we are going to start sampling Wednesday morning. I have got two men from S.E.A. that are going to help on that Wednesday and Thursday. We ought to be getting assay shaker tests back from Charlie and Louie's lab Thursday and Friday, and then we can just go ahead with the mining test on Saturday and Sunday.

D: Ok, have you done the mapping that you wanted to do as your first step?

J: We started some mapping but simply ran out of time, and weather conditions... so I will start on that again on Wednesday.

D: Ok. Is that about it?

J: Ya, that is about it. Let me review for you the costs that we have got to this point. Let me find my sheet here.

D: Let me respond to you first ok? Just to raise some questions in my mind, and so on. It seems to me that, and I may be wrong, but as I listen to you, that we are moving far afield rapidly. How Rabb know whether or not the heap is worth leaching or not, I don't know that anybody knows, and I know Tom's feeling - when he left was he didn't want to do anything with the heap until we followed this Contention thing through. Now if you have got some new evidence about the heap, well then obviously that is something to consider. But short of new evidence, what is different?

J: Ok. Let me just cover that very quickly. One, it is a suggestion to start leaching on the heap, and we are not going to be able to do it until we get a large plant, which is going to be 30 to 45 days if we act today - so that is quite a ways in the future. In the interim we will do some testing to be sure that it is leachable - barrel testing and so forth. However, its my gut feeling and Rabb's gut feeling and Dusty and Al Waterson's gut feeling as well as the guy feeling of both Charlie and Louie that there are values left in there. We have never given that a good test because of Dick's metallurgical techniques which didn't work, however, apparently we did have one period where we had the areas 1 and 2, almost an ounce of silver using an ammonium - I can't think of it - well let's say ammonia leach on it. Everybody

feels that if we go back in with cyanide, that we will get something out. Now we can test that, and that is our objective. However, the tests are going to take a while, and its also contingent on getting one of these plants, which I really think we should do because even if we don't do the heap, we have got to have a plant for doing the Contention ore.

D: Jim, we have only got to have a plant if the Contention tests work.

J: That is right.

D: Otherwise we don't need a plant.

J: Well, except that we feel that the heap will probably go too.

D: So lets say you go leach the heap - how are you going to solve the percolation problem?

J: We will simply start moving it around with a bull dozer and work towards testing the heap to see what the costs involved in crushing and screening are. But I think that that is probably the way to go - is to do both simultaneously as soon as we get enough test results on the heap to see precisely what rate and what screen fraction should be re-leached and wha the cost is of course.

D: Ok. But we are not going to do anything on the heap until we all agree exactly what we are going to do. Right?

J: Oh ya. Sure. But this is the results of my work to date, Dwight, is that these are my feelings and until we get some negative information, those are kind of my recommendations.

D: Well I have obviously got to talk to Tom about that because that means spending money away from the Contention. He left with the idea that we were going to do 3 things. Sample the Contention, do a leach test and do a barrel test.

J: Ok. That is precisely what we are working towards. However, we cannot get into the Contention, as Dick had told him we could because of the problem with the very dangerous underground stopes.

D: Right, that is a new curve. I understand that. But does it make sense - you know if we can't find the valuable ore, we aren't going to have to worry about our mining techniques.

J: Well I believe that there is plenty of ore there, as a matter of fact, we feel that, again, it is very difficult without having done the testing - which we are going to do in the middle of this week, now that we have some means to

do it. Up until this point, we had absolutely no means at all to accomplish any of this thing. That is what I have accomplished at the end of last week, is that we can now use all of the test facilities at the Escapule operation, prior to that, we simply didn't have access to it.

D: Right, no, I understand that, and that is terrific.

J: Ok. So we will go ahead and run the - well do the geologic mapping and sampling on the open cut but the other thing that I was up against at the end of last week was that - well regardless of any assay work we did, we couldn't use any equipment to get in and mine it until after we had mapped the workings, and then we might not have been able to get in and do any mining. Ok, now, because Charlie is being so cooperative, we have got a massive piece of equipment at practically no cost, as a matter of fact, the cost for using that for 2 days next week is about \$500, which is less than it would cost us just to haul one from Tucson down here.

D: Right, I understand that that is clearly a good deal.

J: Ok, so by going ahead with that test, we accomplish all of those objectives - small sample testing, barrel testing, a heap leach test, and furthermore, we will have a mining test to see what the costs of mining are - which I could use in an engineering sense to extrapolate what our profitability should be using similar equipment - which is at this point, an unknown. Until we do it, we don't really know how easily the rock is going to be dug, how rapidly we can load it into trucks, what the cycle time is, etc.

D: Jim, I guess the only problem that I have, and maybe it is also simultaneous that I am wrong, but it is not going to matter what the cost of mining are if we can't identify enough ore that is going to be worth leaching in the first place.

J: Ok, ya, I would agree, although rough calculations, if we can recover \$10 per ton in the material that is readily available in the Contention open cut, we should be able to recover about \$300,000 in the mining of that, and of course that is again - my assumption was that it would be \$25 rock, \$15 per ton would go to equipment, laboratory, sampling, truck, mining, metallurgy, etc., and \$10 would be left.

D: So we would recover 100%?

J: Well, no, that is simply recoverable - \$25 recoverable.

D: Oh, ok.

J: So, again, these are just...

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D: So I guess that is \$40 rock.

J: Quite possibly. These are hip pocket figures that I don't even want to comment on the reality of them until we accomplish the testing. But if we go ahead with this test, we will have something that we can really get our hands on.

D: Ok.

J: So I think that we should be able to accomplish everything that Tom and you were looking for by the end of August if we proceed with this test.

D: Ok, what - where can John be helpful to us now?

J: John Dean?

D: Ya.

J: Well, I would be very happy if you guys would like to come out this weekend and observe the whole procedure. I think that that would probably be most meaningful. By that time, we should have our barrel testing set up, installed, and our sampling procedure down, and I think that we can just discuss where we are. At this point, there simply isn't any real problem with the metallurgy as long as we stick with cyanide and as long as we use the Escapule's plant. I think it is absolutely ridiculous that we ever did anything rather than simply buy their units to begin with - but then that is spilt milk. But we have got that availability - they are just bending over backwards to help us, and we can get things underway for a pretty low cost.

D: Ok. This test, this 450 tons, are we going to crush half of that and not crush half of it and so on?

J: I think that we ought to just go ahead and run most of that as mine run. Now we can take say something like 10 tons or so and crush it, but I think that the crushing is very premature at this juncture. We don't know even where we can get a crusher. I think that we can recover a substantial amount uncrushed, and if we get a crushing unit, probably what we need is something that is large enough to crush the - crush and screen the heap at a probably a 3,000 ton per day rate or something like that - which makes it feasible.

D: That is a very large capital cost.

J: Yes it is. Although. Yes it is. That is why I say it is very premature.

D: Right. Ok. Lets see...

J: The other thing, Dwight, I guess it is not clear - I always

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assume - kind of forget some of the subtleties that I have in the back of my mind simply because they are obvious to me - but one of the things that I hope to accomplish in this mining test is that whenever you mine rock, the mining method tends to dictate what size the rock comes out at, and what I want to do is find out how finely divided this rock is, and we can't tell that until we actually use that piece of equipment to mine it with. In other words, different types of equipment dig out bigger chunks.

D: Right.

J: If we blast it, we run the chance of blasting out big chunks. If we dig it with a backhoe using no blasting, which I believe we can do, I think that we are going to end up with a very fine material anyway, which might negate the need for crushing.

D: Ok. Hang on a second, I want to make a note on something. For whatever reason, you are coming to the table with a pretty high degree of convictions that we are going to find plenty of ore that we can get to in the Contention.

J: Ya, I am really quite optimistic, Dwight....

D: The reason I say that - for example - I would think that the mapping and the spending the money to do that research, again would come after we determine whether or not there was enough ore to do anything with.

J: Which mapping?

D: The mapping of the stopes. The research, you know - start that process.

J: Well, yes and no because what I have got - the other thing that I have got to contend with is I think what is really critical at this point, while we have got that piece of equipment down there, and secondly simply so that we can go forward - you know time is really of the essence here - is to go ahead with that test mining operation so that I can get some concrete cost figures to plug in to see whether the ore that we might end up with is economic to mine using that method - which is about the only feasible way to do it. The other thing is I don't - why we have got to get some of these maps, is that I run the risk of Vernon Dale coming down there - the mine inspector coming down there and saying well gosh, you can't do that either because there are some stopes under there. So I want to be able to say no the stopes are here and there, and if we do it thus and so, we don't risk either the men or the equipment.

D: Well, but you see what is happening, Jim, is one thing is leading to another, to another, to another. If we back up

to square one and say ok, lets sample first and do a barrel test and see what the results are, then we don't have those problems. And if the barrel tests are unsuccessful and if the sampling suggests that we don't have the kinds of values that you think we do, we haven't spent nearly as much money.

J: Well, what I am suggesting, Dwight, is only going to cost us approximately \$1,520.00 for this test. All the people and all the other equipment are required anyway. So the test itself...

D: Ok, but Jim, that is not true for the research on the stopes. I mean that is going on outside of the people down there. Right?

J: Ya, ya, but we, you know we safely can't go ahead until we know where those stopes are, regardless of what the values are.

D: Right, but if there aren't enough values, they we aren't going ahead, right?

J: Well, ok, understood, but I, quite frankly, just don't see that in the cards. That is a value judgement on my part.

D: Well we thought the heap was going to work a lot faster than it did too, Jim.

J: Ya, I agree, but - you know - I am on the scene, and I am just telling you what I think is reasonable now.

D: Ok, another question, why would Rabb think - I mean what does he know about the heap that would lead him to believe that it makes sense to do something on it today?

J: Well, simply because of his knowledge of the physical characteristics of heap leaching operations. Everything points to the fact that there should be some additional material in there that could be gotten out, and these are the fact that it has been sitting for a year, and also the fact that the material that we pushed off, we actually got a pretty reasonable amount of silver in solution. Now the other pre-supposition is that it is not going to cost us all that much to simply go ahead and start spraying it. What has really cost is Dick's poor management, trying to build his own plant when we should have gone ahead and purchased one of the Escapule plants, and just use straight cyanide with zinc precipitation, and just go ahead with the leach. Also, the fact that we were trying to use poor quality pipes that had been sitting out there. You know, it is just this situation that I have talked about before - if you are going to do something, you have got to get the right equipment, and go ahead and do it, and not run up your labor costs by simply having some things that you can't do anything with.

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In other words, that was a Chinese fire drill down there from the word go when...

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...that it is economic to operate and that we do have a reasonable amount of ore. Now, let me just describe to you, on the west side of the Contention open cut, I have a feeling that there is probably about at least 10' of material that will be relatively high grade. If we go ahead and mine that 10', that is approximately 700' long, and about 26' deep, so let me see if I can go through those calculations - hold on just a second. What that boils down to is 10' by 700' by 26' is 14,000 tons of ore. Lets assume that we do have \$10 of margin, then that means that we can get \$140,000 worth of silver and gold out of that. By the time that we get down to that point, I think that we can go ahead - we will then have plotted the location of the underground stopes, and we could have as much as another 10' of ore. If we had that, then we would end up with another \$140,000, again using this assumption that we are going to have \$10 margin in each ton. When we get down to the bottom, we will then probably have about 40' or more of material that we can mine selectively using this large backhoe concept. So lets just use that figure. Forty feet times 700', which is the approximate length of the cut, times for every 13' in depth would give us a ton of rock so 40 x 700 is 28,000 tons, and if we had the same \$10 unit, and I think that there is going to be some higher grade material in there - but that is difficult to say, and I don't want to warrant this until we get samples - but we have got - on any journey you have got to take the first step, and this is the first step. So we could have about \$280,000 of net for every 13' in depth using the backhoe.

D: Right.

J: Ok, so all these figures mean to me is that its certainly worth pursuing, and doing the sampling to determine if that is realistic or not. And this is the best, most expeditious procedure that I can see towards doing precisely that.

D: Ok, you had some numbers you wanted to give me, Jim.

J: Ok. Let me just quickly review the mining test. The equipment which is going to be the backhoe, is going to cost \$25 an our, and I assume 20 operating hours for \$500.00. Two 8 ton end dump trucks will cost about \$400 for the weekend, and the bulldozer, which we will have to have to get a starting pad, is going to cost about \$140.00. We need two truck drivers, and that will cost about \$280.00.

D: What about Dusty and Al?

J: Well, unfortunately we have got places for 4 people so they can't split themselves.

D: Ok.

J: Dusty will operate the backhoe and Al is going to sample each truck load and supervise the stacking operation on the heap. The metallurgical plant is going to cost \$200, oh and then we will have to rent Charlie and Louie's front end loader to unload the material that is on our test pad and repair the pad from where we did some excavating to see whether it was leaking or not. That will probably run another, lets say - well lets say that plus miscellaneous, lets say \$500. So we are talking about \$2,000 for the test. Al and Dusty are going to be working anyway, and everything else is going to go on as as it would whether we do the test or not.

D: Well, really we are planning to do the test anyway. I guess the question is should we be doing the barrel test and all the sampling first.

J: Well, we will be doing that first.

D: Ok.

J: Ok. Summary of expenses at this point, and I am going to send these off to you as soon as we get them completely compiled - Tom has been working on those yesterday and today - but one is the \$1,200 payroll for last week, which you have already got an indication of. Dick submitted what looks like rational expenses, although we are going to go back and check them.

D: The payroll last week we paid didn't we?

J: Well, no, that was for the preceeding week. We had \$1,200 in payroll for last week, which will have to be paid day after tomorrow.

D: Ok.

J: And that - we approximated at \$1,200.00. Ok, Dick has turned in expenses for gasoline and a variety of things that amount to \$1,321.17. We owe Callan for the bulldozer another \$875.00. I would estimate that there is about \$800 of S.E.A. charges for labor, and \$200.00 for expenses. Now those are just rough estimates because we don't have anything in at this point.

D: Right.

J: Ok, that would total \$4,396.17. Ok, expenditures for next week...