



CONTACT INFORMATION

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Tucson, Arizona 85701
602-771-1601
<http://www.azgs.az.gov>
inquiries@azgs.az.gov

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Arizona Flux Mines, Inc.

— THE ASH PEAK MINE —

P.O. Box 26706 Tucson, Az.

85726 (602) 881-2919

March 7, 1989

Carole A. O'Brien
A.F. Budge (Mining) Limited
4301 N. 75th Street, Suite 101
Scottsdale, AZ 85251

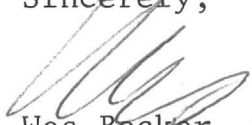
Dear Carole:

Please find enclosed four copies of both the short form and regular form of the agreement. After the copies are signed two copies should be sent to John C. Lacy, one copy is for our files and the fourth copy is for your files.

Also enclosed is the Consent Resolution of the Directors for Arizona Flux Mines, Inc. authorizing Wes Becker, Jr. and myself to execute the said Option and Mining Venture Agreement.

The last enclosure is a deposit slip for our account at First Interstate Bank. Our account number is: 117913897.

Sincerely,


Wes Becker, Sr.
President



SOUTHERN
GOLD
RESOURCES LTD.

FAX NO. (604) 986-5928
TELEPHONE (604) 986-3376

TELECOPY MESSAGE

FOR: RON SHORT
COMPANY OR FIRM: A.F. BUDGE (MINING) LIMITED
TELECOPY NUMBER: (602) 949 1737
FROM: STEPHEN P. QUIN
SUBJECT: ASH PEAK MINE

NUMBER OF PAGES TO FOLLOW COVER SHEET: _____
IF ANY OF THESE PAGES ARE NOT PROPERLY RECEIVED, PLEASE CONTACT
S.P. QUIN IMMEDIATELY.

DATE: 27 DEC 1988 TIME: 10:20AM

BUDGE**A.F. Budge (Mining) Limited**

P.O. Box 143
Clarkdale, AZ 86324
(602) 634-7712

4301 North 75th Street
Suite 101
Scottsdale, AZ 85251-3504
(602) 945-4830
FAX (602) 949-1737

P.O. Box 20878
Wickenburg, AZ 85358
Mobile (602) 376-9056

December 23, 1988

Mr. Stephen P. Quin
Director
Canamin Resources Limited
Suite 220, Quayside Plaza
145 Chadwick Court
North Vancouver, British Columbia
Canada V7M 3K1

Dear Mr. Quin:

This letter will confirm our telephone conversations of today, wherein we have agreed to the following in regards to an option on the Ash Peak Property.

1. A payment of \$50,000 for an exclusive 6-month option to explore the Ash Peak Property.

2. Should it be necessary, an extension of the option period for an additional 6 months at a cost to Budge of \$75,000.

3. A minimum expenditure of \$100,000.00 for drilling and other geological exploration on the property during the option period.

4. The purchase price of a 50% interest in the property shall be One Million Seventy Five Thousand Dollars (\$1,075,000). If the option to purchase is exercised, the initial payment of \$50,000, extension payment of \$75,000 and up to a maximum of \$175,000 expended towards exploration of the property shall be credited towards the purchase price, i.e. minimum cost at the end of the option period, \$775,000.00.

5. If the option to purchase is exercised, the formation of a Joint Venture Agreement with equal contributions by Participants for the development of the property. ^{Approved} If one of the Participants does not contribute its share of any work or development plan, the interest of the non-contributing Participant shall be diluted accordingly, and proportionately.

DIRECTORS: A.F. Budge, O.B.E., C.Eng., F.I.C.E., F.I.H.T.; Mrs J. Budge; 7602 Clearwater Parkway, Paradise Valley, AZ 85253

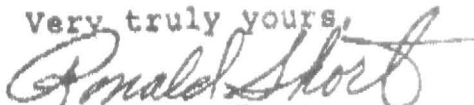
S. Quin
December 23, 1988
Page 2

(10%) ~~5%~~ If either Participant's interest is reduced to less than ten percent (10%), that interest shall be converted to a five percent interest in the "Net Profits" resulting from mineral production after the remaining party has recovered all its preproduction costs.

On receipt of your confirmation and acceptance of these terms and conditions, we will instruct our legal counsel to draft a formal agreement incorporating these terms in accordance with standard option/joint venture agreements prevalent.

Please indicate your acceptance to this proposal by signing one copy of the letter and returning it to our Scottsdale office address.

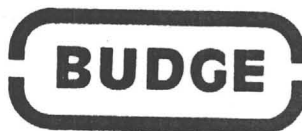
Very truly yours,


Ronald R. Short
General Manager

Accepted this 27TH day of December, 1988, by Stephen P. Quin,
for and on behalf of Canamin Resources Limited.


Stephen P. Quin

Copy transmitted via telecopier to W. Becker



A.F. Budge (Mining) Limited

February 10, 1989

4301 North 75th Street
Suite 101
Scottsdale, AZ 85251-3504

(602) 945-4630
FAX (602) 949-1737

John C. Lacy
DeConcini McDonald Brammer
Yetwin & Lacy, P.C.
2525 E. Broadway Blvd.
Suite 200
Tucson, AZ 85716-5303

Re: Option and Mining Venture Agreement
Ash Peak Property, Greenlee County

Dear John:

Enclosed are some documents which are pertinent to the
referenced agreement: -

1. Correspondence from Bull, Housser & Tupper, Barristers
& Solicitors, representing Canamin Resources Ltd.,
relaying certain opinions in regards to the
referenced agreement.
2. Correspondence relayed by Canamin concerning title
search on the claims by J. Shearer.

We do not agree with all the changes and suggestions offered
by Canamin advisers. Take a look and please advise whether we
should proceed with revised draft of agreement via conference call
or whether it would be better to have you come to Phoenix. I
would like you to meet our two new managers. Tony is expected in
town on February 20. Let me know next week how best to proceed.

Are you by chance going to AIME/SME meeting in Vegas this
month?

Best regards.

Sincerely,

Carole A. O'Brien

encls.



A.F. Budge (Mining) Limited

February 10, 1989

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December 23, 1988

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Director
Canamin Resources Limited
Suite 220, Quayside Plaza
145 Chadwick Court
North Vancouver, British Columbia
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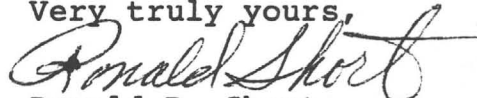
S. Quin
December 23, 1988
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Please indicate your acceptance to this proposal by signing one copy of the letter and returning it to our Scottsdale office address.

Very truly yours,


Ronald R. Short
General Manager

Accepted this _____ day of December, 1988, by Stephen P. Quin,
for and on behalf of Canamin Resources Limited.

Stephen P. Quin

Copy transmitted via telecopier to W. Becker

Les Billingsly - Manager.

Wes Becken

Rich Hotel

Ash Peak Properties

881-2924 office.

577-9275 home.

1/2 Interest in property

1400 S Arapahoe

2 story Building - 2nd floor

Bull, Housser & Tupper

BARRISTERS & SOLICITORS

D. BRANDER-SMITH, Q.C.
FRANK LOW-BEER
J. D. L. MORRISON
PHILIP B. WEBBER
LARRY PAGE
JON S. SIGURDSON
BRENDA J. McCOURT
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WILLIAM G. GOODERHAM
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PETER J. O'CALLAGHAN
LAWRENCE W. E. TALBOT
MARGARET H. MASON
CHRISTOPHER C. GODWIN
RICHARD P. CLARK
GREGORY D. LEWIS

TELEPHONE (604) 687-6575
TELEX 04-53395 OR 04-55121 FAX (604) 641-4949

3000 ROYAL CENTRE
P. O. BOX 11130
1055 WEST GEORGIA STREET
VANCOUVER, BRITISH COLUMBIA
CANADA V6E 3R3

CLIVE M. ANSLEY
58244 #3 JIN JIANG OFFICE BLDG.
58 MAO MING NAN LU
TEL. 86-21-374897 TELEX 85-33011 FAX 86-21-375066
SHANGHAI, CHINA

MASON LOH
24/F CAXTON HOUSE
1 DUDELL ST., CENTRAL
TEL. 852-5-215478 FAX 852-5-868-4545
HONG KONG

DAVID TUPPER, Q.C. (RET'D)

ASSOCIATE COUNSEL
IVAN B. QUINN

JURGEN T. LAU

PATENT & TRADE MARK AGENTS

NORMAN M. CAMERON

BRIAN J. WOOD

JANE S. BAGGOTT

REPLY ATTENTION OF: P.J. O'Callaghan

OUR FILE NO: 8003220

DIRECT LINE: 641-4910

CONFIRMATION

February 7, 1989

BY FACSIMILE

A.F. Budge (Mining) Limited
4301 North 75th Street
Suite 101
Scottsdale, Arizona
85251-3504

Attention: Mr. Ronald R. Short,
General Manager

Dear Sirs:

Re: A. F. Budge (Mining) Limited
("Budge") and Arizona Flux Mines,
Inc. ("AFM") - Option & Mining
Venture Agreement

We are general counsel for AFM and have reviewed the Letter of Intent dated December 23, 1988 from yourself to Mr. Stephen P. Quin as well as the draft Option and Mining Venture Agreement dated January 19, 1989 (the "Agreement") relating to the grant of option by AFM to Budge to enter into a joint venture for the development of AFM's Ash Peak Mine Property. We confirm that Robert W. Finn, Esq. of Tucson, Arizona, United States counsel for AFM, will be reviewing the Agreement with regard its United States tax implications and will providing you with a separate letter in this regard.

After our preliminary review of the Letter of Intent and the Agreement, we have the following comments:

-2-

1. The address for AFM in the Agreement should be as follows:

1630 South Alvernon Way
Tucson, Arizona
85711

2. Section 1.1 - AFM does not own the Ash Peak Mine Property. AFM's interest in the property arises out of a lease dated June 25, 1986 between AFM and Shamrock Enterprises, Ash Peak Mining Co. Ltd. and Ash Peak Research and Development Co. As a result, all references throughout the draft agreement relating to AFM's ownership of the property must be deleted and an applicable reference inserted describing AFM's actual interest in the property.

We understand that Budge is interested in conducting exploration and development work on the property with a view to increasing the property's flux reserves and not with a view to commencing large scale bulk tonnage operations on the property. Section 1.1 should be amended accordingly. In addition, the reference to Budge exploring for "commercially economic mineralization" should also be deleted;

3. Section 3.1 - As discussed above, AFM does not own the property and therefore the section should be amended by deleting subsections (1) and (2) and subsection (4) should be amended accordingly;
4. Section 4.2 - A reference should be included to indicate that Budge's examination of the property will not interfere with current production and operations being conducted on the property by AFM. In addition, specific reference should be made to the fact that Budge will not earn any interest in the income or operations of the property during the term of the option period;
5. Section 4.3 - We are unclear as to whether the option period is to be 6 or 12 months. The Letter of Intent refers to a 6 month

-3-

option with provision for an extension of that option for an additional 6 months at a cost of \$75,000. Is the work commitment of \$100,000 required to be expended in the first 6 months or during the entire 12 month period?

Section 4.3 indicates that the conduct of work by Budge may be performed on or off the property as long as such work benefits the exploration, development or mining of the property. We request that the clause specifically indicate that such work be for the sole benefit of the property.

Please confirm that the reference to the expenditures being the "direct" cost to Budge does not include any mark-up by Budge.

Please delete the last sentence of section 4.3;

7. Section 4.4 - The reference to Budge acquiring an interest in the property should be amended in accordance with the discussions above regarding AFM's leased interest in the property;
8. Section 4.5 - "Force Majeure" should not include the unavailability of fuels, supplies and equipment.

We are concerned that the inclusion of "environmental clearances and operating permits as may be required by governmental authorities" in the force majeure clause may impair AFM's ability to deal with its interest in the property for a considerable period of time. We therefore request that a specific period, such as one year, should be included as the date by which all such approvals must have been received or the force majeure clause as it relates to environmental clearances and permits will no longer be effective;

9. Section 5.1 - AFM's interest in the property must be correctly stated;
10. Section 5.2 - The United States tax

-4-

consequences are being dealt with by Mr. Finn, and his comments are to follow under separate cover;

11. Section 5.4 (2) - As AFM is a wholly owned subsidiary of CanaMin Resources Ltd. ("CanaMin"), a reporting company listed on the Vancouver Stock Exchange, CanaMin is required to publicly disclose by press release all material changes in its affairs, which would include the affairs of AFM. Such a press release must be issued forthwith upon the material change occurring and therefore CanaMin/AFM cannot wait for 10 days prior to releasing such information as is provided for in section 5.4(2). We recommend that the section be amended to provide that the parties will agree on the text of a press release which is to be issued forthwith upon the occurrence of the material change.

The above comments regarding the issuance of a press release also apply to section 5.4(3);

12. Section 5.6 - We request that the area of mutual interest be extended from 1 mile to 5 miles from the exterior boundaries of the property;
13. Section 5.7 - We submit that this section is not applicable considering that AFM does not own the property;
14. Section 6.1(a) - As discussed above regarding section 4.3, is there an expenditure requirement of \$75,000 in the second 6 months of the option period? Please clarify this for us;
15. Section 7.1 - Please indicate that Budge's interest in the Venture shall be an undivided interest.

Please add the words "and payment of the initial contribution amount by Budge pursuant to section 6.1(a)," after the word "option," in the first line of section 7.1.

The section must be amended to reflect that AFM does not own the property and that Budge will not be acquiring an interest in the property;

16. Section 8.1 - Please add a provision to the effect that Budge will provide AFM with a copy of the Work Plan in advance of commencement of work under the Work Plan;
17. Section 9.1 - As discussed above regarding subsection 1.1, we understand that Budge is intending to commence exploration work to expand existing mining operations and not to develop "large scale bulk tonnage" operations. This section should be amended to delete references in this regard.

As a result of deleting the reference to Budge conducting operations for the development of large scale bulk tonnage operations, we suggest that the operations under the option and mining venture agreement could be conducted by a single manager as opposed to the two managers provided for by section 9.1.

The blank space in the third and fourth lines of section 9.1 should be completed by adding "the Ash Peak Mine";

18. Section 9.4 - We submit that each party taking its proportionate interest in kind is not applicable considering the products produced by the mine;
19. Section 10.6 - We suggest that the agreement provide that in the event of a deadlock, the parties submit the conflict to non-binding arbitration prior to invoking the deadlock provisions contemplated by subsection 10.6;
20. Section 10.7 - The agreement should specifically provide that all samples and cores become the property of the mine owner;
21. Section 11 - The notice provisions should provide for delivery of notice by telecopy which shall be deemed to be received on the

-6-

date of transmission if transmitted during business hours or on the next day following if transmitted after business hours.

A copy of all notices should be sent to Wesley Becker Sr. 1630 South Alvernon Way, Tucson, Arizona 85711, telecopy number (602) 745-8114 with a copy to Stephen P. Quin at CanaMin Resources Ltd., c/o Southern Gold Resources Ltd., 220 - 145 Chadwick Court, North Vancouver, British Columbia V7M 5K1, telecopy (604) 986-5928;

22. Section 12.1 - We suggest that either party be permitted to assign its rights under the agreement to an affiliated or associated party;
23. Section 12.2 - We suggest that in the event of a transfer of a party's interest in the Venture the consideration should consist of any of monetary consideration (as is presently contemplated by the Agreement), shares of the assignee, or other marketable securities; and
24. We suggest that the agreement specifically provide that all monetary amounts are expressed to be in United States dollars.

Please consider our comments and if you have any questions, please call the undersigned. We reserve the right to consider additional changes to the Agreement based upon subsequent discussions with our client. We look forward to receipt of a revised draft Option and Mining Joint Venture Agreement.

Yours truly,

BULL, HOUSSEY & TUPPER

Per:


Peter J. O'Callaghan

PJOC:lch
B212/418

c.c. Mr. Stephen P. Quin
Mr. Robert W. Finn

Bull, Housser & Tupper

BARRISTERS & SOLICITORS
PATENT & TRADEMARK AGENTS

COVER PAGE FOR FAX TRANSMISSION

COMPANY/FIRM A.F. BUDGE (MINING) LIMITED DATE February 7/89
ATTENTION Mr. Ronald R. Short, General TIME _____
Manager
FAX NO./CITY 602-949-1737 OUR FILE NO. 8003220
FROM Peter J. O'Callaghan YOUR FILE NO. _____

MESSAGE

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(Including this cover)

07

PLEASE CONTACT US IF YOU DID NOT RECEIVE ALL PAGES SENT AS INDICATED AT:

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3000 Royal Centre,
1055 West Georgia St.
V6E 3R3

☐ HONG KONG
FAX: 5-8684545
TEL.: 5-215478
Caxton House
1 Duddell Street
Central

☐ SHANGHAI, CHINA
FAX: 375066
TEL.: 374897
58244, #3 Jin Jiang
Office Building,
58 Mao Ming Nan Lu

Bull, Housser & Tupper

BARRISTERS & SOLICITORS

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3000 ROYAL CENTRE
P.O. BOX 11130
1055 WEST GEORGIA STREET
VANCOUVER, BRITISH COLUMBIA
CANADA V6E 3R3

CLIVE M. ANSLEY
58244 #3 JIN JIANG OFFICE BLDG.
59 MAO MING NAN LU
TEL 86-21-374897 TELEX 85-33011 FAX 86-21-375066
SHANGHAI, CHINA

MASON LOH
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TEL 852-5-218478 FAX 852-5-868-4545
HONG KONG
P.J. O'Callaghan

DAVID TUPPER, Q.C. (RET'D)

ASSOCIATE COUNSEL
IVAN B. QUINN

JURGEN T. LAU

REPLY ATTENTION OF:

8003220

NORMAN M. CAMERON

PATENT & TRADE MARK AGENTS

BRIAN J. WOOD

JANE S. BAGGOTT

OUR FILE NO.:

641-4910

DIRECT LINE:

February 7, 1989

BY FACSIMILE

A.F. Budge (Mining) Limited
4301 North 75th Street
Suite 101
Scottsdale, Arizona
85251-3504

Attention: Mr. Ronald R. Short,
General Manager

Dear Sirs:

Re: A. F. Budge (Mining) Limited
("Budge") and Arizona Flux Mines,
Inc. ("AFM") - Option & Mining
Venture Agreement

We are general counsel for AFM and have reviewed the Letter of Intent dated December 23, 1988 from yourself to Mr. Stephen P. Quin as well as the draft Option and Mining Venture Agreement dated January 19, 1989 (the "Agreement") relating to the grant of option by AFM to Budge to enter into a joint venture for the development of AFM's Ash Peak Mine Property. We confirm that Robert W. Finn, Esq. of Tucson, Arizona, United States counsel for AFM, will be reviewing the Agreement with regard its United States tax implications and will providing you with a separate letter in this regard.

After our preliminary review of the Letter of Intent and the Agreement, we have the following comments:

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1. The address for AFM in the Agreement should be as follows:

1630 South Alvernon Way
Tucson, Arizona
85711

2. Section 1.1 - AFM does not own the Ash Peak Mine Property. AFM's interest in the property arises out of a lease dated June 25, 1986 between AFM and Shamrock Enterprises, Ash Peak Mining Co. Ltd. and Ash Peak Research and Development Co. As a result, all references throughout the draft agreement relating to AFM's ownership of the property must be deleted and an applicable reference inserted describing AFM's actual interest in the property.

We understand that Budge is interested in conducting exploration and development work on the property with a view to increasing the property's flux reserves and not with a view to commencing large scale bulk tonnage operations on the property. Section 1.1 should be amended accordingly. In addition, the reference to Budge exploring for "commercially economic mineralization" should also be deleted;

3. Section 3.1 - As discussed above, AFM does not own the property and therefore the section should be amended by deleting subsections (1) and (2) and subsection (4) should be amended accordingly;
4. Section 4.2 - A reference should be included to indicate that Budge's examination of the property will not interfere with current production and operations being conducted on the property by AFM. In addition, specific reference should be made to the fact that Budge will not earn any interest in the income or operations of the property during the term of the option period;
5. ~~Section 4.3~~ - We are unclear as to whether the option period is to be 6 or 12 months. The Letter of Intent refers to a 6 month

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option with provision for an extension of that option for an additional 6 months at a cost of \$75,000. Is the work commitment of \$100,000 required to be expended in the first 6 months or during the entire 12 month period?

Section 4.3 indicates that the conduct of work by Budge may be performed on or off the property as long as such work benefits the exploration, development or mining of the property. We request that the clause specifically indicate that such work be for the sole benefit of the property.

Please confirm that the reference to the expenditures being the "direct" cost to Budge does not include any mark-up by Budge.

Please delete the last sentence of section 4.3;

7. Section 4.4 - The reference to Budge acquiring an interest in the property should be amended in accordance with the discussions above regarding AFM's leased interest in the property;
8. Section 4.5 - "Force Majeure" should not include the unavailability of fuels, supplies and equipment.

We are concerned that the inclusion of "environmental clearances and operating permits as may be required by governmental authorities" in the force majeure clause may impair AFM's ability to deal with its interest in the property for a considerable period of time. We therefore request that a specific period, such as one year, should be included as the date by which all such approvals must have been received or the force majeure clause as it relates to environmental clearances and permits will no longer be effective;

9. Section 5.1 - AFM's interest in the property must be correctly stated;
10. Section 5.2 - The United States tax

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consequences are being dealt with by Mr. Finn, and his comments are to follow under separate cover;

11. Section 5.4 (2) - As AFM is a wholly owned subsidiary of CanaMin Resources Ltd. ("CanaMin"), a reporting company listed on the Vancouver Stock Exchange, CanaMin is required to publicly disclose by press release all material changes in its affairs, which would include the affairs of AFM. Such a press release must be issued forthwith upon the material change occurring and therefore CanaMin/AFM cannot wait for 10 days prior to releasing such information as is provided for in section 5.4(2). We recommend that the section be amended to provide that the parties will agree on the text of a press release which is to be issued forthwith upon the occurrence of the material change.

The above comments regarding the issuance of a press release also apply to section 5.4(3);

12. Section 5.6 - We request that the area of mutual interest be extended from 1 mile to 5 miles from the exterior boundaries of the property;
13. Section 5.7 - We submit that this section is not applicable considering that AFM does not own the property;
14. Section 6.1(a) - As discussed above regarding section 4.3, is there an expenditure requirement of \$75,000 in the second 6 months of the option period? Please clarify this for us;
15. Section 7.1 - Please indicate that Budge's interest in the Venture shall be an undivided interest.

Please add the words "and payment of the initial contribution amount by Budge pursuant to section 6.1(a)," after the word "option," in the first line of section 7.1.

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The section must be amended to reflect that AFM does not own the property and that Budge will not be acquiring an interest in the property;

16. Section 8.1 - Please add a provision to the effect that Budge will provide AFM with a copy of the Work Plan in advance of commencement of work under the Work Plan;
17. Section 9.1 - As discussed above regarding subsection 1.1, we understand that Budge is intending to commence exploration work to expand existing mining operations and not to develop "large scale bulk tonnage" operations. This section should be amended to delete references in this regard.

As a result of deleting the reference to Budge conducting operations for the development of large scale bulk tonnage operations, we suggest that the operations under the option and mining venture agreement could be conducted by a single manager as opposed to the two managers provided for by section 9.1.

The blank space in the third and fourth lines of section 9.1 should be completed by adding "the Ash Peak Mine";

18. Section 9.4 - We submit that each party taking its proportionate interest in kind is not applicable considering the products produced by the mine;
19. Section 10.6 - We suggest that the agreement provide that in the event of a deadlock, the parties submit the conflict to non-binding arbitration prior to invoking the deadlock provisions contemplated by subsection 10.6;
20. Section 10.7 - The agreement should specifically provide that all samples and cores become the property of the mine owner;
21. Section 11 - The notice provisions should provide for delivery of notice by telecopy which shall be deemed to be received on the

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date of transmission if transmitted during business hours or on the next day following if transmitted after business hours.

A copy of all notices should be sent to Wesley Becker Sr. 1630 South Alvernon Way, Tucson, Arizona 85711, telecopy number (602) 745-8114 with a copy to Stephen P. Quin at CanaMin Resources Ltd., c/o Southern Gold Resources Ltd., 220 - 145 Chadwick Court, North Vancouver, British Columbia V7M 5K1, telecopy (604) 986-5928;

22. Section 12.1 - We suggest that either party be permitted to assign its rights under the agreement to an affiliated or associated party;
23. Section 12.2 - We suggest that in the event of a transfer of a party's interest in the Venture the consideration should consist of any of monetary consideration (as is presently contemplated by the Agreement), shares of the assignee, or other marketable securities; and
24. We suggest that the agreement specifically provide that all monetary amounts are expressed to be in United States dollars.

Please consider our comments and if you have any questions, please call the undersigned. We reserve the right to consider additional changes to the Agreement based upon subsequent discussions with our client. We look forward to receipt of a revised draft Option and Mining Joint Venture Agreement.

Yours truly,

BULL, HOUSSER & TUPPER

Per:


Peter J. O'Callaghan

PJOC:lch
B212/418

c.c. Mr. Stephen P. Quin
Mr. Robert W. Finn

DeCONCINI McDONALD BRAMMER YETWIN & LACY

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

EVO DeCONCINI (1901-1986)

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WILLIAM B. HANSON	JOHN C. RICHARDSON
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3030 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012-3002
(602) 241-0100
FAX: (602) 241-8533

January 20, 1989

PLEASE REPLY TO TUCSON

Carole O'Brien
A.F. Budge (Mining) Limited
4301 North 75th Street
Suite 101
Scottsdale, AZ 85251-3504

**Re: Ash Peak Project; Canamin Resources
Mining Venture Agreement**

Dear Carole:

I have enclosed a proposed draft of an Option and Mining Venture Agreement prepared under the guidelines you indicated in your letter to me of January 9, 1989.

There were a number of areas that were not covered in your letter and are related to management of the venture. Therefore, taking into consideration our conversation on January 19, 1989, I have created a structure that names Arizona Flux Mines as the Manager for the existing limited mining operations and A.F. Budge (Mining) as Manager for the exploration and development program for a large-scale bulk-mining operation (you may wish to clarify my terminology in making the division of authority and responsibility). I have also used a buy-sell arrangement to ultimately resolve any impasse over a decision to implement a production work plan for large-scale mining.

The financing of operations is based on annual budgets and the proportional reduction applies at the stage of committing to an approved budget. Once the commitment has been made, the parties are required to arrange appropriate financing for their share and thus there should not be any problems associated with a failure to contribute after the budget year begins.

I also had some questions related to the property description and will need (1) the mineral survey number for the patented mining claims, (2) the book and page of the county recordings of the location notices for the unpatented mining

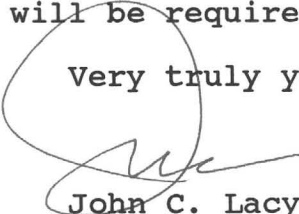
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ATTORNEYS AT LAW

Carole O'Brien
January 20, 1989
Page 2

claims, (3) the BLM serial number for the unpatented mining claims located on February 9, 1972, and (4) a description of the State of Arizona Prospecting Permit.

Please review this draft carefully and we can discuss the changes and additions that will be required.

Very truly yours,



John C. Lacy

bpm

Enclosure

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JCL
01-19-89

**OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee County, Arizona)**

BY THIS OPTION AND MINING VENTURE AGREEMENT

effective _____, 1989,

by and between ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is Suite 220, Quayside Plaza, 145 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K1,

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

AFM and Budge have entered into an understanding concerning a joint mineral exploration and development program as follows:

1. Recitals and Grant

1.1 Background - AFM owns or controls certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, and has acquired information related to such properties, more particularly described in Exhibit A attached hereto (the "Property"). AFM is conducting a _____ tons-per-day mining operation on the Property Budge is interested in evaluating the mineral potential of the Property for large-scale bulk-tonnage operations by such investigations as Budge deems appropriate. This Agreement is intended to provide Budge the opportunity of exploring the Property for commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property.

1.2 Grant of Option - AFM hereby grants Budge the sole and exclusive option to enter into a joint venture for the joint development of the Property with AFM under the further terms of this Agreement.

1.3 Joint Venture - If Budge exercises its option to enter into a joint venture with AFM, such joint program (the "Venture") shall be owned in accordance with the principles set forth in Section 7, and shall exist to explore for, develop, mine, extract, mill, store, remove, and to the extent expressly provided by this Agreement, market all metallic minerals,

ore-bearing materials and rocks of every kind and character ("Minerals" herein) from the Property.

2. Term

2.1 Option - Budge's option to enter into the Venture shall exist for a period during a term expiring at midnight, Mountain Standard Time, six (6) months from and after the effective date hereof, unless extended for an additional six (6) months as provided in Section 4 or sooner terminated as provided herein.

2.2 Venture - If Budge exercises its option to enter into the Venture, this Agreement shall exist for a term of 50 years and so long thereafter as Minerals are being mined from any portion of the Property, or Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Representations and Title

3.1 Title Representations - AFM represents and warrants to Budge that: (1) insofar as the Property includes fee lands, AFM owns the entire undivided title to the Property, including the surface and mineral estate, and has the exclusive possession thereof; (2) insofar as the Property includes unpatented mining claims, the claims have been located and appropriate record made thereof in compliance with the laws of the United States and the laws of the State of Arizona, the assessment work for the year ending September 1 prior to the effective date of this Agreement has been performed and appropriate record made thereof in compliance with applicable law, and there is no claim of adverse mineral rights affecting such claims; (3) insofar as the Property is controlled under leases or other agreements with entities not parties to this Agreement, such rights are in good standing and no default exists or has been asserted under any of the terms thereof and that the assignment provisions thereof permit assignment to the Venture without further approvals; and (4) with respect to the Property as a whole, except as specified in Exhibit A, the title or possessory right to the Property of AFM is free and clear of all liens and encumbrances and no legal claims are pending or have been threatened against the interest of AFM in the Property.

3.2 Information Related to Property - Upon execution of this Agreement, AFM shall provide Budge with (1) copies of all title information related to the Property, and (2) copies of all logs, assay reports, maps and other geological and mining information in AFM's possession related to the mineral estate of the Property.

3.3 Mutual Representations - Each of the parties represent

that they have the full power and capacity to enter into this Agreement under the terms set forth herein.

3.4 Title Defects, Defense and Protection - If -- (1) in the opinion of counsel retained by Budge, AFM's title to any of the Property is defective or less than as represented herein, or (2) title to any of the Property is contested or questioned by any person, entity or governmental agency, Budge may attempt, with all reasonable dispatch, to perfect, defend or initiate litigation to protect such title. In that event, AFM shall take such actions as are reasonably necessary to assist Budge in its efforts to perfect, defend or protect such title. The costs and expenses of perfecting, defending or correcting title (including, but without being limited to, the cost of attorney's fees and the cost of releasing or satisfying any mortgages, liens and encumbrances), shall be a credit against obligations of Budge under the provisions of Section 4.2 during the option period and shall thereafter be a joint obligation of the parties under the further terms of this Agreement.

4. Activities and Obligations of Budge During Option Period

4.1 Payments to AFM - Budge shall, upon execution of this Agreement, pay to AFM as consideration for the option granted hereunder, the sum of Fifty Thousand Dollars (\$50,000.00). If Budge does not exercise its option during the initial six-month term of the option, Budge shall pay AFM an additional sum of Seventy-Five Thousand Dollars (\$75,000.00) as consideration for the extension of the option period.

4.2 Examination of Property - During the option period, Budge shall have the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate. Such work may include sampling, exploration, drilling, excavations, testing and other related feasibility work including the right to use the surface and place improvements on the surface as deemed necessary in Budge's sole judgment and discretion.

4.3 Work During Option Period - During the option period, Budge shall expend in exploration, development and mining work ("Work") not less than One Hundred Thousand Dollars (\$100,000.00). The nature, place and conduct of such Work shall be at the sole discretion of Budge and may be performed on or off the Property, so long as such Work benefits the exploration, development or mining of the Property and includes sufficient expenditures to satisfy the assessment work requirements for the Property and any work requirements of any underlying agreement controlling the Property. The amount of the expenditures shall be determined by the direct cost to Budge of Work performed by Budge or independent contractors, including the salaries, expenses and benefits burden of Budge employees performing Work,

and the reasonable cost of equipment rentals. Any expenditures in excess of the amount required shall be applicable against expenditures required the succeeding year or years.

4.4 Exercise of Option - Budge may elect to exercise an option to enter into the Venture at any time during the option period. Upon such exercise, and upon the making of the initial contribution specified for Budge in Section 6.1a, Budge shall be vested with the interest in the Property specified in Section 7.1 hereof, and AFM shall execute an appropriate assignment of such interest in the Property to Budge; subject, however, to the further terms and conditions of this Agreement.

4.5 Force Majeure - If Budge is delayed or interrupted in or prevented from exercising its rights or performing its obligations, under this Section 4, by reasons of "force majeure," then the option period shall be extended for the period of time Budge was so delayed or interrupted. "Force majeure" includes all disabilities arising from causes beyond the reasonable control of Budge; including, without limitation, acts of God, accidents, fires, damages to facilities, labor troubles, unavailability of fuels, supplies and equipment, orders or requirements of courts or government agencies, or the inability to obtain environmental clearance or operating permits that may be required by governmental authorities.

5. Relationship of Parties

5.1 Rights and Obligations - If Budge exercises its option, the rights as between the parties shall be as tenants in common with undivided ownership in the Property in the proportion set forth in Section 7.1, as adjusted by Section 7.2. Otherwise, the rights, duties, obligations and liabilities of the parties under this Agreement shall be several and not joint or collective, and each party shall be responsible only for its obligations as set forth in this Agreement. It is not the purpose or intention of this Agreement to create a partnership except for tax purposes. This Agreement and the dealings between the parties shall be governed by principles of good faith and fair dealing.

5.2 Tax Election - If Budge exercises its option, it is the intention of the parties by this Agreement to create a partnership for tax purposes only within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as amended (the "Code"). Taxable income, for federal income tax purposes, shall be determined under Subchapter K of Chapter 1 of Subtitle A of the code, as amended. Budge shall prepare and file annual partnership tax returns containing the following elections: (i) the taxable year; (ii) the accrual method of accounting; (iii) to deduct currently all exploration expenditures; and (iv) such other elections as Budge may determine to be appropriate. For United States and state income

tax purposes, the gains and losses from sales, abandonments, and other disposition of property, other than production, and all costs, expenses and credits, including depreciation, shall be shared and accounted for as follows:

(1) Operating costs shall be allocated to each party in accordance with its respective contributions to such costs.

(2) Exploration and development costs shall be allocated to each party in accordance with its respective contribution to such costs.

(3) Depreciation and basis in property for investment tax credits, if any, shall be allocated to each party in accordance with its respective contribution to the adjusted basis of such property at the time such contribution is made. The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954, as amended.

(4) Gains and losses from each sale, abandonment or other disposition of property (other than production) shall be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions that have been allocated to each party with respect to such property as provided in this subsection (4). No gain or loss shall be attributed to a party whose interest has been converted to a non-participating interest under Section 7.2.

(5) Depletion allowance shall be allocated among the parties according to the percentage of profits allocated among the parties under Section 7.

(6) All other classes of costs, expenses and credits not falling within subsections (1) through (5) above shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

5.3 Access and Information - Both parties shall have access to the Property at any reasonable time to inspect any operations conducted pursuant to this Agreement, together with the right to

inspect all drilling data, samples, cores, logs and other data pertaining to the Property.

5.4 Confidentiality -

(1) All information obtained as a result of exploration and development of the Property in connection with the performance of this Agreement shall be the exclusive property of the parties hereto and shall not, without the prior written consent (not unreasonably withheld) of the parties, be disclosed to third parties. A party may furnish information as may be reasonably required if it is negotiating in good faith for the sale of its interest provided that any entity seeking to acquire such interest shall provide a written secrecy commitment that the information will not be disseminated to any persons other than those involved in the evaluation of the proposal.

(2) The parties agree not to make any public statements or news releases concerning the Property without first providing the text of such statement to the other party at least ten days prior to release and obtaining the consent of the other party. The other party shall have the right to object to such release as to both form and content. Whenever possible, any public statements or news releases shall be made jointly by the parties.

(3) Nothing in this Section 5.4 shall prohibit a party from furnishing or disclosing information to any governmental agency that it believes is required to be disclosed by pertinent law, regulation or regulatory body policy. Any disclosure shall restrict its distribution to the extent permitted by such law, regulation or policy, and the disclosing party shall use its best efforts to provide the other party with a copy of such disclosure not less than two (2) weeks prior to release for comments as to form and content.

5.5 Other Opportunities - Each of the parties shall be free to acquire other mining properties or interests therein and engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5.6 Area of Interest - An area extending one (1) mile from the exterior boundaries of the Property is hereby designated as the "Area of Interest." If either party acquires an interest in real property within the Area of Interest, the acquiring party shall provide notice to the other party identifying the interest, its acquisition cost, and any terms. Such interest shall be automatically a part of the Property and subject to the terms of

this Agreement unless within 30 days from and after such notice the non-acquiring party objects to such acquisition, in which case the acquiring party shall own such real property interest free and clear of the rights and obligations of this Agreement. If no objection is made, the cost of the acquisition of such real property interest shall be the joint obligation of the parties in equal proportions. If, having once agreed to acquire such real property rights, either party thereafter fails to meet its obligations to pay for such real property interest when due, and such failure continues for 30 days after written notice of such failure from the Manager or the party who has contributed its share, the defaulting party's rights in such additional real property interests shall be forfeited. Further, if such interests are acquired during the option term, and this Agreement is thereafter terminated under the provisions of Section 10.1 or 10.2, AFM shall have the right to acquire the interest of Budge by tendering its pro-rata portion of Budge's cost of such acquisition within 30 days after the effective date of such termination or notice to AFM of Budge's costs, whichever is later.

5.7 Partition - Each party waives any and all rights of partition it may have with respect to the Property except as specifically set forth in this Agreement.

6. Contributions Upon Creation of Venture

6.1 Initial Contribution by AFM and Budge -

a. Upon the election by Budge to enter into the Venture, Budge shall pay to AFM the sum of One Million Seventy-Five Thousand Dollars (\$1,075,000.00) as a purchase price of its interest in the Property, which interest shall be deemed to have been contributed to the Venture. Budge shall receive as a credit toward such purchase price the amounts paid to AFM as consideration for the option and any extension thereof together with up to a maximum of One Hundred Seventy-Five Thousand Dollars (\$175,000.00) expended as Work under the provisions of Section 4.3.

b. Upon the election by Budge to enter into the Venture and Budge's payment to AFM of the amount specified in paragraph a above, AFM shall be deemed to have contributed its interest in the Property to the Venture.

6.2 Exploration Contributions Subsequent to Creation of Venture - Upon creation of the Venture, all work shall be performed pursuant to "Work Plans and Budgets" approved by the Management Committee, as further defined in Section 8.2 and all funds required for operation, including costs of expanding facilities and the furnishing of whatever capital may be necessary in such operations shall be provided by the parties in

proportion to their respective interests in the Venture as determined by Section 7.1. If contributions are not made, or less than the full contribution is made, the rights of the parties shall be governed by Section 7.2 hereof.

7. Principles for Determination of Ownership and Cost Allocation

7.1 Ownership - Upon exercise of Budge's option, Budge shall own a fifty percent (50%) interest in the Venture and the Property and AFM shall retain a fifty percent (50%) interest in the Venture and the Property. Such interest shall be vested in each party as cotenants in the Property, subject to the provisions of this Agreement. The undivided interest of each of the parties shall be subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in Section 7.2.

7.2 Computation of Interests; Declining Interest Prior to Proposal for Production Work Plan - If a Work Plan (other than a Production Work Plan governed by Section 8.4) has been proposed and approved, any party may elect to contribute less than its proportionate percentage to such Work Plan. If an election is made to contribute less than a party's proportionate share, the interest of the party so electing in the Venture and the Property shall be reduced in accordance with the following formula:

$$\text{Adjusted Interest} = \frac{\text{PE} + \text{CE}}{\text{TPE} + \text{TCE}} \times 100\%$$

PE shall be the previous expenditure for the Venture by the participant whose interest is being determined; CE shall be the expenditure for the Venture to which the participant has committed for the Work Plan being considered.

TPE shall be the total previous expenditures for the Venture of all participants; TCE shall be the total expenditure for the Venture of all participants committed for the Work Plan being conducted.

The initial PE for both AFM and Budge shall be that amount contributed by Budge as the purchase price under Section 6.1 plus any additional expenditures for Work in excess of One Hundred Seventy-Five Thousand Dollars (\$175,000.00).

The calculation of interests under this Section 7.2 shall be made at the time commitments to Work Plans are made with any necessary adjustments arising from cost overruns or underruns made at the end of the year using actual expenditures for purposes of calculation. If, however, a budget overrun or modification of an Approved Work Plan and Annual Budget results in an unanticipated reduction of a party's interest to ten percent (10%), the party electing not to contribute may contribute such an amount as would preserve its interest at the reduced level originally anticipated under the original Approved Work Plan. The appropriate contribution shall be made within thirty days after notification to the party by the Management Committee after computation of such interest. If a participant's interest has been reduced to ten percent (10%) or less under the foregoing provision, such interest shall automatically be converted to an interest in ten percent (10%) of the Net Profits as defined in Section 7.5. After such conversion, the party so reduced shall no longer be a cotenant in the Property or any property rights under this Agreement nor have any right to participate in development of the Property or decisions under this Agreement.

7.3 Profits and Losses - The net profits or net losses of the Venture shall be credited or charged to the parties in accordance with the percentages determined in accordance with this Section 7.

7.4 Distributions - The Venture shall not accumulate more funds than are reasonably necessary to manage operations. If the Management Committee determines that an excess of operating funds are held by the Venture, taking into account the needs and financial circumstances of the Venture, distributions shall be made to the participants according to their respective ownership in the Venture as determined by Section 7.1 or as adjusted by Section 7.2.

7.5 Net Profits Interest - If any party's interest in the Venture and this Agreement is converted to an interest in Net Profits under Section 7.2 of this Agreement, such interest shall be defined in the manner set forth in Exhibit B attached hereto and made a part hereof.

7.6 Payment of Net Profits Interest - Net Profits for the first year of mining operations shall be paid thirty (30) days after the close of the operating party's fiscal year for federal tax purposes. Thereafter, Net Profits shall be paid thirty (30) days after the end of each calendar quarter based on the amount of materials shipped from the Property during such quarter and the Net Profits estimated from the prior year's experience for a similar unit of materials. Necessary adjustments shall be made at the end of the operating party's fiscal year. The Net Profits payable hereunder, as determined above, shall be reduced by all previous costs and expenses that have not been recovered from

gross revenue of such prior period. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.

7.7 Capital Accounts - A separate capital account shall be established and maintained for each party and shall be initially credited with the respective amounts fixed as PE for each of the parties under Section 7.2, and thereafter (1) credited with all amounts contributed by the party to pay costs and expenditures arising out of this Agreement; and (2) debited with all losses, expenses, and deductions allocated to that party (provided that "percentage" depletion deductions shall not be charged to a party's capital account to the extent that such percentage depletion deductions exceed the party's adjusted tax basis in the Venture property); and distributions to the party (whether by cash or the tax basis of other Venture property).

8. Management

8.1 Work Plans - After Budge has exercised its option, all Work performed hereunder shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget"). All Work Plans shall be for a period of twelve (12) months except a Production Work Plan, as defined in Section 8.4(4), which may be for a longer period. Each Work Plan shall describe the work to be performed, set forth estimates and costs to be incurred in carrying out such work, and give the estimated completion date for such work, and shall include reasonable detail by month on all projected expenditures and credits, showing appropriate detail indicative of the nature thereof.

8.2 Management Committee - The participants hereby establish a "Management Committee" comprised of two representatives of each participant who shall have the authority to act on behalf of the party they represent on all matters considered by the Management Committee pursuant to this Agreement. The Management Committee shall meet at least annually or at the call of either party. Prior to Budge's exercise of its option the Management Committee shall meet to permit AFM to review activities undertaken during the preceding year but no submittal of a Work Plan by Budge nor approval thereof by the Management Committee shall be required prior to Budge's exercise of its option to establish the Venture. After exercise of the option by Budge, the Management Committee shall make all policy decisions relating to the work carried out hereunder and shall finalize Work Plans and Annual Budgets. Without limiting the generality of the foregoing, the Management Committee shall have exclusive

authority with respect to the following matters after formal creation of the Venture upon Budge's exercise of its option:

(1) approval of Work Plans and Annual Budgets and modifications thereof;

(2) approval of the decision to prepare a feasibility study for new mining operations of any portion of the Property, and the election to proceed with development and mining of any portion of the Property;

(3) approval of annual statements of account;

(4) approval of the terms of purchase or rentals of equipment and the providing of services by third parties;

(5) approval of contracts and expenses of Fifty Thousand Dollars (\$50,000.00) or more and the acquisition of assets where the original cost of such assets exceeds Fifty Thousand Dollars (\$50,000.00);

(6) approval of any deviation from Approved Work Plan and Budget of a cumulative amount in excess of ten percent (10%);

(7) setting and changing of the production rate or capacity of mining and mining facilities and treatment methods;

(8) settlement of all claims involving third parties except those covered by insurance or where settlements are less than Ten Thousand Dollars (\$10,000.00); and

(9) acquisition or abandonment of mineral rights within the exterior boundaries of the Property.

8.3 Meetings - The Management Committee shall hold a regular annual meeting on or about August 15 of each year to review operations conducted and/or to consider proposed Work Plans and Annual Budgets for the subsequent year. Notice of such regular meetings shall be sent by the Manager's representative to the members of the Management Committee at least thirty (30) days prior to meeting day.

8.4 Decisions -

(1) The Management Committee shall make decisions in accordance with the vote of its members, who shall cast votes in proportion to ownership as determined under Sections 7.1 or 7.2 of this Agreement. Decisions of the Management Committee shall be made by a vote of the majority

of interest in the Venture except as otherwise specified herein.

(2) The recommendation of the Manager related to all exploration of the Property shall be adopted by the Management Committee; provided that Manager first takes into account the reasonable requests of the other participant.

(3) If, after Budge has elected to exercise its option and has entered into the Venture with AFM, the Manager has not proposed Work Plans for exploration of the Property for a period of six (6) months after completion of a prior Work Plan, or the other participant believes that exploration work of a particular nature should be conducted, such participant may present a proposed Work Plan and Budget to the Management Committee for such work. If the Management Committee does not approve such work, the proposing party may proceed with the performance of such work at its expense provided that it does so in a manner that does not interfere with exploration or development programs of the Manager being conducted hereunder.

(4) After a feasibility study has been completed and distributed to the parties, any party can propose a Work Plan for the production of Minerals from any part of the Property ("Production Work Plan"). The Production Work Plan shall contain (1) a legal description and map of the mine; (2) operating methods, mine life and production rates; (3) a detailed schedule of the funds required to develop the mine and construct necessary capital facilities; and (4) a commitment by the proposing party to furnish funds for development and operation of the mine in proportion to its interest in the Venture. The Production Work Plan shall be evaluated by the Management Committee who shall determine all relevant factors with the object of maximizing profits from the mine commensurate with sound economic forecasts, mining and processing techniques, optimum mine life and safety. The Management Committee decision may include the performance of additional exploration work, which work shall be performed by the Manager during the following 12-month period. After the Management Committee has either approved a Production Work Plan, or additional exploration work has been completed, any party may give notice that it intends to proceed with mining under the Production Work Plan as approved or as supplemented. If the Management Committee does not approve such Production Work Plan and either party is willing to proceed with work under the proposed but unapproved Production Work Plan the provisions of Section 10.6 shall apply.

8.5 Funding - After approval of a Work Plan, and the election of a party to participate in such Work Plan, the

participating party shall furnish the Manager with funds required to finance the participating party's entire obligation under the Work Plan. Such financing may include financial guarantees from financial institutions, lines of credit or any other financing mechanism that is satisfactory to the Manager within its reasonable discretion. All financing shall allow the Manager to draw in advance its estimate of expenditures that will be incurred during the following month pursuant to the approved Budget for the Work Plan. Such advances shall be deposited in a special bank account in the name of and maintained solely for the purposes of this Venture. If the Manager overextends an Approved Work Plan and Budget by more than ten percent (10%) without the prior approval of the participating parties, such parties will not be responsible for that portion of the overexpenditure that exceeds ten percent (10%) of the approved amount except when such overexpenditure was necessary in the Manager's reasonable opinion to preserve title to the Property or was incurred in an emergency situation.

9. Manager and Manager's Obligations

9.1 Manager - AFM will manage all operations under this Agreement related to existing mining operations on the Property commonly known as _____ and described as _____. Budge will manage all operations under this Agreement for the examination of the Property for large-scale bulk-tonnage development. In the case of a conflict between such operations, priority shall be given to the large-scale bulk-tonnage potential of the Property. Each Manager shall remain in such capacity unless it elects not to serve in such capacity, resigns, or is replaced as provided by this Agreement. The Manager may resign or may be removed for cause under this Agreement if it (1) is determined by a court of competent jurisdiction to be in default in performing its duties, (2) makes a general assignment for the benefit of its creditors, (3) allows an order for relief under Title 11 of the United States Bankruptcy Code to become final, (4) allows its interest in the Venture to be reduced in accordance with Section 7.2 to less than fifty percent (50%), (5) elects not to participate or to participate in a Work Plan at less than a fifty percent (50%) contribution level. The right to remove the Manager under items (4) and (5) above is premised on two participants in this Agreement. If by assignments of interest hereunder, more than two parties are participating in the Venture, item (4) and (5) above shall read as thirty-five percent (35%).

9.2 Manager's Powers and Rights - The Manager shall, in accordance with the terms and conditions of Work Plans and Budgets approved according to this Agreement, have full, complete and exclusive control, charge and supervision of the work included thereunder. The Manager shall not be liable for losses sustained in the conduct of operations under such Work Plan

except such losses as may result from Manager's gross negligence or willful misconduct. The parties will grant to the Manager a lien upon its interest in all production from the Property as security for payment of costs chargeable to it, together with any interest payable thereon.

9.3 Manager's Obligations - The Manager shall have the following obligations:

(1) To manage, direct and control all operations under this Agreement or pursuant to approved Work Plans and Budgets in accordance with applicable laws and regulations;

(2) To keep true and correct books, accounts and records of operations under this Agreement. The books shall be available to the parties at all reasonable hours, and the parties may have copies of the same. After approval of the Work Plan, the Manager will submit to the parties a statement of expenses incurred through the end of the previous month plus a current bank account reconciliation on a monthly basis. Either party may request an annual audit to be performed by a firm of certified public accountants mutually acceptable to the parties, the cost of which audit shall be a cost of the Venture;

(3) To protect the Property and this Agreement from liens and encumbrances created by operations conducted pursuant to the Agreement except liens granted to the Manager by operation of the Agreement;

(4) To carry appropriate liability insurance protecting the parties from liability arising out of Manager's operations on the Property and naming the parties as additional insureds under such policies;

(5) To save and hold the parties harmless from any and all claims arising out of or resulting from Manager's willful misconduct or gross negligence in connection with operations of the Property;

(6) To perform exploration or assessment work as may be required by applicable laws of the State of Arizona during any year in which this Agreement continues in force beyond three (3) months prior to the end of the applicable annual period;

(7) To provide work progress reports at not less than quarterly intervals during the option period and on a monthly basis after production is commenced under Venture operations and will advise the parties and the Management Committee promptly of any pertinent material results of exploration. Normal decisions concerning the conduct of

operations shall be made in the best judgment of the Manager; provided, however, that the Manager shall consult from time to time with the Management Committee concerning basic policies or programs;

(8) To pay from time to time on behalf of the parties as the same become due and payable all taxes levied or assessed against the Property; provided, however, that each party shall pay for and be responsible for all the taxes measured by or assessed upon its income;

(9) To hire employees, consultants and professional services as may be necessary to conduct operations under the Agreement; and

(10) To perform or cause to be performed for the account of the parties all obligations required to maintain the Property in good standing and to pay in a timely manner all costs incurred under this Agreement or pursuant to approved Work Plans and Budgets.

In those circumstances where obligations of the Manager overlap between existing operations of AFM and those operations being undertaken hereunder by Budge, the obligation for Property maintenance shall be borne by the Manager of the large-scale operations.

9.4 Marketing of Products - Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by Section 7. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of products shall be borne by such party. The Manager shall give the participants notice at least 10 days in advance of the delivery date upon which their respective shares of products will be available. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area. Subject to the terms of any such contracts of sale then outstanding, during any period that the Manager is purchasing or selling a party's share of production, the party may elect by notice to the Manager to take in kind. The Manager shall be entitled to deduct from the proceeds of any sale by it for the account of a party reasonable expenses incurred in such a sale.

10. Termination; Removal of Property; Data

10.1 Termination by AFM - If during the option term, Budge defaults in the performance of its obligations under Section 4 or any other obligation applicable to the option term, AFM shall give Budge written notice specifying the default. If the default is not cured within thirty (30) days after Budge has received the notice, or if Budge has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, AFM may terminate this Agreement by delivering to Budge written notice of such termination, subject to Budge's right to remove its property and equipment from the Property, as hereinafter provided. If Budge in good faith disputes the existence of a default, Budge shall initiate appropriate action in a court of competent jurisdiction within the 30-day period and the time to cure shall run from the date of a final determination that a default exists. AFM shall have no right to terminate this Agreement except as set forth in this Section 10.1.

10.2 Termination by Budge - Budge shall have the right to terminate this Agreement at any time during the option term by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under this Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occur prior to the termination date.

10.3 Withdrawal - Either party shall have the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under this Agreement shall terminate, and all right, title and interest of the withdrawing party shall be deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the Area of Interest described in Section 5.6 for a period of three (3) years after the date of such withdrawal.

10.4 Winding Up - If this Agreement expires by its terms, the Manager shall take all action necessary to wind up the activities of the Venture, and all costs and expenses incurred in connection with the termination of the Venture shall be expenses

chargeable to the Venture. The assets of the Venture shall first be paid, applied, or distributed in satisfaction of all liabilities of the Venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the parties (including any necessary adjustments to either party's capital to bring such accounts into the same ratio as each party's participating interest). Thereafter, any remaining cash and all other assets shall be distributed (in undivided interests unless otherwise agreed) to the parties in the ratio of their interests as fixed by Sections 7.1 or 7.2. A party shall not receive any distribution, however, if such party's participating interest has been terminated pursuant to Section 7.2 of this Agreement.

10.5 Removal of Property - If this Agreement is terminated under Sections 10.1 or 10.2, Budge shall have a right of access to the Property for a period of six (6) months from and after the effective date of termination within which it may elect to remove from the Property all of its machinery, buildings, structures, facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts or openings in the Property. Failure of Budge to so remove the same shall constitute an abandonment by Budge to AFM of the same; provided, however, that Budge may still be required to remove such property upon notice from AFM at any time during the six-month period and thirty (30) days thereafter.

10.6 Termination by Deadlock - If the Management Committee fails to adopt a Production Work Plan and either participant desires to proceed with such production in accordance with the Work Plan as submitted, either participant may invoke the deadlock resolving procedure of this section by giving written notice thereof to the other participant. Within thirty (30) days after the giving of such notice, each participant shall deliver to a mutually agreeable disinterested third party a written sealed bid of the price at which the participant agrees to purchase the entire interest of the other participant in the Property and the Venture. The sealed bids shall be opened by such disinterested third party simultaneously and the participant submitting the highest bid shall be required to purchase the other participant's interest at the price bid for such interest and the other participant shall be required to sell its interest at that price. All bids shall specify a cash purchase price payable 60 days after opening of the bids. The participant that fails to submit a purchase price bid pursuant to this section shall be deemed to have submitted a zero bid. Upon the purchase of the other participant's interest pursuant to this Section 10.6, this Agreement shall terminate.

10.7 Delivery of Data - If this Agreement is terminated under this Section 10, all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the Property obtained by Budge during the term of its option or

as the Manager in the operation of the Venture, and which has not been previously provided, shall be made available to AFM for duplication for a period of ninety (90) days after the effective date of such termination. Only one copy of such information shall be required by this provision.

10.8 Relinquishment of Record - If this Agreement is terminated under this Section 10, the parties shall execute and record a document sufficient to provide notice to third parties of such action.

11. Notices

Notices will be sent to the addresses specified in the designation of the parties to this Agreement by certified or registered mail, or by telex or cable and considered delivered and effective three days following the date of mailing or the day following cabling or telexing. Notice to AFM shall be directed to the attention of _____ and notice to Budge shall be directed to the attention of Carole A. O'Brien.

12. Transfer and Encumbrances

12.1 Assignment - Neither party shall assign its rights in this Agreement or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary shall be deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

12.2 Preemptive Right - If either party desires to transfer all or any part of its interest in this Agreement or the Venture, such party (the "transferring party") shall promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable than those specified in the notice of intended

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A. F. BUDGE (MINING) LIMITED

By _____
Anthony F. Budge, President

STATE OF _____)
County of _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1989, by _____, the _____ of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires: _____

Notary Public

STATE OF ARIZONA)
County of Maricopa) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1989, by Anthony F. Budge, the President of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires: _____

Notary Public

EXHIBIT A

The "Property" that is the subject of the foregoing Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, more particularly described as follows:

I. The following mining claims and millsites were patented under United States Patent Number 783751 dated March 7, 1921:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	
Commerce	Lode	
Fraction	Lode	
Summit	Lode	
Homestead	Lode	
Commerce	Millsite	
Summit	Millsite	

II. The location notices for the following unpatented mining claims are of record in the official records of Greenlee County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd Book Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer		41275
Shamrock #1	05-19-63	Placer		41276
Shamrock #2	05-19-63	Placer		41277
Patton #1	07-14-79	Lode		57278
Patton #2	07-14-79	Lode		57279
Patton #3	07-14-79	Lode		57280
Patton #4	07-14-79	Lode		57281
Patton #5	07-14-79	Lode		57282
Patton #6	07-14-79	Lode		57283
Patton #7	07-14-79	Lode		57284
Patton #1 (relocated)	02-24-82	Lode		165054
Patton #2 (relocated)	02-24-82	Lode		165055
Patton #3 (relocated)	02-24-82	Lode		165056
Patton #4 (relocated)	02-24-82	Lode		165057
Patton #5 (relocated)	02-24-82	Lode		165058
Patton #6 (relocated)	02-24-82	Lode		165059

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd</u> <u>Book Page</u>	<u>BLM Serial</u> <u>A MC No.</u>
Patton #7 (relocated)	02-24-82	Lode		165060
Hardy #1	02-09-72	Lode		
Hardy #2	02-09-72	Lode		
Lone Camp #3	02-09-72	Lode		
Lone Came #6	02-09-72	Lode		
Hellfire #2	02-09-72	Lode		
Suden #2	02-09-72	Lode		
Fran #2	02-09-72	Lode		
Cougar #2	02-09-72	Lode		
Granduc #2	02-09-72	Lode		
Granduc #5	02-09-72	Lode		
Granduc #6	02-09-72	Lode		
Granduc #7	02-09-72	Lode		
Harmony #1	02-24-82	Lode		
B&B #1	01-13-80	Lode		100836
B&B #2	01-13-80	Lode		100837
B&B #3	01-13-80	Lode		100838
B&B #4	01-13-80	Lode		100839
MAB #1	01-13-80	Lode		100840
MAB #2	01-13-80	Lode		100841
MAB #3	01-13-80	Lode		100842
MAB #4	01-13-80	Lode		100843
MAB #5	01-13-80	Lode		100844
MAB #6	01-13-80	Lode		100845

III. Those certain contractual rights described as follows:

a. Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc.

b. State of Arizona Prospecting Permit?

EXHIBIT B

"Net Profits" as used in this Agreement shall be determined by deducting from "Gross Revenues" all "Operating Costs" received from the sale or other disposition of mineral production from the Property during any fiscal year. The words and phrases used above shall have the following meanings:

"Gross Revenues" shall mean the gross receipts from the sales of ores and minerals resulting from the exploitation of the Property.

"Operating Costs" shall mean those costs and expenses incurred by or for the operating party in connection with or attributable to the development and exploitation of the Property. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, freight, administrative overhead, insurance and marketing the products resulting from the exploration, development and exploitation of the Property; all royalties and rental payments required under this Agreement or other similar payments required to mine the Property resulting therefrom; all ad valorem, transaction privilege, license, sales, severance, and other taxes imposed on the activities of the operator hereunder, except taxes measured by the operating party's corporate profit from such operations; the depreciation of all buildings, structures, machinery and equipment over the useful lives of such items, any sinking fund reasonably deemed advisable for the future reclamation of the Property; and in the event of plant or mine expansion involving construction or replacement of buildings, structures and the addition of machinery and equipment, the depreciation of such items over their useful lives, and interest charges actually incurred in financing operations on the Property. Operating Costs shall in no case include any costs related to Work performed by Budge prior to exercise of its option and those funds contributed as part of the purchase price. The parties shall prepare and execute an accounting procedure after completion of the mining feasibility study fixing actual circumstances of Operating Costs as determined by the mining feasibility study.

Option Agreement - Ash Peak Mine.

Letter from Peter O'Callaghan, attorney for AFM in Res.

Notes by. Ron Short 2/8/88

SECTION 1.1

First sentence needs to be changed to reflect AFM's lease agreement.

Second sentence could be changed to express our intend to expand economic reserves on the property in order to support a long term mining operation. (no reference to flux)

Third sentence could be changed to exclude "for commercially economic mineralization".

SECTION 3.1

Changes appropriate

SECTION 4.2

changes OK

Section 4.3.

The initial option period is for 6 month for \$50,000 with an addition 6 month option for \$75,000. The \$100,000 of exploration work to be conducted and spent during the first 6 month period w/ no expenditures required for the second option period.

In section 4.3 they request that the clause referring to the work being performed by Budge be on or off the property as long as such work benefit the property. be changed that such work be for the sole benefit of the property. How does this change it?

No! "direct" cost to Budge does not include any markup.

4.3 No! do not delete the last sentence in this section.

Section 4.4

Changes OK

Section 4.5

No. changes app. not

Section 5.1

Correct only AFM's right to mine the property.

Section 5.2 -

to be addressed later.

Section 5.4 (2)(3)

Changes OK

Section 5.6

No Changes

Section 5.7 Rights of partition.
What does this mean?

Section 6.1 A

No, there is no requirement to expend \$75,000 during the second six month option.

The only requirement is that we expend a minimum of \$100,000 toward the exploration of the property but can get credit toward the purchase price of the property of up to \$175,000 if we spend that much.

Six month option payment	\$50,000
Maximum credit for exploration cost	\$175,000
Second six month option	75,000
Possible credit toward purchase price	\$300,000

(B) What does this mean?

Section 7.1 already indicates that it is an undivided interest already.

Second part NO

third part to reflect our interest in the lease of the property.

Section 8.1

These changes are not required as any work plans would be approved by the joint management Committee as described in section 8.2

Section 9.1

I have no objection to this

Section 9.4

No changes.

Section 10.6 ?

Section 10.7

Already specifies samples and cores. will be given to AFM.

Section 11 -

I don't see any difference.
No changes.

add appropriate names and addresses.

Section 12.1

No changes.

12.2 - We would not want stock in AFM or in any other company as payment unless we were in agreement

Monetary amounts in U.S. dollars -

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1. The address for AFM in the Agreement should be as follows:

1630 South Alvernon Way
Tucson, Arizona
85711

2. Section 1.1 - AFM does not own the Ash Peak Mine Property. AFM's interest in the property arises out of a lease dated June 25, 1986 between AFM and Shamrock Enterprises, Ash Peak Mining Co. Ltd. and Ash Peak Research and Development Co. As a result, all references throughout the draft agreement relating to AFM's ownership of the property must be deleted and an applicable reference inserted describing AFM's actual interest in the property.

We understand that Budge is interested in conducting exploration and development work on the property with a view to increasing the property's flux reserves and not with a view to commencing large scale bulk tonnage operations on the property. Section 1.1 should be amended accordingly. In addition, the reference to Budge exploring for "commercially economic mineralization" should also be deleted;

3. Section 3.1 - As discussed above, AFM does not own the property and therefore the section should be amended by deleting subsections (1) and (2) and subsection (4) should be amended accordingly;

4. Section 4.2 - A reference should be included to indicate that Budge's examination of the property will not interfere with current production and operations being conducted on the property by AFM. In addition, specific reference should be made to the fact that Budge will not earn any interest in the income or operations of the property during the term of the option period;

5. ~~Section 4.3~~ - We are unclear as to whether the option period is to be 6 or 12 months. The Letter of Intent refers to a 6 month

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option with provision for an extension of that option for an additional 6 months at a cost of \$75,000. Is the work commitment of \$100,000 required to be expended in the first 6 months or during the entire 12 month period?

Section 4.3 indicates that the conduct of work by Budge may be performed on or off the property as long as such work benefits the exploration, development or mining of the property. ~~We request that the clause, specifically indicate that such work be for the sole benefit of the property.~~

Please confirm that the reference to the expenditures ~~being the "direct" cost to Budge does not include any mark-up by Budge.~~

Please delete the last sentence of section 4.3;

7. Section 4.4 - The reference to Budge acquiring an interest in the property should be amended in accordance with the discussions above regarding AFM's leased interest in the property;
8. Section 4.5 - "Force Majeure" should not include the unavailability of fuels, supplies and equipment.

We are concerned that the inclusion of "environmental clearances and operating permits as may be required by governmental authorities" in the force majeure clause may impair AFM's ability to deal with its interest in the property for a considerable period of time. We therefore request that a specific period, such as one year, should be included as the date by which all such approvals must have been received or the force majeure clause as it relates to environmental clearances and permits will no longer be effective;

9. Section 5.1 - AFM's interest in the property must be correctly stated;
10. Section 5.2 - The United States tax

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consequences are being dealt with by Mr. Finn, and his comments are to follow under separate cover;

11. Section 5.4 (2) - As AFM is a wholly owned subsidiary of CanaMin Resources Ltd. ("CanaMin"), a reporting company listed on the Vancouver Stock Exchange, CanaMin is required to publicly disclose by press release all material changes in its affairs, which would include the affairs of AFM. Such a press release must be issued forthwith upon the material change occurring and therefore CanaMin/AFM cannot wait for 10 days prior to releasing such information as is provided for in section 5.4(2). We recommend that the section be amended to provide that the parties will agree on the text of a press release which is to be issued forthwith upon the occurrence of the material change.

The above comments regarding the issuance of a press release also apply to section 5.4(3);

12. Section 5.6 - We request that the area of mutual interest be extended from 1 mile to 5 miles from the exterior boundaries of the property;
13. Section 5.7 - We submit that this section is not applicable considering that AFM does not own the property;
14. Section 6.1(a) - As discussed above regarding section 4.3, is there an expenditure requirement of \$75,000 in the second 6 months of the option period? Please clarify this for us;
15. Section 7.1 - Please indicate that Budge's interest in the Venture shall be an undivided interest.

Please add the words "and payment of the initial contribution amount by Budge pursuant to section 6.1(a)," after the word "option," in the first line of section 7.1.

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The section must be amended to reflect that AFM does not own the property and that Budge will not be acquiring an interest in the property;

16. Section 8.1 - Please add a provision to the effect that Budge will provide AFM with a copy of the Work Plan in advance of commencement of work under the Work Plan;
17. Section 9.1 - As discussed above regarding subsection 1.1, we understand that Budge is intending to commence exploration work to expand existing mining operations and not to develop "large scale bulk tonnage" operations. This section should be amended to delete references in this regard.

As a result of deleting the reference to Budge conducting operations for the development of large scale bulk tonnage operations, we suggest that the operations under the option and mining venture agreement could be conducted by a single manager as opposed to the two managers provided for by section 9.1.

The blank space in the third and fourth lines of section 9.1 should be completed by adding "the Ash Peak Mine";

18. Section 9.4 - We submit that each party taking its proportionate interest in kind is not applicable considering the products produced by the mine;
19. Section 10.6 - We suggest that the agreement provide that in the event of a deadlock, the parties submit the conflict to non-binding arbitration prior to invoking the deadlock provisions contemplated by subsection 10.6;
20. Section 10.7 - The agreement should specifically provide that all samples and cores become the property of the mine owner;
21. Section 11 - The notice provisions should provide for delivery of notice by telecopy which shall be deemed to be received on the

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date of transmission if transmitted during business hours or on the next day following if transmitted after business hours.

A copy of all notices should be sent to Wesley Becker Sr. 1630 South Alvernon Way, Tucson, Arizona 85711, telecopy number (602) 745-8114 with a copy to Stephen P. Quin at Canamin Resources Ltd., c/o Southern Gold Resources Ltd., 220 - 145 Chadwick Court, North Vancouver, British Columbia V7M 5K1, telecopy (604) 986-5928;

22. Section 12.1 - We suggest that either party be permitted to assign its rights under the agreement to an affiliated or associated party;
23. Section 12.3 - We suggest that in the event of a transfer of a party's interest in the Venture the consideration should consist of any of monetary consideration (as is presently contemplated by the Agreement), shares of the assignee, or other marketable securities; and
24. We suggest that the agreement specifically provide that all monetary amounts are expressed to be in United States dollars.

Please consider our comments and if you have any questions, please call the undersigned. We reserve the right to consider additional changes to the Agreement based upon subsequent discussions with our client. We look forward to receipt of a revised draft Option and Mining Joint Venture Agreement.

Yours truly,

BILL ROUSSEY & PUPPER

Per:

Peter J. O'Callaghan

RJC:leh
R212/418

c.c. Mr. Stephen P. Quin
Mr. Robert W. Finn

JCL
01-19-89

**OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee County, Arizona)**

BY THIS OPTION AND MINING VENTURE AGREEMENT

effective _____, 1989,

by and between ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is Suite 220, Quayside Plaza, 145 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K1,
address change to: 1630 SOUTH ALVERNON WAY
and *TUCSON, ARIZONA 85711*

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

AFM and Budge have entered into an understanding concerning a joint mineral exploration and development program as follows:

1. Recitals and Grant

1.1 Background - AFM owns or controls certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, and has acquired information related to such properties, more particularly described in Exhibit A attached hereto (the "Property"). AFM is conducting a _____ tons-per-day mining operation on the Property. Budge is interested in evaluating the mineral potential of the Property for large-scale bulk-tonnage operations by such investigations as Budge deems appropriate. This Agreement is intended to provide Budge the opportunity of exploring the Property for ~~commercially economic mineralization~~ together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property.

1.2 Grant of Option - AFM hereby grants Budge the sole and exclusive option to enter into a joint venture for the joint development of the Property with AFM under the further terms of this Agreement.

1.3 Joint Venture - If Budge exercises its option to enter into a joint venture with AFM, such joint program (the "Venture") shall be owned in accordance with the principles set forth in Section 7, and shall exist to explore for, develop, mine, extract, mill, store, remove, and to the extent expressly provided by this Agreement, market all metallic minerals,

ore-bearing materials and rocks of every kind and character ("Minerals" herein) from the Property.

2. Term

2.1 Option - Budge's option to enter into the Venture shall exist for a period during a term expiring at midnight, Mountain Standard Time, six (6) months from and after the effective date hereof, unless extended for an additional six (6) months as provided in Section 4 or sooner terminated as provided herein.

2.2 Venture - If Budge exercises its option to enter into the Venture, this Agreement shall exist for a term of 50 years and so long thereafter as Minerals are being mined from any portion of the Property, or Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Representations and Title

3.1 Title Representations - AFM represents and warrants to Budge that: (1) insofar as the Property includes fee lands, AFM owns the entire undivided title to the Property, including the surface and mineral estate, and has the exclusive possession thereof; (2) insofar as the Property includes unpatented mining claims, the claims have been located and appropriate record made thereof in compliance with the laws of the United States and the laws of the State of Arizona, the assessment work for the year ending September 1 prior to the effective date of this Agreement has been performed and appropriate record made thereof in compliance with applicable law, and there is no claim of adverse mineral rights affecting such claims; (3) insofar as the Property is controlled under leases or other agreements with entities not parties to this Agreement, such rights are in good standing and no default exists or has been asserted under any of the terms thereof and that the assignment provisions thereof permit assignment to the Venture without further approvals; and (4) with respect to the Property as a whole, except as specified in Exhibit A, the title or possessory right to the Property of AFM is free and clear of all liens and encumbrances and no legal claims are pending or have been threatened against the interest of AFM in the Property.

3.2 Information Related to Property - Upon execution of this Agreement, AFM shall provide Budge with (1) copies of all title information related to the Property, and (2) copies of all logs, assay reports, maps and other geological and mining information in AFM's possession related to the mineral estate of the Property.

3.3 Mutual Representations - Each of the parties represent

that they have the full power and capacity to enter into this Agreement under the terms set forth herein.

3.4 Title Defects, Defense and Protection - If -- (1) in the opinion of counsel retained by Budge, AFM's title to any of the Property is defective or less than as represented herein, or (2) title to any of the Property is contested or questioned by any person, entity or governmental agency, Budge may attempt, with all reasonable dispatch, to perfect, defend or initiate litigation to protect such title. In that event, AFM shall take such actions as are reasonably necessary to assist Budge in its efforts to perfect, defend or protect such title. The costs and expenses of perfecting, defending or correcting title (including, but without being limited to, the cost of attorney's fees and the cost of releasing or satisfying any mortgages, liens and encumbrances), shall be a credit against obligations of Budge under the provisions of Section 4.2 during the option period and shall thereafter be a joint obligation of the parties under the further terms of this Agreement.

4. Activities and Obligations of Budge During Option Period

4.1 Payments to AFM - Budge shall, upon execution of this Agreement, pay to AFM as consideration for the option granted hereunder, the sum of Fifty Thousand Dollars (\$50,000.00). If Budge does not exercise its option during the initial six-month term of the option, Budge shall pay AFM an additional sum of Seventy-Five Thousand Dollars (\$75,000.00) as consideration for the extension of the option period.

4.2 Examination of Property - During the option period, Budge shall have the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate. Such work may include sampling, exploration, drilling, excavations, testing and other related feasibility work including the right to use the surface and place improvements on the surface as deemed necessary in Budge's sole judgment and discretion.

4.3 Work During Option Period - During the option period, Budge shall expend in exploration, development and mining work ("Work") not less than One Hundred Thousand Dollars (\$100,000.00). The nature, place and conduct of such Work shall be at the sole discretion of Budge and may be performed on or off the Property, so long as such Work benefits the exploration, development or mining of the Property and includes sufficient expenditures to satisfy the assessment work requirements for the Property and any work requirements of any underlying agreement controlling the Property. The amount of the expenditures shall be determined by the direct cost to Budge of Work performed by Budge or independent contractors, including the salaries, expenses and benefits burden of Budge employees performing Work,

and the reasonable cost of equipment rentals. Any expenditures in excess of the amount required shall be applicable against expenditures required the succeeding year or years.

4.4 Exercise of Option - Budge may elect to exercise an option to enter into the Venture at any time during the option period. Upon such exercise, and upon the making of the initial contribution specified for Budge in Section 6.1a, Budge shall be vested with the interest in the Property specified in Section 7.1 hereof, and AFM shall execute an appropriate assignment of such interest in the Property to Budge; subject, however, to the further terms and conditions of this Agreement.

4.5 Force Majeure - If Budge is delayed or interrupted in or prevented from exercising its rights or performing its obligations, under this Section 4, by reasons of "force majeure," then the option period shall be extended for the period of time Budge was so delayed or interrupted. "Force majeure" includes all disabilities arising from causes beyond the reasonable control of Budge; including, without limitation, acts of God, accidents, fires, damages to facilities, labor troubles, unavailability of fuels, supplies and equipment, orders or requirements of courts or government agencies, or the inability to obtain environmental clearance or operating permits that may be required by governmental authorities.

5. Relationship of Parties

5.1 Rights and Obligations - If Budge exercises its option, the rights as between the parties shall be as tenants in common with undivided ownership in the Property in the proportion set forth in Section 7.1, as adjusted by Section 7.2. Otherwise, the rights, duties, obligations and liabilities of the parties under this Agreement shall be several and not joint or collective, and each party shall be responsible only for its obligations as set forth in this Agreement. It is not the purpose or intention of this Agreement to create a partnership except for tax purposes. This Agreement and the dealings between the parties shall be governed by principles of good faith and fair dealing.

5.2 Tax Election - If Budge exercises its option, it is the intention of the parties by this Agreement to create a partnership for tax purposes only within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as amended (the "Code"). Taxable income, for federal income tax purposes, shall be determined under Subchapter K of Chapter 1 of Subtitle A of the code, as amended. Budge shall prepare and file annual partnership tax returns containing the following elections: (i) the taxable year; (ii) the accrual method of accounting; (iii) to deduct currently all exploration expenditures; and (iv) such other elections as Budge may determine to be appropriate. For United States and state income

tax purposes, the gains and losses from sales, abandonments, and other disposition of property, other than production, and all costs, expenses and credits, including depreciation, shall be shared and accounted for as follows:

(1) Operating costs shall be allocated to each party in accordance with its respective contributions to such costs.

(2) Exploration and development costs shall be allocated to each party in accordance with its respective contribution to such costs.

(3) Depreciation and basis in property for investment tax credits, if any, shall be allocated to each party in accordance with its respective contribution to the adjusted basis of such property at the time such contribution is made. The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954, as amended.

(4) Gains and losses from each sale, abandonment or other disposition of property (other than production) shall be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions that have been allocated to each party with respect to such property as provided in this subsection (4). No gain or loss shall be attributed to a party whose interest has been converted to a non-participating interest under Section 7.2.

(5) Depletion allowance shall be allocated among the parties according to the percentage of profits allocated among the parties under Section 7.

(6) All other classes of costs, expenses and credits not falling within subsections (1) through (5) above shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

5.3 Access and Information - Both parties shall have access to the Property at any reasonable time to inspect any operations conducted pursuant to this Agreement, together with the right to

inspect all drilling data, samples, cores, logs and other data pertaining to the Property.

5.4 Confidentiality -

(1) All information obtained as a result of exploration and development of the Property in connection with the performance of this Agreement shall be the exclusive property of the parties hereto and shall not, without the prior written consent (not unreasonably withheld) of the parties, be disclosed to third parties. A party may furnish information as may be reasonably required if it is negotiating in good faith for the sale of its interest provided that any entity seeking to acquire such interest shall provide a written secrecy commitment that the information will not be disseminated to any persons other than those involved in the evaluation of the proposal.

(2) The parties agree not to make any public statements or news releases concerning the Property without first providing the text of such statement to the other party at least ten days prior to release and obtaining the consent of the other party. The other party shall have the right to object to such release as to both form and content. Whenever possible, any public statements or news releases shall be made jointly by the parties.

(3) Nothing in this Section 5.4 shall prohibit a party from furnishing or disclosing information to any governmental agency that it believes is required to be disclosed by pertinent law, regulation or regulatory body policy. Any disclosure shall restrict its distribution to the extent permitted by such law, regulation or policy, and the disclosing party shall use its best efforts to provide the other party with a copy of such disclosure not less than two (2) weeks prior to release for comments as to form and content.

5.5 Other Opportunities - Each of the parties shall be free to acquire other mining properties or interests therein and engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5.6 Area of Interest - An area extending one (1) mile from the exterior boundaries of the Property is hereby designated as the "Area of Interest." If either party acquires an interest in real property within the Area of Interest, the acquiring party shall provide notice to the other party identifying the interest, its acquisition cost, and any terms. Such interest shall be automatically a part of the Property and subject to the terms of

this Agreement unless within 30 days from and after such notice the non-acquiring party objects to such acquisition, in which case the acquiring party shall own such real property interest free and clear of the rights and obligations of this Agreement. If no objection is made, the cost of the acquisition of such real property interest shall be the joint obligation of the parties in equal proportions. If, having once agreed to acquire such real property rights, either party thereafter fails to meet its obligations to pay for such real property interest when due, and such failure continues for 30 days after written notice of such failure from the Manager or the party who has contributed its share, the defaulting party's rights in such additional real property interests shall be forfeited. Further, if such interests are acquired during the option term, and this Agreement is thereafter terminated under the provisions of Section 10.1 or 10.2, AFM shall have the right to acquire the interest of Budge by tendering its pro-rata portion of Budge's cost of such acquisition within 30 days after the effective date of such termination or notice to AFM of Budge's costs, whichever is later.

5.7 Partition - Each party waives any and all rights of partition it may have with respect to the Property except as specifically set forth in this Agreement.

6. Contributions Upon Creation of Venture

6.1 Initial Contribution by AFM and Budge -

a. Upon the election by Budge to enter into the Venture, Budge shall pay to AFM the sum of One Million Seventy-Five Thousand Dollars (\$1,075,000.00) as a purchase price of its interest in the Property, which interest shall be deemed to have been contributed to the Venture. Budge shall receive as a credit toward such purchase price the amounts paid to AFM as consideration for the option and any extension thereof together with up to a maximum of One Hundred Seventy-Five Thousand Dollars (\$175,000.00) expended as Work under the provisions of Section 4.3.

b. Upon the election by Budge to enter into the Venture and Budge's payment to AFM of the amount specified in paragraph a above, AFM shall be deemed to have contributed its interest in the Property to the Venture.

6.2 Exploration Contributions Subsequent to Creation of Venture - Upon creation of the Venture, all work shall be performed pursuant to "Work Plans and Budgets" approved by the Management Committee, as further defined in Section 8.2 and all funds required for operation, including costs of expanding facilities and the furnishing of whatever capital may be necessary in such operations shall be provided by the parties in

proportion to their respective interests in the Venture as determined by Section 7.1. If contributions are not made, or less than the full contribution is made, the rights of the parties shall be governed by Section 7.2 hereof.

7. Principles for Determination of Ownership and Cost Allocation

7.1 Ownership - Upon exercise of Budge's option, Budge shall own a fifty percent (50%) interest in the Venture and the Property and AFM shall retain a fifty percent (50%) interest in the Venture and the Property. Such interest shall be vested in each party as cotenants in the Property, subject to the provisions of this Agreement. The undivided interest of each of the parties shall be subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in Section 7.2.

7.2 Computation of Interests; Declining Interest Prior to Proposal for Production Work Plan - If a Work Plan (other than a Production Work Plan governed by Section 8.4) has been proposed and approved, any party may elect to contribute less than its proportionate percentage to such Work Plan. If an election is made to contribute less than a party's proportionate share, the interest of the party so electing in the Venture and the Property shall be reduced in accordance with the following formula:

$$\text{Adjusted Interest} = \frac{\text{PE} + \text{CE}}{\text{TPE} + \text{TCE}} \times 100\%$$

PE shall be the previous expenditure for the Venture by the participant whose interest is being determined; CE shall be the expenditure for the Venture to which the participant has committed for the Work Plan being considered.

TPE shall be the total previous expenditures for the Venture of all participants; TCE shall be the total expenditure for the Venture of all participants committed for the Work Plan being conducted.

The initial PE for both AFM and Budge shall be that amount contributed by Budge as the purchase price under Section 6.1 plus any additional expenditures for Work in excess of One Hundred Seventy-Five Thousand Dollars (\$175,000.00).

The calculation of interests under this Section 7.2 shall be made at the time commitments to Work Plans are made with any necessary adjustments arising from cost overruns or underruns made at the end of the year using actual expenditures for purposes of calculation. If, however, a budget overrun or modification of an Approved Work Plan and Annual Budget results in an unanticipated reduction of a party's interest to ten percent (10%), the party electing not to contribute may contribute such an amount as would preserve its interest at the reduced level originally anticipated under the original Approved Work Plan. The appropriate contribution shall be made within thirty days after notification to the party by the Management Committee after computation of such interest. If a participant's interest has been reduced to ten percent (10%) or less under the foregoing provision, such interest shall automatically be converted to an interest in ten percent (10%) of the Net Profits as defined in Section 7.5. After such conversion, the party so reduced shall no longer be a cotenant in the Property or any property rights under this Agreement nor have any right to participate in development of the Property or decisions under this Agreement.

7.3 Profits and Losses - The net profits or net losses of the Venture shall be credited or charged to the parties in accordance with the percentages determined in accordance with this Section 7.

7.4 Distributions - The Venture shall not accumulate more funds than are reasonably necessary to manage operations. If the Management Committee determines that an excess of operating funds are held by the Venture, taking into account the needs and financial circumstances of the Venture, distributions shall be made to the participants according to their respective ownership in the Venture as determined by Section 7.1 or as adjusted by Section 7.2.

7.5 Net Profits Interest - If any party's interest in the Venture and this Agreement is converted to an interest in Net Profits under Section 7.2 of this Agreement, such interest shall be defined in the manner set forth in Exhibit B attached hereto and made a part hereof.

7.6 Payment of Net Profits Interest - Net Profits for the first year of mining operations shall be paid thirty (30) days after the close of the operating party's fiscal year for federal tax purposes. Thereafter, Net Profits shall be paid thirty (30) days after the end of each calendar quarter based on the amount of materials shipped from the Property during such quarter and the Net Profits estimated from the prior year's experience for a similar unit of materials. Necessary adjustments shall be made at the end of the operating party's fiscal year. The Net Profits payable hereunder, as determined above, shall be reduced by all previous costs and expenses that have not been recovered from

gross revenue of such prior period. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.

7.7 Capital Accounts - A separate capital account shall be established and maintained for each party and shall be initially credited with the respective amounts fixed as PE for each of the parties under Section 7.2, and thereafter (1) credited with all amounts contributed by the party to pay costs and expenditures arising out of this Agreement; and (2) debited with all losses, expenses, and deductions allocated to that party (provided that "percentage" depletion deductions shall not be charged to a party's capital account to the extent that such percentage depletion deductions exceed the party's adjusted tax basis in the Venture property); and distributions to the party (whether by cash or the tax basis of other Venture property).

8. Management

8.1 Work Plans - After Budge has exercised its option, all Work performed hereunder shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget"). All Work Plans shall be for a period of twelve (12) months except a Production Work Plan, as defined in Section 8.4(4), which may be for a longer period. Each Work Plan shall describe the work to be performed, set forth estimates and costs to be incurred in carrying out such work, and give the estimated completion date for such work, and shall include reasonable detail by month on all projected expenditures and credits, showing appropriate detail indicative of the nature thereof.

8.2 Management Committee - The participants hereby establish a "Management Committee" comprised of two representatives of each participant who shall have the authority to act on behalf of the party they represent on all matters considered by the Management Committee pursuant to this Agreement. The Management Committee shall meet at least annually or at the call of either party. Prior to Budge's exercise of its option the Management Committee shall meet to permit AFM to review activities undertaken during the preceding year but no submittal of a Work Plan by Budge nor approval thereof by the Management Committee shall be required prior to Budge's exercise of its option to establish the Venture. After exercise of the option by Budge, the Management Committee shall make all policy decisions relating to the work carried out hereunder and shall finalize Work Plans and Annual Budgets. Without limiting the generality of the foregoing, the Management Committee shall have exclusive

authority with respect to the following matters after formal creation of the Venture upon Budge's exercise of its option:

(1) approval of Work Plans and Annual Budgets and modifications thereof;

(2) approval of the decision to prepare a feasibility study for new mining operations of any portion of the Property, and the election to proceed with development and mining of any portion of the Property;

(3) approval of annual statements of account;

(4) approval of the terms of purchase or rentals of equipment and the providing of services by third parties;

(5) approval of contracts and expenses of Fifty Thousand Dollars (\$50,000.00) or more and the acquisition of assets where the original cost of such assets exceeds Fifty Thousand Dollars (\$50,000.00);

(6) approval of any deviation from Approved Work Plan and Budget of a cumulative amount in excess of ten percent (10%);

(7) setting and changing of the production rate or capacity of mining and mining facilities and treatment methods;

(8) settlement of all claims involving third parties except those covered by insurance or where settlements are less than Ten Thousand Dollars (\$10,000.00); and

(9) acquisition or abandonment of mineral rights within the exterior boundaries of the Property.

8.3 Meetings - The Management Committee shall hold a regular annual meeting on or about August 15 of each year to review operations conducted and/or to consider proposed Work Plans and Annual Budgets for the subsequent year. Notice of such regular meetings shall be sent by the Manager's representative to the members of the Management Committee at least thirty (30) days prior to meeting day.

8.4 Decisions -

(1) The Management Committee shall make decisions in accordance with the vote of its members, who shall cast votes in proportion to ownership as determined under Sections 7.1 or 7.2 of this Agreement. Decisions of the Management Committee shall be made by a vote of the majority

of interest in the Venture except as otherwise specified herein.

(2) The recommendation of the Manager related to all exploration of the Property shall be adopted by the Management Committee; provided that Manager first takes into account the reasonable requests of the other participant.

(3) If, after Budge has elected to exercise its option and has entered into the Venture with AFM, the Manager has not proposed Work Plans for exploration of the Property for a period of six (6) months after completion of a prior Work Plan, or the other participant believes that exploration work of a particular nature should be conducted, such participant may present a proposed Work Plan and Budget to the Management Committee for such work. If the Management Committee does not approve such work, the proposing party may proceed with the performance of such work at its expense provided that it does so in a manner that does not interfere with exploration or development programs of the Manager being conducted hereunder.

(4) After a feasibility study has been completed and distributed to the parties, any party can propose a Work Plan for the production of Minerals from any part of the Property ("Production Work Plan"). The Production Work Plan shall contain (1) a legal description and map of the mine; (2) operating methods, mine life and production rates; (3) a detailed schedule of the funds required to develop the mine and construct necessary capital facilities; and (4) a commitment by the proposing party to furnish funds for development and operation of the mine in proportion to its interest in the Venture. The Production Work Plan shall be evaluated by the Management Committee who shall determine all relevant factors with the object of maximizing profits from the mine commensurate with sound economic forecasts, mining and processing techniques, optimum mine life and safety. The Management Committee decision may include the performance of additional exploration work, which work shall be performed by the Manager during the following 12-month period. After the Management Committee has either approved a Production Work Plan, or additional exploration work has been completed, any party may give notice that it intends to proceed with mining under the Production Work Plan as approved or as supplemented. If the Management Committee does not approve such Production Work Plan and either party is willing to proceed with work under the proposed but unapproved Production Work Plan the provisions of Section 10.6 shall apply.

8.5 Funding - After approval of a Work Plan, and the election of a party to participate in such Work Plan, the

participating party shall furnish the Manager with funds required to finance the participating party's entire obligation under the Work Plan. Such financing may include financial guarantees from financial institutions, lines of credit or any other financing mechanism that is satisfactory to the Manager within its reasonable discretion. All financing shall allow the Manager to draw in advance its estimate of expenditures that will be incurred during the following month pursuant to the approved Budget for the Work Plan. Such advances shall be deposited in a special bank account in the name of and maintained solely for the purposes of this Venture. If the Manager overextends an Approved Work Plan and Budget by more than ten percent (10%) without the prior approval of the participating parties, such parties will not be responsible for that portion of the overexpenditure that exceeds ten percent (10%) of the approved amount except when such overexpenditure was necessary in the Manager's reasonable opinion to preserve title to the Property or was incurred in an emergency situation.

9. Manager and Manager's Obligations

9.1 Manager - AFM will manage all operations under this Agreement related to existing mining operations on the Property commonly known as _____ and described as _____. Budge will manage all operations under this Agreement for the examination of the Property for large-scale bulk-tonnage development. In the case of a conflict between such operations, priority shall be given to the large-scale bulk-tonnage potential of the Property. Each Manager shall remain in such capacity unless it elects not to serve in such capacity, resigns, or is replaced as provided by this Agreement. The Manager may resign or may be removed for cause under this Agreement if it (1) is determined by a court of competent jurisdiction to be in default in performing its duties, (2) makes a general assignment for the benefit of its creditors, (3) allows an order for relief under Title 11 of the United States Bankruptcy Code to become final, (4) allows its interest in the Venture to be reduced in accordance with Section 7.2 to less than fifty percent (50%), (5) elects not to participate or to participate in a Work Plan at less than a fifty percent (50%) contribution level. The right to remove the Manager under items (4) and (5) above is premised on two participants in this Agreement. If by assignments of interest hereunder, more than two parties are participating in the Venture, item (4) and (5) above shall read as thirty-five percent (35%).

9.2 Manager's Powers and Rights - The Manager shall, in accordance with the terms and conditions of Work Plans and Budgets approved according to this Agreement, have full, complete and exclusive control, charge and supervision of the work included thereunder. The Manager shall not be liable for losses sustained in the conduct of operations under such Work Plan

except such losses as may result from Manager's gross negligence or willful misconduct. The parties will grant to the Manager a lien upon its interest in all production from the Property as security for payment of costs chargeable to it, together with any interest payable thereon.

9.3 Manager's Obligations - The Manager shall have the following obligations:

(1) To manage, direct and control all operations under this Agreement or pursuant to approved Work Plans and Budgets in accordance with applicable laws and regulations;

(2) To keep true and correct books, accounts and records of operations under this Agreement. The books shall be available to the parties at all reasonable hours, and the parties may have copies of the same. After approval of the Work Plan, the Manager will submit to the parties a statement of expenses incurred through the end of the previous month plus a current bank account reconciliation on a monthly basis. Either party may request an annual audit to be performed by a firm of certified public accountants mutually acceptable to the parties, the cost of which audit shall be a cost of the Venture;

(3) To protect the Property and this Agreement from liens and encumbrances created by operations conducted pursuant to the Agreement except liens granted to the Manager by operation of the Agreement;

(4) To carry appropriate liability insurance protecting the parties from liability arising out of Manager's operations on the Property and naming the parties as additional insureds under such policies;

(5) To save and hold the parties harmless from any and all claims arising out of or resulting from Manager's willful misconduct or gross negligence in connection with operations of the Property;

(6) To perform exploration or assessment work as may be required by applicable laws of the State of Arizona during any year in which this Agreement continues in force beyond three (3) months prior to the end of the applicable annual period;

(7) To provide work progress reports at not less than quarterly intervals during the option period and on a monthly basis after production is commenced under Venture operations and will advise the parties and the Management Committee promptly of any pertinent material results of exploration. Normal decisions concerning the conduct of

operations shall be made in the best judgment of the Manager; provided, however, that the Manager shall consult from time to time with the Management Committee concerning basic policies or programs;

(8) To pay from time to time on behalf of the parties as the same become due and payable all taxes levied or assessed against the Property; provided, however, that each party shall pay for and be responsible for all the taxes measured by or assessed upon its income;

(9) To hire employees, consultants and professional services as may be necessary to conduct operations under the Agreement; and

(10) To perform or cause to be performed for the account of the parties all obligations required to maintain the Property in good standing and to pay in a timely manner all costs incurred under this Agreement or pursuant to approved Work Plans and Budgets.

In those circumstances where obligations of the Manager overlap between existing operations of AFM and those operations being undertaken hereunder by Budge, the obligation for Property maintenance shall be borne by the Manager of the large-scale operations.

9.4 Marketing of Products - Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by Section 7. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of products shall be borne by such party. The Manager shall give the participants notice at least 10 days in advance of the delivery date upon which their respective shares of products will be available. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area. Subject to the terms of any such contracts of sale then outstanding, during any period that the Manager is purchasing or selling a party's share of production, the party may elect by notice to the Manager to take in kind. The Manager shall be entitled to deduct from the proceeds of any sale by it for the account of a party reasonable expenses incurred in such a sale.

10. Termination; Removal of Property; Data

10.1 Termination by AFM - If during the option term, Budge defaults in the performance of its obligations under Section 4 or any other obligation applicable to the option term, AFM shall give Budge written notice specifying the default. If the default is not cured within thirty (30) days after Budge has received the notice, or if Budge has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, AFM may terminate this Agreement by delivering to Budge written notice of such termination, subject to Budge's right to remove its property and equipment from the Property, as hereinafter provided. If Budge in good faith disputes the existence of a default, Budge shall initiate appropriate action in a court of competent jurisdiction within the 30-day period and the time to cure shall run from the date of a final determination that a default exists. AFM shall have no right to terminate this Agreement except as set forth in this Section 10.1.

10.2 Termination by Budge - Budge shall have the right to terminate this Agreement at any time during the option term by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under this Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occur prior to the termination date.

10.3 Withdrawal - Either party shall have the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under this Agreement shall terminate, and all right, title and interest of the withdrawing party shall be deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the Area of Interest described in Section 5.6 for a period of three (3) years after the date of such withdrawal.

10.4 Winding Up - If this Agreement expires by its terms, the Manager shall take all action necessary to wind up the activities of the Venture, and all costs and expenses incurred in connection with the termination of the Venture shall be expenses

chargeable to the Venture. The assets of the Venture shall first be paid, applied, or distributed in satisfaction of all liabilities of the Venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the parties (including any necessary adjustments to either party's capital to bring such accounts into the same ratio as each party's participating interest). Thereafter, any remaining cash and all other assets shall be distributed (in undivided interests unless otherwise agreed) to the parties in the ratio of their interests as fixed by Sections 7.1 or 7.2. A party shall not receive any distribution, however, if such party's participating interest has been terminated pursuant to Section 7.2 of this Agreement.

10.5 Removal of Property - If this Agreement is terminated under Sections 10.1 or 10.2, Budge shall have a right of access to the Property for a period of six (6) months from and after the effective date of termination within which it may elect to remove from the Property all of its machinery, buildings, structures, facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts or openings in the Property. Failure of Budge to so remove the same shall constitute an abandonment by Budge to AFM of the same; provided, however, that Budge may still be required to remove such property upon notice from AFM at any time during the six-month period and thirty (30) days thereafter.

10.6 Termination by Deadlock - If the Management Committee fails to adopt a Production Work Plan and either participant desires to proceed with such production in accordance with the Work Plan as submitted, either participant may invoke the deadlock resolving procedure of this section by giving written notice thereof to the other participant. Within thirty (30) days after the giving of such notice, each participant shall deliver to a mutually agreeable disinterested third party a written sealed bid of the price at which the participant agrees to purchase the entire interest of the other participant in the Property and the Venture. The sealed bids shall be opened by such disinterested third party simultaneously and the participant submitting the highest bid shall be required to purchase the other participant's interest at the price bid for such interest and the other participant shall be required to sell its interest at that price. All bids shall specify a cash purchase price payable 60 days after opening of the bids. The participant that fails to submit a purchase price bid pursuant to this section shall be deemed to have submitted a zero bid. Upon the purchase of the other participant's interest pursuant to this Section 10.6, this Agreement shall terminate.

10.7 Delivery of Data - If this Agreement is terminated under this Section 10, all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the Property obtained by Budge during the term of its option or

as the Manager in the operation of the Venture, and which has not been previously provided, shall be made available to AFM for duplication for a period of ninety (90) days after the effective date of such termination. Only one copy of such information shall be required by this provision.

10.8 Relinquishment of Record - If this Agreement is terminated under this Section 10, the parties shall execute and record a document sufficient to provide notice to third parties of such action.

11. Notices

Notices will be sent to the addresses specified in the designation of the parties to this Agreement by certified or registered mail, or by telex or cable and considered delivered and effective three days following the date of mailing or the day following cabling or telexing. Notice to AFM shall be directed to the attention of _____ and notice to Budge shall be directed to the attention of Carole A. O'Brien.

12. Transfer and Encumbrances

12.1 Assignment - Neither party shall assign its rights in this Agreement or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary shall be deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

12.2 Preemptive Right - If either party desires to transfer all or any part of its interest in this Agreement or the Venture, such party (the "transferring party") shall promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable than those specified in the notice of intended

A. F. BUDGE (MINING) LIMITED

By Anthony F. Budge, President

STATE OF _____)
)
County of _____) ss.

The foregoing instrument was acknowledged before me this
_____ day of _____, 1989, by _____, the
_____ of ARIZONA FLUX MINES, INC., an Arizona corporation,
for and on behalf of the corporation.

My commission expires: _____

Notary Public

STATE OF ARIZONA)
)
County of Maricopa) ss.

The foregoing instrument was acknowledged before me this
_____ day of _____, 1989, by Anthony F. Budge, the
President of A. F. Budge (Mining) Limited, a Nevada corporation,
for and on behalf of the corporation.

My commission expires: _____

Notary Public

EXHIBIT A

The "Property" that is the subject of the foregoing Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, more particularly described as follows:

I. The following mining claims and millsites were patented under United States Patent Number 783751 dated March 7, 1921:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	
Commerce	Lode	
Fraction	Lode	
Summit	Lode	
Homestead	Lode	
Commerce	Millsite	
Summit	Millsite	

II. The location notices for the following unpatented mining claims are of record in the official records of Greenlee County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd Book Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer		41275
Shamrock #1	05-19-63	Placer		41276
Shamrock #2	05-19-63	Placer		41277
Patton #1	07-14-79	Lode		57278
Patton #2	07-14-79	Lode		57279
Patton #3	07-14-79	Lode		57280
Patton #4	07-14-79	Lode		57281
Patton #5	07-14-79	Lode		57282
Patton #6	07-14-79	Lode		57283
Patton #7	07-14-79	Lode		57284
Patton #1 (relocated)	02-24-82	Lode		165054
Patton #2 (relocated)	02-24-82	Lode		165055
Patton #3 (relocated)	02-24-82	Lode		165056
Patton #4 (relocated)	02-24-82	Lode		165057
Patton #5 (relocated)	02-24-82	Lode		165058
Patton #6 (relocated)	02-24-82	Lode		165059

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd</u> <u>Book Page</u>	<u>BLM Serial</u> <u>A MC No.</u>
Patton #7 (relocated)	02-24-82	Lode		165060
Hardy #1	02-09-72	Lode		
Hardy #2	02-09-72	Lode		
Lone Camp #3	02-09-72	Lode		
Lone Came #6	02-09-72	Lode		
Hellfire #2	02-09-72	Lode		
Suden #2	02-09-72	Lode		
Fran #2	02-09-72	Lode		
Cougar #2	02-09-72	Lode		
Granduc #2	02-09-72	Lode		
Granduc #5	02-09-72	Lode		
Granduc #6	02-09-72	Lode		
Granduc #7	02-09-72	Lode		
Harmony #1	02-24-82	Lode		
B&B #1	01-13-80	Lode		100836
B&B #2	01-13-80	Lode		100837
B&B #3	01-13-80	Lode		100838
B&B #4	01-13-80	Lode		100839
MAB #1	01-13-80	Lode		100840
MAB #2	01-13-80	Lode		100841
MAB #3	01-13-80	Lode		100842
MAB #4	01-13-80	Lode		100843
MAB #5	01-13-80	Lode		100844
MAB #6	01-13-80	Lode		100845

III. Those certain contractual rights described as follows:

a. Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc.

b. State of Arizona Prospecting Permit?

EXHIBIT B

"Net Profits" as used in this Agreement shall be determined by deducting from "Gross Revenues" all "Operating Costs" received from the sale or other disposition of mineral production from the Property during any fiscal year. The words and phrases used above shall have the following meanings:

"Gross Revenues" shall mean the gross receipts from the sales of ores and minerals resulting from the exploitation of the Property.

"Operating Costs" shall mean those costs and expenses incurred by or for the operating party in connection with or attributable to the development and exploitation of the Property. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, freight, administrative overhead, insurance and marketing the products resulting from the exploration, development and exploitation of the Property; all royalties and rental payments required under this Agreement or other similar payments required to mine the Property resulting therefrom; all ad valorem, transaction privilege, license, sales, severance, and other taxes imposed on the activities of the operator hereunder, except taxes measured by the operating party's corporate profit from such operations; the depreciation of all buildings, structures, machinery and equipment over the useful lives of such items, any sinking fund reasonably deemed advisable for the future reclamation of the Property; and in the event of plant or mine expansion involving construction or replacement of buildings, structures and the addition of machinery and equipment, the depreciation of such items over their useful lives, and interest charges actually incurred in financing operations on the Property. Operating Costs shall in no case include any costs related to Work performed by Budge prior to exercise of its option and those funds contributed as part of the purchase price. The parties shall prepare and execute an accounting procedure after completion of the mining feasibility study fixing actual circumstances of Operating Costs as determined by the mining feasibility study.

JCL
01-19-89

*all funds.
US. funds*

**OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee County, Arizona)**

BY THIS OPTION AND MINING VENTURE AGREEMENT

effective 1 Feb., 1989,

by and between ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is Suite 220, Quayside Plaza, 145 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K1,

*change
address.*

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

AFM and Budge have entered into an understanding concerning a joint mineral exploration and development program as follows:

1. Recitals and Grant

1.1 Background - AFM owns or controls certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, and has acquired information related to such properties, more particularly described in Exhibit A attached hereto (the "Property"). AFM is conducting a 200 tons-per-day mining operation on the Property. Budge is interested in evaluating the mineral potential of the Property for large-scale bulk-tonnage operations by such investigations as Budge deems appropriate. This Agreement is intended to provide Budge the opportunity of exploring the Property for commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property.

*22
delete*

*implies
not
economic
now.*

1.2 Grant of Option - AFM hereby grants Budge the sole and exclusive option to enter into a joint venture for the joint development of the Property with AFM under the further terms of this Agreement.

1.3 Joint Venture - If Budge exercises its option to enter into a joint venture with AFM, such joint program (the "Venture") shall be owned in accordance with the principles set forth in Section 7, and shall exist to explore for, develop, mine, extract, mill, store, remove, and to the extent expressly provided by this Agreement, market all metallic minerals,

ore-bearing materials and rocks of every kind and character ("Minerals" herein) from the Property.

2. Term

2.1 Option - Budge's option to enter into the Venture shall exist for a period during a term expiring at midnight, Mountain Standard Time, six (6) months from and after the effective date hereof, unless extended for an additional six (6) months as provided in Section 4 or sooner terminated as provided herein.

2.2 Venture - If Budge exercises its option to enter into the Venture, this Agreement shall exist for a term of 50 years and so long thereafter as Minerals are being mined from any portion of the Property, or Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

underlying lease?

3. Representations and Title

3.1 Title Representations - AFM represents and warrants to Budge that: (1) insofar as the Property includes fee lands, AFM owns the entire undivided title to the Property, including the surface and mineral estate, and has the exclusive possession thereof; (2) insofar as the Property includes unpatented mining claims, the claims have been located and appropriate record made thereof in compliance with the laws of the United States and the laws of the State of Arizona, the assessment work for the year ending September 1 prior to the effective date of this Agreement has been performed and appropriate record made thereof in compliance with applicable law, and there is no claim of adverse mineral rights affecting such claims; (3) insofar as the Property is controlled under leases or other agreements with entities not parties to this Agreement, such rights are in good standing and no default exists or has been asserted under any of the terms thereof and that the assignment provisions thereof permit assignment to the Venture without further approvals; and (4) with respect to the Property as a whole, except as specified in Exhibit A, the title or possessory right to the Property of AFM is free and clear of all liens and encumbrances and no legal claims are pending or have been threatened against the interest of AFM in the Property.

all property is leased

3.2 Information Related to Property - Upon execution of this Agreement, AFM shall provide Budge with (1) copies of all title information related to the Property, and (2) copies of all logs, assay reports, maps and other geological and mining information in AFM's possession related to the mineral estate of the Property.

Joe S. did title

3.3 Mutual Representations - Each of the parties represent

*equipment leases
outstanding
property - asset
liens on property*

that they have the full power and capacity to enter into this Agreement under the terms set forth herein.

3.4 Title Defects, Defense and Protection - If -- (1) in the opinion of counsel retained by Budge, AFM's title to any of the Property is defective or less than as represented herein, or (2) title to any of the Property is contested or questioned by any person, entity or governmental agency, Budge may attempt, with all reasonable dispatch, to perfect, defend or initiate litigation to protect such title. In that event, AFM shall take such actions as are reasonably necessary to assist Budge in its efforts to perfect, defend or protect such title. The costs and expenses of perfecting, defending or correcting title (including, but without being limited to, the cost of attorney's fees and the cost of releasing or satisfying any mortgages, liens and encumbrances), shall be a credit against obligations of Budge under the provisions of Section 4.2 during the option period and shall thereafter be a joint obligation of the parties under the further terms of this Agreement.

Leases

4. Activities and Obligations of Budge During Option Period

4.1 Payments to AFM - Budge shall, upon execution of this Agreement, pay to AFM as consideration for the option granted hereunder, the sum of Fifty Thousand Dollars (\$50,000.00). If Budge does not exercise its option during the initial six-month term of the option, Budge shall pay AFM an additional sum of Seventy-Five Thousand Dollars (\$75,000.00) as consideration for the extension of the option period.

4.2 Examination of Property - During the option period, Budge shall have the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate. Such work may include sampling, exploration, drilling, excavations, testing and other related feasibility work including the right to use the surface and place improvements on the surface as deemed necessary in Budge's sole judgment and discretion.

4.3 Work During Option Period - During the option period, Budge shall expend in exploration, development and mining work ("Work") not less than One Hundred Thousand Dollars (\$100,000.00). The nature, place and conduct of such Work shall be at the sole discretion of Budge and may be performed on or off the Property, so long as such Work benefits the exploration, development or mining of the Property and includes sufficient expenditures to satisfy the assessment work requirements for the Property and any work requirements of any underlying agreement controlling the Property. The amount of the expenditures shall be determined by the direct cost to Budge of Work performed by Budge or independent contractors, including the salaries, expenses and benefits burden of Budge employees performing Work,

*notification of
plan of operation
if any conflict
with operations*

and the reasonable cost of equipment rentals. Any expenditures in excess of the amount required shall be applicable against expenditures required the succeeding year or years.

wants copies
of all reports,
interpretative
data.

4.4 Exercise of Option - Budge may elect to exercise an option to enter into the Venture at any time during the option period. Upon such exercise, and upon the making of the initial contribution specified for Budge in Section 6.1a, Budge shall be vested with the interest in the Property specified in Section 7.1 hereof, and AFM shall execute an appropriate assignment of such interest in the Property to Budge; subject, however, to the further terms and conditions of this Agreement.

income
during 6-mos
period
not shared

4.5 Force Majeure - If Budge is delayed or interrupted in or prevented from exercising its rights or performing its obligations, under this Section 4, by reasons of "force majeure," then the option period shall be extended for the period of time Budge was so delayed or interrupted. "Force majeure" includes all disabilities arising from causes beyond the reasonable control of Budge; including, without limitation, acts of God, accidents, fires, damages to facilities, labor troubles, unavailability of fuels, supplies and equipment, orders or requirements of courts or government agencies, or the inability to obtain environmental clearance or operating permits that may be required by governmental authorities.

notification
of
"force
majeure"

5. Relationship of Parties

5.1 Rights and Obligations - If Budge exercises its option, the rights as between the parties shall be as tenants in common with undivided ownership in the Property in the proportion set forth in Section 7.1, as adjusted by Section 7.2. Otherwise, the rights, duties, obligations and liabilities of the parties under this Agreement shall be several and not joint or collective, and each party shall be responsible only for its obligations as set forth in this Agreement. It is not the purpose or intention of this Agreement to create a partnership except for tax purposes. This Agreement and the dealings between the parties shall be governed by principles of good faith and fair dealing.

leased
property

5.2 Tax Election - If Budge exercises its option, it is the intention of the parties by this Agreement to create a partnership for tax purposes only within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as amended (the "Code"). Taxable income, for federal income tax purposes, shall be determined under Subchapter K of Chapter 1 of Subtitle A of the code, as amended. Budge shall prepare and file annual partnership tax returns containing the following elections: (i) the taxable year; (ii) the accrual method of accounting; (iii) to deduct currently all exploration expenditures; and (iv) such other elections as Budge may determine to be appropriate. For United States and state income

tax purposes, the gains and losses from sales, abandonments, and other disposition of property, other than production, and all costs, expenses and credits, including depreciation, shall be shared and accounted for as follows:

(1) Operating costs shall be allocated to each party in accordance with its respective contributions to such costs.

(2) Exploration and development costs shall be allocated to each party in accordance with its respective contribution to such costs.

(3) Depreciation and basis in property for investment tax credits, if any, shall be allocated to each party in accordance with its respective contribution to the adjusted basis of such property at the time such contribution is made. The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954, as amended.

(4) Gains and losses from each sale, abandonment or other disposition of property (other than production) shall be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions that have been allocated to each party with respect to such property as provided in this subsection (4). No gain or loss shall be attributed to a party whose interest has been converted to a non-participating interest under Section 7.2.

(5) Depletion allowance shall be allocated among the parties according to the percentage of profits allocated among the parties under Section 7.

(6) All other classes of costs, expenses and credits not falling within subsections (1) through (5) above shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

5.3 Access and Information - Both parties shall have access to the Property at any reasonable time to inspect any operations conducted pursuant to this Agreement, together with the right to

inspect all drilling data, samples, cores, logs and other data pertaining to the Property.

*if JV terminated
data belongs to
AFM.*

5.4 Confidentiality -

(1) All information obtained as a result of exploration and development of the Property in connection with the performance of this Agreement shall be the exclusive property of the parties hereto and shall not, without the prior written consent (not unreasonably withheld) of the parties, be disclosed to third parties. A party may furnish information as may be reasonably required if it is negotiating in good faith for the sale of its interest provided that any entity seeking to acquire such interest shall provide a written secrecy commitment that the information will not be disseminated to any persons other than those involved in the evaluation of the proposal.

(2) The parties agree not to make any public statements or news releases concerning the Property without first providing the text of such statement to the other party at least ten days prior to release and obtaining the consent of the other party. The other party shall have the right to object to such release as to both form and content. Whenever possible, any public statements or news releases shall be made ~~jointly~~ by the parties.

*not to be
unreasonably
withhold*

(3) Nothing in this Section 5.4 shall prohibit a party from furnishing or disclosing information to any governmental agency that it believes is required to be disclosed by pertinent law, regulation or regulatory body policy. Any disclosure shall restrict its distribution to the extent permitted by such law, regulation or policy, and the disclosing party shall use its best efforts to provide the other party with a copy of such disclosure not less than two (2) weeks prior to release for comments as to form and content.

5.5 Other Opportunities - Each of the parties shall be free to acquire other mining properties or interests therein and engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

five miles??

5.6 Area of Interest - An area extending one (1) mile from the exterior boundaries of the Property is hereby designated as the "Area of Interest." If either party acquires an interest in real property within the Area of Interest, the acquiring party shall provide notice to the other party identifying the interest, its acquisition cost, and any terms. Such interest shall be automatically a part of the Property and subject to the terms of

this Agreement unless within 30 days from and after such notice the non-acquiring party objects to such acquisition, in which case the acquiring party shall own such real property interest free and clear of the rights and obligations of this Agreement. If no objection is made, the cost of the acquisition of such real property interest shall be the joint obligation of the parties in equal proportions. If, having once agreed to acquire such real property rights, either party thereafter fails to meet its obligations to pay for such real property interest when due, and such failure continues for 30 days after written notice of such failure from the Manager or the party who has contributed its share, the defaulting party's rights in such additional real property interests shall be forfeited. Further, if such interests are acquired during the option term, and this Agreement is thereafter terminated under the provisions of Section 10.1 or 10.2, AFM shall have the right to acquire the interest of Budge by tendering its pro-rata portion of Budge's cost of such acquisition within 30 days after the effective date of such termination or notice to AFM of Budge's costs, whichever is later.

5.7 Partition - Each party waives any and all rights of partition it may have with respect to the Property except as specifically set forth in this Agreement. *clarification*

6. Contributions Upon Creation of Venture

6.1 Initial Contribution by AFM and Budge -

a. Upon the election by Budge to enter into the Venture, Budge shall pay to AFM the sum of One Million Seventy-Five Thousand Dollars (\$1,075,000.00) as a purchase price of its interest in the Property, which interest shall be deemed to have been contributed to the Venture. Budge shall receive as a credit toward such purchase price the amounts paid to AFM as consideration for the option and any extension thereof together with up to a maximum of One Hundred Seventy-Five Thousand Dollars (\$175,000.00) expended as Work under the provisions of Section 4.3.

b. Upon the election by Budge to enter into the Venture and Budge's payment to AFM of the amount specified in paragraph a above, AFM shall be deemed to have contributed its interest in the Property to the Venture.

6.2 Exploration Contributions Subsequent to Creation of Venture - Upon creation of the Venture, all work shall be performed pursuant to "Work Plans and Budgets" approved by the Management Committee, as further defined in Section 8.2 and all funds required for operation, including costs of expanding facilities and the furnishing of whatever capital may be necessary in such operations shall be provided by the parties in

proportion to their respective interests in the Venture as determined by Section 7.1. If contributions are not made, or less than the full contribution is made, the rights of the parties shall be governed by Section 7.2 hereof.

7. Principles for Determination of Ownership and Cost Allocation

7.1 Ownership - Upon exercise of Budge's option, Budge shall own a fifty percent (50%) interest in the Venture and the Property and AFM shall retain a fifty percent (50%) interest in the Venture and the Property. Such interest shall be vested in each party as cotenants in the Property, subject to the provisions of this Agreement. The undivided interest of each of the parties shall be subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in Section 7.2. *lease*

7.2 Computation of Interests; Declining Interest Prior to Proposal for Production Work Plan - If a Work Plan (other than a Production Work Plan governed by Section 8.4) has been proposed and approved, any party may elect to contribute less than its proportionate percentage to such Work Plan. If an election is made to contribute less than a party's proportionate share, the interest of the party so electing in the Venture and the Property shall be reduced in accordance with the following formula:

$$\text{Adjusted Interest} = \frac{\text{PE} + \text{CE}}{\text{TPE} + \text{TCE}} \times 100\%$$

PE shall be the previous expenditure for the Venture by the participant whose interest is being determined; CE shall be the expenditure for the Venture to which the participant has committed for the Work Plan being considered.

TPE shall be the total previous expenditures for the Venture of all participants; TCE shall be the total expenditure for the Venture of all participants committed for the Work Plan being conducted.

The initial PE for both AFM and Budge shall be that amount contributed by Budge as the purchase price under Section 6.1 plus any additional expenditures for Work in ~~excess of~~ One Hundred Seventy-Five Thousand Dollars (\$175,000.00). *not right*

1,075,000
50,000
1,025,000
125,000
900,000

The calculation of interests under this Section 7.2 shall be made at the time commitments to Work Plans are made with any necessary adjustments arising from cost overruns or underruns made at the end of the year using actual expenditures for purposes of calculation. If, however, a budget overrun or modification of an Approved Work Plan and Annual Budget results in an unanticipated reduction of a party's interest to ten percent (10%), the party electing not to contribute may contribute such an amount as would preserve its interest at the reduced level originally anticipated under the original Approved Work Plan. The appropriate contribution shall be made within thirty days after notification to the party by the Management Committee after computation of such interest. If a participant's interest has been reduced to ten percent (10%) or less under the foregoing provision, such interest shall automatically be converted to an interest in ten percent (10%) of the Net Profits as defined in Section 7.5. After such conversion, the party so reduced shall no longer be a cotenant in the Property or any property rights under this Agreement nor have any right to participate in development of the Property or decisions under this Agreement.

7.3 Profits and Losses - The net profits or net losses of the Venture shall be credited or charged to the parties in accordance with the percentages determined in accordance with this Section 7.

7.4 Distributions - The Venture shall not accumulate more funds than are reasonably necessary to manage operations. If the Management Committee determines that an excess of operating funds are held by the Venture, taking into account the needs and financial circumstances of the Venture, distributions shall be made to the participants according to their respective ownership in the Venture as determined by Section 7.1 or as adjusted by Section 7.2.

7.5 Net Profits Interest - If any party's interest in the Venture and this Agreement is converted to an interest in Net Profits under Section 7.2 of this Agreement, such interest shall be defined in the manner set forth in Exhibit B attached hereto and made a part hereof.

7.6 Payment of Net Profits Interest - Net Profits for the first year of mining operations shall be paid thirty (30) days after the close of the operating party's fiscal year for federal tax purposes. Thereafter, Net Profits shall be paid thirty (30) days after the end of each calendar quarter based on the amount of materials shipped from the Property during such quarter and the Net Profits estimated from the prior year's experience for a similar unit of materials. Necessary adjustments shall be made at the end of the operating party's fiscal year. The Net Profits payable hereunder, as determined above, shall be reduced by all previous costs and expenses that have not been recovered from

gross revenue of such prior period. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.

7.7 Capital Accounts - A separate capital account shall be established and maintained for each party and shall be initially credited with the respective amounts fixed as PE for each of the parties under Section 7.2, and thereafter (1) credited with all amounts contributed by the party to pay costs and expenditures arising out of this Agreement; and (2) debited with all losses, expenses, and deductions allocated to that party (provided that "percentage" depletion deductions shall not be charged to a party's capital account to the extent that such percentage depletion deductions exceed the party's adjusted tax basis in the Venture property); and distributions to the party (whether by cash or the tax basis of other Venture property).

8. Management

8.1 Work Plans - After Budge has exercised its option, all Work performed hereunder shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget"). All Work Plans shall be for a period of twelve (12) months except a Production Work Plan, as defined in Section 8.4(4), which may be for a longer period. Each Work Plan shall describe the work to be performed, set forth estimates and costs to be incurred in carrying out such work, and give the estimated completion date for such work, and shall include reasonable detail by month on all projected expenditures and credits, showing appropriate detail indicative of the nature thereof.

8.2 Management Committee - The participants hereby establish a "Management Committee" comprised of two representatives of each participant who shall have the authority to act on behalf of the party they represent on all matters considered by the Management Committee pursuant to this Agreement. The Management Committee shall meet at least annually or at the call of either party. Prior to Budge's exercise of its option the Management Committee shall meet to permit AFM to review activities undertaken during the preceding year but no submittal of a Work Plan by Budge nor approval thereof by the Management Committee shall be required prior to Budge's exercise of its option to establish the Venture. After exercise of the option by Budge, the Management Committee shall make all policy decisions relating to the work carried out hereunder and shall finalize Work Plans and Annual Budgets. Without limiting the generality of the foregoing, the Management Committee shall have exclusive

AFM would like to know in advance of work proposed.

*MAP assaying machine
air-trac drill
rubber tired backhoe
crushing facilities*

*make use of any facilities
as long as it does not interfere
w/ production*

authority with respect to the following matters after formal creation of the Venture upon Budge's exercise of its option:

(1) approval of Work Plans and Annual Budgets and modifications thereof;

(2) approval of the decision to prepare a feasibility study for new mining operations of any portion of the Property, and the election to proceed with development and mining of any portion of the Property;

(3) approval of annual statements of account;

(4) approval of the terms of purchase or rentals of equipment and the providing of services by third parties;

(5) approval of contracts and expenses of Fifty Thousand Dollars (\$50,000.00) or more and the acquisition of assets where the original cost of such assets exceeds Fifty Thousand Dollars (\$50,000.00);

(6) approval of any deviation from Approved Work Plan and Budget of a cumulative amount in excess of ten percent (10%);

(7) setting and changing of the production rate or capacity of mining and mining facilities and treatment methods;

(8) settlement of all claims involving third parties except those covered by insurance or where settlements are less than Ten Thousand Dollars (\$10,000.00); and

(9) acquisition or abandonment of mineral rights within the exterior boundaries of the Property.

8.3 Meetings - The Management Committee shall hold a regular annual meeting on or about August 15 of each year to review operations conducted and/or to consider proposed Work Plans and Annual Budgets for the subsequent year. Notice of such regular meetings shall be sent by the Manager's representative to the members of the Management Committee at least thirty (30) days prior to meeting day.

8.4 Decisions -

(1) The Management Committee shall make decisions in accordance with the vote of its members, who shall cast votes in proportion to ownership as determined under Sections 7.1 or 7.2 of this Agreement. Decisions of the Management Committee shall be made by a vote of the majority

of interest in the Venture except as otherwise specified herein.

(2) The recommendation of the Manager related to all exploration of the Property shall be adopted by the Management Committee; provided that Manager first takes into account the reasonable requests of the other participant.

(3) If, after Budge has elected to exercise its option and has entered into the Venture with AFM, the Manager has not proposed Work Plans for exploration of the Property for a period of six (6) months after completion of a prior Work Plan, or the other participant believes that exploration work of a particular nature should be conducted, such participant may present a proposed Work Plan and Budget to the Management Committee for such work. If the Management Committee does not approve such work, the proposing party may proceed with the performance of such work at its expense provided that it does so in a manner that does not interfere with exploration or development programs of the Manager being conducted hereunder.

(4) After a feasibility study has been completed and distributed to the parties, any party can propose a Work Plan for the production of Minerals from any part of the Property ("Production Work Plan"). The Production Work Plan shall contain (1) a legal description and map of the mine; (2) operating methods, mine life and production rates; (3) a detailed schedule of the funds required to develop the mine and construct necessary capital facilities; and (4) a commitment by the proposing party to furnish funds for development and operation of the mine in proportion to its interest in the Venture. The Production Work Plan shall be evaluated by the Management Committee who shall determine all relevant factors with the object of maximizing profits from the mine commensurate with sound economic forecasts, mining and processing techniques, optimum mine life and safety. The Management Committee decision may include the performance of additional exploration work, which work shall be performed by the Manager during the following 12-month period. After the Management Committee has either approved a Production Work Plan, or additional exploration work has been completed, any party may give notice that it intends to proceed with mining under the Production Work Plan as approved or as supplemented. If the Management Committee does not approve such Production Work Plan and either party is willing to proceed with work under the proposed but unapproved Production Work Plan the provisions of Section 10.6 shall apply.

8.5 Funding - After approval of a Work Plan, and the election of a party to participate in such Work Plan, the

participating party shall furnish the Manager with funds required to finance the participating party's entire obligation under the Work Plan. Such financing may include financial guarantees from financial institutions, lines of credit or any other financing mechanism that is satisfactory to the Manager within its reasonable discretion. All financing shall allow the Manager to draw in advance its estimate of expenditures that will be incurred during the following month pursuant to the approved Budget for the Work Plan. Such advances shall be deposited in a special bank account in the name of and maintained solely for the purposes of this Venture. If the Manager overextends an Approved Work Plan and Budget by more than ten percent (10%) without the prior approval of the participating parties, such parties will not be responsible for that portion of the overexpenditure that exceeds ten percent (10%) of the approved amount except when such overexpenditure was necessary in the Manager's reasonable opinion to preserve title to the Property or was incurred in an emergency situation.

9. Manager and Manager's Obligations

22
9.1 Manager - AFM will manage all operations under this Agreement related to existing mining operations on the Property commonly known as 3 Ash Peak mine and described as 2. Budge will manage all operations under this Agreement for the examination of the Property for large-scale bulk-tonnage development. In the case of a conflict between such operations, priority shall be given to the large-scale bulk-tonnage potential of the Property. Each Manager shall remain in such capacity unless it elects not to serve in such capacity, resigns, or is replaced as provided by this Agreement. The Manager may resign or may be removed for cause under this Agreement if it (1) is determined by a court of competent jurisdiction to be in default in performing its duties, (2) makes a general assignment for the benefit of its creditors, (3) allows an order for relief under Title 11 of the United States Bankruptcy Code to become final, (4) allows its interest in the Venture to be reduced in accordance with Section 7.2 to less than fifty percent (50%), (5) elects not to participate or to participate in a Work Plan at less than a fifty percent (50%) contribution level. The right to remove the Manager under items (4) and (5) above is premised on two participants in this Agreement. If by assignments of interest hereunder, more than two parties are participating in the Venture, item (4) and (5) above shall read as thirty-five percent (35%).

production not to be interfered

9.2 Manager's Powers and Rights - The Manager shall, in accordance with the terms and conditions of Work Plans and Budgets approved according to this Agreement, have full, complete and exclusive control, charge and supervision of the work included thereunder. The Manager shall not be liable for losses sustained in the conduct of operations under such Work Plan

except such losses as may result from Manager's gross negligence or willful misconduct. The parties will grant to the Manager a lien upon its interest in all production from the Property as security for payment of costs chargeable to it, together with any interest payable thereon.

9.3 Manager's Obligations - The Manager shall have the following obligations:

(1) To manage, direct and control all operations under this Agreement or pursuant to approved Work Plans and Budgets in accordance with applicable laws and regulations;

(2) To keep true and correct books, accounts and records of operations under this Agreement. The books shall be available to the parties at all reasonable hours, and the parties may have copies of the same. After approval of the Work Plan, the Manager will submit to the parties a statement of expenses incurred through the end of the previous month plus a current bank account reconciliation on a monthly basis. Either party may request an annual audit to be performed by a firm of certified public accountants mutually acceptable to the parties, the cost of which audit shall be a cost of the Venture;

(3) To protect the Property and this Agreement from liens and encumbrances created by operations conducted pursuant to the Agreement except liens granted to the Manager by operation of the Agreement;

(4) To carry appropriate liability insurance protecting the parties from liability arising out of Manager's operations on the Property and naming the parties as additional insureds under such policies;

(5) To save and hold the parties harmless from any and all claims arising out of or resulting from Manager's willful misconduct or gross negligence in connection with operations of the Property;

(6) To perform exploration or assessment work as may be required by applicable laws of the State of Arizona during any year in which this Agreement continues in force beyond three (3) months prior to the end of the applicable annual period;

(7) To provide work progress reports at not less than quarterly intervals during the option period and on a monthly basis after production is commenced under Venture operations and will advise the parties and the Management Committee promptly of any pertinent material results of exploration. Normal decisions concerning the conduct of

*annual
audit
Coopers & Lybrand,
year end is
Nov. 30*

*have been
declined three
in U.S.
Canadian
coverage
now
expires in March.*

operations shall be made in the best judgment of the Manager; provided, however, that the Manager shall consult from time to time with the Management Committee concerning basic policies or programs;

(8) To pay from time to time on behalf of the parties as the same become due and payable all taxes levied or assessed against the Property; provided, however, that each party shall pay for and be responsible for all the taxes measured by or assessed upon its income;

(9) To hire employees, consultants and professional services as may be necessary to conduct operations under the Agreement; and

(10) To perform or cause to be performed for the account of the parties all obligations required to maintain the Property in good standing and to pay in a timely manner all costs incurred under this Agreement or pursuant to approved Work Plans and Budgets.

In those circumstances where obligations of the Manager overlap between existing operations of AFM and those operations being undertaken hereunder by Budge, the obligation for Property maintenance shall be borne by the Manager of the large-scale operations.

9.4 Marketing of Products - Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by Section 7. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of products shall be borne by such party. The Manager shall give the participants notice at least 10 days in advance of the delivery date upon which their respective shares of products will be available. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area. Subject to the terms of any such contracts of sale then outstanding, during any period that the Manager is purchasing or selling a party's share of production, the party may elect by notice to the Manager to take in kind. The Manager shall be entitled to deduct from the proceeds of any sale by it for the account of a party reasonable expenses incurred in such a sale.

??
logistics
of flux
operations
with
smaller
contracts

10. Termination; Removal of Property; Data

10.1 Termination by AFM - If during the option term, Budge defaults in the performance of its obligations under Section 4 or any other obligation applicable to the option term, AFM shall give Budge written notice specifying the default. If the default is not cured within thirty (30) days after Budge has received the notice, or if Budge has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, AFM may terminate this Agreement by delivering to Budge written notice of such termination, subject to Budge's right to remove its property and equipment from the Property, as hereinafter provided. If Budge in good faith disputes the existence of a default, Budge shall initiate appropriate action in a court of competent jurisdiction within the 30-day period and the time to cure shall run from the date of a final determination that a default exists. AFM shall have no right to terminate this Agreement except as set forth in this Section 10.1.

*right
to purchase
@ cost
or
reasonable
cost*

10.2 Termination by Budge - Budge shall have the right to terminate this Agreement at any time during the option term by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under this Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occur prior to the termination date.

10.3 Withdrawal - Either party shall have the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under this Agreement shall terminate, and all right, title and interest of the withdrawing party shall be deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the Area of Interest described in Section 5.6 for a period of three (3) years after the date of such withdrawal.

10.4 Winding Up - If this Agreement expires by its terms, the Manager shall take all action necessary to wind up the activities of the Venture, and all costs and expenses incurred in connection with the termination of the Venture shall be expenses

chargeable to the Venture. The assets of the Venture shall first be paid, applied, or distributed in satisfaction of all liabilities of the Venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the parties (including any necessary adjustments to either party's capital to bring such accounts into the same ratio as each party's participating interest). Thereafter, any remaining cash and all other assets shall be distributed (in undivided interests unless otherwise agreed) to the parties in the ratio of their interests as fixed by Sections 7.1 or 7.2. A party shall not receive any distribution, however, if such party's participating interest has been terminated pursuant to Section 7.2 of this Agreement.

10.5 Removal of Property - If this Agreement is terminated under Sections 10.1 or 10.2, Budge shall have a right of access to the Property for a period of six (6) months from and after the effective date of termination within which it may elect to remove from the Property all of its machinery, buildings, structures, facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts or openings in the Property. Failure of Budge to so remove the same shall constitute an abandonment by Budge to AFM of the same; provided, however, that Budge may still be required to remove such property upon notice from AFM at any time during the six-month period and thirty (30) days thereafter.

*see note
on page
16*

10.6 Termination by Deadlock - If the Management Committee fails to adopt a Production Work Plan and either participant desires to proceed with such production in accordance with the Work Plan as submitted, either participant may invoke the deadlock resolving procedure of this section by giving written notice thereof to the other participant. Within thirty (30) days after the giving of such notice, each participant shall deliver to a mutually agreeable disinterested third party a written sealed bid of the price at which the participant agrees to purchase the entire interest of the other participant in the Property and the Venture. The sealed bids shall be opened by such disinterested third party simultaneously and the participant submitting the highest bid shall be required to purchase the other participant's interest at the price bid for such interest and the other participant shall be required to sell its interest at that price. All bids shall specify a cash purchase price payable 60 days after opening of the bids. The participant that fails to submit a purchase price bid pursuant to this section shall be deemed to have submitted a zero bid. Upon the purchase of the other participant's interest pursuant to this Section 10.6, this Agreement shall terminate.

10.7 Delivery of Data - If this Agreement is terminated under this Section 10, all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the Property obtained by Budge during the term of its option or

as the Manager in the operation of the Venture, and which has not been previously provided, shall be made available to AFM for duplication for a period of ninety (90) days after the effective date of such termination. Only one copy of such information shall be required by this provision.

samples & cores cannot be duplicated

10.8 Relinquishment of Record - If this Agreement is terminated under this Section 10, the parties shall execute and record a document sufficient to provide notice to third parties of such action.

11. Notices

by FAX

Notices will be sent to the addresses specified in the designation of the parties to this Agreement by certified or registered mail, or by telex or cable and considered delivered and effective three days following the date of mailing or the day following ~~cabling or telexing~~. Notice to AFM shall be directed to the attention of S. Queen and notice to Budge shall be directed to the attention of Carole A. O'Brien.

FAX

Copies to AZ + Van.

12. Transfer and Encumbrances

12.1 Assignment - Neither party shall assign its rights in this Agreement or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary shall be deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

associate company

12.2 Preemptive Right - If either party desires to transfer all or any part of its interest in this Agreement or the Venture, such party (the "transferring party") shall promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable than those specified in the notice of intended

Southern Gold owns 20% Canamin 100% AFM.

check w/ John on consequences of Sam Northgate buying S. Gold.

*arms. lease
agreement*

transfer. If the transferring party fails to consummate the transfer to a third party within the six-month period, the preemptive right of the other party in such offered interest shall be deemed to be revived. Any subsequent proposal to transfer such interest shall be conducted in accordance with all of the procedures set forth in this Section 12.2.

12.3 Encumbrances - No party shall encumber its interest in the Property or this Venture without the written consent of the other party except as specifically permitted hereunder.

12.4 Bankruptcy - If any party makes a voluntary assignment for the benefit of creditors, or is adjudged a bankrupt, then the other parties shall have the first right of refusal to purchase the interest of a bankrupt party from the trustee in bankruptcy in the proportion that the non-bankrupt parties hold in the Property and Venture as between themselves.

13. Construction

13.1 Governing Law - This Agreement shall be construed by the internal laws of the State of Arizona.

13.2 Headings - The headings used in this Agreement are for convenience only and shall not be deemed to be a part of this Agreement for purposes of construction.

13.3 Entire Agreement - All of the agreements and understandings of the parties with reference to the Property are embodied in this Agreement, and this Agreement supersedes all prior agreements or understandings between the parties.

13.4 Rule Against Perpetuities - Any right or option to acquire any interest in real or personal property under this Agreement must be exercised, if at all, so as to vest such interest in the acquirer within 21 years after the effective date of this Agreement.

13.5 Interpretation - If any provision of this Agreement is determined by a court of competent jurisdiction to be in violation of law or public policy, such determination shall not affect the validity of this Agreement and such provision shall be interpreted or limited in such a way as to satisfy the applicable provisions of law or public policy.

DATED this ____ day of _____, 1989.

ARIZONA FLUX MINES, INC.

By _____
_____, Vice President

A. F. BUDGE (MINING) LIMITED

By Anthony F. Budge, President

STATE OF _____)
County of _____)

ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1989, by _____, the _____ of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires: _____

Notary Public

STATE OF ARIZONA)
County of Maricopa)

ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1989, by Anthony F. Budge, the President of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires: _____

Notary Public

EXHIBIT A

The "Property" that is the subject of the foregoing Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee County, Arizona, more particularly described as follows:

I. The following mining claims and millsites were patented under United States Patent Number 783751 dated March 7, 1921:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	
Commerce	Lode	
Fraction	Lode	
Summit	Lode	
Homestead	Lode	
Commerce	Millsite	
Summit	Millsite	

II. The location notices for the following unpatented mining claims are of record in the official records of Greenlee County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd Book Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer		41275
Shamrock #1	05-19-63	Placer		41276
Shamrock #2	05-19-63	Placer		41277
Patton #1	07-14-79	Lode		57278
Patton #2	07-14-79	Lode		57279
Patton #3	07-14-79	Lode		57280
Patton #4	07-14-79	Lode		57281
Patton #5	07-14-79	Lode		57282
Patton #6	07-14-79	Lode		57283
Patton #7	07-14-79	Lode		57284
Patton #1 (relocated)	02-24-82	Lode		165054
Patton #2 (relocated)	02-24-82	Lode		165055
Patton #3 (relocated)	02-24-82	Lode		165056
Patton #4 (relocated)	02-24-82	Lode		165057
Patton #5 (relocated)	02-24-82	Lode		165058
Patton #6 (relocated)	02-24-82	Lode		165059

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Rec'd</u> <u>Book Page</u>	<u>BLM Serial</u> <u>A MC No.</u>
Patton #7 (relocated)	02-24-82	Lode		165060
Hardy #1	02-09-72	Lode		
Hardy #2	02-09-72	Lode		
Lone Camp #3	02-09-72	Lode		
Lone Came #6	02-09-72	Lode		
Hellfire #2	02-09-72	Lode		
Suden #2	02-09-72	Lode		
Fran #2	02-09-72	Lode		
Cougar #2	02-09-72	Lode		
Granduc #2	02-09-72	Lode		
Granduc #5	02-09-72	Lode		
Granduc #6	02-09-72	Lode		
Granduc #7	02-09-72	Lode		
Harmony #1	02-24-82	Lode		
B&B #1	01-13-80	Lode		100836
B&B #2	01-13-80	Lode		100837
B&B #3	01-13-80	Lode		100838
B&B #4	01-13-80	Lode		100839
MAB #1	01-13-80	Lode		100840
MAB #2	01-13-80	Lode		100841
MAB #3	01-13-80	Lode		100842
MAB #4	01-13-80	Lode		100843
MAB #5	01-13-80	Lode		100844
MAB #6	01-13-80	Lode		100845

III. Those certain contractual rights described as follows:

a. Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc.

b. State of Arizona Prospecting Permit? *expired*

EXHIBIT B

"Net Profits" as used in this Agreement shall be determined by deducting from "Gross Revenues" all "Operating Costs" received from the sale or other disposition of mineral production from the Property during any fiscal year. The words and phrases used above shall have the following meanings:

"Gross Revenues" shall mean the gross receipts from the sales of ores and minerals resulting from the exploitation of the Property.

"Operating Costs" shall mean those costs and expenses incurred by or for the operating party in connection with or attributable to the development and exploitation of the Property. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, freight, administrative overhead, insurance and marketing the products resulting from the exploration, development and exploitation of the Property; all royalties and rental payments required under this Agreement or other similar payments required to mine the Property resulting therefrom; all ad valorem, transaction privilege, license, sales, severance, and other taxes imposed on the activities of the operator hereunder, except taxes measured by the operating party's corporate profit from such operations; the depreciation of all buildings, structures, machinery and equipment over the useful lives of such items, any sinking fund reasonably deemed advisable for the future reclamation of the Property; and in the event of plant or mine expansion involving construction or replacement of buildings, structures and the addition of machinery and equipment, the depreciation of such items over their useful lives, and interest charges actually incurred in financing operations on the Property. Operating Costs shall in no case include any costs related to Work performed by Budge prior to exercise of its option and those funds contributed as part of the purchase price. The parties shall prepare and execute an accounting procedure after completion of the mining feasibility study fixing actual circumstances of Operating Costs as determined by the mining feasibility study.

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A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

EVO DeCONCINI (1901-1986)

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February 24, 1989

3030 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012-3002
(602) 241-0100
FAX: (602) 241-8533

PLEASE REPLY TO TUCSON

Peter J. O'Callaghan
Bull Housser & Tupper
3000 Royal Centre
P.O. Box 11130
1055 West Georgia Street
Vancouver, British Columbia
Canada V6E 3R3

Re: Ash Peak Mine; Greenlee County, Arizona

Dear Mr. O'Callaghan:

Your letter of February 7, 1989, to Ronald R. Short, the General Manager of A. F. Budge (Mining) Limited has been forwarded to me for the purpose of making appropriate changes in the form of Mining Venture Agreement that was previously provided to your client. My client has reviewed your suggested changes and discussed them with me and I am now finalizing a further draft of the Agreement to accommodate those requested changes that were also acceptable to my client.

Prior to addressing any of the individual changes, I think it appropriate to isolate what appears to be a difference in philosophy that is suggested by several of your requested changes dealing with the scope of the proposed operations. The problem, as I see it, is that your client wants to expand the existing reserves at the Ash Peak Mine whereas my client is looking for a much larger (and probably deeper) deposit that would be mined using some bulk tonnage mining method. If the result of my client's exploration program was the identification of additional reserves for the Ash Peak Mine, for example, an additional 400,000 tons, there is a substantial likelihood that the option would not be exercised unless these additional reserves were significantly richer than those of the present operation.

In spite of this difference in general philosophy, however, there is probably no reason why the two cannot be made compatible. The way we see the structure of the Agreement, as

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ATTORNEYS AT LAW

Peter J. O'Callaghan
February 24, 1989
Page 2

applied against several different possible scenarios, would be as follows:

First, if the A.F. Budge exploration program yields nothing more than an addition to the existing reserves at the Ash Peak Mine that can be mined using the existing infrastructure at the mine, and if Budge exercised its option (which is probably unlikely) Arizona Flux Mines, Inc., would continue on as manager and Budge would simply contribute its one-half of expenses in exchange for one-half of the product of the mine.

Second, if the results of exploration yielded a separate near-surface ore body similar to that of the existing ore body at the Ash Peak Mine and if Budge exercised its option, Budge would become the manager of such separate operation with Arizona Flux Mines contributing one-half of expenses in exchange for one-half share of the product.

Third, if Budge identifies a deeper ore body, the question arises whether or not the deeper ore body can be mined without adversely affecting existing (or projected) operations at the Ash Peak Mine. If operations will not be affected, then no problems exist and both A. F. Budge and Arizona Flux Mines, Inc., would proceed with their respective operations with each party making the appropriate contributions to the other's operating plans. The problem occurs, however, where the operations are not compatible, in which case an impasse might result. As we see it, this impasse might be broken by either (1) invoking the buy-sell provisions of the Agreement or (2) some alternative method of determining which of the two operations would be the most profitable in the long run. We certainly recognize that the buy-sell provision of the Agreement is a rather drastic step for resolution of what, under these circumstances should be a technical problem related to mine economics and reasonable industry practice. We therefore suggest, that, having structured the Agreement with these divergent philosophies in mind, if the parties cannot agree on the scope of deep mining operations that could affect the operations at the Ash Peak Mine, then the matter should be submitted to a mutually acceptable mineral consultant and that its recommendation would be binding on the parties. Such a decision based on economics cannot be cast in stone, and if a decision is made to operate on a smaller scale, the decision would be subject to review at the request of either party on not more than an annual basis.

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ATTORNEYS AT LAW

Peter J. O'Callaghan
February 24, 1989
Page 3

There may be a simpler way of addressing our concern and we are certainly open to suggestions. However, as we read your comments, there is most certainly a significant difference in the expectation of the parties regarding the eventual result of Budge's exploration program during the option period.

The adjustments to the Agreement resulting from the changes expressed above affects a number of your comments. Most of your other requested changes are being made in the new draft with the exception of the following:

a. By your comment number 8, you have requested the deletion of the provision of the unavailability of fuels or materials as a reason for invoking the force majeure clause. The force majeure provision is applicable only during the option period and its general effect would be to extend the term of the period to allow Budge to complete its evaluation of the property. We are certainly sympathetic to the concern you expressed concerning the economic conditions of the clause and can see that it might unduly extend the time of the option period. Under the present circumstances, the economic references should be deleted but the possibility that fuel or other materials critical might be unavailable during the option period would have a significant effect on Budge's ability to accomplish what it has bargained for. I have therefore left in the reference to unavailability of fuels but I have deleted the references to the economic conditions. I have also put in a one-year limitation on the time the option can be extended due to reasons of force majeure.

b. By your comment number 11, you have requested additional flexibility concerning public statements concerning the property. My client is amenable to reasonable suggestions, but would insist on prior notice and a right to approve any substantive statement. In any case, the time frame should not be less than 72 hours.

c. By your comment number 12, you have requested the area of interest be extended out to five miles from the present property lines in lieu of the one mile suggested in the original form. Your suggestion is not acceptable to my client as we feel that a one-mile area of interest is more than adequate to protect the proprietary character of any information that is developed as a direct result of Budge's participation in the Agreement. This project is not a grass roots exploration program covering a vast area but a rather specific target in a confined geological

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ATTORNEYS AT LAW

Peter J. O'Callaghan

February 24, 1989

Page 4

environment. Further, the one mile limitation is, in our opinion, in line with accepted industry protocol.

d. By your comment number 18, you have requested the deletion of the "taking in kind" provision of Section 9.4 of the Agreement. This provision is required by United States tax laws and is an effort to prevent the venture itself from being taxed as a separate entity. Without this provision, there is a substantial likelihood that the Internal Revenue Service would tax the association created by the Agreement as a corporation and the distributions to the participants would be of after-tax profits, which is detrimental to both sides. As a practical matter, what happens is that both parties coordinate their sales arrangements unless it is more profitable to do otherwise.

e. By your comment number 23, you have placed a modification in the "cash only" provisions of the preemptive transfer right. The purpose of this restriction on transfer is an attempt to allow the participants in the venture to have some opportunity to buy out the other participant without resorting to a right of first refusal that usually has a detrimental affect on a participant's ability to sell its interest in a project. Therefore, by setting the preemptive purchase provisions based on a monetary consideration only, the actual purchase price can be accurately determined. As you know, the true value of exchanges of shares and other financial manipulations frequently have little relationship to a translation to actual value exchanged.

Carole O'Brien also requested that I send a copy of this letter to Alan Savage at Canamin to expedite the dissemination of our views which I have also done via facsimile copier. If you have any questions or comments on any of the above, please feel free to call me. I should have the draft incorporating the changes ready this afternoon.

Very truly yours,



John C. Lacy

bpm

c: Ronald R. Short ✓
Alan Savage
0223891010.jcl2.890035

**Arizona Flux Mines, Inc.**

— THE ASH PEAK MINE —

1630 S. Alvernon Way ~~KO/XX/88708~~ Tucson, Az.
85711 ~~X85720~~ (602) 861-2919

September 7, 1989

Carole A. O'Brien
A.F. Budge (Mining) Limited
4301 N. 75th Street, Suite 101
Scottsdale, Arizona 85251-3504

Re: Renewal of Ash Peak Option Agreement

Dear Carole:

Budge holds a six-month option to enter into a joint venture for the joint development of the Ash Peak property with Arizona Flux Mines, Inc. dated March 7, 1989 (The "Agreement"). Since Agreement expired on midnight September 6, 1989, apparently A.F. Budge elected not to extend its' option for a further six months, as detailed in Section 4 of the Agreement.

If A.F. Budge does not intend to extend its option, Arizona Flux Mines would appreciate written notice of termination, to be accompanied by one copy of all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the property obtained by Budge during the term of its option, as allowed for in Section 10.7 of the Agreement.

Please accept this as formal notice of ending the Agreement.

Sincerely,


Wesley R. Becker, Sr.
President

A Precious Metal Bearing Silica Flux Mining Co.

Pre-vent Tronics

CORPORATION

1635 South Alvernon Way, Tucson, AZ 85711, 602/790-4960

FACSIMILE TRANSMITTAL SHEET

PLEASE DELIVER FOLLOWING DOCUMENTS TO:

Conde A. Brien

(NAME)

AF Bridge

(COMPANY)

4301 W. 15th St, Suite 101

(STREET)

Scottsdale, AZ 85251

(CITY, STATE, ZIP)

602-949-1737

(FAX)

(PHONE)

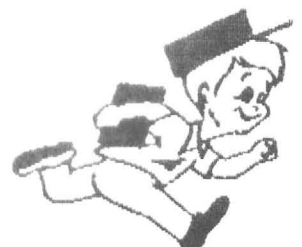
DATE: 9-7-89NUMBER OF PAGES: 2 (INCLUDING THIS PAGE)FROM: John Becker, Arizona Fax Lines1635 S. Alvernon, Tucson

FAX NUMBER: 602-790-7816

IF ANY PORTION OF THIS TRANSMISSION IS NOT CLEAR,

PLEASE CALL: 602-790-4960

WE DELIVER!!!



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ATTORNEYS AT LAW

EVO DeCONCINI (1901-1986)

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MARK D. LAMMERS	

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FAX: (602) 322-5585

March 7, 1989

3030 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012-3002
(602) 241-0100
FAX: (602) 241-8554

PLEASE REPLY TO TUCSON

W. R. Becker, Sr.
President
Arizona Flux Mines, Inc.
1630 South Alvernon Way
Tucson, Arizona 85711

Re: Option and Mining Venture Agreement; Ash Peak
Project; Arizona Flux Mines Inc. and A.F. Budge
(Mining) Limited

Dear Wes:

I have enclosed three copies each of an (1) Option and Mining Venture Agreement and (2) Short Form of Option and Mining Venture Agreement.

The Option and Mining Venture Agreement is the same as I transmitted to you the other day with the exception that the red-lining indications have been removed and the property description that is contained in Exhibit "A" has been modified to accommodate the further information I had in my file and the information you provided me with yesterday. Please note that some of the information is missing where I could not figure out the sequence of page numbers in the Greenlee County official records for the relocation of the Shamrock Group on May 30, 1979, the relocation of the Hardy Group on November 21, 1979, the correction notice on April 11, 1980, and the amendment on July 4, 1980. If you have this information available, I would appreciate your providing it to me.

The Short Form was prepared for purposes of recordation in Graham and Greenlee Counties to give public notice of the agreements between the parties.

I would appreciate if you would sign two copies of both documents and have your signature notarized. Both copies of the documents should then be returned to me so that I can obtain the signature of A.F. Budge (Mining). If you have any questions or

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A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW

W. R. Becker, Sr.
March 7, 1989
Page 2

comments please feel free to call me. I would also like to have the additional recording information added to the Exhibit "A" prior to recording the Short Form.

Very truly yours,



John C. Lacy

JCL/clh
Enclosures
c via FAX w/enc (Short Form):
Carole A. O'Brien
Stephen P. Quin

c w/enc (Short Form):
Robert W. Finn, Esq.

0307890910.JCL2.

CONSENT RESOLUTION OF THE DIRECTORS

OF

ARIZONA FLUX MINES, INC.

The undersigned, being all of the directors of Arizona Flux Mines, Inc., an Arizona corporation hereby consent to and adopt in writing the following resolutions:

Whereas, at a meeting of the Board of Directors of Arizona Flux Mines, Inc., held on February 24, 1989, it was resolved that the corporation enter into an Option and Mining Venture Agreement regarding the Ashpeak Mining Property situate in Greenlee County Arizona with A.F. Budge (Mining) Limited, a Nevada corporation; copy of which is attached hereto.

RESOLVED that W.R. Becker, Sr. and W.R. Becker, Jr. of this corporation are hereby authorized and empowered to execute said Option and Mining Venture Agreement on behalf of this corporation.

RESOLVED FURTHER, that these resolutions may be signed by the directors in as many counterparts as may be necessary each of which so signed shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument notwithstanding the date of execution shall be deemed to bear the date as of the day of February, 1989.

STEPHEN P. QUIN



WESLEY R. BECKER, SR.

TERENCE J. ROCHFORD



WESLEY R. BECKER, JR.

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OF

ARIZONA FLUX MINES, INC.

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STEPHEN P. QUIN

WESLEY R. BECKER, SR.


TERENCE J. ROCHFORD

WESLEY R. BECKER, JR.

DeCONCINI McDONALD BRAMMER YETWIN & LACY

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April 6, 1989

3030 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012-3002
(602) 241-0100
FAX: (602) 241-8554

PLEASE REPLY TO TUCSON

Carole O'Brien
A.F. Budge (Mining) Limited
4301 North 75th Street
Suite 101
Scottsdale, AZ 85251-3504

Re: Ash Peak Agreement

Dear Carole:

I have enclosed the following documents related to an Option and Mining Venture Agreement between Arizona Flux Mines Inc. and A. F. Budge, Limited concerning property in Graham and Greenlee counties:

- a. Fully executed copy of the Option and Mining Venture Agreement, and
- b. a revised property description "Exhibit A" to both the Agreement and the Short Form.

The revised exhibit includes changes in many of the earlier references I had made to recording information on the location notices. I originally prepared the exhibit from information obtained from documents that included inclusive numbers. However, when I obtained copies of the documents themselves, the order was substantially different than what would normally be expected.

I have also today transmitted copies of the Short Form to the respective recorders of Graham and Greenlee Counties for recordation. By a copy of this letter, I am sending two copies of the fully executed documents to Wes Becker.

In my review of the various title documents I noted the existence of Turney, Setter and Patton Tunnelsites recorded in Docket 109 of the Greenlee County records, pages 623-25, AMC Nos. 105486-88. My understanding is that these claims were not

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A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW

Carole O'Brien
April 6, 1989
Page 2

included within this arrangement because the claims are not considered valid. I would appreciate verification of this matter.

Very truly yours,



John C. Lacy

bpm

Enclosure

c w/enc: Wes Becker

0405890400.jcl2.890035

JCL
03-06-89

OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)

BY THIS OPTION AND MINING VENTURE AGREEMENT

effective March 7, 1989,

by and between ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is 1630 South Alvernon Way, Tucson, Arizona 85711,

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

AFM and Budge have entered into an understanding concerning a joint mineral exploration and development program as follows:

1. Recitals and Grant

1.1 Background - AFM is vested with an interest in certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, by that certain Lease, Sub-Lease and Purchase Option Agreement dated June 25, 1986, more particularly described in Exhibit A attached hereto (the "Property"), and has acquired information related to the Property. AFM is conducting a mining operation on the Property to produce silica fluxing material with an argentiferous byproduct. Budge is interested in evaluating the long-term mineral potential of the Property by such investigations as Budge deems appropriate. This Agreement is intended to provide Budge the opportunity of exploring the Property for additional commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property.

1.2 Grant of Option - AFM hereby grants Budge the sole and exclusive option to enter into a joint venture for the joint development of the Property with AFM under the further terms of this Agreement.

1.3 Joint Venture - If Budge exercises its option to enter into a joint venture with AFM, such joint program (the "Venture") shall be owned in accordance with the principles set forth in Section 7, and shall exist to explore for, develop, mine, extract, mill, store, remove, and to the extent expressly

provided by this Agreement, market all metallic minerals, ore-bearing materials and rocks of every kind and character ("Minerals" herein) from the Property.

2. Term

2.1 Option - Budge's option to enter into the Venture shall exist for a period during a term expiring at midnight, Mountain Standard Time, six (6) months from and after the effective date hereof, unless extended for an additional six (6) months as provided in Section 4 or sooner terminated as provided herein.

2.2 Venture - If Budge exercises its option to enter into the Venture, the Venture and this Agreement shall exist for a term of 50 years and so long thereafter as Minerals are being mined from any portion of the Property, or Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Representations and Title

3.1 Title Representations - AFM represents and warrants to Budge that: (1) insofar as the Property includes fee lands, AFM's interest binds the entire undivided title to the Property, including the surface and mineral estate, and AFM has the exclusive possession thereof; (2) insofar as the Property includes unpatented mining claims, to the best of AFM's knowledge and belief, the claims have been located and appropriate record made thereof in compliance with the laws of the United States and the laws of the State of Arizona, the assessment work for the year ending September 1 prior to the effective date of this Agreement has been performed and appropriate record made thereof in compliance with applicable law, and there is no claim of adverse mineral rights affecting such claims; (3) insofar as the Property is controlled under leases or other agreements with entities not parties to this Agreement, such rights are in good standing and no default exists or has been asserted under any of the terms thereof and that the assignment provisions thereof permit assignment to the Venture without further approvals; and (4) with respect to the Property as a whole, except as specified in Exhibit A, AFM's interest in the Property is free and clear of all liens and encumbrances and no legal claims are pending or have been threatened against the interest of AFM in the Property.

3.2 Information Related to Property - Upon execution of this Agreement, AFM shall provide Budge with (1) copies of all title information related to the Property, and (2) copies of all logs, assay reports, maps and other geological and mining information in AFM's possession related to the mineral estate of the Property.

3.3 Mutual Representations - Each of the parties represent that they have the full power and capacity to enter into this Agreement under the terms set forth herein.

3.4 Title Defects, Defense and Protection - If -- (1) in the opinion of counsel retained by Budge, AFM's title to any of the Property is defective or less than as represented herein, or (2) title to any of the Property is contested or questioned by any person, entity or governmental agency, Budge may attempt, with all reasonable dispatch, to perfect, defend or initiate litigation to protect such title. In that event, AFM shall take such actions as are reasonably necessary to assist Budge in its efforts to perfect, defend or protect such title. The costs and expenses of perfecting, defending or correcting title (including, but without being limited to, the cost of attorney's fees and the cost of releasing or satisfying any mortgages, liens and encumbrances), shall be a credit against obligations of Budge under the provisions of Section 4.2 during the option period and shall thereafter be a joint obligation of the parties under the further terms of this Agreement.

4. Activities and Obligations of Budge During Option Period

4.1 Payments to AFM - Budge shall, upon execution of this Agreement, pay to AFM as consideration for the option granted hereunder, the sum of Fifty Thousand Dollars (\$50,000.00). If Budge does not exercise its option during the initial six-month term of the option, Budge shall pay AFM an additional sum of Seventy-Five Thousand Dollars (\$75,000.00) as consideration for the six-month extension of the option period.

4.2 Examination of Property - During the option period, Budge shall have the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate. Such work may include sampling, exploration, drilling, excavations, testing and other related feasibility work including the right to use the surface and place improvements on the surface as deemed necessary in Budge's sole judgment and discretion; provided, however, that Budge's activities shall not interfere with current mining operations at the Ash Peak Mine and no work performed by Budge during such examination shall give Budge any rights in and to the Property unless Budge exercises its option as granted herein.

4.3 Work During Option Period - During the option period (whether such period is either six months or twelve months), Budge shall expend in exploration, development and mining work ("Work") not less than One Hundred Thousand Dollars (\$100,000.00). The nature, place and conduct of such Work shall be at the sole discretion of Budge and may be performed on or off the Property, so long as such Work is for the sole benefit of exploration, development or mining of the Property and includes

sufficient expenditures to satisfy the assessment work requirements for the Property and any work requirements of any underlying agreement controlling the Property. The amount of the expenditures shall be determined by the direct cost to Budge of Work performed by Budge or independent contractors, including the salaries, expenses and benefits burden of Budge employees performing Work, and the reasonable cost of equipment rentals but shall not include any additional management fee or other compensation to Budge.

4.4 Exercise of Option - Budge may elect to exercise an option to enter into the Venture at any time during the option period. Upon such exercise, and upon the making of the initial contribution specified for Budge in Section 6.1a, Budge shall be vested with the interest in the Property specified in Section 7.1 hereof, and AFM shall execute an appropriate assignment of such interest in the Property to Budge; subject, however, to the further terms and conditions of this Agreement.

4.5 Force Majeure - If Budge is delayed or interrupted in, or prevented from, exercising its rights or performing its obligations under this Section 4, by reasons of "force majeure," then the option period shall be extended for the period of time Budge was so delayed or interrupted; provided, however, that in no case shall a period of force majeure be declared extending the option period for in excess of twelve (12) months. "Force majeure" includes all disabilities arising from causes beyond the reasonable control of Budge; including, without limitation, acts of God, accidents, fires, damages to facilities, labor troubles, unavailability of fuels, supplies and equipment, orders or requirements of courts or government agencies, or the inability to obtain environmental clearance or operating permits that may be required by governmental authorities.

5. Relationship of Parties

5.1 Rights and Obligations - If Budge exercises its option, the rights as between the parties shall be as tenants in common with undivided interests in the Property in the proportion set forth in Section 7.1, as adjusted by Section 7.2. Otherwise, the rights, duties, obligations and liabilities of the parties under this Agreement shall be several and not joint or collective, and each party shall be responsible only for its obligations as set forth in this Agreement. It is not the purpose or intention of this Agreement to create a partnership except for tax purposes. This Agreement and the dealings between the parties shall be governed by principles of good faith and fair dealing.

5.2 Tax Election - If Budge exercises its option, it is the intention of the parties by this Agreement to create a partnership for tax purposes only within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as

amended (the "Code"). Taxable income, for federal income tax purposes, shall be determined under Subchapter K of Chapter 1 of Subtitle A of the code, as amended. Budge shall prepare and file annual partnership tax returns containing the following elections: (i) the taxable year; (ii) the accrual method of accounting; (iii) to deduct currently all exploration expenditures; and (iv) such other elections as Budge may determine to be appropriate. For United States and state income tax purposes, the gains and losses from sales, abandonments, and other disposition of property, other than production, and all costs, expenses and credits, including depreciation, shall be shared and accounted for as follows:

(1) Operating costs shall be allocated to each party in accordance with its respective contributions to such costs.

(2) Exploration and development costs shall be allocated to each party in accordance with its respective contribution to such costs.

(3) Depreciation and basis in property for investment tax credits, if any, shall be allocated to each party in accordance with its respective contribution to the adjusted basis of such property at the time such contribution is made. The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954, as amended.

(4) Gains and losses from each sale, abandonment or other disposition of property (other than production) shall be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions that have been allocated to each party with respect to such property as provided in this subsection (4). No gain or loss shall be attributed to a party whose interest has been converted to a non-participating interest under Section 7.2.

(5) Depletion allowance shall be allocated among the parties according to the percentage of profits allocated among the parties under Section 7.

(6) All other classes of costs, expenses and credits not falling within subsections (1) through (5) above shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

5.3 Access and Information - Both parties shall have access to the Property at any reasonable time to inspect any operations conducted pursuant to this Agreement, together with the right to inspect all drilling data, samples, cores, logs and other data pertaining to the Property.

5.4 Confidentiality -

(1) All information obtained as a result of exploration and development of the Property in connection with the performance of this Agreement shall be the exclusive property of the parties hereto and shall not, without the prior written consent (not unreasonably withheld) of the parties, be disclosed to third parties. A party may furnish information as may be reasonably required if it is negotiating in good faith for the sale of its interest provided that any entity seeking to acquire such interest shall provide a written secrecy commitment that the information will not be disseminated to any persons other than those involved in the evaluation of the proposal.

(2) A party may furnish or disclose Confidential Information to the public or to any governmental agency when it reasonably believes it is required to do so by pertinent law, regulation or regulatory body policy. Any disclosure shall restrict its distribution to the extent permitted by such law, regulation or policy, and the disclosing party shall use its best efforts to provide the other party with a copy of such disclosure not less than ten (10) days prior to release for comments as to form and content; provided, however, that in no case shall such disclosure be made upon less than seventy-two (72) hour's notice.

(3) A party may furnish or disclose reports or statements containing Confidential Information which, under the rules of any stock exchange upon which its shares are listed, a party is required to make to such exchange or to the public. Further, a party may furnish general information to its stockholders. Any party planning to submit or release any Confidential Information or make any report or statements as permitted shall first provide the text of such statement to the other party at least ten days prior to release. The other party shall have the right to provide input to such release as to both form and content. Whenever possible, any public statements or news releases shall be made jointly by the parties.

5.5 Other Opportunities - Each of the parties shall be free to acquire other mining properties or interests therein and engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5.6 Area of Interest - An area extending one (1) mile from the exterior boundaries of the Property is hereby designated as the "Area of Interest." If either party acquires an interest in real property within the Area of Interest, the acquiring party shall provide notice to the other party identifying the interest, its acquisition cost, and any terms. Such interest shall be automatically a part of the Property and subject to the terms of this Agreement unless within 30 days from and after such notice the non-acquiring party objects to such acquisition, in which case the acquiring party shall own such real property interest free and clear of the rights and obligations of this Agreement. If no objection is made, the cost of the acquisition of such real property interest shall be the joint obligation of the parties in equal proportions. If, having once agreed to acquire such real property rights, either party thereafter fails to meet its obligations to pay for such real property interest when due, and such failure continues for 30 days after written notice of such failure from the Manager or the party who has contributed its share, the defaulting party's rights in such additional real property interests shall be forfeited. Further, if such interests are acquired during the option term, and this Agreement is thereafter terminated under the provisions of Section 10.1 or 10.2, AFM shall have the right to acquire the interest of Budge by tendering its pro-rata portion of Budge's cost of such acquisition within 30 days after the effective date of such termination or notice to AFM of Budge's costs, whichever is later.

5.7 Partition - To the extent that the parties may acquire ownership in the Property, each party waives any and all rights of partition it may have with respect to the Property except as specifically set forth in this Agreement.

6. Contributions Upon Creation of Venture

6.1 Initial Contribution by AFM and Budge -

a. Upon the election by Budge to enter into the Venture, Budge shall pay to AFM the sum of One Million Seventy-Five Thousand Dollars (\$1,075,000.00) as the purchase price of its interest in the Property, which interest shall be deemed to have been contributed to the Venture. Budge shall receive as a credit toward such purchase price the amounts paid to AFM as consideration for

the option and any extension thereof together with up to a maximum of One Hundred Seventy-Five Thousand Dollars (\$175,000.00) expended as Work under the provisions of Section 4.3.

b. Upon the election by Budge to enter into the Venture and Budge's payment to AFM of the amount specified in Section 6.1a. above, AFM shall be deemed to have contributed its interest in the Property to the Venture.

6.2 Exploration Contributions Subsequent to Creation of Venture - Upon creation of the Venture, all work shall be performed pursuant to "Work Plans and Budgets" approved by the Management Committee, as further defined in Section 8.2 and all funds required for operation, including costs of expanding facilities and the furnishing of whatever capital may be necessary in such operations shall be provided by the parties in proportion to their respective interests in the Venture as determined by Section 7.1. If contributions are not made, or less than the full contribution is made, the rights of the parties shall be governed by Section 7.2 hereof.

7. Principles for Determination of Ownership and Cost Allocation

7.1 Ownership - Upon exercise of Budge's option and the payment of the initial contribution amount by Budge pursuant to Section 6.1(a), Budge shall be vested with an undivided fifty percent (50%) interest in the Venture and the Property and AFM shall retain an undivided fifty percent (50%) interest in the Venture and the Property. Such interest shall be vested in each party as cotenants in the Property, subject to the provisions of this Agreement. The undivided interest of each of the parties shall be subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in Section 7.2.

7.2 Computation of Interests; Declining Interest Prior to Proposal for Production Work Plan - If a Work Plan (other than a Production Work Plan governed by Section 8.4) has been proposed and approved, any party may elect to contribute less than its proportionate percentage to such Work Plan. If an election is made to contribute less than a party's proportionate share, the interest of the party so electing in the Venture and the Property shall be reduced in accordance with the following formula:

$$\text{Adjusted Interest} = \frac{\text{PE} + \text{CE}}{\text{TPE} + \text{TCE}} \times 100\%$$

PE shall be the previous expenditure for the Venture by the participant whose interest is being determined; CE shall be the expenditure for the Venture to which the

participant has committed for the Work Plan being considered.

TPE shall be the total previous expenditures for the Venture of all participants; TCE shall be the total expenditure for the Venture of all participants committed for the Work Plan being conducted.

The initial PE for both AFM and Budge shall be that amount contributed by Budge as the purchase price under Section 6.1 plus any additional expenditures for Work in excess of One Hundred Seventy-Five Thousand Dollars (\$175,000.00).

The calculation of interests under this Section 7.2 shall be made at the time commitments to Work Plans are made with any necessary adjustments arising from cost overruns or underruns made at the end of the year using actual expenditures for purposes of calculation. If, however, a budget overrun or modification of an Approved Work Plan and Annual Budget results in an unanticipated reduction of a party's interest to ten percent (10%), the party electing not to contribute may contribute such an amount as would preserve its interest at the reduced level originally anticipated under the original Approved Work Plan. The appropriate contribution shall be made within thirty days after notification to the party by the Management Committee after computation of such interest. If a participant's interest has been reduced to ten percent (10%) or less under the foregoing provision, such interest shall automatically be converted to an interest in ten percent (10%) of the Net Profits as defined in Section 7.5. After such conversion, the party so reduced shall no longer be a cotenant in the Property or any property rights under this Agreement nor have any right to participate in development of the Property or decisions under this Agreement.

7.3 Profits and Losses - The net profits or net losses of the Venture shall be credited or charged to the parties in accordance with the percentages determined in accordance with this Section 7.

7.4 Distributions - The Venture shall not accumulate more funds than are reasonably necessary to manage operations. If the Management Committee determines that an excess of operating funds are held by the Venture, taking into account the needs and financial circumstances of the Venture, distributions shall be made to the participants according to their respective ownership in the Venture as determined by Section 7.1 or as adjusted by Section 7.2.

7.5 Net Profits Interest - If any party's interest in the Venture and this Agreement is converted to an interest in Net Profits under Section 7.2 of this Agreement, such interest shall be defined in the manner set forth in Exhibit B attached hereto and made a part hereof.

7.6 Payment of Net Profits Interest - Net Profits for the first year of mining operations shall be paid thirty (30) days after the close of the operating party's fiscal year for federal tax purposes. Thereafter, Net Profits shall be paid thirty (30) days after the end of each calendar quarter based on the amount of materials shipped from the Property during such quarter and the Net Profits estimated from the prior year's experience for a similar unit of materials. Necessary adjustments shall be made at the end of the operating party's fiscal year. The Net Profits payable hereunder, as determined above, shall be reduced by all previous costs and expenses that have not been recovered from gross revenue of such prior period. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.

7.7 Capital Accounts - A separate capital account shall be established and maintained for each party and shall be initially credited with the respective amounts fixed as PE for each of the parties under Section 7.2, and thereafter (1) credited with all amounts contributed by the party to pay costs and expenditures arising out of this Agreement; and (2) debited with all losses, expenses, and deductions allocated to that party (provided that "percentage" depletion deductions shall not be charged to a party's capital account to the extent that such percentage depletion deductions exceed the party's adjusted tax basis in the Venture property); and distributions to the party (whether by cash or the tax basis of other Venture property).

8. Management

8.1 Work Plans - After Budge has exercised its option, all Work performed hereunder shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget"). All Work Plans shall be for a period of twelve (12) months except a Production Work Plan, as defined in Section 8.4(4), which may be for a longer period. Each Work Plan shall describe the work to be performed, set forth estimates and costs to be incurred in carrying out such work, and give the estimated completion date for such work, and shall include reasonable detail by month on all projected expenditures and credits, showing appropriate detail indicative of the nature thereof.

8.2 Management Committee - The participants hereby establish a "Management Committee" comprised of two representatives of each participant who shall have the authority to act on behalf of the party they represent on all matters considered by the Management Committee pursuant to this Agreement. The Management Committee shall meet at least annually or at the call of either party. Prior to Budge's exercise of its option the Management Committee shall meet to permit AFM to review activities undertaken during the preceding year but no submittal of a Work Plan by Budge nor approval thereof by the Management Committee shall be required prior to Budge's exercise of its option to establish the Venture. After exercise of the option by Budge, the Management Committee shall make all policy decisions relating to the work carried out hereunder and shall finalize Work Plans and Annual Budgets. Without limiting the generality of the foregoing, the Management Committee shall have exclusive authority with respect to the following matters after formal creation of the Venture upon Budge's exercise of its option:

(1) approval of Work Plans and Annual Budgets and modifications thereof;

(2) approval of the decision to prepare a feasibility study for new mining operations of any portion of the Property, and the election to proceed with development and mining of any portion of the Property;

(3) approval of annual statements of account;

(4) approval of the terms of purchase or rentals of equipment and the providing of services by third parties;

(5) approval of contracts and expenses of Fifty Thousand Dollars (\$50,000.00) or more and the acquisition of assets where the original cost of such assets exceeds Fifty Thousand Dollars (\$50,000.00);

(6) approval of any deviation from Approved Work Plan and Budget of a cumulative amount in excess of ten percent (10%);

(7) setting and changing of the production rate or capacity of mining and mining facilities and treatment methods;

(8) settlement of all claims involving third parties except those covered by insurance or where settlements are less than Ten Thousand Dollars (\$10,000.00); and

(9) acquisition or abandonment of mineral rights within the exterior boundaries of the Property.

8.3 Meetings - The Management Committee shall hold a regular annual meeting on or about August 15 of each year to review operations conducted and/or to consider proposed Work Plans and Annual Budgets for the subsequent year. Notice of such regular meetings shall be sent by the Manager's representative to the members of the Management Committee at least thirty (30) days prior to meeting day.

8.4 Decisions -

(1) The Management Committee shall make decisions in accordance with the vote of its members, who shall cast votes in proportion to ownership as determined under Sections 7.1 or 7.2 of this Agreement. Decisions of the Management Committee shall be made by a vote of the majority of interest in the Venture except as otherwise specified herein.

(2) The recommendation of the Manager related to all exploration of the Property shall be adopted by the Management Committee; provided that Manager first takes into account the reasonable requests of the other participant.

(3) If, after Budge has elected to exercise its option and has entered into the Venture with AFM, the Manager has not proposed Work Plans for exploration or mining of the Property for a period of six (6) months after completion of a prior Work Plan, or the other participant believes that work of a particular nature should be conducted, such participant may present a proposed Work Plan and Budget to the Management Committee for such work. If the Management Committee does not approve such work, the proposing party may proceed with the performance of such work at its expense provided that it does so in a manner that does not interfere with exploration or development programs of the Manager being conducted hereunder.

(4) After a feasibility study has been completed and distributed to the parties, any party can propose a Work Plan for the production of Minerals from any part of the Property ("Production Work Plan"). The Production Work Plan shall contain (1) a legal description and map of the mine; (2) operating methods, mine life and production rates; (3) a detailed schedule of the funds required to develop the mine and construct necessary capital facilities; and (4) a commitment by the proposing party to furnish funds for development and operation of the mine in proportion to its interest in the Venture. The Production Work Plan shall be evaluated by the Management Committee who shall determine all relevant factors with the object of maximizing profits from the mine commensurate with sound economic forecasts, mining and processing techniques, optimum mine life and

safety. The Management Committee decision may include the performance of additional exploration work, which work shall be performed by the Manager during the following 12-month period. After the Management Committee has either approved a Production Work Plan, or additional exploration work has been completed, any party may give notice that it intends to proceed with mining under the Production Work Plan as approved or as supplemented. If the Management Committee does not approve such Production Work Plan and either party is willing to proceed with work under the proposed but unapproved Production Work Plan the provisions of Section 10.6 shall apply.

(5) If the participants each own equal shares in the Venture and a Production Work Plan for a deep deposit is proposed by Budge that in the reasonable opinion of AFM would materially interfere with either the existing mining operations at the Ash Peak Mine or with additional reserves proven by further exploration of such mine, the participants shall to submit the matter to arbitration by a mineral consultant or consulting firm mutually acceptable to the participants for the expression of an opinion that either (1) the deep deposit should be mined in such a way that the existing operations at the Ash Peak Mine would be relegated to a secondary position, or (2) the Ash Peak Mine as presently existing or as expanded additional proven reserves should be mined and deep development postponed. The arbitration process shall be conducted in accordance with the commercial arbitration rules of the American Arbitration Association and the decision of the consultant shall be binding upon the participants, provided, however, that a decision to postpone development of a deeper orebody shall be subject to review on not more than each twelve months upon the request of Budge.

8.5 Funding - After approval of a Work Plan, and the election of a party to participate in such Work Plan, each participating party shall furnish the Manager with funds required to finance the participating party's entire obligation under the Work Plan. Such financing may include financial guarantees from financial institutions, lines of credit or any other financing mechanism that is satisfactory to the Manager within its reasonable discretion. All financing shall allow the Manager to draw in advance its estimate of expenditures that will be incurred during the following month pursuant to the approved Budget for the Work Plan. Such advances shall be deposited in a special bank account in the name of and maintained solely for the purposes of this Venture. If the Manager overextends an Approved Work Plan and Budget by more than ten percent (10%) without the prior approval of the participating parties, such parties will not be responsible for that portion of the overexpenditure that exceeds ten percent (10%) of the approved amount except when such

overexpenditure was necessary in the Manager's reasonable opinion to preserve title to the Property or was incurred in an emergency situation.

9. Manager and Manager's Obligations

9.1 Manager - AFM will manage all operations under this Agreement related to existing mining operations at the Ash Peak Mine described in Exhibit A. Budge will manage all other operations under this Agreement. In the case of a conflict between such operations, priority shall be given to the large-scale bulk-tonnage potential of the Property. Each Manager shall remain in such capacity unless it elects not to serve in such capacity, resigns, or is replaced as provided by this Agreement. The Manager may resign or may be removed for cause under this Agreement if it (1) is determined by a court of competent jurisdiction to be in default in performing its duties, (2) makes a general assignment for the benefit of its creditors, (3) allows an order for relief under Title 11 of the United States Code to be entered, (4) allows its interest in the Venture to be reduced in accordance with Section 7.2 to less than fifty percent (50%), (5) elects not to participate or to participate in a Work Plan at less than a fifty percent (50%) contribution level. The right to remove the Manager under items (4) and (5) above is premised on two participants in this Agreement. If by assignments of interest hereunder, more than two parties are participating in the Venture, item (4) and (5) above shall read as thirty-five percent (35%).

9.2 Manager's Powers and Rights - The Manager shall, in accordance with the terms and conditions of Work Plans and Budgets approved according to this Agreement, have full, complete and exclusive control, charge and supervision of the work included thereunder. The Manager shall not be liable for losses sustained in the conduct of operations under such Work Plan except such losses as may result from Manager's gross negligence or willful misconduct. The parties will grant to the Manager a lien upon its interest in all production from the Property as security for payment of costs chargeable to it, together with any interest payable thereon.

9.3 Manager's Obligations - The Manager shall have the following obligations:

(1) To manage, direct and control all operations under this Agreement or pursuant to approved Work Plans and Budgets in accordance with applicable laws and regulations;

(2) To keep true and correct books, accounts and records of operations under this Agreement. The books shall be available to the parties at all reasonable hours, and the parties may have copies of the same. After approval of the

Work Plan, the Manager will submit to the parties a statement of expenses incurred through the end of the previous month plus a current bank account reconciliation on a monthly basis. Either party may request an annual audit to be performed by a firm of certified public accountants mutually acceptable to the parties, the cost of which audit shall be a cost of the Venture;

(3) To protect the Property and this Agreement from liens and encumbrances created by operations conducted pursuant to the Agreement except liens granted to the Manager by operation of the Agreement;

(4) To carry appropriate liability insurance protecting the parties from liability arising out of Manager's operations on the Property and naming the parties as additional insureds under such policies;

(5) To save and hold the parties harmless from any and all claims arising out of or resulting from Manager's willful misconduct or gross negligence in connection with operations of the Property;

(6) To perform exploration or assessment work as may be required by applicable laws of the State of Arizona during any year in which this Agreement continues in force beyond three (3) months prior to the end of the applicable annual period;

(7) To provide work progress reports at not less than quarterly intervals during the option period and on a monthly basis after production is commenced under Venture operations and will advise the parties and the Management Committee promptly of any pertinent material results of exploration. Normal decisions concerning the conduct of operations shall be made in the best judgment of the Manager; provided, however, that the Manager shall consult from time to time with the Management Committee concerning basic policies or programs;

(8) To pay from time to time on behalf of the parties as the same become due and payable all taxes levied or assessed against the Property; provided, however, that each party shall pay for and be responsible for all the taxes measured by or assessed upon its income;

(9) To hire employees, consultants and professional services as may be necessary to conduct operations under the Agreement; and

(10) To perform or cause to be performed for the account of the parties all obligations required to maintain

the Property in good standing and to pay in a timely manner all costs incurred under this Agreement or pursuant to approved Work Plans and Budgets.

In those circumstances where obligations of the Manager overlap between existing operations of AFM and those operations being undertaken hereunder by Budge, the obligation for Property maintenance shall be borne by the Manager of the large-scale operations.

9.4 Marketing of Products - Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by Section 7. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of products shall be borne by such party. The Manager shall give the participants notice at least 10 days in advance of the delivery date upon which their respective shares of products will be available. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area. Subject to the terms of any such contracts of sale then outstanding, during any period that the Manager is purchasing or selling a party's share of production, the party may elect by notice to the Manager to take in kind. The Manager shall be entitled to deduct from the proceeds of any sale by it for the account of a party reasonable expenses incurred in such a sale.

10. Termination; Removal of Property; Data

10.1 Termination by AFM - If during the option term, Budge defaults in the performance of its obligations under Section 4 or any other obligation applicable to the option term, AFM shall give Budge written notice specifying the default. If the default is not cured within thirty (30) days after Budge has received the notice, or if Budge has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, AFM may terminate this Agreement by delivering to Budge written notice of such termination, subject to Budge's right to remove its property and equipment from the Property, as hereinafter provided. If Budge in good faith disputes the existence of a default, Budge shall initiate appropriate action in a court of competent jurisdiction within the 30-day period and the time to cure shall run from the date of a final determination that a default exists. AFM shall have no right to terminate this Agreement except as set forth in this Section 10.1.

10.2 Termination by Budge - Budge shall have the right to terminate this Agreement at any time during the option term by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under this Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occur prior to the termination date.

10.3 Withdrawal - Either party shall have the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under this Agreement shall terminate, and all right, title and interest of the withdrawing party shall be deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the Area of Interest described in Section 5.6 for a period of three (3) years after the date of such withdrawal.

10.4 Winding Up - If this Agreement expires by its terms, the Manager shall take all action necessary to wind up the activities of the Venture, and all costs and expenses incurred in connection with the termination of the Venture shall be expenses chargeable to the Venture. The assets of the Venture shall first be paid, applied, or distributed in satisfaction of all liabilities of the Venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the parties (including any necessary adjustments to either party's capital to bring such accounts into the same ratio as each party's participating interest). Thereafter, any remaining cash and all other assets shall be distributed (in undivided interests unless otherwise agreed) to the parties in the ratio of their interests as fixed by Sections 7.1 or 7.2. A party shall not receive any distribution, however, if such party's participating interest has been terminated pursuant to Section 7.2 of this Agreement.

10.5 Removal of Property - If this Agreement is terminated under Sections 10.1 or 10.2, Budge shall have a right of access to the Property for a period of six (6) months from and after the effective date of termination within which it may elect to remove from the Property all of its machinery, buildings, structures,

facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts or openings in the Property. Failure of Budge to so remove the same shall constitute an abandonment by Budge to AFM of the same; provided, however, that Budge may still be required to remove such property upon notice from AFM at any time during the six-month period and thirty (30) days thereafter.

10.6 Termination by Deadlock - If the Management Committee fails to adopt a Production Work Plan and either participant desires to proceed with such production in accordance with the Work Plan as submitted, either participant may invoke the deadlock resolving procedure of this section by giving written notice thereof to the other participant. Within thirty (30) days after the giving of such notice, each participant shall deliver to a mutually agreeable disinterested third party a written sealed bid of the price at which the participant agrees to purchase the entire interest of the other participant in the Property and the Venture. The sealed bids shall be opened by such disinterested third party simultaneously and the participant submitting the highest bid shall be required to purchase the other participant's interest at the price bid for such interest and the other participant shall be required to sell its interest at that price. All bids shall specify a cash purchase price payable 60 days after opening of the bids. The participant that fails to submit a purchase price bid pursuant to this section shall be deemed to have submitted a zero bid. Upon the purchase of the other participant's interest pursuant to this Section 10.6, this Agreement shall terminate. Upon the invoking of the above provision, either party may by notice to the other, require a thirty-day period during which the participants shall submit the issue to a mutually acceptable disinterested third party as part of a non-binding arbitration. The request for non-binding arbitration hereunder or the asserted failure of either participant to negotiate in good faith shall not in any way restrict or limit the rights of either participant under the terms of this Section 10.6.

10.7 Delivery of Data - If this Agreement is terminated under this Section 10, all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the Property obtained by Budge during the term of its option or as the Manager in its operations under the Venture, and which has not been previously provided, shall be made available to AFM for duplication for a period of ninety (90) days after the effective date of such termination. If AFM provides notice of its desire to take possession of core, it shall be deemed the owner of such core and shall be responsible for all costs of maintaining such core after the expiration of ninety days from and after the effective date of termination. Only one copy of such information shall be required by this provision.

10.8 Relinquishment of Record - If this Agreement is terminated under this Section 10, the parties shall execute and record a document sufficient to provide notice to third parties of such action.

11. Notices

Notices will be sent to the addresses specified in the designation of the parties to this Agreement by certified or registered mail, by telex or cable or by facsimile copier and considered delivered and effective three days following the date of mailing, the day following cabling or telexing or on the date of transmission by facsimile copier if transmitted during business hours at the point of receipt or on the next business day following the transmission if transmitted after business hours at the point of receipt. Notice to AFM shall be directed to the attention of Wesley Becker, Sr., facsimile copier 602-745-8114 with a copy to Stephen P. Quin, CanaMin Resources Ltd., c/o Southern Gold Resources Ltd., 220 - 145 Chadwick Court, North Vancouver, British Columbia V7M 5K1, facsimile copier 604-986-5928, and notice to Budge shall be directed to the attention of Carole A. O'Brien, facsimile copier 602-949-1737.

12. Transfer and Encumbrances

12.1 Assignment - Neither party shall assign its rights in this Agreement or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary shall be deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

12.2 Preemptive Right - If either party desires to transfer all or any part of its interest in this Agreement or the Venture, such party (the "transferring party") shall promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party which period shall in no case be longer than three (3) months. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months

following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable to the transferring party than those specified in the notice of intended transfer. If the transferring party fails to consummate the transfer to a third party within the six-month period, the preemptive right of the other party in such offered interest shall be deemed to be revived. Any subsequent proposal to transfer such interest shall be conducted in accordance with all of the procedures set forth in this Section 12.2.

12.3 Encumbrances - No party shall encumber its interest in the Property or this Venture without the written consent of the other party except as specifically permitted hereunder.

12.4 Bankruptcy - If any party makes a voluntary assignment for the benefit of creditors, or is adjudged a bankrupt, then the other parties shall have the first right of refusal to purchase the interest of a bankrupt party from the trustee in bankruptcy in the proportion that the non-bankrupt parties hold in the Property and Venture as between themselves.

13. Construction

13.1 Governing Law - This Agreement shall be construed by the internal laws of the State of Arizona.

13.2 Headings - The headings used in this Agreement are for convenience only and shall not be deemed to be a part of this Agreement for purposes of construction.

13.3 Entire Agreement - All of the agreements and understandings of the parties with reference to the Property are embodied in this Agreement, and this Agreement supersedes all prior agreements or understandings between the parties.

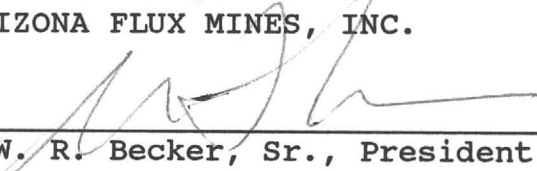
13.4 Rule Against Perpetuities - Any right or option to acquire any interest in real or personal property under this Agreement must be exercised, if at all, so as to vest such interest in the acquirer within 21 years after the effective date of this Agreement.

13.5 Interpretation - If any provision of this Agreement is determined by a court of competent jurisdiction to be in violation of law or public policy, such determination shall not affect the validity of this Agreement and such provision shall be interpreted or limited in such a way as to satisfy the applicable provisions of law or public policy.

13.6 Monetary System - All references to "Dollars" herein shall refer to United States currency.

DATED this 7th day of March, 1989.

ARIZONA FLUX MINES, INC.

By 
W. R. Becker, Sr., President

A. F. BUDGE (MINING) LIMITED

By 
Ronald R. Short, General Manager

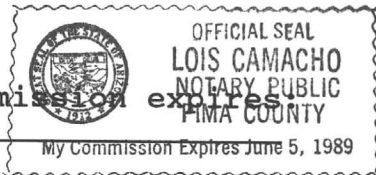
STATE OF ARIZONA)

County of Pima)

ss.

The foregoing instrument was acknowledged before me this 7th day of March, 1989, by W. R. Becker, Sr., the President of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires:




Notary Public

STATE OF ARIZONA)

County of Maricopa)

ss.

The foregoing instrument was acknowledged before me this 10th day of March, 1989, by Ronald R. Short, the General Manager of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires:

OFFICIAL SEAL
CAROLE A. O'BRIEN
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires April 14, 1991

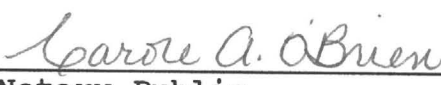

Notary Public

EXHIBIT A

The "Property" that is the subject of the foregoing Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, more particularly described as follows:

I. The following mining claims and millsites were patented under United States Patent Number 783751 dated March 7, 1921, the patent of which is recorded in Book 1 of Patents, Pages 277-81 of the official records of Greenlee County:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	3076A
Commerce	Lode	3076A
Fraction	Lode	3076A
Summit	Lode	3076A
Homestead	Lode	3076A
Commerce	Millsite	3076B
Summit	Millsite	3076B

II. The location notices for the following unpatented mining claims are of record in the official records of Greenlee (except where indicated otherwise) County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'd Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer	12	669	41275
relocated	05-30-79		101	188	
amended	05-27-80		109	640	
Shamrock No. 1	05-19-63	Placer	12	670	41276
relocated	05-30-79		101		
amended	05-27-80		109	642	
Shamrock No. 2	05-19-63	Placer	12	671	41277
relocated	05-30-63		101		
amended	05-27-80		109	644	
Patton No. 1	07-14-79	Lode	102	195	57278
amended	06-05-80		109	626	165054
relocated	02-24-82		131	454	
Patton No. 2	07-14-79	Lode	102	197	57279
amended	06-05-80		109	628	165055
relocated	02-24-82		131	456	
Patton No. 3	07-14-79	Lode	102	199	57280
amended	06-05-80		109	630	165056
relocated	02-24-82		131	458	

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Patton No. 4	07-14-79	Lode	102	201	57281
amended	06-05-80		109	632	165057
relocated	02-24-82		131	460	
Patton No. 5	07-14-79	Lode	102	203	57282
amended	06-05-80		109	634	165058
relocated	02-24-82		131	462	
Patton No. 6	07-14-79	Lode	102	205	57283
amended	06-05-80		109	636	165059
relocated	02-24-82		131	464	
Patton No. 7	07-14-79	Lode	102	207	57284
amended	06-05-80		109	638	165060
relocated	02-24-82		131	466	
Hardy No. 1	02-09-72	Lode	43	339	
relocated	11-21-79		104	374	
correction	04-11-80		108	53	
amendment	07-04-80		111	281	
relocation	02-24-82		131	434	165062
Hardy No. 2	02-09-72	Lode	43	340	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation	02-24-82		131	436	165063
Lone Camp No.3	02-09-72	Lode	43	361	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation	02-24-82		131	438	165044
Lone Camp No.6	02-09-72	Lode	43	362	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation	02-24-82		131	440	165045
Hellfire No. 2	02-09-72	Lode	43	363	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation	02-24-82		131	442	165046
Sudan No. 2	02-09-72	Lode	43	364	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation	02-24-82		131	444	165047

Fran No. 2	02-09-72	Lode	43	365	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation ¹	02-24-82		131	446	165048
Cougar No. 2	02-09-72	Lode	43	366	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation ²	02-24-82		131	448	165049
Granduc No. 2	02-09-72	Lode	43	367	
relocation ³	02-24-82				165050
Granduc No. 5	02-09-72	Lode	43	368	
relocated	11-21-79		104		
correction	04-11-80		108		
amendment	07-04-80		111		
relocation ⁴	02-24-82		131	450	165051
Granduc No. 6	02-09-72	Lode	43	369	
relocation ⁵	02-24-82				165052
Granduc No. 7	02-09-72	Lode			
relocated ⁶	02-24-82		131	452	165053
Harmony No. 1	02-24-82	Lode	131	468	165061

¹ Location notice also recorded in the official records of Graham County in Docket 347, Pages 755-56.

² Location notice also recorded in the official records of Graham County in Docket 347, Pages 757-58.

³ Location notice recorded in the official records of Graham County in Docket 347, Pages 759-60.

⁴ Location notice also recorded in the official records of Graham County in Docket 347, Pages 761-62.

⁵ Location notice recorded in the official records of Graham County in Docket 347, Pages 763-64.

⁶ Location notice also recorded in the official records of Graham County in Docket 347, Pages 765-66.

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
B & B No. 1	01-13-80	Lode	105	576	100836
B & B No. 2	01-13-80	Lode	105	578	100837
B & B No. 3	01-13-80	Lode	105	580	100838
B & B No. 4	01-13-80	Lode	105	582	100839
MAB No. 1	01-13-80	Lode	105	584	100840
MAB No. 2 ⁷	01-13-80	Lode	105	586	100841
MAB No. 3 ⁸	01-13-80	Lode	105	588	100842
MAB No. 4 ⁹	01-13-80	Lode	105	590	100843
MAB No. 5 ¹⁰	01-13-80	Lode	105	592	100844
MAB No. 6	01-13-80	Lode	105	594	100845

III. Those certain contractual rights described as follows:

Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc., a copy of which is recorded in Docket 156, Pages 424-41 of the official records of Greenlee County.

7 Location notice also recorded in the official records of Graham County in Docket 321, Pages 56-57.

8 Location notice also recorded in the official records of Graham County in Docket 321, Pages 58-59.

9 Location notice also recorded in the official records of Graham County in Docket 321, Pages 60-61.

10 Location notice also recorded in the official records of Graham County in Docket 321, Pages 62-63.

EXHIBIT B

"Net Profits" as used in this Agreement shall be determined by deducting from "Gross Revenues" all "Operating Costs" received from the sale or other disposition of mineral production from the Property during any fiscal year. The words and phrases used above shall have the following meanings:

"Gross Revenues" shall mean the gross receipts from the sales of ores and minerals resulting from the exploitation of the Property.

"Operating Costs" shall mean those costs and expenses incurred by or for the operating party in connection with or attributable to the development and exploitation of the Property. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, freight, administrative overhead, insurance and marketing the products resulting from the exploration, development and exploitation of the Property; all royalties and rental payments required under this Agreement or other similar payments required to mine the Property resulting therefrom; all ad valorem, transaction privilege, license, sales, severance, and other taxes imposed on the activities of the operator hereunder, except taxes measured by the operating party's corporate profit from such operations; the depreciation of all buildings, structures, machinery and equipment over the useful lives of such items, any sinking fund reasonably deemed advisable for the future reclamation of the Property; and in the event of plant or mine expansion involving construction or replacement of buildings, structures and the addition of machinery and equipment, the depreciation of such items over their useful lives, and interest charges actually incurred in financing operations on the Property. Operating Costs shall in no case include any costs related to Work performed by Budge prior to exercise of its option and those funds contributed as part of the purchase price. The parties shall prepare and execute an accounting procedure after completion of the mining feasibility study fixing actual circumstances of Operating Costs as determined by the mining feasibility study.

**OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)**

BY THIS OPTION AND MINING VENTURE AGREEMENT

effective March 7, 1989,

by and between ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is 1630 South Alvernon Way, Tucson, Arizona 85711,

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

AFM and Budge have entered into an understanding concerning a joint mineral exploration and development program as follows:

1. Recitals and Grant

1.1 Background - AFM is vested with an interest in certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, by that certain Lease, Sub-Lease and Purchase Option Agreement dated June 25, 1986, more particularly described in Exhibit A attached hereto (the "Property"), and has acquired information related to the Property. AFM is conducting a mining operation on the Property to produce silica fluxing material with an argentiferous byproduct. Budge is interested in evaluating the long-term mineral potential of the Property by such investigations as Budge deems appropriate. This Agreement is intended to provide Budge the opportunity of exploring the Property for additional commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property.

1.2 Grant of Option - AFM hereby grants Budge the sole and exclusive option to enter into a joint venture for the joint development of the Property with AFM under the further terms of this Agreement.

1.3 Joint Venture - If Budge exercises its option to enter into a joint venture with AFM, such joint program (the "Venture") shall be owned in accordance with the principles set forth in Section 7, and shall exist to explore for, develop, mine, extract, mill, store, remove, and to the extent expressly

provided by this Agreement, market all metallic minerals, ore-bearing materials and rocks of every kind and character ("Minerals" herein) from the Property.

2. Term

2.1 Option - Budge's option to enter into the Venture shall exist for a period during a term expiring at midnight, Mountain Standard Time, six (6) months from and after the effective date hereof, unless extended for an additional six (6) months as provided in Section 4 or sooner terminated as provided herein.

2.2 Venture - If Budge exercises its option to enter into the Venture, the Venture and this Agreement shall exist for a term of 50 years and so long thereafter as Minerals are being mined from any portion of the Property, or Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Representations and Title

3.1 Title Representations - AFM represents and warrants to Budge that: (1) insofar as the Property includes fee lands, AFM's interest binds the entire undivided title to the Property, including the surface and mineral estate, and AFM has the exclusive possession thereof; (2) insofar as the Property includes unpatented mining claims, to the best of AFM's knowledge and belief, the claims have been located and appropriate record made thereof in compliance with the laws of the United States and the laws of the State of Arizona, the assessment work for the year ending September 1 prior to the effective date of this Agreement has been performed and appropriate record made thereof in compliance with applicable law, and there is no claim of adverse mineral rights affecting such claims; (3) insofar as the Property is controlled under leases or other agreements with entities not parties to this Agreement, such rights are in good standing and no default exists or has been asserted under any of the terms thereof and that the assignment provisions thereof permit assignment to the Venture without further approvals; and (4) with respect to the Property as a whole, except as specified in Exhibit A, AFM's interest in the Property is free and clear of all liens and encumbrances and no legal claims are pending or have been threatened against the interest of AFM in the Property.

3.2 Information Related to Property - Upon execution of this Agreement, AFM shall provide Budge with (1) copies of all title information related to the Property, and (2) copies of all logs, assay reports, maps and other geological and mining information in AFM's possession related to the mineral estate of the Property.

3.3 Mutual Representations - Each of the parties represent that they have the full power and capacity to enter into this Agreement under the terms set forth herein.

3.4 Title Defects, Defense and Protection - If -- (1) in the opinion of counsel retained by Budge, AFM's title to any of the Property is defective or less than as represented herein, or (2) title to any of the Property is contested or questioned by any person, entity or governmental agency, Budge may attempt, with all reasonable dispatch, to perfect, defend or initiate litigation to protect such title. In that event, AFM shall take such actions as are reasonably necessary to assist Budge in its efforts to perfect, defend or protect such title. The costs and expenses of perfecting, defending or correcting title (including, but without being limited to, the cost of attorney's fees and the cost of releasing or satisfying any mortgages, liens and encumbrances), shall be a credit against obligations of Budge under the provisions of Section 4.2 during the option period and shall thereafter be a joint obligation of the parties under the further terms of this Agreement.

4. Activities and Obligations of Budge During Option Period

4.1 Payments to AFM - Budge shall, upon execution of this Agreement, pay to AFM as consideration for the option granted hereunder, the sum of Fifty Thousand Dollars (\$50,000.00). If Budge does not exercise its option during the initial six-month term of the option, Budge shall pay AFM an additional sum of Seventy-Five Thousand Dollars (\$75,000.00) as consideration for the six-month extension of the option period.

4.2 Examination of Property - During the option period, Budge shall have the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate. Such work may include sampling, exploration, drilling, excavations, testing and other related feasibility work including the right to use the surface and place improvements on the surface as deemed necessary in Budge's sole judgment and discretion; provided, however, that Budge's activities shall not interfere with current mining operations at the Ash Peak Mine and no work performed by Budge during such examination shall give Budge any rights in and to the Property unless Budge exercises its option as granted herein.

4.3 Work During Option Period - During the option period (whether such period is either six months or twelve months), Budge shall expend in exploration, development and mining work ("Work") not less than One Hundred Thousand Dollars (\$100,000.00). The nature, place and conduct of such Work shall be at the sole discretion of Budge and may be performed on or off the Property, so long as such Work is for the sole benefit of exploration, development or mining of the Property and includes

sufficient expenditures to satisfy the assessment work requirements for the Property and any work requirements of any underlying agreement controlling the Property. The amount of the expenditures shall be determined by the direct cost to Budge of Work performed by Budge or independent contractors, including the salaries, expenses and benefits burden of Budge employees performing Work, and the reasonable cost of equipment rentals but shall not include any additional management fee or other compensation to Budge.

4.4 Exercise of Option - Budge may elect to exercise an option to enter into the Venture at any time during the option period. Upon such exercise, and upon the making of the initial contribution specified for Budge in Section 6.1a, Budge shall be vested with the interest in the Property specified in Section 7.1 hereof, and AFM shall execute an appropriate assignment of such interest in the Property to Budge; subject, however, to the further terms and conditions of this Agreement.

4.5 Force Majeure - If Budge is delayed or interrupted in, or prevented from, exercising its rights or performing its obligations under this Section 4, by reasons of "force majeure," then the option period shall be extended for the period of time Budge was so delayed or interrupted; provided, however, that in no case shall a period of force majeure be declared extending the option period for in excess of twelve (12) months. "Force majeure" includes all disabilities arising from causes beyond the reasonable control of Budge; including, without limitation, acts of God, accidents, fires, damages to facilities, labor troubles, unavailability of fuels, supplies and equipment, orders or requirements of courts or government agencies, or the inability to obtain environmental clearance or operating permits that may be required by governmental authorities.

5. Relationship of Parties

5.1 Rights and Obligations - If Budge exercises its option, the rights as between the parties shall be as tenants in common with undivided interests in the Property in the proportion set forth in Section 7.1, as adjusted by Section 7.2. Otherwise, the rights, duties, obligations and liabilities of the parties under this Agreement shall be several and not joint or collective, and each party shall be responsible only for its obligations as set forth in this Agreement. It is not the purpose or intention of this Agreement to create a partnership except for tax purposes. This Agreement and the dealings between the parties shall be governed by principles of good faith and fair dealing.

5.2 Tax Election - If Budge exercises its option, it is the intention of the parties by this Agreement to create a partnership for tax purposes only within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as

amended (the "Code"). Taxable income, for federal income tax purposes, shall be determined under Subchapter K of Chapter 1 of Subtitle A of the code, as amended. Budge shall prepare and file annual partnership tax returns containing the following elections: (i) the taxable year; (ii) the accrual method of accounting; (iii) to deduct currently all exploration expenditures; and (iv) such other elections as Budge may determine to be appropriate. For United States and state income tax purposes, the gains and losses from sales, abandonments, and other disposition of property, other than production, and all costs, expenses and credits, including depreciation, shall be shared and accounted for as follows:

(1) Operating costs shall be allocated to each party in accordance with its respective contributions to such costs.

(2) Exploration and development costs shall be allocated to each party in accordance with its respective contribution to such costs.

(3) Depreciation and basis in property for investment tax credits, if any, shall be allocated to each party in accordance with its respective contribution to the adjusted basis of such property at the time such contribution is made. The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954, as amended.

(4) Gains and losses from each sale, abandonment or other disposition of property (other than production) shall be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions that have been allocated to each party with respect to such property as provided in this subsection (4). No gain or loss shall be attributed to a party whose interest has been converted to a non-participating interest under Section 7.2.

(5) Depletion allowance shall be allocated among the parties according to the percentage of profits allocated among the parties under Section 7.

(6) All other classes of costs, expenses and credits not falling within subsections (1) through (5) above shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

5.3 Access and Information - Both parties shall have access to the Property at any reasonable time to inspect any operations conducted pursuant to this Agreement, together with the right to inspect all drilling data, samples, cores, logs and other data pertaining to the Property.

5.4 Confidentiality -

(1) All information obtained as a result of exploration and development of the Property in connection with the performance of this Agreement shall be the exclusive property of the parties hereto and shall not, without the prior written consent (not unreasonably withheld) of the parties, be disclosed to third parties. A party may furnish information as may be reasonably required if it is negotiating in good faith for the sale of its interest provided that any entity seeking to acquire such interest shall provide a written secrecy commitment that the information will not be disseminated to any persons other than those involved in the evaluation of the proposal.

(2) A party may furnish or disclose Confidential Information to the public or to any governmental agency when it reasonably believes it is required to do so by pertinent law, regulation or regulatory body policy. Any disclosure shall restrict its distribution to the extent permitted by such law, regulation or policy, and the disclosing party shall use its best efforts to provide the other party with a copy of such disclosure not less than ten (10) days prior to release for comments as to form and content; provided, however, that in no case shall such disclosure be made upon less than seventy-two (72) hour's notice.

(3) A party may furnish or disclose reports or statements containing Confidential Information which, under the rules of any stock exchange upon which its shares are listed, a party is required to make to such exchange or to the public. Further, a party may furnish general information to its stockholders. Any party planning to submit or release any Confidential Information or make any report or statements as permitted shall first provide the text of such statement to the other party at least ten days prior to release. The other party shall have the right to provide input to such release as to both form and content. Whenever possible, any public statements or news releases shall be made jointly by the parties.

5.5 Other Opportunities - Each of the parties shall be free to acquire other mining properties or interests therein and engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5.6 Area of Interest - An area extending one (1) mile from the exterior boundaries of the Property is hereby designated as the "Area of Interest." If either party acquires an interest in real property within the Area of Interest, the acquiring party shall provide notice to the other party identifying the interest, its acquisition cost, and any terms. Such interest shall be automatically a part of the Property and subject to the terms of this Agreement unless within 30 days from and after such notice the non-acquiring party objects to such acquisition, in which case the acquiring party shall own such real property interest free and clear of the rights and obligations of this Agreement. If no objection is made, the cost of the acquisition of such real property interest shall be the joint obligation of the parties in equal proportions. If, having once agreed to acquire such real property rights, either party thereafter fails to meet its obligations to pay for such real property interest when due, and such failure continues for 30 days after written notice of such failure from the Manager or the party who has contributed its share, the defaulting party's rights in such additional real property interests shall be forfeited. Further, if such interests are acquired during the option term, and this Agreement is thereafter terminated under the provisions of Section 10.1 or 10.2, AFM shall have the right to acquire the interest of Budge by tendering its pro-rata portion of Budge's cost of such acquisition within 30 days after the effective date of such termination or notice to AFM of Budge's costs, whichever is later.

5.7 Partition - To the extent that the parties may acquire ownership in the Property, each party waives any and all rights of partition it may have with respect to the Property except as specifically set forth in this Agreement.

6. Contributions Upon Creation of Venture

6.1 Initial Contribution by AFM and Budge -

a. Upon the election by Budge to enter into the Venture, Budge shall pay to AFM the sum of One Million Seventy-Five Thousand Dollars (\$1,075,000.00) as the purchase price of its interest in the Property, which interest shall be deemed to have been contributed to the Venture. Budge shall receive as a credit toward such purchase price the amounts paid to AFM as consideration for

the option and any extension thereof together with up to a maximum of One Hundred Seventy-Five Thousand Dollars (\$175,000.00) expended as Work under the provisions of Section 4.3.

b. Upon the election by Budge to enter into the Venture and Budge's payment to AFM of the amount specified in Section 6.1a. above, AFM shall be deemed to have contributed its interest in the Property to the Venture.

6.2 Exploration Contributions Subsequent to Creation of Venture - Upon creation of the Venture, all work shall be performed pursuant to "Work Plans and Budgets" approved by the Management Committee, as further defined in Section 8.2 and all funds required for operation, including costs of expanding facilities and the furnishing of whatever capital may be necessary in such operations shall be provided by the parties in proportion to their respective interests in the Venture as determined by Section 7.1. If contributions are not made, or less than the full contribution is made, the rights of the parties shall be governed by Section 7.2 hereof.

7. Principles for Determination of Ownership and Cost Allocation

7.1 Ownership - Upon exercise of Budge's option and the payment of the initial contribution amount by Budge pursuant to Section 6.1(a), Budge shall be vested with an undivided fifty percent (50%) interest in the Venture and the Property and AFM shall retain an undivided fifty percent (50%) interest in the Venture and the Property. Such interest shall be vested in each party as cotenants in the Property, subject to the provisions of this Agreement. The undivided interest of each of the parties shall be subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in Section 7.2.

7.2 Computation of Interests; Declining Interest Prior to Proposal for Production Work Plan - If a Work Plan (other than a Production Work Plan governed by Section 8.4) has been proposed and approved, any party may elect to contribute less than its proportionate percentage to such Work Plan. If an election is made to contribute less than a party's proportionate share, the interest of the party so electing in the Venture and the Property shall be reduced in accordance with the following formula:

$$\text{Adjusted Interest} = \frac{\text{PE} + \text{CE}}{\text{TPE} + \text{TCE}} \times 100\%$$

PE shall be the previous expenditure for the Venture by the participant whose interest is being determined; CE shall be the expenditure for the Venture to which the

participant has committed for the Work Plan being considered.

TPE shall be the total previous expenditures for the Venture of all participants; TCE shall be the total expenditure for the Venture of all participants committed for the Work Plan being conducted.

The initial PE for both AFM and Budge shall be that amount contributed by Budge as the purchase price under Section 6.1 plus any additional expenditures for Work in excess of One Hundred Seventy-Five Thousand Dollars (\$175,000.00).

The calculation of interests under this Section 7.2 shall be made at the time commitments to Work Plans are made with any necessary adjustments arising from cost overruns or underruns made at the end of the year using actual expenditures for purposes of calculation. If, however, a budget overrun or modification of an Approved Work Plan and Annual Budget results in an unanticipated reduction of a party's interest to ten percent (10%), the party electing not to contribute may contribute such an amount as would preserve its interest at the reduced level originally anticipated under the original Approved Work Plan. The appropriate contribution shall be made within thirty days after notification to the party by the Management Committee after computation of such interest. If a participant's interest has been reduced to ten percent (10%) or less under the foregoing provision, such interest shall automatically be converted to an interest in ten percent (10%) of the Net Profits as defined in Section 7.5. After such conversion, the party so reduced shall no longer be a cotenant in the Property or any property rights under this Agreement nor have any right to participate in development of the Property or decisions under this Agreement.

7.3 Profits and Losses - The net profits or net losses of the Venture shall be credited or charged to the parties in accordance with the percentages determined in accordance with this Section 7.

7.4 Distributions - The Venture shall not accumulate more funds than are reasonably necessary to manage operations. If the Management Committee determines that an excess of operating funds are held by the Venture, taking into account the needs and financial circumstances of the Venture, distributions shall be made to the participants according to their respective ownership in the Venture as determined by Section 7.1 or as adjusted by Section 7.2.

7.5 Net Profits Interest - If any party's interest in the Venture and this Agreement is converted to an interest in Net Profits under Section 7.2 of this Agreement, such interest shall be defined in the manner set forth in Exhibit B attached hereto and made a part hereof.

7.6 Payment of Net Profits Interest - Net Profits for the first year of mining operations shall be paid thirty (30) days after the close of the operating party's fiscal year for federal tax purposes. Thereafter, Net Profits shall be paid thirty (30) days after the end of each calendar quarter based on the amount of materials shipped from the Property during such quarter and the Net Profits estimated from the prior year's experience for a similar unit of materials. Necessary adjustments shall be made at the end of the operating party's fiscal year. The Net Profits payable hereunder, as determined above, shall be reduced by all previous costs and expenses that have not been recovered from gross revenue of such prior period. Accounting for gross revenues and costs and expenses shall be on the accrual basis and in accordance with generally accepted accounting principles.

7.7 Capital Accounts - A separate capital account shall be established and maintained for each party and shall be initially credited with the respective amounts fixed as PE for each of the parties under Section 7.2, and thereafter (1) credited with all amounts contributed by the party to pay costs and expenditures arising out of this Agreement; and (2) debited with all losses, expenses, and deductions allocated to that party (provided that "percentage" depletion deductions shall not be charged to a party's capital account to the extent that such percentage depletion deductions exceed the party's adjusted tax basis in the Venture property); and distributions to the party (whether by cash or the tax basis of other Venture property).

8. Management

8.1 Work Plans - After Budge has exercised its option, all Work performed hereunder shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget"). All Work Plans shall be for a period of twelve (12) months except a Production Work Plan, as defined in Section 8.4(4), which may be for a longer period. Each Work Plan shall describe the work to be performed, set forth estimates and costs to be incurred in carrying out such work, and give the estimated completion date for such work, and shall include reasonable detail by month on all projected expenditures and credits, showing appropriate detail indicative of the nature thereof.

8.2 Management Committee - The participants hereby establish a "Management Committee" comprised of two representatives of each participant who shall have the authority to act on behalf of the party they represent on all matters considered by the Management Committee pursuant to this Agreement. The Management Committee shall meet at least annually or at the call of either party. Prior to Budge's exercise of its option the Management Committee shall meet to permit AFM to review activities undertaken during the preceding year but no submittal of a Work Plan by Budge nor approval thereof by the Management Committee shall be required prior to Budge's exercise of its option to establish the Venture. After exercise of the option by Budge, the Management Committee shall make all policy decisions relating to the work carried out hereunder and shall finalize Work Plans and Annual Budgets. Without limiting the generality of the foregoing, the Management Committee shall have exclusive authority with respect to the following matters after formal creation of the Venture upon Budge's exercise of its option:

(1) approval of Work Plans and Annual Budgets and modifications thereof;

(2) approval of the decision to prepare a feasibility study for new mining operations of any portion of the Property, and the election to proceed with development and mining of any portion of the Property;

(3) approval of annual statements of account;

(4) approval of the terms of purchase or rentals of equipment and the providing of services by third parties;

(5) approval of contracts and expenses of Fifty Thousand Dollars (\$50,000.00) or more and the acquisition of assets where the original cost of such assets exceeds Fifty Thousand Dollars (\$50,000.00);

(6) approval of any deviation from Approved Work Plan and Budget of a cumulative amount in excess of ten percent (10%);

(7) setting and changing of the production rate or capacity of mining and mining facilities and treatment methods;

(8) settlement of all claims involving third parties except those covered by insurance or where settlements are less than Ten Thousand Dollars (\$10,000.00); and

(9) acquisition or abandonment of mineral rights within the exterior boundaries of the Property.

8.3 Meetings - The Management Committee shall hold a regular annual meeting on or about August 15 of each year to review operations conducted and/or to consider proposed Work Plans and Annual Budgets for the subsequent year. Notice of such regular meetings shall be sent by the Manager's representative to the members of the Management Committee at least thirty (30) days prior to meeting day.

8.4 Decisions -

(1) The Management Committee shall make decisions in accordance with the vote of its members, who shall cast votes in proportion to ownership as determined under Sections 7.1 or 7.2 of this Agreement. Decisions of the Management Committee shall be made by a vote of the majority of interest in the Venture except as otherwise specified herein.

(2) The recommendation of the Manager related to all exploration of the Property shall be adopted by the Management Committee; provided that Manager first takes into account the reasonable requests of the other participant.

(3) If, after Budge has elected to exercise its option and has entered into the Venture with AFM, the Manager has not proposed Work Plans for exploration or mining of the Property for a period of six (6) months after completion of a prior Work Plan, or the other participant believes that work of a particular nature should be conducted, such participant may present a proposed Work Plan and Budget to the Management Committee for such work. If the Management Committee does not approve such work, the proposing party may proceed with the performance of such work at its expense provided that it does so in a manner that does not interfere with exploration or development programs of the Manager being conducted hereunder.

(4) After a feasibility study has been completed and distributed to the parties, any party can propose a Work Plan for the production of Minerals from any part of the Property ("Production Work Plan"). The Production Work Plan shall contain (1) a legal description and map of the mine; (2) operating methods, mine life and production rates; (3) a detailed schedule of the funds required to develop the mine and construct necessary capital facilities; and (4) a commitment by the proposing party to furnish funds for development and operation of the mine in proportion to its interest in the Venture. The Production Work Plan shall be evaluated by the Management Committee who shall determine all relevant factors with the object of maximizing profits from the mine commensurate with sound economic forecasts, mining and processing techniques, optimum mine life and

safety. The Management Committee decision may include the performance of additional exploration work, which work shall be performed by the Manager during the following 12-month period. After the Management Committee has either approved a Production Work Plan, or additional exploration work has been completed, any party may give notice that it intends to proceed with mining under the Production Work Plan as approved or as supplemented. If the Management Committee does not approve such Production Work Plan and either party is willing to proceed with work under the proposed but unapproved Production Work Plan the provisions of Section 10.6 shall apply.

(5) If the participants each own equal shares in the Venture and a Production Work Plan for a deep deposit is proposed by Budge that in the reasonable opinion of AFM would materially interfere with either the existing mining operations at the Ash Peak Mine or with additional reserves proven by further exploration of such mine, the participants shall to submit the matter to arbitration by a mineral consultant or consulting firm mutually acceptable to the participants for the expression of an opinion that either (1) the deep deposit should be mined in such a way that the existing operations at the Ash Peak Mine would be relegated to a secondary position, or (2) the Ash Peak Mine as presently existing or as expanded additional proven reserves should be mined and deep development postponed. The arbitration process shall be conducted in accordance with the commercial arbitration rules of the American Arbitration Association and the decision of the consultant shall be binding upon the participants, provided, however, that a decision to postpone development of a deeper orebody shall be subject to review on not more than each twelve months upon the request of Budge.

8.5 Funding - After approval of a Work Plan, and the election of a party to participate in such Work Plan, each participating party shall furnish the Manager with funds required to finance the participating party's entire obligation under the Work Plan. Such financing may include financial guarantees from financial institutions, lines of credit or any other financing mechanism that is satisfactory to the Manager within its reasonable discretion. All financing shall allow the Manager to draw in advance its estimate of expenditures that will be incurred during the following month pursuant to the approved Budget for the Work Plan. Such advances shall be deposited in a special bank account in the name of and maintained solely for the purposes of this Venture. If the Manager overextends an Approved Work Plan and Budget by more than ten percent (10%) without the prior approval of the participating parties, such parties will not be responsible for that portion of the overexpenditure that exceeds ten percent (10%) of the approved amount except when such

overexpenditure was necessary in the Manager's reasonable opinion to preserve title to the Property or was incurred in an emergency situation.

9. Manager and Manager's Obligations

9.1 Manager - AFM will manage all operations under this Agreement related to existing mining operations at the Ash Peak Mine described in Exhibit A. Budge will manage all other operations under this Agreement. In the case of a conflict between such operations, priority shall be given to the large-scale bulk-tonnage potential of the Property. Each Manager shall remain in such capacity unless it elects not to serve in such capacity, resigns, or is replaced as provided by this Agreement. The Manager may resign or may be removed for cause under this Agreement if it (1) is determined by a court of competent jurisdiction to be in default in performing its duties, (2) makes a general assignment for the benefit of its creditors, (3) allows an order for relief under Title 11 of the United States Code to be entered, (4) allows its interest in the Venture to be reduced in accordance with Section 7.2 to less than fifty percent (50%), (5) elects not to participate or to participate in a Work Plan at less than a fifty percent (50%) contribution level. The right to remove the Manager under items (4) and (5) above is premised on two participants in this Agreement. If by assignments of interest hereunder, more than two parties are participating in the Venture, item (4) and (5) above shall read as thirty-five percent (35%).

9.2 Manager's Powers and Rights - The Manager shall, in accordance with the terms and conditions of Work Plans and Budgets approved according to this Agreement, have full, complete and exclusive control, charge and supervision of the work included thereunder. The Manager shall not be liable for losses sustained in the conduct of operations under such Work Plan except such losses as may result from Manager's gross negligence or willful misconduct. The parties will grant to the Manager a lien upon its interest in all production from the Property as security for payment of costs chargeable to it, together with any interest payable thereon.

9.3 Manager's Obligations - The Manager shall have the following obligations:

(1) To manage, direct and control all operations under this Agreement or pursuant to approved Work Plans and Budgets in accordance with applicable laws and regulations;

(2) To keep true and correct books, accounts and records of operations under this Agreement. The books shall be available to the parties at all reasonable hours, and the parties may have copies of the same. After approval of the

Work Plan, the Manager will submit to the parties a statement of expenses incurred through the end of the previous month plus a current bank account reconciliation on a monthly basis. Either party may request an annual audit to be performed by a firm of certified public accountants mutually acceptable to the parties, the cost of which audit shall be a cost of the Venture;

(3) To protect the Property and this Agreement from liens and encumbrances created by operations conducted pursuant to the Agreement except liens granted to the Manager by operation of the Agreement;

(4) To carry appropriate liability insurance protecting the parties from liability arising out of Manager's operations on the Property and naming the parties as additional insureds under such policies;

(5) To save and hold the parties harmless from any and all claims arising out of or resulting from Manager's willful misconduct or gross negligence in connection with operations of the Property;

(6) To perform exploration or assessment work as may be required by applicable laws of the State of Arizona during any year in which this Agreement continues in force beyond three (3) months prior to the end of the applicable annual period;

(7) To provide work progress reports at not less than quarterly intervals during the option period and on a monthly basis after production is commenced under Venture operations and will advise the parties and the Management Committee promptly of any pertinent material results of exploration. Normal decisions concerning the conduct of operations shall be made in the best judgment of the Manager; provided, however, that the Manager shall consult from time to time with the Management Committee concerning basic policies or programs;

(8) To pay from time to time on behalf of the parties as the same become due and payable all taxes levied or assessed against the Property; provided, however, that each party shall pay for and be responsible for all the taxes measured by or assessed upon its income;

(9) To hire employees, consultants and professional services as may be necessary to conduct operations under the Agreement; and

(10) To perform or cause to be performed for the account of the parties all obligations required to maintain

the Property in good standing and to pay in a timely manner all costs incurred under this Agreement or pursuant to approved Work Plans and Budgets.

In those circumstances where obligations of the Manager overlap between existing operations of AFM and those operations being undertaken hereunder by Budge, the obligation for Property maintenance shall be borne by the Manager of the large-scale operations.

9.4 Marketing of Products - Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by Section 7. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of products shall be borne by such party. The Manager shall give the participants notice at least 10 days in advance of the delivery date upon which their respective shares of products will be available. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area. Subject to the terms of any such contracts of sale then outstanding, during any period that the Manager is purchasing or selling a party's share of production, the party may elect by notice to the Manager to take in kind. The Manager shall be entitled to deduct from the proceeds of any sale by it for the account of a party reasonable expenses incurred in such a sale.

10. Termination; Removal of Property; Data

10.1 Termination by AFM - If during the option term, Budge defaults in the performance of its obligations under Section 4 or any other obligation applicable to the option term, AFM shall give Budge written notice specifying the default. If the default is not cured within thirty (30) days after Budge has received the notice, or if Budge has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, AFM may terminate this Agreement by delivering to Budge written notice of such termination, subject to Budge's right to remove its property and equipment from the Property, as hereinafter provided. If Budge in good faith disputes the existence of a default, Budge shall initiate appropriate action in a court of competent jurisdiction within the 30-day period and the time to cure shall run from the date of a final determination that a default exists. AFM shall have no right to terminate this Agreement except as set forth in this Section 10.1.

10.2 Termination by Budge - Budge shall have the right to terminate this Agreement at any time during the option term by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under this Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occur prior to the termination date.

10.3 Withdrawal - Either party shall have the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under this Agreement shall terminate, and all right, title and interest of the withdrawing party shall be deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the Area of Interest described in Section 5.6 for a period of three (3) years after the date of such withdrawal.

10.4 Winding Up - If this Agreement expires by its terms, the Manager shall take all action necessary to wind up the activities of the Venture, and all costs and expenses incurred in connection with the termination of the Venture shall be expenses chargeable to the Venture. The assets of the Venture shall first be paid, applied, or distributed in satisfaction of all liabilities of the Venture to third parties and then to satisfy any debts, obligations, or liabilities owed to the parties (including any necessary adjustments to either party's capital to bring such accounts into the same ratio as each party's participating interest). Thereafter, any remaining cash and all other assets shall be distributed (in undivided interests unless otherwise agreed) to the parties in the ratio of their interests as fixed by Sections 7.1 or 7.2. A party shall not receive any distribution, however, if such party's participating interest has been terminated pursuant to Section 7.2 of this Agreement.

10.5 Removal of Property - If this Agreement is terminated under Sections 10.1 or 10.2, Budge shall have a right of access to the Property for a period of six (6) months from and after the effective date of termination within which it may elect to remove from the Property all of its machinery, buildings, structures,

facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts or openings in the Property. Failure of Budge to so remove the same shall constitute an abandonment by Budge to AFM of the same; provided, however, that Budge may still be required to remove such property upon notice from AFM at any time during the six-month period and thirty (30) days thereafter.

10.6 Termination by Deadlock - If the Management Committee fails to adopt a Production Work Plan and either participant desires to proceed with such production in accordance with the Work Plan as submitted, either participant may invoke the deadlock resolving procedure of this section by giving written notice thereof to the other participant. Within thirty (30) days after the giving of such notice, each participant shall deliver to a mutually agreeable disinterested third party a written sealed bid of the price at which the participant agrees to purchase the entire interest of the other participant in the Property and the Venture. The sealed bids shall be opened by such disinterested third party simultaneously and the participant submitting the highest bid shall be required to purchase the other participant's interest at the price bid for such interest and the other participant shall be required to sell its interest at that price. All bids shall specify a cash purchase price payable 60 days after opening of the bids. The participant that fails to submit a purchase price bid pursuant to this section shall be deemed to have submitted a zero bid. Upon the purchase of the other participant's interest pursuant to this Section 10.6, this Agreement shall terminate. Upon the invoking of the above provision, either party may by notice to the other, require a thirty-day period during which the participants shall submit the issue to a mutually acceptable disinterested third party as part of a non-binding arbitration. The request for non-binding arbitration hereunder or the asserted failure of either participant to negotiate in good faith shall not in any way restrict or limit the rights of either participant under the terms of this Section 10.6.

10.7 Delivery of Data - If this Agreement is terminated under this Section 10, all drilling data, samples, cores, logs, and all other data, including interpretative data, pertaining to the Property obtained by Budge during the term of its option or as the Manager in its operations under the Venture, and which has not been previously provided, shall be made available to AFM for duplication for a period of ninety (90) days after the effective date of such termination. If AFM provides notice of its desire to take possession of core, it shall be deemed the owner of such core and shall be responsible for all costs of maintaining such core after the expiration of ninety days from and after the effective date of termination. Only one copy of such information shall be required by this provision.

10.8 Relinquishment of Record - If this Agreement is terminated under this Section 10, the parties shall execute and record a document sufficient to provide notice to third parties of such action.

11. Notices

Notices will be sent to the addresses specified in the designation of the parties to this Agreement by certified or registered mail, by telex or cable or by facsimile copier and considered delivered and effective three days following the date of mailing, the day following cabling or telexing or on the date of transmission by facsimile copier if transmitted during business hours at the point of receipt or on the next business day following the transmission if transmitted after business hours at the point of receipt. Notice to AFM shall be directed to the attention of Wesley Becker, Sr., facsimile copier 602-745-8114 with a copy to Stephen P. Quin, CanaMin Resources Ltd., c/o Southern Gold Resources Ltd., 220 - 145 Chadwick Court, North Vancouver, British Columbia V7M 5K1, facsimile copier 604-986-5928, and notice to Budge shall be directed to the attention of Carole A. O'Brien, facsimile copier 602-949-1737.

12. Transfer and Encumbrances

12.1 Assignment - Neither party shall assign its rights in this Agreement or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary shall be deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

12.2 Preemptive Right - If either party desires to transfer all or any part of its interest in this Agreement or the Venture, such party (the "transferring party") shall promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party which period shall in no case be longer than three (3) months. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months

following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable to the transferring party than those specified in the notice of intended transfer. If the transferring party fails to consummate the transfer to a third party within the six-month period, the preemptive right of the other party in such offered interest shall be deemed to be revived. Any subsequent proposal to transfer such interest shall be conducted in accordance with all of the procedures set forth in this Section 12.2.

12.3 Encumbrances - No party shall encumber its interest in the Property or this Venture without the written consent of the other party except as specifically permitted hereunder.

12.4 Bankruptcy - If any party makes a voluntary assignment for the benefit of creditors, or is adjudged a bankrupt, then the other parties shall have the first right of refusal to purchase the interest of a bankrupt party from the trustee in bankruptcy in the proportion that the non-bankrupt parties hold in the Property and Venture as between themselves.

13. Construction

13.1 Governing Law - This Agreement shall be construed by the internal laws of the State of Arizona.

13.2 Headings - The headings used in this Agreement are for convenience only and shall not be deemed to be a part of this Agreement for purposes of construction.

13.3 Entire Agreement - All of the agreements and understandings of the parties with reference to the Property are embodied in this Agreement, and this Agreement supersedes all prior agreements or understandings between the parties.

13.4 Rule Against Perpetuities - Any right or option to acquire any interest in real or personal property under this Agreement must be exercised, if at all, so as to vest such interest in the acquirer within 21 years after the effective date of this Agreement.

13.5 Interpretation - If any provision of this Agreement is determined by a court of competent jurisdiction to be in violation of law or public policy, such determination shall not affect the validity of this Agreement and such provision shall be interpreted or limited in such a way as to satisfy the applicable provisions of law or public policy.

13.6 Monetary System - All references to "Dollars" herein shall refer to United States currency.

DATED this 17th day of March, 1989.

ARIZONA FLUX MINES, INC.

By W. R. Becker, Sr.
W. R. Becker, Sr., President

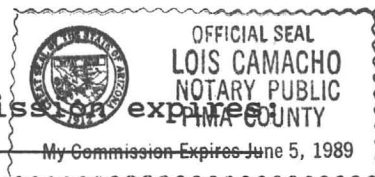
A. F. BUDGE (MINING) LIMITED

By Ronald R. Short
Ronald R. Short, General Manager

STATE OF ARIZONA)
)
County of Pima) ss.

The foregoing instrument was acknowledged before me this 17th day of March, 1989, by W. R. Becker, Sr., the President of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires:

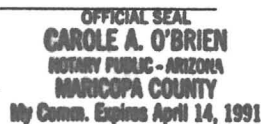


Lois Camacho
Notary Public

STATE OF ARIZONA)
)
County of Maricopa) ss.

The foregoing instrument was acknowledged before me this 10th day of March, 1989, by Ronald R. Short, the General Manager of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires:



Carole A. O'Brien
Notary Public

EXHIBIT A

The "Property" that is the subject of the Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, more particularly described as follows:

I. Patented Mining Claims:

The following mining claims and millsites were patented under United States Patent Number 783751 dated November 26, 1920, the patent of which is recorded in Book 1 of Patents, Pages 277-81 of the official records of Greenlee County:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	3076A
Commerce	Lode	3076A
Fraction	Lode	3076A
Summit	Lode	3076A
Homestead	Lode	3076A
Commerce	Millsite	3076B
Summit	Millsite	3076B

II. Unpatented Mining Claims:

The location notices for the following unpatented mining claims are of record in the official records of Greenlee (except where indicated otherwise) County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer	12	669	
relocated	05-30-79		101	191	41275
amended	05-27-80		109	640	
Shamrock No. 1	05-19-63	Placer	12	670	
relocated	05-30-79		101	194	41276
amended	05-27-80		109	642	
Shamrock No. 2	05-19-63	Placer	12	671	
relocated	05-30-79		101	188	41277
amended	05-27-80		109	644	
Patton No. 1	07-14-79	Lode	102	195	57278
amended	06-05-80		109	626	165054
relocated	02-24-82		131	454	
Patton No. 2	07-14-79	Lode	102	197	57279
amended	06-05-80		109	628	165055
relocated	02-24-82		131	456	
Patton No. 3	07-14-79	Lode	102	199	57280
amended	06-05-80		109	630	165056
relocated	02-24-82		131	458	

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Patton No. 4	07-14-79	Lode	102	201	57281
amended	06-05-80		109	632	165057
relocated	02-24-82		131	460	
Patton No. 5	07-14-79	Lode	102	203	57282
amended	06-05-80		109	634	165058
relocated	02-24-82		131	462	
Patton No. 6	07-14-79	Lode	102	205	57283
amended	06-05-80		109	636	165059
relocated	02-24-82		131	464	
Patton No. 7	07-14-79	Lode	102	207	57284
amended	06-05-80		109	638	165060
relocated	02-24-82		131	466	
Hardy No. 1	02-09-72	Lode	43	339	43676
relocated	11-21-79		104	383	95371
amended	04-11-80		108	54	
amended	07-04-80		111	281	
relocated	02-24-82		131	434	165062
Hardy No. 2	02-09-72	Lode	43	340	43679
relocated	11-21-79		104	386	95372
amended	04-11-80		108	57	
amended	07-04-80		111	283	
relocated	02-24-82		131	436	165063
Lone Camp No.3	02-09-72	Lode	43	361	43679
relocated	11-21-79		104	377	95373
amended	04-11-80		108	63	
amended	07-04-80		111	285	
relocated	02-24-82		131	438	165044
Lone Camp No.6	02-09-72	Lode	43	362	43678
relocated	11-21-79		104	401	95374
amended	04-11-80		108	60	
amended	07-04-80		111	287	
relocated	02-24-82		131	440	165045
Hellfire No. 2	02-09-72	Lode	43	363	43680
relocated	11-21-79		104	392	95375
amended	04-11-80		108	66	
amended	07-04-80		111	289	
relocated	02-24-82		131	442	165046
Sudan No. 2	02-09-72	Lode	43	364	43681
relocated	11-21-79		104	389	95376
amended	04-11-80		108	69	
amended	07-04-80		111	292	
relocated	02-24-82		131	444	165047

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'd Page</u>	<u>BLM Serial A MC No.</u>
Fran No. 2	02-09-72	Lode	43	365	43682
relocated	11-21-79		104	404	95377
amended	04-11-80		108	72	
amended	07-04-80		111	295	
relocated ¹	02-24-82		131	446	165048
Cougar No. 2	02-09-72	Lode	43	366	43683
relocated	11-21-79		104	407	95378
amended	04-11-80		108	75	
amended	07-04-80		111	298	
relocated ²	02-24-82		131	448	165049
Granduc No. 2	02-09-72	Lode	43	367	43684
relocated	11-21-79		104	395	95379
amended	04-11-80		108	77	
amended	07-04-80		111	301	
relocated ³	02-24-82				165050
Granduc No. 5	02-09-72	Lode	43	368	43685
relocated	11-21-79		104	398	95381
amended	04-11-80		108	80	
amended	07-04-80		111	307	
relocated	11-21-79		104	380	95380
amended	04-11-80		108	83	
amended	07-04-80		111	304	
relocated ⁴	02-24-82		131	450	165051
Granduc No. 6	02-09-72	Lode	43	369	43686
relocated ⁵	02-24-82				165052

¹ Location notice also recorded in the official records of Graham County in Docket 347, Pages 755-56.

² Location notice also recorded in the official records of Graham County in Docket 347, Pages 757-58.

³ Location notice recorded in the official records of Graham County in Docket 347, Pages 759-60.

⁴ Location notice also recorded in the official records of Graham County in Docket 347, Pages 761-62.

⁵ Location notice recorded in the official records of Graham County in Docket 347, Pages 763-64.

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Granduc No. 7 ⁶	02-24-82	Lode	131	452	165053
Harmony No. 1	02-24-82	Lode	131	468	165061
B. & B. No. 1	01-13-80	Lode	105	578	100836
B. & B. No. 2	01-13-80	Lode	105	576	100837
B. & B. No. 3	01-13-80	Lode	105	580	100838
B. & B. No. 4	01-13-80	Lode	105	582	100839
MAB No. 1	01-13-80	Lode	105	594	100840
MAB No. 2 ⁷	01-13-80	Lode	105	592	100841
MAB No. 3 ⁸	01-13-80	Lode	105	590	100842
MAB No. 4 ⁹	01-13-80	Lode	105	588	100843
MAB No. 5 ¹⁰	01-13-80	Lode	105	586	100844
MAB No. 6	01-13-80	Lode	105	584	100845

III. Contractual Rights:

That certain Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc., a copy of which is recorded in Docket 156, Pages 424-41 of the official records of Greenlee County.

⁶ Location notice also recorded in the official records of Graham County in Docket 347, Pages 765-66.

⁷ Location notice also recorded in the official records of Graham County in Docket 321, Pages 56-57.

⁸ Location notice also recorded in the official records of Graham County in Docket 321, Pages 58-59.

⁹ Location notice also recorded in the official records of Graham County in Docket 321, Pages 60-61.

¹⁰ Location notice also recorded in the official records of Graham County in Docket 321, Pages 62-63.

EXHIBIT B

"Net Profits" as used in this Agreement shall be determined by deducting from "Gross Revenues" all "Operating Costs" received from the sale or other disposition of mineral production from the Property during any fiscal year. The words and phrases used above shall have the following meanings:

"Gross Revenues" shall mean the gross receipts from the sales of ores and minerals resulting from the exploitation of the Property.

"Operating Costs" shall mean those costs and expenses incurred by or for the operating party in connection with or attributable to the development and exploitation of the Property. Such costs and expenses shall include, but not be limited to, the costs and expenses of exploring, developing, mining, milling, smelting, refining, freight, administrative overhead, insurance and marketing the products resulting from the exploration, development and exploitation of the Property; all royalties and rental payments required under this Agreement or other similar payments required to mine the Property resulting therefrom; all ad valorem, transaction privilege, license, sales, severance, and other taxes imposed on the activities of the operator hereunder, except taxes measured by the operating party's corporate profit from such operations; the depreciation of all buildings, structures, machinery and equipment over the useful lives of such items, any sinking fund reasonably deemed advisable for the future reclamation of the Property; and in the event of plant or mine expansion involving construction or replacement of buildings, structures and the addition of machinery and equipment, the depreciation of such items over their useful lives, and interest charges actually incurred in financing operations on the Property. Operating Costs shall in no case include any costs related to Work performed by Budge prior to exercise of its option and those funds contributed as part of the purchase price. The parties shall prepare and execute an accounting procedure after completion of the mining feasibility study fixing actual circumstances of Operating Costs as determined by the mining feasibility study.

EXHIBIT A

The "Property" that is the subject of the Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, more particularly described as follows:

I. Patented Mining Claims:

The following mining claims and millsites were patented under United States Patent Number 783751 dated November 26, 1920, the patent of which is recorded in Book 1 of Patents, Pages 277-81 of the official records of Greenlee County:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	3076A
Commerce	Lode	3076A
Fraction	Lode	3076A
Summit	Lode	3076A
Homestead	Lode	3076A
Commerce	Millsite	3076B
Summit	Millsite	3076B

II. Unpatented Mining Claims:

The location notices for the following unpatented mining claims are of record in the official records of Greenlee (except where indicated otherwise) County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer	12	669	
relocated	05-30-79		101	191	41275
amended	05-27-80		109	640	
Shamrock No. 1	05-19-63	Placer	12	670	
relocated	05-30-79		101	194	41276
amended	05-27-80		109	642	
Shamrock No. 2	05-19-63	Placer	12	671	
relocated	05-30-79		101	188	41277
amended	05-27-80		109	644	
Patton No. 1	07-14-79	Lode	102	195	57278
amended	06-05-80		109	626	165054
relocated	02-24-82		131	454	
Patton No. 2	07-14-79	Lode	102	197	57279
amended	06-05-80		109	628	165055
relocated	02-24-82		131	456	
Patton No. 3	07-14-79	Lode	102	199	57280
amended	06-05-80		109	630	165056
relocated	02-24-82		131	458	

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Patton No. 4	07-14-79	Lode	102	201	57281
amended	06-05-80		109	632	165057
relocated	02-24-82		131	460	
Patton No. 5	07-14-79	Lode	102	203	57282
amended	06-05-80		109	634	165058
relocated	02-24-82		131	462	
Patton No. 6	07-14-79	Lode	102	205	57283
amended	06-05-80		109	636	165059
relocated	02-24-82		131	464	
Patton No. 7	07-14-79	Lode	102	207	57284
amended	06-05-80		109	638	165060
relocated	02-24-82		131	466	
Hardy No. 1	02-09-72	Lode	43	339	43676
relocated	11-21-79		104	383	95371
amended	04-11-80		108	54	
amended	07-04-80		111	281	
relocated	02-24-82		131	434	165062
Hardy No. 2	02-09-72	Lode	43	340	43679
relocated	11-21-79		104	386	95372
amended	04-11-80		108	57	
amended	07-04-80		111	283	
relocated	02-24-82		131	436	165063
Lone Camp No.3	02-09-72	Lode	43	361	43679
relocated	11-21-79		104	377	95373
amended	04-11-80		108	63	
amended	07-04-80		111	285	
relocated	02-24-82		131	438	165044
Lone Camp No.6	02-09-72	Lode	43	362	43678
relocated	11-21-79		104	401	95374
amended	04-11-80		108	60	
amended	07-04-80		111	287	
relocated	02-24-82		131	440	165045
Hellfire No. 2	02-09-72	Lode	43	363	43680
relocated	11-21-79		104	392	95375
amended	04-11-80		108	66	
amended	07-04-80		111	289	
relocated	02-24-82		131	442	165046
Sudan No. 2	02-09-72	Lode	43	364	43681
relocated	11-21-79		104	389	95376
amended	04-11-80		108	69	
amended	07-04-80		111	292	
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<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Fran No. 2	02-09-72	Lode	43	365	43682
relocated	11-21-79		104	404	95377
amended	04-11-80		108	72	
amended	07-04-80		111	295	
relocated ¹	02-24-82		131	446	165048
Cougar No. 2	02-09-72	Lode	43	366	43683
relocated	11-21-79		104	407	95378
amended	04-11-80		108	75	
amended	07-04-80		111	298	
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amended	04-11-80		108	77	
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<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'd Page</u>	<u>BLM Serial A MC No.</u>
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Harmony No. 1	02-24-82	Lode	131	468	165061
B. & B. No. 1	01-13-80	Lode	105	578	100836
B. & B. No. 2	01-13-80	Lode	105	576	100837
B. & B. No. 3	01-13-80	Lode	105	580	100838
B. & B. No. 4	01-13-80	Lode	105	582	100839
MAB No. 1	01-13-80	Lode	105	594	100840
MAB No. 2 ⁷	01-13-80	Lode	105	592	100841
MAB No. 3 ⁸	01-13-80	Lode	105	590	100842
MAB No. 4 ⁹	01-13-80	Lode	105	588	100843
MAB No. 5 ¹⁰	01-13-80	Lode	105	586	100844
MAB No. 6	01-13-80	Lode	105	584	100845

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¹⁰ Location notice also recorded in the official records of Graham County in Docket 321, Pages 62-63.

DeCONCINI McDONALD BRAMMER YETWIN & LACY

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

EVO DeCONCINI (1901-1986)

JOHN R. McDONALD	J. WM. BRAMMER, JR.
RICHARD M. YETWIN	JOHN C. LACY
DINO DeCONCINI	ROBERT M. STRUSE
WILLIAM B. HANSON	JOHN C. RICHARDSON
DAVID C. ANSON	JAMES A. JUTRY
SPENCER A. SMITH	MICHAEL R. URMAN
DENISE M. BAINTON	DAVID F. GAONA
KAREN J. NYGAARD	LUIS A. OCHOA
SUSAN E. MILLER	GARY F. URMAN
MARK D. LAMMERS	

2525 EAST BROADWAY BOULEVARD, SUITE 200
TUCSON, ARIZONA 85716-5303
(602) 322-5000
FAX: (602) 322-5585

April 14, 1989

3030 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012-3002
(602) 241-0100
FAX: (602) 241-8554

PLEASE REPLY TO TUCSON

RECEIVED APR 18 1989

Carole A. O'Brien
A.F. Budge (Mining) Limited
4301 North 75th Street
Suite 101
Scottsdale, AZ 85251-3504

Re: **Ash Peak Project, Greenlee and Graham Counties, Arizona**

Dear Carole:

I have enclosed the recorded originals of two Short Forms of Option and Mining Venture Agreement between A.F. Budge (Mining) Ltd., and Arizona Flux Mines, Inc. One copy was recorded in Greenlee County at Docket 166, pages 579 through 589 and a second copy was recorded in Graham County in Docket 415, pages 382 through 392.

I have also transmitted a photocopy of these documents to Wes Becker. If I can be of any further assistance in this matter, please feel free to call. I suggest that it would be a good idea to undertake to perform a title evaluation of the property at some time during the preliminary phase of this project if it looks like A.F. Budge is going to proceed with an exercise of its Option.

Very truly yours,


John C. Lacy

bpm

Enclosures

0414891005.jc12.890035

RECEIVED
APR 13 1989

JCL

03-07-89 DeCONCINI, McDONALD, BRAMMER,
YETWIN & LACY, P.C.
2525 E. BDV., STE. 200, TUC., AZ 85710

STATE OF ARIZONA, County of Greenlee ss: Fee \$ 15.00 No. 316

I hereby certify that this instrument was filed for record at request of
DECONCINI, McDONALD ATTORNEY AT LAW
2525 E BROADWAY BLVD., 4-6, 19 89 at 3:40 P.M.
TUCSON, AZ. 85716-5303
in Dkt. No. 166 Page 579-589 witness my hand and official seal.
By *Sandie J. Budge* KATIE CLONTS
Deputy Recorder County Recorder

**SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)**



THIS SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT

is to give public notice of an Option and Mining Venture Agreement, effective March 1, 1989, by which ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is 1630 South Alvernon Way, Tucson, Arizona 85711,

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

by which AFM and Budge have entered into an agreement granting Budge an option to enter into a joint mineral exploration and development program with AFM (the "Agreement") described as follows:

1. Grant of Option for Creation of Mining Venture

AFM is vested with an interest in certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, by that certain Lease, Sub-Lease and Purchase Option Agreement dated June 25, 1986, more particularly described in Exhibit A attached hereto (the "Property" which by the terms of the Agreement includes an "Area of Interest"), and has acquired information related to the Property. AFM is conducting a mining operation on the Property to produce silica fluxing material with an argentiferous byproduct. Budge is interested in evaluating the long-term mineral potential of the Property by such investigations as Budge deems appropriate. The Agreement provides an initial six-month period (which can be extended to twelve months) granting Budge the right to explore the Property for additional commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property (the "Venture").

2. Term

Upon exercise of the option, the Venture and the Agreement will exist for a term of fifty (50) years and so long thereafter as Minerals are being mined from any portion of the Property, or

JCL
03-07-89

STATE OF ARIZONA, County of Greenlee ss: Fee \$ 15.00 No. 316	
I hereby certify that this instrument was filed for record at request of _____	
DECONCINI, McDONALD ATTORNEY AT LAW	
2525 E BROADWAY BLVD., 4-6, 19 89 at 3:40 P.M.	
TUCSON, AZ. 85716-5303	
in Dkt. No. 166 Page 579-589 witness my hand and official seal.	
By <u>Sandie J. Bearden</u>	KATIE CLONTS
Deputy Recorder	County Recorder

**SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)**



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and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

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2. Term

Upon exercise of the option, the Venture and the Agreement will exist for a term of fifty (50) years and so long thereafter as Minerals are being mined from any portion of the Property, or

Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Activities and Obligations During Option Period

During the option period (unless extended by reasons of force majeure), Budge has the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate; provided, however, that Budge's activities may not interfere with current mining operations at the Ash Peak Mine and no work performed by Budge during such examination shall give Budge any rights in and to the Property unless Budge exercises its option as granted in the Agreement.

4. Relationship of Parties

Upon Budge's exercise of its option, the rights as between the parties shall be as tenants in common with undivided ownership in the Property in the proportion set forth in the Agreement. Each party also waived any and all rights of partition it may have with respect to the Property except as specifically set forth in the Agreement. Otherwise, the rights, duties, obligations and liabilities of the parties under the Agreement shall be several and not joint or collective, and each party is responsible only for its obligations as set forth in the Agreement. It is not the purpose or intention of the Agreement to create a partnership except for tax purposes within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as amended. The tax elections and allocations shall be made as set forth in the Agreement. Each of the parties is free to acquire other mining properties or interests therein and to engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5. Determination of Participating Interests

Upon exercise of the option and the payment of the contribution set forth in the Agreement, Budge shall acquire a fifty percent (50%) interest in the Venture and the Property and AFM shall retain a fifty percent (50%) interest in the Venture and the Property. The undivided interest of each of the parties is thereafter subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in the Agreement; provided, however, that if either party allows its interest in the Venture to be reduced in the manner set forth in the Agreement to ten percent (10%) or less, such interest shall be automatically converted to ten percent (10%) of the Net Profits of the Venture as defined in the Agreement. After such conversion, the party so reduced shall no longer be a cotenant in the property rights under the Agreement nor have any right to

participate in development of the Property or decisions under the Agreement.

6. Management

After the exercise of the option, all Work performed under the Agreement shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget").

7. Marketing of Products

Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by the Agreement. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area.

8. Termination

Budge has the right to terminate the Agreement at any time during the option period by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under the Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occurred prior to the termination date. After Budge exercises its option, either party has the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under the Agreement terminates, and all right, title and interest of the withdrawing party is deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the

Area of Interest for a period of three (3) years after the date of such withdrawal.

9. Transfer and Encumbrances

9.1 Assignment - Neither party may assign its rights in the Agreement, the Venture or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. The provision does not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary is deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

9.2 Preemptive Right - If either party desires to transfer all or any part of its interest in the Agreement or the Venture, such party (the "transferring party") is required to promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party which period shall in no case be longer than three (3) months. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable to the transferring party than those specified in the notice of intended transfer. If the transferring party fails to consummate the transfer to a third party within the six-month period, the preemptive right of the other party in such offered interest shall be deemed to be revived. Any subsequent proposal to transfer such interest shall be conducted in accordance with all of these same procedures.

9.3 Encumbrances - No party may encumber its interest in the Property or the Venture without the written consent of the other party except as specifically permitted in the Agreement.

9.4 Bankruptcy - If either party makes a voluntary assignment for the benefit of creditors, or is adjudged a bankrupt, then the other party has the first right of refusal to purchase the interest of a bankrupt party from the trustee in bankruptcy.

10. Copies

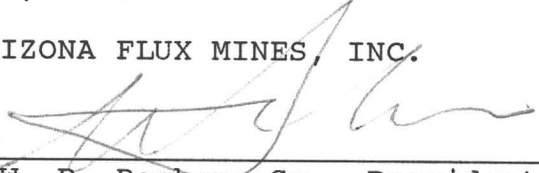
A copy of the Agreement is on file with the parties at the addresses indicated in the recitation of the parties to the Agreement.

11. Interpretation

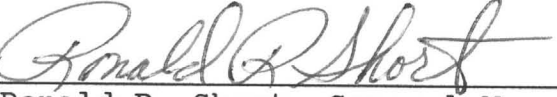
The purpose of this Short Form is to provide notice to third parties of the existence and general terms of the Agreement and this Short Form shall not be used for interpretation of the Agreement.

DATED this 7th day of March, 1989.

ARIZONA FLUX MINES, INC.

By 
W. R. Becker, Sr., President

A. F. BUDGE (MINING) LIMITED

By 
Ronald R. Short, General Manager

IV. Area of Interest:

The "Area of Interest" as defined in Section 5.6 of the Option and Mining Venture Agreement consists of all property interests acquired by either party within one (1) mile from the exterior boundaries of the property described above, the confidentiality provisions of which exist for a period of three (3) years from and after the effective date of withdrawal of a party from the Agreement or termination of the Agreement.

STATE OF ARIZONA)

County of Pima)

SS.

7th The foregoing instrument was acknowledged before me this day of March, 1989, by W. R. Becker, Sr., the President of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires:



Lois Camacho
Notary Public

STATE OF ARIZONA)

County of Maricopa)

SS.

10th The foregoing instrument was acknowledged before me this day of March, 1989, by Ronald R. Short, the General Manager of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires:

Carole A. O'Brien
Notary Public



OFFICIAL SEAL
CAROLE A. O'BRIEN
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires April 14, 1991

EXHIBIT A

The "Property" that is the subject of the Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, more particularly described as follows:

I. Patented Mining Claims:

The following mining claims and millsites were patented under United States Patent Number 783751 dated November 26, 1920, the patent of which is recorded in Book 1 of Patents, Pages 277-81 of the official records of Greenlee County:

<u>Name of Claim</u>	<u>Type of Claim</u>	<u>Mineral Survey No.</u>
Great Eastern	Lode	3076A
Commerce	Lode	3076A
Fraction	Lode	3076A
Summit	Lode	3076A
Homestead	Lode	3076A
Commerce	Millsite	3076B
Summit	Millsite	3076B

II. Unpatented Mining Claims:

The location notices for the following unpatented mining claims are of record in the official records of Greenlee (except where indicated otherwise) County and the Arizona State Office of the Bureau of Land Management as follows:

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'd Page</u>	<u>BLM Serial A MC No.</u>
Shamrock	05-19-63	Placer	12	669	
relocated	05-30-79		101	191	41275
amended	05-27-80		109	640	
Shamrock No. 1	05-19-63	Placer	12	670	
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amended	06-05-80		109	626	165054
relocated	02-24-82		131	454	
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amended	06-05-80		109	628	165055
relocated	02-24-82		131	456	
Patton No. 3	07-14-79	Lode	102	199	57280
amended	06-05-80		109	630	165056
relocated	02-24-82		131	458	

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
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amended	06-05-80		109	632	165057
relocated	02-24-82		131	460	
Patton No. 5	07-14-79	Lode	102	203	57282
amended	06-05-80		109	634	165058
relocated	02-24-82		131	462	
Patton No. 6	07-14-79	Lode	102	205	57283
amended	06-05-80		109	636	165059
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Hardy No. 1	02-09-72	Lode	43	339	43676
relocated	11-21-79		104	383	95371
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amended	07-04-80		111	281	
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amended	04-11-80		108	57	
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amended	07-04-80		111	285	
relocated	02-24-82		131	438	165044
Lone Camp No.6	02-09-72	Lode	43	362	43678
relocated	11-21-79		104	401	95374
amended	04-11-80		108	60	
amended	07-04-80		111	287	
relocated	02-24-82		131	440	165045
Hellfire No. 2	02-09-72	Lode	43	363	43680
relocated	11-21-79		104	392	95375
amended	04-11-80		108	66	
amended	07-04-80		111	289	
relocated	02-24-82		131	442	165046
Sudan No. 2	02-09-72	Lode	43	364	43681
relocated	11-21-79		104	389	95376
amended	04-11-80		108	69	
amended	07-04-80		111	292	
relocated	02-24-82		131	444	165047

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Fran No. 2	02-09-72	Lode	43	365	43682
relocated	11-21-79		104	404	95377
amended	04-11-80		108	72	
amended	07-04-80		111	295	
relocated ¹	02-24-82		131	446	165048
Cougar No. 2	02-09-72	Lode	43	366	43683
relocated	11-21-79		104	407	95378
amended	04-11-80		108	75	
amended	07-04-80		111	298	
relocated ²	02-24-82		131	448	165049
Granduc No. 2	02-09-72	Lode	43	367	43684
relocated	11-21-79		104	395	95379
amended	04-11-80		108	77	
amended	07-04-80		111	301	
relocated ³	02-24-82				165050
Granduc No. 5	02-09-72	Lode	43	368	43685
relocated	11-21-79		104	398	95381
amended	04-11-80		108	80	
amended	07-04-80		111	307	
relocated	11-21-79		104	380	95380
amended	04-11-80		108	83	
amended	07-04-80		111	304	
relocated ⁴	02-24-82		131	450	165051
Granduc No. 6	02-09-72	Lode	43	369	43686
relocated ⁵	02-24-82				165052

¹ Location notice also recorded in the official records of Graham County in Docket 347, Pages 755-56.

² Location notice also recorded in the official records of Graham County in Docket 347, Pages 757-58.

³ Location notice recorded in the official records of Graham County in Docket 347, Pages 759-60.

⁴ Location notice also recorded in the official records of Graham County in Docket 347, Pages 761-62.

⁵ Location notice recorded in the official records of Graham County in Docket 347, Pages 763-64.

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Granduc No. 7 ⁶	02-24-82	Lode	131	452	165053
Harmony No. 1	02-24-82	Lode	131	468	165061
B. & B. No. 1	01-13-80	Lode	105	578	100836
B. & B. No. 2	01-13-80	Lode	105	576	100837
B. & B. No. 3	01-13-80	Lode	105	580	100838
B. & B. No. 4	01-13-80	Lode	105	582	100839
MAB No. 1	01-13-80	Lode	105	594	100840
MAB No. 2 ⁷	01-13-80	Lode	105	592	100841
MAB No. 3 ⁸	01-13-80	Lode	105	590	100842
MAB No. 4 ⁹	01-13-80	Lode	105	588	100843
MAB No. 5 ¹⁰	01-13-80	Lode	105	586	100844
MAB No. 6	01-13-80	Lode	105	584	100845

III. Contractual Rights:

That certain Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc., a copy of which is recorded in Docket 156, Pages 424-41 of the official records of Greenlee County.

⁶ Location notice also recorded in the official records of Graham County in Docket 347, Pages 765-66.

⁷ Location notice also recorded in the official records of Graham County in Docket 321, Pages 56-57.

⁸ Location notice also recorded in the official records of Graham County in Docket 321, Pages 58-59.

⁹ Location notice also recorded in the official records of Graham County in Docket 321, Pages 60-61.

¹⁰ Location notice also recorded in the official records of Graham County in Docket 321, Pages 62-63.

JCL
03-07-89



STATE OF ARIZONA, County of Graham, ss Fee \$ 15.00 No. 1570
I hereby certify that the within instrument was filed and recorded at
request of DeConcini et al 4/6/89 9:18 A.M.
In Pocket No. 415 Page 382-92 and indexed in Mining Option
Witness my hand and official seal the day and year aforesaid. Agreement
SHIRLEY ANGLE
COUNTY RECORDER BY Matthew S. Jacobson Deputy

SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)

THIS SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT

is to give public notice of an Option and Mining Venture Agreement, effective March 7, 1989, by which ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is 1630 South Alvernon Way, Tucson, Arizona 85711,

and

A.F. BUDGE (MINING) LIMITED, a Nevada corporation ("Budge"), whose address is 4301 North 75th Street, Suite 101, Scottsdale, Arizona 85251-3504,

by which AFM and Budge have entered into an agreement granting Budge an option to enter into a joint mineral exploration and development program with AFM (the "Agreement") described as follows:

1. Grant of Option for Creation of Mining Venture

AFM is vested with an interest in certain mineral properties in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, by that certain Lease, Sub-Lease and Purchase Option Agreement dated June 25, 1986, more particularly described in Exhibit A attached hereto (the "Property" which by the terms of the Agreement includes an "Area of Interest"), and has acquired information related to the Property. AFM is conducting a mining operation on the Property to produce silica fluxing material with an argentiferous byproduct. Budge is interested in evaluating the long-term mineral potential of the Property by such investigations as Budge deems appropriate. The Agreement provides an initial six-month period (which can be extended to twelve months) granting Budge the right to explore the Property for additional commercially economic mineralization together with the right to exercise an option permitting AFM and Budge to proceed with a joint program of sharing the costs of and profits from any and all commercial development of mineral resources from within the Property (the "Venture").

2. Term

Upon exercise of the option, the Venture and the Agreement will exist for a term of fifty (50) years and so long thereafter as Minerals are being mined from any portion of the Property, or

JCL
03-07-89



STATE OF ARIZONA, County of Graham, ss Fee \$ 15.00 No. 1570
I hereby certify that the within instrument was filed and recorded at
request of DeConcini et al 4/6/89 9:18 A.M.
In Pocket No. 415 Page 382-92 and indexed in Mining Option
Witness my hand and official seal the day and year aforesaid. Agreement
SHIRLEY ANGLE
COUNTY RECORDER BY Martha S. Jacobson Deputy

**SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT
(Ash Peak Project, Greenlee and Graham Counties, Arizona)**

THIS SHORT FORM OF OPTION AND MINING VENTURE AGREEMENT

is to give public notice of an Option and Mining Venture Agreement, effective March 7, 1989, by which ARIZONA FLUX MINES, INC., an Arizona corporation ("AFM"), whose address is 1630 South Alvernon Way, Tucson, Arizona 85711,

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2. Term

Upon exercise of the option, the Venture and the Agreement will exist for a term of fifty (50) years and so long thereafter as Minerals are being mined from any portion of the Property, or

Minerals mined from within the Property are being treated for their metal values, unless sooner terminated as provided herein.

3. Activities and Obligations During Option Period

During the option period (unless extended by reasons of force majeure), Budge has the exclusive right to conduct whatever evaluation of the Property that Budge, in its sole discretion, deems appropriate; provided, however, that Budge's activities may not interfere with current mining operations at the Ash Peak Mine and no work performed by Budge during such examination shall give Budge any rights in and to the Property unless Budge exercises its option as granted in the Agreement.

4. Relationship of Parties

Upon Budge's exercise of its option, the rights as between the parties shall be as tenants in common with undivided ownership in the Property in the proportion set forth in the Agreement. Each party also waived any and all rights of partition it may have with respect to the Property except as specifically set forth in the Agreement. Otherwise, the rights, duties, obligations and liabilities of the parties under the Agreement shall be several and not joint or collective, and each party is responsible only for its obligations as set forth in the Agreement. It is not the purpose or intention of the Agreement to create a partnership except for tax purposes within the meaning of Section 761(a) of the United States Internal Revenue Code of 1954, as amended. The tax elections and allocations shall be made as set forth in the Agreement. Each of the parties is free to acquire other mining properties or interests therein and to engage in other mining activities without any duty or obligation to permit the other party to participate therein or to share in any profits therefrom, except within the exterior boundaries of the Area of Interest.

5. Determination of Participating Interests

Upon exercise of the option and the payment of the contribution set forth in the Agreement, Budge shall acquire a fifty percent (50%) interest in the Venture and the Property and AFM shall retain a fifty percent (50%) interest in the Venture and the Property. The undivided interest of each of the parties is thereafter subject to adjustment if less than full contributions are made to Work Plans and Budgets as specified in the Agreement; provided, however, that if either party allows its interest in the Venture to be reduced in the manner set forth in the Agreement to ten percent (10%) or less, such interest shall be automatically converted to ten percent (10%) of the Net Profits of the Venture as defined in the Agreement. After such conversion, the party so reduced shall no longer be a cotenant in the property rights under the Agreement nor have any right to

participate in development of the Property or decisions under the Agreement.

6. Management

After the exercise of the option, all Work performed under the Agreement shall be in accordance with such plan or plans (herein referred to as "Work Plan" or "Work Plans") for further exploration, development and mining of the Property, and Annual Budgets to provide funds to implement such Work Plans, as may be adopted upon the proposal of the Manager with the approval of the Management Committee ("Approved Work Plan and Annual Budget").

7. Marketing of Products

Each party having a right to participate in production shall take in kind or separately dispose of its share of all products in accordance with its interest established by the Agreement. If any party so entitled fails to take in kind, the Manager shall have the right, but not the obligation, for a period of time consistent with the minimum needs of the industry, but not to exceed one year, to purchase such party's share for its own account or to sell such share as agent for the party at not less than the prevailing market price in the area.

8. Termination

Budge has the right to terminate the Agreement at any time during the option period by written notice from Budge to AFM. From and after the date of termination, all right, title and interest of Budge under the Agreement shall terminate, and Budge shall not be required to make any further payments or to perform any further obligations hereunder concerning the Property, except payments and obligations, the due dates for the payment or performance of which occurred prior to the termination date. After Budge exercises its option, either party has the right to withdraw voluntarily from the Venture by giving sixty (60) days' prior written notice of such action. In such case, all the rights and obligations of the withdrawing party under the Agreement terminates, and all right, title and interest of the withdrawing party is deemed to have been transferred automatically to the other party; provided, however, that (1) the withdrawing party shall remain liable for all amounts chargeable to it with respect to any Approved Work Plan, including costs incurred pursuant to such Work Plan after the effective date of the withdrawal but not in excess of the most recent cost estimates approved by the parties; (2) the withdrawing party shall remain obligated to execute and deliver such instruments as may be necessary to formally effect the transfer of its interest in the Venture and Property; and (3) the withdrawing party shall not acquire any interest in real property for the purpose of mineral exploration or development within the Property or the

Area of Interest for a period of three (3) years after the date of such withdrawal.

9. Transfer and Encumbrances

9.1 Assignment - Neither party may assign its rights in the Agreement, the Venture or the Property without the prior written consent of the other party, which consent shall not be unreasonably withheld. The provision does not apply to mergers, transfers through operation of law, or sales and assignments to subsidiaries of the parties, their corporate parents or subsidiaries of their corporate parents. A subsidiary is deemed any corporation or other entity in which the party or its parent owns or controls a majority of the stock or interest.

9.2 Preemptive Right - If either party desires to transfer all or any part of its interest in the Agreement or the Venture, such party (the "transferring party") is required to promptly notify the other party (the "nontransferring party") of its intentions. The notice shall state the price and all other pertinent terms and conditions of the intended transfer (the "notice of intended transfer"), which shall be for a monetary consideration only. The nontransferring party shall have thirty (30) days within which to notify the transferring party whether it elects to acquire the offered interest at the same price and on the same terms and conditions as set forth in the notice of intended transfer. If the nontransferring party elects to acquire the offered interest, the transfer shall be consummated promptly after notice of such election is delivered to the transferring party which period shall in no case be longer than three (3) months. If the nontransferring party fails to make a timely election, the transferring party shall have six (6) months following the expiration of such period to consummate the transfer to a third party at a price and on terms no less favorable to the transferring party than those specified in the notice of intended transfer. If the transferring party fails to consummate the transfer to a third party within the six-month period, the preemptive right of the other party in such offered interest shall be deemed to be revived. Any subsequent proposal to transfer such interest shall be conducted in accordance with all of these same procedures.

9.3 Encumbrances - No party may encumber its interest in the Property or the Venture without the written consent of the other party except as specifically permitted in the Agreement.

9.4 Bankruptcy - If either party makes a voluntary assignment for the benefit of creditors, or is adjudged a bankrupt, then the other party has the first right of refusal to purchase the interest of a bankrupt party from the trustee in bankruptcy.

10. Copies

A copy of the Agreement is on file with the parties at the addresses indicated in the recitation of the parties to the Agreement.

11. Interpretation

The purpose of this Short Form is to provide notice to third parties of the existence and general terms of the Agreement and this Short Form shall not be used for interpretation of the Agreement.

DATED this 9th day of March, 1989.

ARIZONA FLUX MINES, INC.

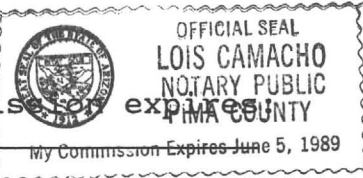
By [Signature]
W. R. Becker, Sr., President

A. F. BUDGE (MINING) LIMITED

By [Signature]
Ronald R. Short, General Manager

STATE OF ARIZONA)
)
County of Pima) ss.

The foregoing instrument was acknowledged before me this 7th day of March, 1989, by W. R. Becker, Sr., the President of ARIZONA FLUX MINES, INC., an Arizona corporation, for and on behalf of the corporation.

My commission expires:  My Commission Expires June 5, 1989

Lois Camacho
Notary Public

STATE OF ARIZONA)
)
County of Maricopa) ss.

The foregoing instrument was acknowledged before me this 10th day of March, 1989, by Ronald R. Short, the General Manager of A. F. Budge (Mining) Limited, a Nevada corporation, for and on behalf of the corporation.

My commission expires:

 OFFICIAL SEAL
CAROLE A. O'BRIEN
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires April 14, 1991

Carole A. O'Brien
Notary Public

EXHIBIT A

The "Property" that is the subject of the Option and Mining Venture Agreement consists of rights in and to the following patented and unpatented mining claims and millsites in the Ash Peak (Duncan) Mining District, Greenlee and Graham Counties, Arizona, more particularly described as follows:

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II. Unpatented Mining Claims:

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relocated	11-21-79		104	386	95372
amended	04-11-80		108	57	
amended	07-04-80		111	283	
relocated	02-24-82		131	436	165063
Lone Camp No.3	02-09-72	Lode	43	361	43679
relocated	11-21-79		104	377	95373
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amended	07-04-80		111	289	
relocated	02-24-82		131	442	165046
Sudan No. 2	02-09-72	Lode	43	364	43681
relocated	11-21-79		104	389	95376
amended	04-11-80		108	69	
amended	07-04-80		111	292	
relocated	02-24-82		131	444	165047

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Fran No. 2	02-09-72	Lode	43	365	43682
relocated	11-21-79		104	404	95377
amended	04-11-80		108	72	
amended	07-04-80		111	295	
relocated ¹	02-24-82		131	446	165048
Cougar No. 2	02-09-72	Lode	43	366	43683
relocated	11-21-79		104	407	95378
amended	04-11-80		108	75	
amended	07-04-80		111	298	
relocated ²	02-24-82		131	448	165049
Granduc No. 2	02-09-72	Lode	43	367	43684
relocated	11-21-79		104	395	95379
amended	04-11-80		108	77	
amended	07-04-80		111	301	
relocated ³	02-24-82				165050
Granduc No. 5	02-09-72	Lode	43	368	43685
relocated	11-21-79		104	398	95381
amended	04-11-80		108	80	
amended	07-04-80		111	307	
relocated	11-21-79		104	380	95380
amended	04-11-80		108	83	
amended	07-04-80		111	304	
relocated ⁴	02-24-82		131	450	165051
Granduc No. 6	02-09-72	Lode	43	369	43686
relocated ⁵	02-24-82				165052

¹ Location notice also recorded in the official records of Graham County in Docket 347, Pages 755-56.

² Location notice also recorded in the official records of Graham County in Docket 347, Pages 757-58.

³ Location notice recorded in the official records of Graham County in Docket 347, Pages 759-60.

⁴ Location notice also recorded in the official records of Graham County in Docket 347, Pages 761-62.

⁵ Location notice recorded in the official records of Graham County in Docket 347, Pages 763-64.

<u>Name of Claim</u>	<u>Date Loc</u>	<u>Type</u>	<u>Cty Dkt</u>	<u>Rec'rd Page</u>	<u>BLM Serial A MC No.</u>
Granduc No. 7 ⁶	02-24-82	Lode	131	452	165053
Harmony No. 1	02-24-82	Lode	131	468	165061
B. & B. No. 1	01-13-80	Lode	105	578	100836
B. & B. No. 2	01-13-80	Lode	105	576	100837
B. & B. No. 3	01-13-80	Lode	105	580	100838
B. & B. No. 4	01-13-80	Lode	105	582	100839
MAB No. 1	01-13-80	Lode	105	594	100840
MAB No. 2 ⁷	01-13-80	Lode	105	592	100841
MAB No. 3 ⁸	01-13-80	Lode	105	590	100842
MAB No. 4 ⁹	01-13-80	Lode	105	588	100843
MAB No. 5 ¹⁰	01-13-80	Lode	105	586	100844
MAB No. 6	01-13-80	Lode	105	584	100845

III. Contractual Rights:

That certain Lease, Sub-Lease and Purchase Option Agreement entered into on June 25, 1986, by and between Shamrock Enterprises, Ash Peak Mining Co., Inc. and Ash Peak Research and Development Co. as owners and Arizona Flux Mines, Inc., a copy of which is recorded in Docket 156, Pages 424-41 of the official records of Greenlee County.

6 Location notice also recorded in the official records of Graham County in Docket 347, Pages 765-66.

7 Location notice also recorded in the official records of Graham County in Docket 321, Pages 56-57.

8 Location notice also recorded in the official records of Graham County in Docket 321, Pages 58-59.

9 Location notice also recorded in the official records of Graham County in Docket 321, Pages 60-61.

10 Location notice also recorded in the official records of Graham County in Docket 321, Pages 62-63.

IV. Area of Interest:

The "Area of Interest" as defined in Section 5.6 of the Option and Mining Venture Agreement consists of all property interests acquired by either party within one (1) mile from the exterior boundaries of the property described above, the confidentiality provisions of which exist for a period of three (3) years from and after the effective date of withdrawal of a party from the Agreement or termination of the Agreement.