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REHABILITATION PLAN FOR THE

ASH PEAK MINE

BY

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SUMMARY

Arizona Flux Mine's operation at the Ash Peak Mine is in a dichotomous situation. In order to improve profitability the current production rate must be expanded. Current production rate will not allow for the generation of sufficient funds to pay for the necessary expansion. Therefore, an alternative plan must be designed as this report proposes.

Existing obligations require the daily production of approximately 100 tons of siliceous ore averaging at least four ounces of silver in order to meet all expenses. Now accessible workings can produce that grade and tonnage only with difficulty because of limited access and the upper levels of the mine having lower grade material. At the moment, the mine has access to only two working faces. Cash flow from current production rate will not allow for any increase in production personnel.

Higher grade and much more ore is available at lower depths. However, access to these areas requires additional capital expenditures. The existing staff cannot simultaneously maintain the production requirements and gain access to the higher grade material available at depth.

In order to get access to the higher grade ore below, shaft rehabilitation and stope development must be done. Funding must be obtained to be able to do the development work.

Our proposal is to obtain \$300,000 additional capital to accomplish this.

Ore reserve estimates indicate the probability of sufficient reserves to provide for a daily production rate of 300 or 400 tons per day for more than ten years.

During the period of expansion, the existing staff would continue producing the required tonnage to continue with present operating cash flow. Additional personnel would be hired to perform the expansion work. After the expansion and development work to prepare the stopes for production is completed, the expansion crew will be put on production status. The \$300,000 required would generate a substantial increase in cash flow within four months of starting the expansion.

In order to avoid repetition of information gathered and prepared by others, sections of this report merely summarize the details of other reports which are included in the annexes.

As noted in one of the accompanying reports, fortunately we have the benefit of a number of reports done by several reputable engineers in past years. All reports including the ore reserve calculations of others used in this report are taken at face value.

INTRODUCTION

The Ash Peak Mine is located within one-quarter mile of paved State Highway No. 70 between Safford and Duncan, in Greenlee County, southeast Arizona. It is approximately 200 miles east of Phoenix, Arizona, and 200 miles west of El Paso, Texas. The climate is mild and operations can be continued throughout the year.

Experienced underground miners are available from other mining districts in Arizona or nearby in New Mexico. Electric power and water are available on the property.

Within a radius of 100 miles from the mine are four operating smelters. The location of the mine is ideal for supplying flux ore.

The mine has been operated in the past as a silver mine. When operated as a silver mine the ore was crushed and concentrated by floatation. Some leaching has been done on the property also. The additional costs of concentrating the ore, with the accompanying recovery losses, are eliminated when the ore is directly shipped to a smelter as a flux ore.

At present the property involves patented claims and non-patented claims. These are being purchased under an agreement (copy enclosed) that calls for a minimum monthly payment against royalties to an end price.

HISTORY

An unidentified report dated June 2, 1941, (copy enclosed) states that sometime before 1916 Murphy and others sank three shafts in the area a few hundred feet and shipped some ore. In about 1916, Goldfields Consolidated from Nevada, took an option and did most of the development work

done to date in the mines. In 1918 they stopped work at Ash Peak. During three years in the late thirties Veta Mines produced about 200,000 tons.

A concise, three page summary of the history of Ash Peak Mines prepared by Mr. A. G. Setter is included.

GEOLOGY

The geology at Ash Peak is straightforward. Gently dipping volcanic flows and tuffs are cut by numerous dikes and plugs. Nearly vertical fissure faults are mineralized with strong quartz and calcedonic material with dark clouds of argentite and some few sulfides. The principal vein, the Ash Peak Vein, until the late 1940's was assumed to be the only vein on the property. There is at least one hanging wall vein, and one foot-wall vein. The Ash Peak Vein is the only vein that outcrops. The other veins were found in crosscuts underground. There may well be other veins in the vicinity that are not yet identified.

When the property is in better financial condition, funds should be set aside to do the necessary exploration to find other veins.

Good detailed geologic descriptions are available in the enclosed reports.

MINING METHOD

Ore is mined exclusively by shrinkage stoping. See Page 6 Information Circular for a description of this mining method.

ORE RESERVES

Ore reserves at Ash Peak have been calculated by several previous authors. Until recently, all of the reserves were based upon operating the mine as a silver mine with values occurring in a highly siliceous quartz vein structure. In order to defray the cost of milling and floatation, around nine or ten ounces of silver were needed to make a reasonable profit.

As a silica flux mine with silver values, the economics are different. Depending upon the type of supply contract available, there can be compensation for the silica content,

as well as a payment for precious metals content. Flux contracts allow for a lowering of the grade and still being profitable. Currently, a minimum of around 4 oz. is necessary to be profitable. This changes with the fluctuation in price of silver and quantity mined.

As stated previously, work by others in the past is accepted at face value as work done by professionals. Fortunately, we have the benefit of a number of reports made by several reputable engineers in past years.

Robert H., Sayre, Jr. in 1975 estimated that there were around 58,000 tons in Commerce and 5,800 tons in Shamrock shaft areas of what he called "probable" ore, his most certain category.

The June 2, 1941 report very conservatively lists an estimate of combined "positive" and "probable" reserves of 16,900 tons. He lists an additional 18,000 tons likely to be available with 800 feet of development work.

There are two veins in the immediate vicinity of the Ash Peak Vein, a hanging wall vein, and a foot wall vein. Neither of these structures has been completely defined from underground workings. It appears that the hanging wall vein may be of major significance between the 500 and 600 levels, in the vicinity of the Shamrock shaft, but this will only be confirmed after access is gained to these levels.

The unidentified author of the "Preliminary Report on the Ash Peak Mines" of October 4, 1935 mentions the Green Vein, in the vicinity of the Hardy Shaft. This vein dips in the opposite direction from the Ash Peak Vein. Perhaps this is the foot wall vein.

The hanging wall vein was checked by one of the previous workers in the area of the Shamrock shaft. No figures on value or width are available, only the fact that the vein exists consistently along a length of 1,100 feet. The Sayre report suggests that one can expect some 60,000 tons of ore to be developed in this area.

No workings in the vicinity of the Hardy Shaft have been investigated. Reports indicate that higher grade and stronger structures may be available in this area.

Following is a summary of the reserves likely at Ash Peak catalogued by proximity to each of the shafts.

COMMERCE SHAFT AREA:

Blocks 103 - 111 each within 800 feet of the shaft and above the 500 foot level. Average width 6 ft. 27,000 t.

SHAMROCK SHAFT AREA:

Within 600 feet of the shaft, above the 975 level on the Ash Peak Vein and the hanging wall vein, at an average width of 5 feet, at least 600,000 t.
(this vein has been located by drilling from the 975 level to 1600 ft. not included in these figures)

HARDY SHAFT AREA:

Potentially the greatest tonnage at Ash Peak because the area has not been examined. Possibly 1,000,000 t..

Note: the possible ore reserves at Ash Peak Mine are unlimited.

PLANNING

The future of Ash Peak Mine will be determined by careful planning and the availability of alternate plans to take care of unforeseen developments. This report is based upon a four phase plan for the total development of the Ash Peak Mine.

Because of the nature of the mining business, all plans must be used in a flexible manner. That is, as conditions vary and change, the plan must be accommodated to accept the changes. A plan is valid only as long as the parameters do not vary. As additional information and understanding of the mineralization and geology in the area becomes available, the plans must be reassessed for validity.

A SHORT TERM plan involving production for the immediate future has been outlined in a report dated August 30, 1987. Since that time, because we are getting too close to the surface, the No. 1 stope has been found to have

values that do not justify continuation of this shrink stope, the stope is being pulled. The calculated volume of stoped ore ready to be pulled from both No. 1 West and No. 1 East is 3,100 tons.

Starting immediately, the No. 7 stope on the hanging wall vein will be stoped and prepared for mining. The No. 7 stope should provide production for one or two weeks.

At the same time, Stope 2 East and West will be able to provide some additional ore. Blocks C-4, C-5, and C-6 from Stope 2 East and West may be able to provide up to 5,500 tons, if the grade does not fall off as it did in Stope No. 1. If Stope No. 2 does provide that kind of tonnage, an additional ten weeks of production will be made available.

From these stopes, ore to meet the minimum production may be provided for during the next three or four months. However, alternate plans should be made in the event that production falls off drastically. For this reason, implementation of the expansion program should be as soon as possible.

The proposed rehabilitation plan does not anticipate being able to produce ore until 90-120 days after implementation of the program.

A MEDIUM TERM plan is suggested for a longer period on mine production. This plan should take into account blocks of reserves not currently accessible. The access to these blocks will be provided for by rehabilitation the Shamrock shaft (See Rehabilitation Shamrock Shaft for details).

As indicated in the above Ore Reserves listing, these blocks could provide for on the order of more than 500,000 tons of ore.

The stope assays and drill hole intercepts indicate, in general, higher grade values (Ave. plus 6 oz. Ag)

The LONG TERM plan is meant to provide for outlining and proving blocks of ore to be developed in the next four to six years. This plan will involve consideration of access to the Commerce and Hardy shaft areas.

This plan will be carefully developed once the Short and Medium Term plans are fairly well developed.

The MINE LIFE TERM plan will include search for orebodies and extensions to the known orebodies beyond the

existing current scope of interest and knowledge at Ash Peak. For example, looking for the contact with sediments at depth (400 ft.) below the 975 level where one would expect the veins to blossom out perhaps generating a "manto" type of orebody with high grade values in base metals. The financing of this plan will have to be from profits generated from mining during the next several years or additional investment.

The Ash Peak Mine has endless possibilities. In fact, it could easily become a world class silver mine.

REHABILITATION OF SHAMROCK SHAFT

Proposed Sequence of Events:

1. Initiation of work to begin only when all equipment and supplies for the expansion are available on the property. This is to minimize future delays and scheduling changes. The crew for expansion will be separate from the production crew.
2. Construction of hoist base and supports above the Shamrock shaft. At the same time, underground work is started on the pocket and station area. Hoist is emplaced as soon as possible.
3. While finalizing skip and safety aspects of hoist system, expansion crew to work two shifts per day on rehabilitating the shaft down to the 300 level. Mining crews to initiate development and mining on the 200 and 300 levels as soon as possible.
4. Shaft rehabilitation crew reduced to one crew working on third shift (graveyard), while the remainder of the underground personnel work two shifts on production.
5. Shaft rehabilitation to stop at 600 level.

Cost Estimate:

	<u>Labor Costs</u>	
	<u>Maximum</u> 4 wks.	<u>Minimum</u> 3 wks.
Construction: steel frame + hoist supports. 4 men X 8h X 5d/wk @ \$50/hr	32,000	24,000
U.G. preparation of receiving area, and 50 or 100 ton ore pocket	32,000	24,000
Rehabilitation of shaft to ore pocket prep of guides, station, and skip. 5 men X 8h X 5d/wk @ \$60	48,000	36,000
Rehabilitation of shaft-pocket to 300 level. 2 shifts/day X 4 men X 8h X 5d/wk @ \$50	<u>64,000</u>	<u>48,000</u>
	\$176,000	\$132,000

	<u>Other Costs</u>	
	<u>Maximum</u>	<u>Minimum</u>
Supplies and powder	10,000	10,000
Power down shaft, elec. connections, bell, etc.	10,000	10,000
Furnishing shaft (landings, pipe, ladders, sets, wiring, etc.) @ \$150/ft X 300 ft.	<u>45,000</u>	<u>45,000</u>
DIRECT REHABILITATION COSTS	\$241,000	\$197,000
Development work by three shifts in preparation of mining on two veins on the 200 and 300 levels	<u>20,000</u>	<u>5,000</u>
TOTAL REHAB & DEVELOPMENT	\$261,000	\$202,000
Equipment needed now:		
Hoist--4'-5' diameter drum, 500'-700'/ minute speed. All safety switches, 2 brakes, minimum 10 ton capacity with 1000' cable		
4-5 ton bucket or skip with safety latch, cross head or bonnet (for men), 150 hsp motor		
Estimated	<u>\$39,000</u>	<u>\$15,000</u>
TOTAL	\$300,000	\$217,000

Equipment needed later (Six Months):
Mancha Motor Trammers w rails, etc.,
Hauling cars for three working levels.

TIMING ESTIMATE

The above items will require a minimum of 60 days to a maximum of 90 days for compleiton.

TIMING OF FUNDS

The above funds would be required as follows:

\$50,000 to start, then
equal weekly or bi-weekly payments

-or-

\$100,000 per month for two months with balance in third month less equipment furnished

as well as a payment for precious metals content. Flux contracts allow for a lowering of the grade and still being profitable. Currently, a minimum of around 4 oz. is necessary to be profitable. This changes with the fluctuation in price of silver and quantity mined.

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