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MEMO TO: A. F. Budge

COPIES: Carole O'Brien  
Ron Short

FROM: Dale H. Allen, Production Manager DATE: November 22

SUBJECT: TRIP TO ASH PEAK MINES  
Duncan, Arizona

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On Monday, November 14, 1988, Ron Short, Don White, and I flew to Safford, Arizona with Ron Ashcroft. There we met with Wes Becker, president of Arizona Flux Mines, Inc., and his son Wes Becker, Jr.

At the mine, located near Duncan, we also met with the mine manager, who gave us a general outline of the geology of the mine prior to an underground tour.

The mine is in the development stage. They are in a position similar to UVX. They need to develop the stoping area and establish a secondary escape route prior to production. Ash Peak represents their costs to be \$15/ton to mine ore. While this figure is low, they are mining only a short distance from the shaft, so there is not a great distance to muck. Wes Becker indicated their operating costs were approximately \$15,000/week.

Ash Peak impressed me as being an efficient, streamlined operation with motivated employees. Mr. Becker owns several bowling alleys in Tucson, and when they remodeled one, the steel was used for the head frame at the mine. There is a bonus system in effect; for every ton over 500/week mined, they receive \$1/ton. The staff consists of 16 employees plus Wes Becker, the president, and the one-site manager; day-shift crushing foreman, day-shift underground foreman, two crusher workers, hoistman for each of the two shifts, and four 2-man teams of miners, a helper and part-time mechanic. They are looking at hiring four more miners, two for each shift. They run two shifts per day five days per week--no overtime. Wes Becker also has a secretary who works part-time on the Ash Peak project.

Currently they are able to crush on one shift (day shift) all the ore produced from both shifts. As production increases, it may be necessary to add an afternoon crushing shift. They are presently controlling feed to the crusher circuit manually (turning the apron feeder on and off by hand). Installing a variable speed motor for a more consistent feed to the jaw crusher would help tremendously.

In order to increase tonnage from underground, it would be necessary to speed up the hoist by getting a larger, faster motor and/or a gear reducer.

The hopper they skip dump into holds 50 tons. The crusher runs 50 tons/hour. The jaw crusher is the primary crusher, vibrating screen follows the jaw is a Barmac. They produce two products: -10 mesh material and a +10 -1/2 in. Tonnage is split approximately 50/50 between these two products, which contain approximately 8 to 10 oz/ton Ag. The -10 mesh material is lower in Ag. It also contains .01 oz/ton Au, for which they do not get paid.

The smelter requires they have a specific percentage of silica material. There is no problem in their coarse product. The waste material ends up on the -10 mesh product. They try to control the dilution of waste material to that product by having an operator selectively pick waste rock off the conveyor belt feeding the jaw crusher.

Arizona Flux Mines, Inc. has a 50 ton/day mill located near Tucson. They would be willing to relocate this plant to the Ash Peak Mine. It might be possible to treat the 10 mesh material through flotation methods and produce an argentite concentrate. It would cost \$20,000 to \$30,000 to relocate the mill and set it up, and it would increase personnel by 5 to 6 people.

There is a 50/ton per day cyanide plant located on the Ash Peak property, owned by a private individual containing a Merrill-Crowe recovery system, which is for sale. It might be possible to take the 10 mesh and have either a saleable concentrate which would contain the silver and gold, which could be sold directly to a smelter. It might be possible to ship concentrate to ASARCO's smelter in El Paso. Or it might be possible to leach it in the cyanide plant, which would mean a faster return on production.

Ash Peak uses two front-end loaders on site, and a truck scale for maximum tonnage shipped. A trucking company out of Wickenburg does the hauling. Ash Peak is able to get a decent price on haulage because the trucks haul lime and truck flux back, so they don't return empty.

Their material is sold to Phelps Dodge's smelters in New Mexico. They sometimes contract with the Hayden smelter for a non-routine shipment of the -10 mesh material.

My impression is that they are looking for investors because there is such a slow return on their investment, i.e. they have a cash flow problem. It takes anywhere from 60 to 90 days from shipment to the smelter before they receive payment. The smelter runs fluxes in sequence as received from several small mines. It is possible that the flux could sit on the ground for 2 to 3 months before being run. Payment is not made until 30 days after the flux is run and a sample taken.

Indications are they are looking for something up front. They have approximately \$250,000 in outstanding loans which would have to be paid off. They are looking at expanding, developing stopes to increase tonnage, refurbish the shaft and develop a secondary escape route.

If Budge Mining decides to go with this property, we should seriously consider putting in the mill to treat the 10 mesn material not only to have a faster turnaround on money expended, but should there be a disruption with smelter service (i.e. strike), we could still derive an income from the mill product. It might be possible to sell the trailing product from the mill to Hayden for their flash smelter, as they require a fine flux.

At present, the smelters have a 30-day cut clause. Mr. Becker indicated he felt there would be no problem continuing their contracts provided the flux material was above 6 oz/ton Ag.

M E M O

TO: A.F. Budge, R.R. Short, C.A. O'Brien, D.H. Allen  
FROM: Don C. White  
DATE: November 18, 1988  
SUBJECT: Ash Peak argentiferous silica flux mine visit.

I visited the Ash Peak Mine Nov. 14th with Ron Short and Dale Allen. We met with Les Billingsley, the project manager, and Wes Becker, the lessee and operator's representative. Our visit included a surface and underground tour, description of their present operations and one to two year development plans, some discussion of mining costs, freight, smelter contracts, and geology.

The purpose of the visit was to evaluate the merits of Budge's contributing capital toward further development and production rate increases in return for equity in the operation.

Ron and Dale can better speak for the engineering, managerial, and metallurgical merits of the project. Let me convey my observations of the geology.

First, it is a vein deposit. It is probably Tertiary, volcanic hosted (andesitic wall rocks observed) and epigenetic. The veins, for there are three parallel veins now known, are steeply dipping (about 80° to the SW) arcuate, and pinch and swell both along strike and down dip.

The veins are mainly chalcedonic quartz (excellent silica flux) with some calcite (3-6% CaO), minor sulfides and gold, and the key ore-forming mineral, argentite. Alumina and iron content is low and apparently no problem to the smelter (except when aluminous wall rock is included in shipping ore). There are no known trace element contaminants to thwart flux sales (such as Hg, As, Fl, Cl).

Silver varies from less than 2 oz/t to in excess of 40 oz/t. Shipments of late have averaged 6 to 7 oz/t from the 350 level up where stoping is now taking place. The vein being eyed for development between the 600 and 500 levels near the Shamrock shaft is about 30 ft. thick and supposedly contains 6-10 oz/t Ag.

The reserves Ash Peak Flux Mines has reasonably assured in upper level workings close to the Shamrock shaft are about 200,000 short tons at about 7. oz/t Ag. The various large reserve figures mentioned beyond that (oral and written report quotes of 1-10 million tons at various grades) and the speculation of "better grades at depth" are just that, only speculation. Tonnages at depths greater than the 600 level of the Shamrock shaft area have not been drilled and I've been shown no documentation of vein thicknesses or assays there. Thus they fall in the "possible" reserve category at best, and that only near the 600 level. Anything from about the 650 level on would be "inferred" only.

Those areas with exploration potential within the Ash Peak property are extensive. A drilling program could be conceived to test areas of multi-million ton potential. The likelihood would be both a surface and underground diamond

A.F. Budge, R.R. Short, C.A. O'Brien, D.H. Allen  
November 18, 1988  
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Four copper smelters lie within a 100-mile radius of Ash Peak. Existing contracts with Chino and Hidalgo call for reimbursement of freight (about \$13/s.t.) and flux payment, all categorized as silica payment of \$16/s.t. (Chino) or \$18/s.t. (Hidalgo) and payment for 75% of the gross silver content. There is no gold payment for the average .025 oz/t gold content.

I recommend that Carole work through the numbers to compute whether there is any financial opportunity in the possible reserves. If Ron's concerns about engineering and the legitimacy of the mining costs can be appeased, then I believe the geology is worth a hard look.

Right now I have the fundamental data in hand. Wes Becker has sent smelter contracts and sample settlement sheets, P.D. drilling and assay data (from P.D.'s 1980-83 mining and exploration period) and historical data. Stephen Quin of Southern Gold in Vancouver has sent the Canamin plans, longitudinal and cross sections, and geologic reports. If and when it is determined to pursue this opportunity I will relish the chance to compile the available data and formulate an exploration plan with prediction of costs and what may be found.

DW:sk

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DW:sk



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

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(602) 945-4630  
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P.O. Box 20878  
Wickenburg, AZ 85358  
Mobile (602) 376-9056

October 26, 1988

Mr. Ronald Ashcroft  
1652 E. Grove  
Mesa, AZ 85204

Re: Silver Quartz-Flux Mine

Dear Mr. Ashcroft:

Thank you for taking the time to meet with us last Tuesday and to discuss the merits of the Silver Quartz-Flux Mine.

A.F. Budge (Mining) Limited would like to pursue this matter further. We would specifically like to make some arrangements for our personnel to visit the operation and meet with the operators. It is our understanding that if this visit results in a continuing interest on our part, an option agreement would be negotiated.

Also, by this letter, A.F. Budge (Mining) Limited would, contingent upon the successful acquisition of an equity position in this operation, enter into good faith negotiations with you and your associates for an equitable arrangement or reasonable finder's fee in consideration of your bringing this opportunity to our attention.

Sincerely,

Carole A. O'Brien  
Mining & Financial Coordinator

c: A.F. Budge



0-1000000000

The amount of the ... investment ... following ...

1. ...

2. ...

3. The geological potential of the deposit is ... and appears to be very large.

CONTACT: ...  
...  
...-3510

1652 E. Grove  
Mesa, AZ.  
85204

Don White  
521 E. Willis St.  
Prescott, AZ 86301  
602-778-3140

November 18, 1988

Mr. Ronald Ashcroft  
1652 E. Grove  
Mesa, AZ 85204

Dear Ron,

Thank you for the flights to and from Safford and the assistance in meeting with Wes Becker and Les Billingsley at the Ash Peak Mine earlier this week.

I have data in hand from Wes and from Stephen Quin of Southern Gold. I'm favorably impressed with the geology but will have to await approval from within the Budge organization before delving into any serious study of exploration potential to justify longer term production rate increases and hence Budge's investment. I'm sure Carole O'Brien will keep you posted on behalf of Budge.

Sincerely,



Don White  
Geologist, C.P.G.

DW:sk

cc: Carole A. O'Brien

## Ash Peak proposal:

- 1) Present mine situation is undesirable.
- 2) Long range exploration potential is interesting.
- 3) Could propose an option agreement which excluded present mine boundaries but included property surrounding mine and downward extension of vein system in mine.

This would not satisfy their present need for cash but would complete needed exploration requirements for the long term needs of property at no expense to them. They could be given a % of profits from a successful exploration program.

## Plainview Project

1. Electrical Cost
2. Water haulage cost