Copy # 2.

KEYSTONE PROJECT

O.M.E. APPLICATION

Keystone Mine

Morgan

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Application BMM Form 40
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3a. Geological Report (two copies), accompanying.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

MME Form 40
Dec. 1958

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF MINERALS EXPLORATION

Budget Bureau No. 42-R1368
Approval expires Dec. 31, 1963

APPLICATION FOR FINANCIAL ASSISTANCE IN MINERALS EXPLORATION

Pursuant to Public Law 85-701 (72 Stat. 700; 30 U.S.C. 641)

NAME OF APPLICANT *(Full legal name and mailing address as they should appear on contract if one is executed.)*

Jack Selby & William J.Dawson
P.O.Box 993
Morro Bay, Calif.

APPLICANT DO NOT USE THIS BLOCK

DOCKET NUMBER: OME-6168

DATE RECEIVED: 8-11-61

REGION: II

DIVISION CODE: 500

BUSINESS ORGANIZATION *(Check one)*

INDIVIDUAL	
CORPORATION	
PARTNERSHIP	X
OTHER *(Specify)*	

STATE IN WHICH FIRM IS ORGANIZED: Calif.

LIST CORPORATE OFFICERS OR PARTNERS HERE, IF APPLICABLE

NAME	ADDRESS	TITLE
Jack Selby	P.O.Box 993 Morro Bay	Partner
William J.Dawson	3496 Mayfair Blvd. Fresno 3, Calif.	Partner

MINERAL(S) FOR WHICH YOU WISH TO EXPLORE: Mercury (Cinnabar)

ESTIMATED COST OF PROJECT: $ 201,190.91

PROPERTY NAME	LOCATION COUNTY	STATE
Keystone Mine	S.L.O.	Calif.

GENERAL INSTRUCTIONS

Before filling out this application, please read the *OME Regulations for Obtaining Federal Assistance in Financing Explorations for Mineral Reserves* (30 CFR Chap. III). To assure prompt action, your application must provide all applicable material and information specified on the back of this application form. Avoid unnecessary correspondence and delays by submitting complete and accurate information. *Please submit four copies of this application and all accompanying papers* except as otherwise noted. Place your name and address on each sheet. Each item of information, maps, and reports required as a part of this application is described on the back of this form. Identify each attached statement by the item number to which it applies. If an item does not apply to your application, show the item number on your statement and after it write "not applicable." Maps or sketches should be used to supplement narrative descriptions of the property location and boundaries in item 2, existing mine workings and geology in item 3, and the proposed exploration work in item 5. When this information is not too complex, all of it may be shown on one map or sketch. All documents and other attachments submitted as a part of this application, except those in item 3(g) which you mark to be returned, become the property of the Government and will not be returned to the applicant. Send true copies, *not originals*, of leases, contracts, and other documents which are an essential part of your business records. *File this application with the Office of Minerals Exploration, Department of the Interior, Washington 25, D. C., or with the nearest OME Field Office.*

CERTIFICATION

The undersigned, whether as an individual, corporate officer, partner, or otherwise, both in his own behalf and acting for the applicant, certifies that the information set forth in this form and accompanying papers is correct and complete, to the best of his knowledge and belief, and that he would not ordinarily undertake the proposed exploration under current conditions and circumstances at his sole expense.

7/18/61
DATED

Jack W Selby
BY *(Signature)*

PARTNER
TITLE

A wilfully false statement or certification to any Department or Agency of the United States Government is a criminal offense. U. S. Code, Title 18, Sec. 1001.

INFORMATION REQUIRED WITH THIS APPLICATION

1. Financial Eligibility:

(a) Submit evidence of efforts made within 90 days preceding the filing of this application to obtain credit from your bank of account and at least one other banking institution or other private source of credit. Such evidence shall include true copies of correspondence which show: (1) date of loan request, (2) amount and terms requested, (3) proposed use of loan funds, and (4) the replies from credit sources. If the loan was offered under terms which you consider unreasonable, state why you consider them so.

(b) List names and addresses of affiliated, parent, or controlling companies or organizations and state extent and nature of their interest.

(c) State how you propose to furnish your share of the exploration [redacted] cost.

2. Applicant's Rights in Land:

(a) State your interest in the land and mineral rights, whether owner, lessee, purchaser under contract, or other. If you are not the owner, submit one true copy of the lease, contract, or other document (with address of owner) under which you control the property. Describe all liens, mortgages, or other encumbrances on the land and state book and page number and official place where recorded.

(b) State the legal description (section, township, and range; metes and bounds; patent number of claims) of the land upon which you wish to explore and all adjacent land which you own or control. Describe any part of the land or workings which should not be subject to Government royalty and liens. If the land consists of unpatented claims, state book and page number for each recorded location notice, including amended locations, and official place where recorded. State all the names by which you know the property.

(c) For all land or mineral rights encumbered or not owned, submit five copies of Lien and Subordination Agreements on MME Form 52. If the agreements cannot be obtained, state reasons and provide copies of letters of refusal.

3. Physical Description:

(a) Describe in detail and illustrate with maps or sketches all mining or exploration operations which you know have been or are being conducted upon the land. Include existing mine workings and all production facilities.

(b) State your interest, if any, in operations described in (a).

(c) State, if you know, the past and current production, supporting your statement with copies of settlement sheets, mine records, or published data if available.

(d) Describe known ore reserves, giving quantities and grades and sampling methods used. Support your statement with copies of assay certificates and assay maps if available.

(e) Describe by narrative and maps or sketches the geologic features of the property, including ore minerals, geologic formations if known, and type of deposit (vein, bedded, etc.).

(f) State your reasons for expecting to find ore, and if you have sampled the area you propose to explore, show where the samples were taken, describe sampling methods used, and provide copies of assay certificates.

(g) Send with your application at least *two* copies of all geologic or engineering reports, assay maps, or technologic information which you have, indicating whether you require their return.

4. Accessibility of Property:

(a) To aid the OME representative who may examine the property, state name and address of person who will meet him; give directions for reaching the property; and describe accessibility of property and of any mine workings.

(b) Name the shipping and supply points and state the distances to the property.

5. Exploration Work:

(a) Describe fully the proposed exploration work giving individual footages and sizes of openings *for each item of work.* Use narrative, maps, plans, and sections as necessary. Show location of the proposed work as related to geologic features such as veins, ore-bearing beds, contacts of rock formations, etc. Show also the relation of the proposed work to any existing mine workings and to *land boundaries* or to the closest identifiable corner.

(b) If an access road must be built, show the proposed location on the property map and state the length, type and construction methods proposed.

(c) If an OME contract is executed, state how soon thereafter work would be started and finished. State your anticipated average daily or monthly rate of progress for each type of work.

6. Experience:

State your operating experience and background to conduct this exploration work and also that of the person who will supervise the work.

7. Estimate of Costs:

Furnish detailed estimates of the necessary costs *for each item of the work proposed in 5(a)* under the headings listed below with a total for each heading and the estimated total cost of the work. Costs for any work to be performed by an independent contractor should be listed separately under category (a) below. Costs for any work that is not to be performed by an independent contractor should be listed under categories (b) through (g).

(a) Independent contracts. State the total cost of any proposed independent contract for all or any part of the work, and the number of units and the unit cost for each type of work, such as per foot of drilling, per foot of drifting, per hour of bulldozer operations, or per cubic yard of material moved. Cost estimates should be supported by bids from three contractors if possible. (*Note*—If none of the work is to be contracted, write "none" after this item.)

(b) Personal services. The cost of supervision, engineering and geological services, outside consultants, and labor should be itemized by numbers and classes of employees; rates of wages, salaries or fees; and periods of employment. State whether these services are available.

(c) Operating materials and supplies. List items of material and supplies giving quantity and cost of each. Include under this heading power, water, and fuel, and units of equipment and tools costing less than $50 each.

(d) Operating equipment. List items of equipment and tools costing $50 or more per unit. Give specifications and indicate how each item is to be acquired—i.e., rented, purchased or provided by the applicant. If rented or purchased, state the estimated rental or purchase price. If furnished by the applicant, state condition and present fair market value.

(e) Initial rehabilitation and repairs. Describe the type and the cost of *initial* rehabilitation or repair of existing buildings, fixtures, installations (exclusive of mine workings), and movable operating equipment now owned by the applicant which will be used in the exploration work.

(f) New buildings, fixtures, installations. Describe each building, fixed improvement, and installation to be purchased, constructed, or installed for the exploration work, stating specifications and cost including labor, materials, and supervision.

(g) Miscellaneous. Describe the type and estimate the cost of repairs and maintenance of the operating equipment listed in 7(d). Do not repeat initial repairs listed in 7(e). Show also the costs of analytical work, accounting, workmen's compensation and employees' liability insurance, payroll taxes, and other required costs that do not fall within the previous categories. [*Note*—The Government will not contribute to costs incurred before the date of the contract, or to costs of or incident to: (1) acquiring, using, or possessing land and any existing improvements, facilities, buildings, installations, and appurtenances, or the depreciation and depletion thereof; (2) general overhead, corporate management, interest and taxes (other than payroll and sales taxes); (3) insurance (other than employees' liability insurance); and (4) damages to persons or property (other than authorized repair to or replacement of equipment or other property used in the work).]

INT.-DUP. SEC., WASH[illegible].C. 48740

O.M.E. APPLICATION
KEYSTONE MINE
SUMMARY

It is submitted that the attached application meets the criteria for an O.M.E. exploration contract.

Criteria 301.7

301.7 a) Geological probability of significant discovery.

The accompanying geological report by an independent consulting geologist, G. Eberhardt, indicates the following conservative estimate of probable mercury bearing ore:

High Grade - over 15 lbs. per ton	66,300	tons.
Medium -------10 - 15 lbs. per ton	140,100	"
Low -------- Under 10 lbs per ton	228,900	"
	435,300	

As stated in the report, this estimate of tonnage has been deliberately limited and is regarded as a minimum probable discovery. Refer plates 3 e) 1 - cross sectional and vertical views of probable body, Plates 1 and 2.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

301.7 b) Estimated cost of exploration in relation to size and grade of potential deposit.

The estimated recoverable mercury value of the potential deposit is:

High grade	$2,685,150.00
Medium	3,790,800.00
Low	4,127,760.00
	$10,603,710.00

The total cost of exploration under the proposed program is:

Part I Surface exploration by core drilling (flexible locations)	$147,322.11
Part II Underground exploration by adit.	53,868.80
	$201,190.91

This represents 1.8% of the minimum probable mercury value, a very low cost in relation to the value of this deposit of strategic metal.

Jack Selby and William Dawson
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301.7 c) Plan and method of conducting Exploration.

The exploration is to be conducted by experienced personnel under the supervision of a qualified resident consulting geologist. The plan, in summary, consists of a drilling program on selected sites to prove the geologically probable location of the main ore body, to be followed by an adit or underground exploration to substantiate the results of drilling.

This program is recommended in the accompanying geological reports and is detailed in information items 5 and 7 herein. - See Grid Map for Exploration 3. e. 1).

301.7 d) Accessibility of the project area.

The project area is easily accessible, lying within San Luis Obispo County, approximately 2½ miles off a well-built County Road, 6½ miles north of the Town of Cambria and 6 miles due east of the San Simeon Hearst Ranch. The Mine site can be approached on an existing trail, by jeep or 4-wheel drive pick-up. The proposed access road - Item 5.b. - will give easy access on an engineered contour-graded all weather surface which can easily be maintained.

No labor or supply problems are expected on account of accessibility of the mine area.

Jack Selby & William Dawson
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301.7 e) Background and Operating Experience of Applicants.

The background and operating experience of the applicants and their associates is of a high caliber - see information Item 6 - Key Personnel.

Applicants themselves are experienced construction men with several years Mining and Structural experience. Their associate, W. D. Pierce, is an experienced Underground Mine Operator and a successful General Construction Contractor. In addition, applicants have secured the services of a Resident Consulting Geologist and of a Certified Public Accountant experienced in the financial aspects of Mine exploration and development.

This constitutes a balanced working team which applicants propose to perpetuate on the Keystone Property and to extend to further Mining prospects in due course.

301.7 f) Applicants' Right to Possession of the Property.

Applicants' right to possession of the property stems from their lease with the Owner, binding by renewal until at least May 31, 1972.

This is estimated to be sufficient time to repay by royalties the G.M.S. loan applied for - see 301.7 b) above.

No difficulties are expected in securing further extensions of the lease beyond 1972 and it is intended to negotiate for an extended term after the benefits of production start to reach the Owner by his share of royalties - 10% under the lease.

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301.7 g) Unavailability of Funds from Commercial Sources.

Funds are not available for exploring this project from commercial sources - see information 1. c).

Application was made to known investment sources for $40,000.00 - a minimum sum which, with applicants' own cash resources, would enable only partial exploration and subsequently poor-boy development to production.

Even this limited sum was not obtainable. Insufficient exploration has been done and the deposit is at present insufficiently proven to induce commercial investment.

Applicants are reassured that this exploration program will provide sufficient data to permit proper development of the property. Subsequent development and production can, thereafter, be achieved by the established agreement with an experienced underground Mining associate who will add equipment and labor in return for a profit share - see information memorandum 1.c.1) and 1.c.2) - and by initial custom milling at the adjacent mercury producer, the Cambria Mine.

Jack Selby & William Dawson
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301.7 h) Whether applicants would normally undertake Exploration at sole expense under current conditions.

Applicants would not undertake the proposed exploration at their sole expense.

Applicants have already devoted personally, time, labor and cash exceeding $8,000.00 to this project. They also granted a sub-lease (since expired) under which a sub-lessor invested about $40,000.00 in exploration beyond their control and without benefit of competent geological advice. This has re-emphasized applicants view that a controlled exploration program is an essential preliminary before the property can be brought to production. They now face the alternatives of:

a) Bringing the project to production by poor-boy methods on inadequate data to justify immediate mining, with consequent risk of ruining a valuable deposit.

or b) Collecting comprehensive geological data to determine the location and extent of the ore bodies, the existence of which has been indicated by previous exploration work, and of then following up these scientific results by a properly planned development and mining program, to utilize this deposit economically and fully.

This second alternative b) is clearly the proper and prudent course to adopt. However, applicants cannot obtain the finance necessary for a proper exploration program from commercial sources - see information Item 1. a. 4) - and do not possess sufficient financial resources to enable applicants to carry the entire costs of comprehensive exploration now required - see information 1. c. 3) and 4).

In these circumstances, applicants could not undertake this exploration at their sole expense, although this exploration is essential to the proper utilization of this Mercury Mine.

Jack Selby & William Dawson
P. O. Box 995
Morro Bay, California

INFORMATION FOR APPLICATION

Keystone Mine
Mercury

1. FINANCIAL ELIGIBILITY

a) 1. Application was made on May 15, 1961, to Mr. Selby's Bank of account (copy attached) - 1.a.1), and on May 6 and May 15 to known sources of private credit in similar terms. 1.a.4).

2. $40,000.00 was requested, to be repaid from production within two years with interest and additional participation in the net profits.

3. These funds were requested for the purpose of completing exploration and bringing Mine into production with a rotary mill.

4. Negative replies were received from:

Bank of America, Morro Bay - Bank of Account - May 17 1961 - (copy attached) - 1.a.4).

Dr. Edison French, San Luis Obispo, Calif., - May 18, 1961 (copy attached).

Independent mortgage and investment company, Santa Cruz - May 16, 1961 (copy attached).

In essence, the basis of these refusals is the availability of realty development in the coast area offering attractive investment to venture capital and the aversion of non-venture capital to investment in a mine at this stage of development.

b) There are no affiliated parent or controlling companies or organizations.

c) Applicants share of cost of exploration work will be furnished by applicants Jack Selby and William Dawson by cash contribution and by agreement with W. D. Pierce, an experienced underground miner and general contractor, whereby equipment and labor will be made available in return for a small cash advance in anticipation of a future share of profits, as detailed in attached memorandum of Joint Venture 1.c.1) and 1.c.2). Statements

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

of financial resources of Mr. Jack Selby (Balance Sheet at 4/30/61) - 1.c.3), and Mr. William Dawson (Balance Sheet at 4/30/61) - 1.c.4), are attached showing a joint net worth of $56,402.71 at April 30, 1961; of which $31,876.92 is represented by cash and securities.

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

2. APPLICANTS RIGHTS IN LAND

a) Applicants interest in land and mineral rights is set out in attached copy of lease of June 1, 1957, as amended by agreement dated August 6, 1957, (exhibits 2.a.1) and 2.a.2)). Owners' address is: Phelan Land and Cattle Company
P. O. Box 317
San Luis Obispo, Calif.
Applicants Jack Selby and William Dawson are joint lessees of Keystone Field for purposes of conducting quicksilver mining operations and removing quicksilver therefrom.
Lease runs from June 1, 1957 to May 31, 1962, with option to renew by notice in writing for two further periods of five years each from June 1, 1962 to May 31, 1967;and June 1, 1967 to May 31, 1972.

To the best of applicants' knowledge and belief land is unencumbered.

b) Keystone Mine is located in Section 23, Township 26,South; Range 8 East, M.D.B. & M, as shown on U.S.Corp of Engineers' map attached, - exhibit 2b). The mine is located, recorded and recommended for further exploration and development in U.S.Geological Survey 922R.

c). Lien and subordination agreement MME Form 52 cannot be obtained from the landowner - Phelan Land & Cattle Co. - for reasons set out in landowner's letter of refusal - attached, exhibit 2.c.1). Preliminary agreement is being sought with an acceptable surety company, to complete standard Form 25, Performance Bond, if required in lieu of this lien and subordination agreement.

3. PHYSICAL DESCRIPTION

The following matters 3 a. - 3 f. are detailed in the Geological Report submitted herewith.

In summary the facts are:

3. a. Past Mining and Exploration

This Keystone prospect is reported in U. S. Geological Survey Bulletin 922-R and recommended:

> "Existence of good ore at surface and reports that even richer ore was extracted from the winze on the lower level both seem to indicate that further exploration and development are advisable".

The prospect was previously mined with the successful extraction of high grade Cinnabar. Mining is believed to have stopped for financial reasons.

Further exploration was conducted later by a sub-lessor without benefit of Geological advice or supervision. Promising showings detailed in the Geological Report were not followed up, no cores were taken and the results are merely indicative of a substantial ore body partially located.

Further exploration of an old adit and by completing a new adit was then conducted by the applicants. Cleaning this adit and exploration with competent geological advice is now included in the program. 5 a) Part I - 4.

All past workings and most of the previous exploration centered around an ore bearing vein leading away from what is now believed to be the main site of an ore body.

The accurate location of this body is the main target of the proposed program.

Existing production facilities are limited to a trial retort built by the applicants. However, provision has been made for initial custom milling by the Owners of the adjacent Cambria Mine. It is expected that revenue from this source will enable the repayment of an OME loan on initial production and the subsequent construction of a mill at the Keystone Mine site.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California.

3. b. Applicants' interest in past operations was limited to exploration by the two adits mentioned above - 3. a.

3. c. Past production is mentioned above - 3. a. and detailed in the Geological Report - 3 g). There is no current production.

3. d. There are no proven ore reserves in the absence of drill cores. Plates 3. e. 1) - views of probable body show a minimum expection of ore reserves.

These ore reserves are estimated at:

435,300 tons valued at $10,603,710.00 recoverable mercury value, calculated on a conservative basis, as detailed in the accompanying Geological Report - 3 g.

3. e. Geological features and supporting sketches or maps.

Exhibits 3. 3. 1) - Plates 8, 9, and views of probable ore zones are attached.

The main feature of this area is a thrust zone which appears to have trapped ascending mineral solutions, forming a commercially valuable ore deposit.

Full details of the Geology of the area are included in the attached Geological Report.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

3. f. Reasons for Expecting to Find Ore

The Reasons for expecting to find ore are outlined fully in the Geological Report herewith. In summary, competent Geological opinion is that the thrust zone forms a favorable area for the entrapment of ore and that past exploration and production indicate that entrapment has taken place on a moderately wide scale in a specific area.

3. g. Two copies of a Geological Report dated July 14, 1961, by Gerhard E. Eberhardt, Consulting Geologist, are submitted herewith. These Reports should please be returned.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

INFORMATION FOR APPLICATION (contd)

4. ACCESSIBILITY OF PROPERTY

a) Jack Selby, P. O. 993, Morro Bay - SP.2-8154, will be available by appointment to meet an O.M.E. representative. Keystone Mine can be reached by San Simeon Road, off Highway 1, ½ mile, turn left to Machado Ranch and follow trail to Keystone Hill.

In addition to this existing trail, an all weather access road is proposed to be driven - see Item 5 b), Exploration Work - 2½ miles, from good existing County road and to the mine site. This access road presents no problems and will be contoured to ensure permanent accessibility for vehicles.

b) Shipping and Supply points are via Cambria Mine by truck on access road proposed 5.b).

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

5. EXPLORATION WORK

a) Proposed Program

The proposed exploration program is described in the accompanying Geological Report - Exhibit 3 g.

The program as a whole is divided into two parts, a drilling and surface exploration program and a subsequent underground exploration adit, with related units of work as follows; and for which estimated costs are detailed separately under Item 7, herein.

5. a) Part I. 1. Preparatory: Cleaning old drill benches, cleaning nearby spring and construction of small earth dam to obtain water for drilling unit, cost 32 hours, estimate $1,446.40.

2. Benching new drill sites for drilling program.

Unit cost 80 hours, estimate $3,216.00.

3. Surface drilling 38 holes in area recommended in Geological Report and sited on Isopach map herewith - Item 3. c. 1), Plate 8 as follows:

Total drilling 12,988 feet, of which 4,654 ft. will be cored.

Unit cost estimate $9.71 per foot.

Note: It will be appreciated that the exact location of drill holes within each of the above areas will be reviewed in the light of preceding drilling results.

It is not proposed to alter significantly the footage to be drilled without first obtaining O.M.E. approval to a program amendment.

5. a) Part I 4. Cleaning existing old adit and exploring.

Unit cost estimate $2,765.00.

5. a) Part II.

On the basis of the drilling program results above, which will be corelated, reviewed, and reported upon by the resident Consulting Geologist, (See Misc. 7 g.) it is proposed to drive an exploration adit. The location of this adit is based on the consistent hypothesis recommended in the Geological Report.

If the drilling results suggest an alternative location for this exploration adit, a program amendment will be submitted for O.M.E. approval.

5. a) Part II. 1. Clear entrance area and erect portal to adit.
Unit cost 16 hrs. est. $822.80.

2. Drive exploration adit (4'x6') 800 ft. from base of Keystone Hill to confirm ore zones indicated by drilling, to locate intervening ore zones and to extend geological knowledge of body. Cost per ft. est. $52.11

3. Provision is also made for timbering the exploration adit. Cost per ft.timbered, est.$13.34.

5. b) Part I. Construction of Access Road.

The location of an existing temporary trail is shown on map in Geological Report 5. g. - and see Item 3 c. -

Extending, grading and levelling an access road is proposed as shown on map in Geological Report 3. g. and 3. a. 1).

The length of this road is estimated at 2½ miles (4,400 yard); Type -- all weather, non-metalled, contoured dirt road with provision for drains construction; by available T. D. 24 under supervision of experienced general contractor.

Unit Cost est. ..... $0.98 per yard.

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Morro Bay, California

5. c. If an O.M.E. Contract is executed, it is proposed to start the above work immediately.

Estimated completion rates are:

5. a. Part I.

		Man Hours	Working days
1.	Cleaning old benches, cleaning springs and constructing dam	144	4
2.	Benching new drill sites	360	10
3.	Drilling program @ av: 5.6 ft. per hour	7,938	284
4.	Cleaning old adit and exploring	224	8
5.	a. Part II		
1.	Erection of portal	128	2
2.	Driving adit @ 8 ft. per day.	6,400.	100
3.	Timbering adit	710	23
5.	b. Part I		
	Access road at av. 367 yards per day.	480	12
		16,384 man. hrs.	443 working days.

It is proposed to work double shifts on the drilling program and on driving the adit. Estimated completion is therefore approximately 16,384 man hours, 242 days.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

INFORMATION FOR APPLICATION (contd)

6.1 The operating experience and background of key personnel is summarized as follows:

Jack Selby ..... (co-applicant) - Manager of Steiner Creek property, 1955; Superintendent - Pipe-fitting Aton & Smith, Nacimiento Dam, 1956. Foreman - Forgeron, Bakersfield. and with William Dawson, 1957, to date on Keystone project.

William J. Dawson .....(co-applicant) - Mining since 1932. Tunnelling with Bureau of Reclamation 1935. Underground work, P.G.& E. (Hass Power House, 1957). John Hoffman Enterprises - 1958. and with Jack Selby, 1957 to date on Keystone project.

Walter Donald Pierce . (Joint venturer with applicants) - Owner and Manager, surface and underground mining, Pick & Shovel Mine, Morro Bay, 1955 - 1957. (a successful chrome-producing property). Contractor, stripping, mining and hauling, Castro Mine, Trinidad Mine, Hardface Mine, 1953 - 1956. General Contractor- heavy construction 1957 to date.

Gerhard E. Eberhardt . Consulting Geologist - Washington State University, Bachelor of Science in Geology (1953). University of Calif. Post Graduate study. Geophysicist, Standard Oil 1957 - 1960. Consulting Geologist - Bright Outlook, Cima, California. Keystone Mine (1958 to date), and other prospects. Investigated magnetite possibilities of Columbia River Mouth, Washington and Oregon, 1956 - date.

James S. Thwaites .... Certified Public Accountant (California 1958). Fellow of Institute of Chartered Accountants (Eng. 1950). Associate of Institute of Arbitrators,
Former London Secretary - Messina (Transvaal) Development Co. Ltd., Mining properties Transvaal, S. Africa and S. Rhoesia. Director and Secretary, N.T.D.Copper (Sales) Ltd. - sole world sales agents.

Jack Selby and William Dawson

P. O. Box 993
Morro Bay, California

7. SUMMARY

Total Costs of Project

Part I. Core Drilling & Surface Exploration

5. a. 1.	Cleaning benches 16 hrs.@ $50.20 =		803.20
	Dam 16 hrs.@ $40.20 =		643.20
2.	New benching 80 hrs. @ $40.20 =		3,216.00
3.	Drilling.		
	Area detailed in Plates 8 & 9 (see Exhibit 3.e.1)) 12,988 ft. @ $9.71	= 126,125.76	
	Add allowable overhead costs (7e.-g.) below.	= 9,436.00	
	...12,988 ft.@ $10.44	= 135,561.76	135,561.76
4.	Explore old adit. 64 hrs. @ $43.20	=	2,765.00
5. b.	Access Road. 7,040 yds. @ $0.62 per yard.=		4,332.96
	TOTAL COST PART I	=	147,322.12

Part II. Underground Exploration

5. a. 1.	Erect portal 16 hrs. @ $51.43 =		822.80
2.	Drive adit 800 ft. @ $53.11.	= 42,488.00	
	Add allowable overhead costs 7.g. below	= 5,222.00	
	800 ft. @ $59.63	=	47,710.00
3.	Timber adit. 400 ft. @ $13.34 per foot	=	5,336.00
	TOTAL COST PART II		53,686.80

TOTAL COST ..... Part I 147,322.12
Part II 53,686.80
201.008.92

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

Note:

Allowable overhead costs added to Part I Item 5.a.3) above:

7. e. Initial rehabilitation, repair.	50.00
7. f. New buildings	600.00
7. g. Miscellaneous	8,786.00
	9,436.00

Allowable overhead costs added to Part II Item 5. a. 2) above:

7. g. Miscellaneous	5,222.00

The above costs have been estimated on an overall hourly and footage basis in order to simplify bookkeeping and payment for work accomplished.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

7. ESTIMATE OF PROGRAM COSTS

The exploration costs are based on current wage rates, supply and equipment rates. Personnel, including applicants, are experienced Foremen and Journeymen entitled to standard wage rates for their labor. Corresponding savings in the time of completion through efficiency are included.

Costs based on an overall hourly and footage basis in order to simplify book-keeping and payment for work accomplished.

5. a. Part I

1) Clean benching sites; clean springs and construct earth dam.

Clean old drill benches: 16 hours.

Rental of T.D.24 with operator ($4.00 p.hr.) 16 hours @ 22.50/hr.....	360.00
Labor & supervision (i,ii,iv(½ time)) 40 man hours @ 5.20/hr.	208.00
Geologic supervision (iii).....	75.20
Haulage T.D.24 to site (2-way)	160.00
= $50.20 per hour overall	$803.20

Clean out springs and construct earth dam - 16 hours.

Rental of T.D.24 with operator 16 hrs. @ 22.50/hr.	360.00
Labor & supervision (i, ii, iv (½ time)) 40 man hours @ 5.20/hr.	208.00
Geologic supervision (iii) and mapping 16 hours @ 4.70/hr.	75.20
= $40.20 per hour overall	643.20

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

5. a. Part I

2) Benching new drill sites - 80 hours.

Rental of T.D.24 with operator,
80 hours @ 22.50/hr. 1,800.00

Labor & Supervision (i,ii,iv
(⅓ time)),200 hrs.@ 5.20/hr. .. 1,040.00

Geologic supervision iii,
80 hrs.@ 4.70/hr 376.00

= $40.20 per hr. overall 3,216.00

3) Rental of Geophysical rotary drill with operator & helper:
$3.00 per foot without core.
$7.00 per foot with core to 300 ft.
$12.00 per foot with core below 300 ft.
$22.00 per foot with core below 300 ft.
with allowance for very hard ground
and renewal of bits.
Continuous inclinometry, 10¢ per foot 1,298.80.

Labor and supervision, two drills
including surveying and mapping
assistance.
(i,ii,iv (⅓-time)) @5.20/hr;5,670-hrs. 29,484.00

Geologic supervision (iii) @ 4.70/hr.
and corelation 2,268 hrs..... 1,065.96

120 core trays and 480 sample bags ... 45.00

Mapping, materials, Isopach maps 12.00

Assays 465 @ 5.00 ..... 2,325.00

Area; per plates 9h & 8, (Exhibit 3.e.1) and
grid for exploration.
38 holes 12,988 feet.
8,334 ft. without core, 834 hrs.
@ 3.00 per ft. 25,002.00
4,654.ft. with core, 1,164 hrs -
2,543 above 300-ft. level, @7.00 p.ft. 17,801.00
2,111 below 300 ft. level @ 12.00 " " 25,332.00
Expected loss of circulation, highly
brecciated ground.
1,080 feet - 270 hurs. p.ft. @ 22.00 23,760.00

OVERALL COST 126,125.76
= $9.71 per ft.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

5. a. Part I

4) Clean Old Adit and exolore - 64 hours.

Clean to intersection of veins 240' from portal - 24 hours.
Clean from intersection of veins to old winze - 32 hrs.
Sink 8 ft. shaft - 8 hrs.

- $5.00 per day. Rental use of mucking machine.	40.00
Air compressor @ 4.00 per hr.	256.00
Horizontal and inclined drilling: Rental use of core drill $5.00 /hr. 20 hrs	100.00
Labor & supervision (i,ii,iv) 192 man hrs. @ 5.20/hr.	998.40
Geologic supervision & sampling 64 hrs. @4.70	300.80
Timbering 30 sets, 36 ft. @ 5.87 p.ft.	1,056.60
Powder 5 sticks p/ft., 8ft. @1.20 p.ft	9.60
Primers ..... .15 "	1.20
Fuse ..... .30 p.ft.	2.40
= $43.20 p/hr overall	2,765.00

5. a. Part II

1) Clear back area and construction of Portal - 16 hrs.

Rental of T.D.24 with operator, 4 hrs. @ 22.50	90.00
Labor and supervision (i,ii,iv) 48 man hrs. @ 5.20/hr.	249.60
Mining labor, hauling, etc. 4 men $3.50 per hr. including payroll taxes and dues. 64 man hours @ 3.50	224.00
Geologic supervision and mapping iii 16 hrs. @ 4.70	75.20
Timber, as itemized - 7 c)	184.00
	822.80

= $51.43 per hour overall.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

5. a. Part II

2) Driving adit 800 ft. 40 hr. week.
Advance 8-ft. per day = 100 days.
Labor and supervision.
(i, ii, iv).
2,400 man hours @ $5.20

= $12,480.00	=	15.60 per ft.
Geologic supervision and sampling 800 man hours @ 4.70 = $3,760.00	=	4.70 " "
Mining labor (4), 3,200 man hours @ 3.50. = $11,200.00	=	14.00 " "
Operating materials and supplies, per 7. c).	=	4.20 " "
Air blower @5.00 per day. = $500.00	=	.63 " "
Slusher (first 120 ft) 120 hours @ 5.00 per day. = $75.00	=	.09 " "
Power saw @ 7.00 per day	=	.88 " "
Jackhammer @ 7.00 per day	=	.88 " "
Air compressor @ 4.00 per hour	=	4.00 " "
Mucking machine @ 5.00 per day	=	.63 " "
Light plant @ 5.00 per day	=	.63 " "
Track 600 ft. @ cost 200.00. Add 1,000 ft. @ 12¢ per lb. 50 lbs. per yard. = $1,800.00	=	2.50 " "
Sampling assays 200 @ 5.00.	=	1.25 " "
Inclined Drill @ 25.00 per day	=	3.12 " "
		53.11 per foot

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

5. a. PART II

3)	Timbering adit, 6' segments 400 ft., materials cost, per 7 c)	=	5.87 per ft.
	3 Sets, 2 men, 8 hours, 355 man hours @ 3.50 per hour. = $1,242.50	=	3.11 " "
	Supervision and labor (i, ii), 355 man hours @ 5.20/ hour. = $1,846.00	=	4.36 " "
	COST PER FOOT	=	13.34

5. b. PART I

Driving, grading and levelling access road. 4 miles, 96 hours.

Rental T.D.24 @ 22.50/hr.	=	2,160.00
10 Drains; 12" pipe, 15 ft. per drain @ 1.50 per ft.	=	225.00
Supervision and labor (i, ii, iv). 288 man hrs. @ 5.20	=	1,496.76
Geologic supervision, Inc. Surveyors. 96 hurs. @ 4.70	=	451.20
		4,332.96

Est. 7040 yrds. = $0.62 per yard.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

7. ESTIMATE OF COSTS: SUMMARY BY CATEGORY

a) Independent Contracts - nil.

Note: Bids on the drilling program were received (copies attached) as follows:

	John T. Gardner	Jess Barnes	R. B. Yager	W. D. * Pierce
Without core	3.25	3.00	3.00	3.00
With core	7.50	7.25	7.25	7.00
Below 300-ft. without core.	20.00	3.50	-	-
With core.	-	15.00	15.00	12.00
With core hard going.	35.00	25.00	25.00	22.00

*Applicants decided to use bids to determine market value of drilling in view of other work, at proper market rates, undertaken by W. D. Pierce on basis of paying contractor by cash advance and profit sharing arrangement outlined in memorandum 1. c. 1) attached. This payment arrangement gives W. D. Pierce an interest in the ultimate mine production and this work is not therefore listed as an independent contractor.

b). Personal Services

i. Jack Selby - Labor and supervision - $900.00 p.m. = 5.20 p/hr.
ii. William Dawson -" " " - 900.00 " = 5.20 "
iii. Gerhard Eberhardt - Resident Consulting Geologist - $800.00 p.m. = 4.70 "
iv. W. D. Pierce - Labor and supervision -900.00 = 5.20 "
v. Four Mining laborers, including dues and payroll taxes = 3.50 "
vi. T.D.24. Operator = 4.00 "

7. b) Personal Services - Analysis of Man hours

(continued on page following) .....

Analysis of Man Hours

	i	ii	iii	iv	v(4)	vi	Total
5.a.Part I							
1. Clean	16	16	16	8	-	16	72
Dam	16	16	16	8	-	16	72
2. Bench	80	80	80	40	-	80	360
3. Drill	2,268	2,268	2,268	1,134	-	-	7,938
4. Clean adit	64	64	64	32	-	-	224
5b.Access road	96	96	96	96	-	96	480
Total PART I	2,540	2,540	2,540	1,318	-	208	9,146
5.a.Part II							
1. Portal	16	16	16	16	64	-	128
2. Drive	800	800	800	800	3,200	-	6,400
3. Timber	178	177	-	-	355	-	710
Total Part II	994	993	816	816	3,619	-	7,238

All the above personal services are available on QM.E approval of contract.

7. c). OPERATING MATERIALS AND SUPPLIES

5. a. Part II 1. Construction of Adit Portal.

Timber: 5 sets 8" x 8" - 100 lin. feet..... 80.00
2" x 12" 400 lin. feet 104.00
(including spikes)
$184.00

5. a. Part II. 2.Driving Adit - 800 ft.

Powder, 5 sticks per ft;	= 1.20	per ft.	
Primers 11 to round ...	= .15	"	
Fuse	= .30	"	
Air pipe	= .50	"	
Water pipe 3/4"800 ft.+	= .12	"	
Track 2 ft. per ft. delivery			100.00
Timber 4 x 6 ties, 2 ft. per ft.	.60	"	
Lighting wiring	= .15	"	
Ventilation per line ..	= .30	"	
	3.32	"	2,656.00
			2,756.00

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

7. c) OPERATING MATERIALS AND SUPPLIES

5. a. Part II 2.
continued.

B/forward		2,756.00
6 new shovels @ 3.50 each...	21.00	
6 " picks @ 3.50 ea.	21.00	
Steel starters 2', 4', 6', @ 30.00 ea.	90.00	
2 carbeloid bits @ 40.00 ea.	80.00	
2 ordinary bits @ 3.00 ea..	6.00	
12 steel helmets @ 4.00 ea.	48.00	
Lights for same @ 12.00 ea.	144.00	
3 sledgehammers @ 10.00 ea.	30.00	
2 axes @ 6.50	13.00	
1 hatchet @ 5.00	5.00	
1 adze @ 15.00	15.00	
Miscellaneous small tools .	50.00	523.00
		3,279.00
= per foot of adit		$ 4.20

5. a) Part II. 3. TIMBERING ADIT, 6' Segments -

12" x 12", 17 lin. ft. per segment.	3.33	per ft.
Wedges, 16 per segment	.54	" "
Lagging, per ft. of segment	2.00	" "
	5.87	" "
x 400 ft. timbering		2,348.00
= per foot of adit.		2.93

b) ACCESS ROAD

10 drains; 12" pipe, 15 ft. per drain @ 1.50 per ft. 225.00

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

7. d. OPERATING EQUIPMENT OVER $50.00 PER ITEM

Items to be provided by W. D. Pierce on rental under memorandum of joint venture 1. c. 1) and 1. c. 2) attached.

Item	CONDITION	SALE VALUE*	RENTAL RATE
Wright Power Saw	Good	150.00	6.00 per day.
Slusher, cables & bucket.	Good	600.00	5.00 " "
Ingersoll-Rand Jackhammer & Jack-leg.	Good	600.00	7.00 " "
Chicago-Pneumatic 105 air compressor	Good	1,000.00	4.00 " hour.
Mucking machine	Good	500.00	5.00 " day.
Track 600' Inc. 3 cars.	Fair	200.00	
Light plan 2 kv.	Good	300.00	5.00 " "
		3,350.00	

* Provisional agreement for sale of these items to applicants out of production profits at above written down values is recorded in Memorandum 1. c. 1) and 1. c. 2). Sale is not effective until production profits are realized.
Norman rental basis applied above.

Other Rental Items

Rotary Geophysical Drill Rig - Rental on fair footage basis plus allowance for drill bits on very hard ground.

T. D. 24 ..... Rental 22.50 per hour.

Air Blower (ventilation ..... Rental 5.00 per day.

Ex-inclined core drill ..... " 25.00 " "
" " core bits @ 120.00 each (2) ... $240.00.
" core barrel @ 100.00 ", (2) ... $200.00.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California.

7. e) INITIAL REHABILITATION AND REPAIRS

Repair to trailer for overnight accommodation on site.
Trailer contributed by W. D. Pierce. - see 1. c. 1) and 1. c. 2) $50.00

7. f) NEW BUILDINGS, FIXTURES AND INSTALLATIONS FOR EXPLORATION WORK

Previous buildings destroyed by fire.

New tool shed New Wash-ff shed	Material ..... Labor	$250.00 250.00
Shower installation, Hot water heater	.....	50.00
Stretcher and first aid kit, contributed by W. D. Pierce. - see 1. c. 1) and 1. c. 2)		50.00
		$600.00

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

7. g) MISCELLANEOUS

Repairs and Maintenance of Equipment; nil, covered by rental

Analytical work

Surface Geology, 50 assays @ 5.00 ..... $250.00

Accounting (Payroll and costs)

Payroll clerk @ 90.00 per week.
est. 30 weeks. = 2,700.00

C.P.A. Accounting 7.50 per hour.
Monthly reports est. 200 hours. = 1,500.00

W. C. Insurance @ 10.00 per $100.00.

Est. total payroll, per man hour analysis.
$77,122.10 = 7,712.00

Employee's Liability Insurance = 1,000.00

Other - Surveying iii, i, and iv.

Geological analysis, surface and drill results
consulting geologist 180 hours @ 4.70 = 846.00

TOTAL 14,008.00

COSTS APPLIED TO PROGRAM

5. a) Part I. 3 - Drilling -	Surveying	846.00	
	Analytical	250.00	
	Accounting	750.00	
	W.C.I. & Others	6,940.00	8,786.00
5. a) Part II. 2 - Adit. -	Accounting	750.00	
	Remainder	4,472.00	5,222.00
		TOTAL	14,008.00

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

EXHIBITS

Attached to O.M.E. Application on Keystone Mine

1. a. 4) True copies of correspondence with financial sources and replies:

Bank of America, Morro Bay, Letter of May 17, 1961.
Dr. Edison French, S.L.O. " " May 18, 1961.
Independent Mortgage & Investment Co., Santa Cruz, Letter of May 16, 1961.

1. c. 1) True copies of memorandum of Joint Venture.

1. c. 2) " " " " " " " (equipment list).

1. c. 3) Balance Sheet - Jack Selby, 4/30/61.

1. c. 4) " " William Dawson, 4/30/61.

2. a. 1) & 2) True copies of lease of June 1, 1957, as amended August 6, 1957.

2. b. Copies of U. S. Corp. of Engineers map showing mine area (State of Calif., Department of Public Works, S.L.O. County, San Simeon Quadrangle) - Plate 11.

2. c. 1) True copies of landowner's letter of refusal, of May 23, 1961.

3. e. Sketch-Maps.

3. e. 1) Plate 8, Isopach top and bottom of ore zone with drill hole depths.

Plate 9, Geologic test holes.

Plates - Crossection (Plate 1); and vertical view (Plate 2) of indicated ore zones.

Grid for exploration.

7. a. Diamond drill bids, true copies.

Jack Selby & William Dawson
P. O. Box 995
Morro Bay, California.

C
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1.a.1)

James S. Thwaites
Certified Public Accountant
1015 Grand Ave., Arroyo Grande, Calif.
HUnter 9-2362. Res. HUnter 9-7363

May 15, 1961

Confidential

The Manager
Bank of America
5th and D.
Morro Bay, Calif.

KEYSTONE MINE

Dear Sir:

My client, Mr. Jack Selby, who maintains his account with you, has asked me to obtain your views on finance for the Keystone Mine.

This property is held by Mr. Selby and Mr. Dawson on lease for the production of mercury. They have spent four years opening up a very promising vein of cinnabar.

Further finance of the order of $40,000 is now required to complete a new exploration shaft to the face of the vein and to bring the mine into production with a rotary mill.

Geological and financial reports are available, naturally.

At this stage, however, we would appreciate an expression of opinion from you on whether you may be interested in financing this project.

It is estimated on present information that the principal could be repaid from production within a period of two years and that a reasonable rate of interest would be available as a return on this loan.

I will be glad to supply any further information you may require, and look forward to your views at your earliest convenience.

Very truly yours,

(signed)

James S. Thwaites
Certified Public Accountant

COPY

1.a.4)

BANK OF AMERICA
National Trust and Savings Assoc.

Morro Bay Branch, 390 Fifth Street, Morro Bay, California

May 17, 1961

Mr. James S. Thwaites
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, California

Dear Mr. Thwaites:

This is in reference to your letter dated May 15, 1961, pertaining to a loan in favor of Mr. Selby and Mr. Dawson whom are operating the Keystone Mine located in the Cambria area.

I noticed in your third paragraph you requested a loan for approximately $40,000.00 for the purpose of exploration and production in the mining program at the Keystone Mine. However, due to the fact that this looks like purely a speculation deal we are unable to comply with your request.

Very truly yours

(signed)

J. L. Williams
Manager

JLW/bm

C
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1.e.4)

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Avenue, Arroyo
Grande.
HU 9 - 2362

May 15, 1961
Confidential

Dr. Edison A. French
1326 Higuera
San Luis Obispo,

Dear Dr. French:

KEYSTONE MINE

Responsible clients of mine have asked me to make an approach to you and Dr. Geo. O. French as they understand you are occasionally interested in mining properties offering a sound return.

My clients and their associates have spent four years opening up a very promising vein of cinnabar on the Keystone property, which they hold for mercury production under lease. Further finance of the order of $40,000 is now needed to complete a new exploration shaft to the face of the located body and to bring the mine into production with a rotary mill.

Geological and financial reports are available, of course, and it is understood that any financing would be subject to verification of these reports. However, the development is now so far advanced that a single core-drilling will prove the richness and depth of the main rich zone.

It is estimated on present information that the principal could be repaid from production within a period of two years and that a reasonable rate of interest plus participation in the net profits would be available as a return on this investment.

If I could have the benefit of your preliminary views, I would be glad to arrange an interview with my clients at your convenience.

Yours very truly

(signed)
James S. Thwaites
Certified Public Accountant

c.c. Dr. Geo O. French
124 Longview Lane
San Luis Obispo

C
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1.a.4)

FRENCH MEDICAL CLINIC
San Luis Obispo, Calif.

May 18, 1961

CONFIDENTIAL

Section in Surgery
Dr. Edison A. French

Mr. James S. Thwaites
1015 Grand Avenue
Arroyo Grande, California

Dear Mr. Thwaites:

Thank you for your letter of May 15 regarding the Keystone Mine. I am not interested at this time.

Sincerely

(signed)

Edison A. French, M.D.

EAF/agb

C
O
P
Y

1.a.4)

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Ave.Arroyo Grande
California
HU.9 - 7363

May 6, 1961
Confidential

Mr. Patrick J. Murphy
Tri-County Mortgage Co.
Santa Cruz, California

By hand of: Mr. C. C. Christenson

Dear Mr. Murphy:

Responsible clients of mine have asked me to make inquiries and to apply for finance to bring into production their Keystone mining property in Morro Bay.

They and their associates have invested to date $40,000 in proving a thirty-thousand ton deposit of cinnebar. Further finance of the order of $40,000 is needed to complete a new exploration shaft and to bring the mine into production.

Geological and financial reports are available, naturally, and it is understood that any financing would be subject to verification of these reports and inspection of the underground workings and assays.

However, it is estimated on present information that the principal could be repaid within a period of two years and that a reasonable rate of interest plus participation in the net profits would be available as a return on this investment.

If I could have the benefit of your preliminary views, I would be glad to make a formal application for submission by my clients to any party you may recommend.

Very truly yours

(signed)
James S. Thwaites
Certified Public Accountant

C
O
P
Y

1.a.4)

INDEPENDENT MORTGAGE AND INVESTMENT COMPANY, 118-A Locust Street
Santa Cruz, California
May 16, 1961

John J. Murphy

James S. Thwaites
1015 Grand Avenue
Arroyo Grande, Calif.

Subject: KEYSTONE MINING PROPERTY

Dear Mr. Thwaites:

Mr. C. C. Christensen has given me your letter of May 6, 1961.

I have made quite a thorough investigation into the possibility of finding an investor, or investors, for the Morro Bay mining properties. I have not as yet received a favorable response from known investors either in this area or in the San Jose area.

I will, of course, keep you in mind and will advise you immediately of any possibilities for financing that may appear in the future.

Thank you for your consideration.

Sincerely yours

(signed)

John J. Murphy

JJM

MEMORANDUM OF JOINT VENTURE
KEYSTONE MINE

This Memorandum records the intention of Jack Selby, William J. Dawson and W. D. Pierce to join together to explore and subsequently to bring into production the Keystone Mine, Morro Bay, California.

Contributions:

Jack Selby and William J. Dawson will provide finance necessary to carry out the exploration program as agreed with O.M.E.

They will also contribute personal time and labor on the project valued at $900.00 per month each, immediately O.M.E. approval is granted. They will further contribute jointly to the costs of securing a competent resident Consulting Geologist to supervise and direct all exploration work, at a retaining fee of $800.00 per month.

W. D. Pierce will contribute the use of suitable equipment wholly owned by him and listed in the attached exhibit 1.c.2) and will procure and supervise competent labor and efficient equipment to perform the drilling and underground exploration program as agreed with O.M.E. in a workmanlike manner to O.M.E. approval.

On the satisfactory completion of the O.M.E. exploration program, Jack Selby, William Dawson and W. D. Pierce will continue to contribute as above to the work of bringing the Mine into production.

Shares:

W. D. Pierce will be entitled to draw in cash from Jack Selby and William Dawson an advance participation of his share of profit. This advance will be calculated at the following rates on completion of work satisfactorily to O.M.E. approval:

$2.00 per foot of surface drilling without core,
$5.00 per foot of surface core drilling to 300 ft.
$9.00 per foot of surface core drilling beyond 300 ft.
$15.00 per foot of surface core drilling beyond 300 ft. in very hard ground requiring renewed bits.
$16.00 per foot of adit driven.
$10.00 per foot of adit timbered.
$12.00 per hour for roughing access road and benching.
$150.00 for haulage of T.D.24 to and from site.
$400.00 for cleaning area behind and erecting portal.
$3.50 per hour for mining laborers.

Provided that the above work shall be prescribed by and carried out under the direction of the resident Geologist.

Also provided that if W. D. Pierce's share of net profits is less than the total advance participation drawn as agreed above, any deficiency need not be repaid by W. D. Pierce to Jack Selby and William Dawson, who will bear this deficiency in equal shares as a loss.

In computing net profits from production, there will be deducted from gross proceeds of sale of mercury or mercury content:

A. 10% royalty payable to Phelan Land and Cattle Co. in the terms of land lease dated June 1, 1957, as amended by agreement dated August 6, 1957 - copies attached as exhibits 2.a.1) and 2.a.2).

B. 5% royalty payable to U. S. Government under O.M.E. contract, or such other rate as this O.M.E. contract may require.

C. Mining costs, production costs and selling costs normal and necessary to the mining, production and sale of mercury. Including such development work as may be reasonable and prudent to extend the useful working life of the Mine to the benefit of the parties to this agreement. But excluding costs arising from the personal services of Jack Selby and William Dawson, and excluding costs for which W. D. Pierce is entitled to an advance participation of profit under this agreement.

D. Personal services of Jack Selby and William Dawson at the rate of $1,000.00 per month each.

E. Other management and overhead costs normal and necessary to the mining, production, or sale of mercury and to the organization thereof.

The determination of gross proceeds and net profits as defined above will be made by James S. Thwaites, C.P.A., subject to audit by Government agency or any independent Certified Public Accountant engaged by any party to this agreement.

Net profits will be divided as follows:

First. By a reimbursement to Gerhard Eberhardt of $1,000.00 for past services in prospecting and preparing geological reports.

Second. By allocation of profit to James Thwaites for financial advice and services in preparing O.M.E. proposal ..... 5%.

Third. By a deduction to reimburse Jack Selby and William Dawson for the advance participation of profits drawn by W. D. Pierce under this agreement.

Fourth. To W. D. Pierce for services and use of equipment as detailed in this agreement 31-2/3%. Provided that the first $3,520.00 so paid shall be considered full purchase of the equipment listed at the prices listed in exhibit 1.c.2) by Jack Selby and William Dawson. ... 31-2/3%

To Jack Selby and William J. Dawson in equal shares ..... 63-1/3%. ... 63-1/3%

100%

Assets and Liabilities

Participation in profits as above shall not constitute W. D. Pierce and James Thwaites partners in the Keystone Mine for purposes of losses or debts. Any losses are to be borne by Jack Selby and William Dawson in equal shares, insofar as losses exceed profits.

All rights to capital equipment purchased from W. D. Pierce as above will remain exclusively in Jack Selby and William Dawson, including capital gain or loss on the disposal of this equipment. Normal depreciation on these and any other capital assets will be charged against income in determining net profits.

Proceeds on sale or disposal of the Keystone Mine or parts thereof or rights therein - excepting the capital equipment belonging exclusively to Jack Selby and William Dawson on purchase from W. D. Pierce, as above - shall be treated as net profit and divided in the net profit ratios:

Jack Selby	31-2/3%
William Dawson	31-2/3%
W. D. Pierce	31-2/3%
James Thwaites	5 %

Bank accounts, Records and O.M.E.Payments:

Payments received under O.M.E. contracts will be placed in a Bank account opened for that purpose and operable by the two signatures of W. D. Pierce and either Jack Selby or William Dawson. These funds will be used at the discretion of Jack Selby and William Dawson as reimbursement to them for the actual costs incurred in exploration and development by payment from this account into the Keystone Mine account.

A separate Bank account will be established known as the Keystone Mine account, operable by the two signatures of Jack Selby and William Dawson, who will maintain this account in sufficient funds to meet agreed exploration, mining, production, selling and organization costs, including advance participation of profits due to W. D. Pierce.

The check books and records adequately showing all transactions will be kept by James Thwaites, C.P.A., who will be entitled to charge a normal and reasonable fee for this professional service, including the preparation of periodic Mine financial statements as required. These records will be open to inspection by any party to this agreement, or to the U. S. Government and its agencies, or to representatives acting on behalf of any of these.

(signed)

..... Jack Selby

..... William Dawson

..... W. D. Pierce

..... James S. Thwaites

LIST OF EQUIPMENT TO BE CONTRIBUTED BY W. D. PIERCE

	Current Market Value
Trailer	$120.00
Stretcher and first-aid kit	50.00
Wright power saw	150.00
Slusher and bucket	600.00
Ingersoll-Rand Jackhammer and Jackleg	600.00
Chicago-pneumatic 105 air compressor	1,000.00
Mucking machine	500.00
Track - 600 feet and 3 cars	200.00
Light plant, 2kv	300.00
	3,520.00

JACK & GERALDINE SELBY

Balance Sheet at April 30, 1961

ASSETS

Current Assets

Cash: Bank of America N.S. & T.		87.95	
Morro Bay Checking			
" " Savings #1006		2,486.71	
" " " #1744		2,600.00	
Santa Maris		702.26	
			5,876.92
Investment: Insurance securities Trust			2,000.00
Prepayment I.R.S. 1960 Income Tax refund credited on 1961 Liability			1,000.00
TOTAL CURRENT ASSETS			8,876.92

Fixed Assets	Cost	Accumulated Deprec.	Net	
9th St. House	13,950.00	66.00	12,884.00	
1960 Dodge P-up	2,516.00	706.22	1,809.78	
Trailer	1,700.00			
" Additions	300.00	577.77	1,422.23	
1957 Pontiac	1,712.80	-	1,712.80	18,828.81
	20,178.80	1,349.99		
				27,705.73

LIABILITIES & CA PITAL

Current Liabilities, contract.		580.56
TOTAL CURRENT LIABIL-ITIES		580.56
Long Term Liabilities		
Contract on 1960 Dodge	1,403.02	
Less current portion	580.56	
		822.46
TOTAL LIABILITIES		1,403.02
CAPITAL: Jack and Geraldine Selby Net worth 4/30/61		26,302.71
		27,705.73

I have examined the Balance Sheet of Jack and Geraldine Selby as of April 30, 1961. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the Accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion the above Balance Sheet presents fairly the financial position of Jack and Geraldine Selby as of April 30, 1961, in conformity with generally accepted accounting principles.

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, California

WILLIAM DAWSON

Balance Sheet at April 30, 1961

Assets		
Current Assets		
Cash, Bank of America N.S.& T.Fresno	15,000.00	
Account receivable	7,000.00	
Notes receivable	1,000.00	23,000.00
Fixed Assets		
Furniture and tools at valuation	4,000.00	
Auto at cost, less depreciation	1,000.00	
1959 Ford Pick-up at cost	2,100.00	7,100.00
		30,100.00
Liabilities		NIL
Capital, net worth William Dawson 4/30/61		30,100.00

PREPARED WITHOUT AUDIT

MINING AGREEMENT

THIS AGREEMENT, made and entered into this first day of June, 1957, by and between PHELAN LAND & CATTLE COMPANY, a California corporation, hereinafter termed "Owner", and JACK SELBY, WILLIAM J. DAWSON, KARL PIERCE, FRANK PIERCE, and FEREE PIERCE, hereinafter termed "Operators".

W I T N E S S:

In consideration of the terms, covenants and conditions herein contained, each of which is hereby mutually agreed upon by the parties hereto, and the Operators agree that they shall be jointly and severally responsible and liable for compliance with all of the terms, covenants and conditions herein contained to be kept, paid or performed by the Operators, Owner does hereby agree with Operators that Operators may enter upon two (2) portions of Owners' ranch, each portion being described as follows:

PARCEL I. A portion of Section 23, Township 26 South, Range 8 East, M.D.B.& M., known as the KEYSTONE FIELD and

PARCEL II. That certain "Red Hill" being on a portion of Owner's ranch known as RED HILL, consisting of a portion of the north half of Section 36.

for the purpose of conducting quicksilver mining operations, and removing quicksilver therefrom.

This Agreement is subject to all of the following terms, covenants and conditions.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

I.

Operators' right of use of said property shall be limited to conducting quicksilver mining operations only, and shall have the right to remove only quicksilver from said property.

II.

This Agreement shall be for the term of five (5) years, commencing on the first day of June 1957, and terminating on the last day of May, 1962.

III.

Operators shall pay Owners as Royalty on quicksilver produced ten per cent (10%) of the gross sums received from the sale of any and all quicksilver recovered. Owner may, at its option, to be exercised in writing from time to time through the term of this Agreement, receive its ten per cent (10%) royalty in kind rather than on the basis of the proceeds received from sales. If Owner should so elect to take its royalty in kind, the value of the royalty interest shall be computed as of the then market value.

It is the intention of the Agreement that a minimum royalty for each parcel shall be paid Owner over the course of each fiscal year of June 1 through May 31, of Twelve Hundred Dollars ($1,200.00), to fall due in advance at the rate of One Hundred Dollars per month, payment of the first month's minimum royalty to be paid upon the signing of this Agreement, receipt of which is hereby acknowledged.

An accounting of each month's production shall be delivered to Owner by the tenth day of the month following. Any

royalty payments falling due for the fiscal year's production to date, shall be paid monthly, by the tenth day of the month following. In the event that the actual royalties due for the fiscal year's operations to date are less than the minimum,royalty payment due, an additional sum of money shall thereupon be paid, sufficient to bring the total royalty payments up to an amount equal to the minimum royalty payment then due.

IV.

Operators shall, at their sole cost and expense, perform and provide all labor, machinery and materials necessary for the mining of quicksilver on said property.

V.

All all times during the continuance of this Agreement there shall be kept accurate and true books of account by Operators, to be used in common between said Parties, so that Owners may, at reasonable times during the term of this Agreement, have access thereto without interruption or hindrance, to audit said books as to the computation of royalties as hereinbefore provided. It is further particularly agreed that Operators shall furnish monthly photostatic copies of all governmental reports covering the production of quicksilver from the parcels subject to this agreement. Such copies of said governmental reports shall be furnished to Owner within ten (10) days after Operators prepared the originals.

VI.

All royalties, except as otherwise may herein be provided for, shall be payable, in lawful money of the United States of America, to Owner at Cambria, California. The

place and manner of payment may be changed during the term of this Agreement by Owner giving written notice to Operators.

VII.

In the event Operators desire to abandon said parcels, or either of them, they may do so at any time during the term of this Agreement by giving sixty (60) days' written notice to Owner of their intentions to do so, and this Agreement shall terminate at the end of the sixty (60) days period, in whole if both parcels are abandoned, or, if only one parcel is abandoned, then solely as to the parcel abandoned; provided, however, Operators shall be liable for performing all of the terms, covenants and conditions to be kept, paid and performed by them under the terms of this Agreement, up to the date of the expiration of the said sixty (60) days.

VIII.

Operators shall pay all taxes and assessments of every kind and nature which may be levied against the improvements placed on said property by Operators, and further, any increase in taxes or assessments resulting from Operators' improvements, discovery of minerals, or other operations by them.

IX.

Operators shall install and maintain all gates, fences and cattle-guards as Owner may designate as being reasonably necessitated by Operators' operations. Operators shall keep all gates on said roads closed at all times, except when being used, and further, they shall maintain

all roads used by them on the property subject to this Agreement, or which may be used by them in crossing other lands of Owner in reaching said property. It is further agreed by the parties that Owner does not warrant the use of any rights-of-way in reaching the property the subject of this Agreement, but O-perators shall have all rights which owner may have for ingress or egress in reaching said lands. Operators, at their own expense, shall build an access road between the Keystone Mine and upper bank land prior to any work on said Red Hill but not later than January 1, 1958, irrespective of any earlier termination hereof. Routing of said road shall be designated by Owner.

X.

Operators shall use such routes as may be designated by Owner to and from such mines as may be operated on the premises, except that once Operators have been instructed to use any particular route and have commenced improvement or maintenance thereof Owner May not thereafter arbitrarily instruct them to use another route if such change will be at an additional expense to Operators.

XI.

Operators are given the right to erect upon said lands such buildings and such equipment as may be necessary and proper for the efficient operation of said quicksilver mines upon said lands, it being understood that title to said buildings and equipment shall remain in Operators, subject to the conditions herein contained. Operators shall have a period of sixty (60) days from the time of expiration or sooner termination of this Agreement to remove such improvements as they have placed upon said

property, or upon the one parcel abandoned, if that is the case, and in the event any of said improvements has not been removed within the period of sixty (6) days, such improvements shall become the sole property of Owner.

XII.

Operators shall, at their own cost and expense, obtain all licences and permits required by reason of the operations herein provided for. Operators shall pay for all utilities used on said premises and all other charges and expenses incurred by them in the course of their operations on said premises.

XIII.

Operators shall keep said premises in a clean condition, free from rubbish, garbage and like accumulations, and shall, at all times, comply with all state, federal and local rules and regulations with reference to the operation and occupation of said premises and conduct of mining operations thereon, and shall at all times conduct said operations in a minerlike manner.

XIV.

Owner shall have the right and privilege at all reasonable times of entering upon said premises for purposes of inspecting the same and of determining whether the terms covenants and conditions of this Agreement are being kept and performed by the Operators, and for posting notices of non-responsibility.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

XV.

Operators shall carry adequate public liability and property damage insurance upon their operations (not less than $25 - $50,000.00) with a responsible insurance carrier, protecting the Owner from any injuries or claims for injuries which might be made by any person as a result of Operators' operations. Operators shall also protect the said Owner from any attorney's fees or costs which may be incurred by them in the defense of any such action. A certificate of such insurance shall be furnished to the Owner within thirty (3) days after the signing of this Agreement. Further, Operators shall indemnify Owner against any expense, loss or liability paid, suffered or incurred as a result of any breach by the Operators, Operators' Agents, servants, employees, visitors, or licensees, of any covenant or condition of this Agreement, or as a result of Operators' use or occupancy of said premises, or the carelessness, negligence or improper conduct of the Operators, Operators' agents, employees, patrons, visitors or licensees.

XVI.

The failure of Owner to terminate this Agreement for the violation of any of its terms, covenants or conditions on the part of Operators to be performed, kept or paid, or to enforce any remedy provided for herein or by law, shall not be construed as a waiver of any of its rights for any subsequent or continuing violation thereof.

XVII.

Time is made the essence of this Agreement.

Jack Selby & William Dawson
P.O. Box 993
Morro Bay, California

XVIII.

All notices required to be served for any purpose on any party hereto may be served by mail on Owner by addressing the same to PHELAN LAND & CATTLE COMPANY, Cambria, California, and upon Operators by addressing the same to KARL PIERCE, Box 353, Morro Bay, California.

XIX.

In the event that Operators have fully observed and performed the terms, covenants and conditions hereof up to the date of the expiration of the term hereof, Operators shall have and they are hereby given the right and option to renew this Agreement for the further period of five (5) years succeeding the date of the expiration of the term hereof, on the same terms and conditions as herein stated; provided, however, that Operators shall give notice to Owners in writing of their intentions to exercise the option to renew herein granted not less than two (2) nor more than four (4) months prior to the date of the expiration of the term hereof, and such notice when so given shall be binding upon all of the parties hereto, and if not so given, Owner shall be released from all obligations to renew said Agreement. In the event that Operators have fully observed and performed the terms, covenants and conditions hereof up to the date of the expiration of the term hereof, and the term of the renewal period, as hereinabove provided, Operators shall have, and they are hereby given, the right and option to renew this Agreement for a further period of five (5) years succeeding the date of the expiration of the second five (5) year period, on the same terms and conditions as herein provided; provided, however, that operators shall give notice to Owner in writing of their intention to exercise the option to renew herein granted not less than two (2) nor more than four (4) months prior to the date of the expiration of the first extended term

hereof, and such notice when so given shall be binding upon all of the parties hereto, and if not so given, Owner shall be released from all obligations to renew said Agreement.

XX.

This Agreement is made in duplicate and each copy hereof is hereby made an original.

XXI.

This Agreement shall not be assignable in whole or in part, either voluntarily or by operation of law or otherwise,nor shall the premises, the subject of this Agreement, be subleased in whole or in part without the written consent of Owner first had and obtained. In the event of bankruptcy of Operators, or any of them, or their successors in interest, this Agreement shall not become an asset in bankruptcy.

XXII.

In the event Operators should form a corporation, ownership of which should substantially vest in Operators for the purpose of conducting the operations referred to in this Agreement, the said Operators may assign this Agreement to the said corporation without Owner's consent, provided, however, that Operators shall remain primarily liable and responsible for the compliance of all the terms, covenants and conditions of this Agreement to be kept, paid or performed by the Operators.

XXIII.

The Owner hereby reserves the surface and subsurface rights in connection with the use of said land insofar as the use

XXIII.contd.

said land insofar as the use thereof does not interfere with the rights herein granted to Operators. In this connection, the Operators shall construct and maintain adequate fences around such portions of the property then being mined so as to protect it from any cattle of Owner's, or its tenants, which may be on said property. In the event that it is determined the property is suitable for production of commercial quantities of oil it is understood that Operators will reasonably co-operate toward allowing oil production which does not interfere with their rights hereunder; or if there is any interference therewith, then they shall endeavor to work out a proper and reasonable agreement by which they shall be compensated by the oil lessee for any damages they may suffer.

XXIV.

Operators shall do all reasonable or necessary acts to prevent trespass and fire, and shall at all times conform strictly with all county, state and federal regulations relating thereto, shall at no time commit any unlawful act upon said premises or permit any person to do so. In this connection, it is agreed that Operators will use reasonable methods to prevent other persons from hunting or fishing upon said premises. Operators particularly agree that they shall neither hunt nor fish upon said premises, and that any breach of this provision of this Agreement shall be a proper basis for Owner to expel such individual operator from the property and such individual shall not thereafter go onto the said premises.

XXV.

In the event it becomes necessary for Owner to commence,

any action or proceeding in law or in equity to collect any payment of royalties to fall due herein, or to enforce any of the other terms, covenants or conditions hereof, or to declare a forfeiture of this Agreement, or to enforce any of the rights of Owner, the Operators agree to pay all costs of such suit, action or proceedings, including a reasonable amount as and for attorney's fees, provided, however that Owner prevails in any such suit, action or proceeding.

XXVI.

Each of the terms, covenants and conditions of this Agreement is mutual and dependent, and breach of any of the said terms, covenants or conditions, and failure to begin remedying of said breach within ten (10) days after the personal service of written notice by Owner upon the Operators, or anyone of them, which notice shall designate the particular complains for which correction is demanded, shall constitute grounds for the termination, cancellation or forfeiture of this Agreement. In lieu of said personal service of notice Owner may serve said notice by certified mail with return receipts signed by any one of the Operators. In the event of breach of any of the said terms, covenants or conditions, and failure to begin reasonable action to remedy said breach within said ten (10) days after said notice, Owner may terminate this Agreement by recording a notice in the Office of the County Recorder of San Luis Obispo County, stating that this Agreement has been terminated, appending thereto a true copy of the affidavit of personal service of said notice or of the return receipt aforementioned. In addition, one copy of said notice shall be posted on the premises, the subject of this Agreement. In the event operators claim any rights under this Agreement, they shall at any

time after the service of notice aforesaid but not later than ten (10) days after the recording of the said notice by Owner, record a notice in the office of the County Recorder of said County, stating that they claim rights under this Agreement. In the event Operators should fail to file said notice, all rights which they might have by virtue of this Agreement shall be terminated. The remedies provided for in this paragraph are in addition to any other rights provided Owner in this Agreement, at law, equity, or otherwise.

XXVII.

Operators' activities will be done in a minerlike manner, it being understood in the case of the exploratory work on the Keystone Field that drilling, rather than bulldozer excavation, shall be used unless otherwise consented to in writing by Owner, it being understood that drilling sites must necessarily be cleared and levelled through use of a bulldozer. Operators will use all reasonable methods to restore such drilling or mining sites, at the completion of their use, restoring cattle trails across said sites when possible to do so, or providing an alternate route if the original route cannot be restored. In no event shall Operators leave any portion of said property so that it will be a hazard for livestock usages. Fencing or filling shall be done wherever appropriate at Owner's option. At the termination hereof Operators shall give Owner a quitclaim deed of all rights hereunder.

XXVIII.

Operators' use of water obtained from said premises shall be subject to Owner's approval as to source used and

amounts taken, taking into full consideration the proper and full utilization of said premises for grazing purpose.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands this first day of June, 1957.

PHELAN LAND & CATTLE CO.

By _____

Said Owner.

_____

Jack Selby.

_____

William J. Dawson

_____

Karl Pierce

_____

Frank Pierce

_____

Feree Pierce

Said Operators.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

State of California)
County of San Luis Obispo) S.S.

On _____ 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared _____, known to me to be the _____ of the corporation that executed the within instrument, known to me to be the person who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

WITNESS my hand and official seal.

(seal)

_____
Notary Public in and for said County and State.

State of California)
County of San Luis Obispo) S.S.

On _____ 1957, before me, the undersigned a Notary Public in and for said County and State, personally appeared _____ and _____ known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same.

WITNESS my hand and official seal.

(seal)

_____
Notary Public in and for said County and State.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

C O P Y

EXHIBIT B

SUPPLEMENT TO MINING AGREEMENT

THE parties to that certain Mining Agreement dated June 1, 1957, by and between PHELAN LAND & CATTLE COMPANY, a California corporation, therein termed the "Owner", and JACK SELBY, WILLIAM J. DAWSON, KARL PIERCE, FRANK PIERCE and FERRE PIERCE, therein termed the "Operators", in consideration of the additional covenants herein made mutually agree to the following:

1. The joint venture between the Operators, being dissolved, they shall separate their interests and relationships into the following grouping: Jack Selby and William J. Dawson; Karl Pierce and Frank Pierce and Feree Pierce.

2. Selby and Dawson shall take the full rights and obligations in connection with Parcel 1, to wit, the "Keystone Field".

3. The P ierce brothers shall take the full rights and obligations in connection with Parcel 2, to wit, the "Red Hill" portion.

4. All five of said "Operators" shall remain individually responsible for the building of the road designated in paragraph IX of the Agreement, the said persons to work out between themselves the manner and by whom s aid work will actually be done.

5. The Pierce brothers shall not do any operation of any kind in the open grazing land on Red Hill which may interfere with the farming or ranch use thereof, e xcept with the prior permission of the Owner.

6. Paragraph XVIII of the Agreement is enlarged to provide that for purposes of the service of notices the address of Selby and Dawson is as follows: Selby and Dawson, Box 993, Morro Bay, Calif.

7. In all other respects the agreement remains the same, e xcept that it shall now be deemed to be two agreements, one pertaining to Parcel 1 and the other pertaining to Parcel 2, with the parties designated responsible only for the parcel they take under this separate agreement. The Owner hereby releases the parties from liability as to the parcel which they do not take, as the case may be, except as expressly hereinabove provided as to the road

construction.

Dated this 24th day of July, 1957.

PHELAN LAND & CATTLE COMPANY
BY Ernest Vollmer, Jr., President.
Said Owner.

Jack Selby
William J. Dawson
Operators as to Parcel 1.

Karl Pierce
Frank Pierce
Feree Pierce.
Operators as to Parcel 2.

State of California)
County of San Luis Obispo) SS.

On July 24 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared Ernest Vollmer Jr., known to me to be the President of the Corporation that executed the within instrument, known to me to be the person who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

WITNESS my hand and official seal. Sgd. A.V.Muller, Notary Public in and for the said County and State.

(Seal)

State of California)SS
County of San Luis Obispo)

On August 4, 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared Jack Selby and William J. Dawson known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same.

WITNESS my hand and official seal.

(sgd) Lorraine Garratt
Notary Public in and for said
County and State

(Seal)

State of California)SS
County of San Luis Obispo)

On 6th day of August 1957, before,me, the undersigned, a Notary Public in and for said County and State, personally appeared Karl Pierce, Frank Pierce and Feree Pierce, known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same. WITNESS my hand and official seal. (sgd) Wickson R. Woolpert, Notary Public in & for said County & State.
(seal)

C
O
P
Y

2.c.1)

PHELAN LAND & CATTLE COMPANY
Cambria, Calif.

May 23, 1961

Mr. William J. Dawson
3496 Mayfair Blvd.
Fresno 3, California

Dear Mr. Dawson:

This is in reply to your letter of May 15th which I received on May 19th.

Naturally, I am interested in seeing you do everything you can to bring the Keystone Mine into production and, as a consequence, I am willing to do anything reasonable to help you. The lien and subordination agreement which you have asked me to execute in favor of the United States of America I consider completely unreasonable, however, and I would not consider signing it under any circumstances. It is not my intention to become responsible for anything you may or may not do, and I will do nothing that will cloud my title.

If you will let me know to whom I should direct a letter setting forth my refusal and the reasons therefor, I would be happy to see that it is written.

With kindest personal regards, I am

Very truly yours

(signed)

Ernest Vollmer, Jr., President
Phelan Land & Cattle Company

EV/za

C
O
P
Y

W. D. Pierce Construction Co.
Excavating. Grading. Paving.

Rt. 1, Box 1556, Hwy 1, Morro Bay, California.

July 18, 1961.

James S. THwaites
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, Calif.

Dear Sir:

I wish to submit the following bid for coring at the Keystone Mine:

Unit Price

$3.00	Drilling	without core up to 300 ft.
7.00	"	with core up to 300 ft.
12.00	"	with core from 300 ft. to 1,000 ft.
22.00	drilling	with core from 300 ft. to 1,000 ft. (very hard rock drilling conditions).

Sincerely Yours

(signed) Walter D. Pierce
W. D. Pierce Construction Co.
Rt. 1, Box 1556, Hwy 1,
Morro Bay, California

C
O
P
Y

OIL WELLS, TEST HOLES, WATER WELLS, PUMPS, PIPE, SUPPLIES

JESS C. BARNES DRILLING CO.
4280 West Coast Hi-Way.
Santa Barbara, Calif.

July 16, 1961.

Jess C. Barnes
Santa Barbara, Calif.
WOodland 7-2244.

Dale Taylor
Arroyo Grande Div.
HU.9-4876

Mr. W. D. Pierce
1556 Hiway #1
Morro Bay, Calif.

Deae Sir:

Please accept this as a bid which you requested by phone.

Price for drilling 6" test holes to three hundred feet; $3.00 per foot. Below three hundred feet; $3.50 per ft.

Price for coring to 300'; $7.25. Below 300' to 900' $15.00.

Any hard silica carbonates requiring diamond heads; $25.00 per ft.

Yours truly

(signed)

Dale Taylor

C
O
P
Y

7.a)

R. B. YAGER, Drilling Contractor

STATE LICENSE NO.109028

Shot Holes, Core Drilling, Sand Drains, Water Wells Gravel Packed

Telephone A.G. 5633
1062 Maple Street
Arroyo Grande, Calif.

July 17, 1961

Mr. Jasper S. Thwaites
515 Orchard Street
Arroyo Grande, Calif.

Dear Sir:

Below are the prices for drilling and coring at the Keystone Mine that you ask for.

Drilling 5 5/8" to 300': $3.00 per ft.
Drilling 5 5/8" to 900': $3.50 per ft.

Coring with 5 5/8" bit to 300' $7.50 per ft.
Coring with 5 5/8" bit to 900' $16.00 per ft.

For coring any diamond drilling in extra hard rock: $25.00 per ft.

Very truly yours

(signed)

Robert B. Yager

COPY

JOHN GARDNER
Well Drilling Contractor

13655 San Antonio Road Telephone 42J2

Atascadero, Calif.

Date: July 17, 1961

Customer: W. D. Pierce
Address: Morro Bay.

Bid prices for drilling test hole at Keystone Mine:

Drill.	0 ft. to 300 ft.	.....	3.25 ft.
Core	" " "	.....	7.50 ft.
Drill	300 ft to 1,000 ft.	.....	20.00 "
Core	" " "	.....	35.00 "

Signed John Gardner.

C
O
P
Y

ESTIMATE
Phelps Pump and Equipment Co.
400 East College Ave. MI2-1678
North Las Vegas, Nevada

7/20/61

James Thwaites CPA
Arroyo Grande, Calif.

Job Location: CAMBRIA, CALIF
Keystone Mine.

Our estimate for the core drilling as verbally described would be as follows:

1st 300' (without core) drilling only ..... 4.00 ft.

1st 300' coring .....12.00 ft.

Beyond depth of 300' coring .....24.00 ft.

All drilling of hard rock formation or loss of circulation would automatically cause us to operate at the hourly rate of $25.00 hour plus all materials used.

All travel would be charged at the rate of $15.00 hour.

C
O
P
Y

Howard H. Knighton
Core Drilling Contractor
615 California Ave.
Boulder City, Nevada

July 19, 1961.

Mr. James Thwaites
Certified Public Accountant
Arroyo Grande, California.

Dear Mr. Thwaites:

The following are anticipated costs for drilling the Keystone Mining Property.

NX hole (3" O.D. - 2" O.D. Core) @3.50 per inch diameter per foot to 300 feet. 10.50/ft

NX hole (3" O.D.) @ $2.50 per inch diameter per foot non-coring to 300 feet. 7.50/ft non-core

NX hole (3" O.D. - 2" O.D. Core) @ $4.50 per inch diameter per foot coring below 300 feet. 13.50/ft

NX hole (3" O.D.) @ $3.50 per inch diameter per foot non-coring below 300 feet. 10.50/ft non-core

All materials are to be furnished by your company except the drilling equipment and the labor to run it.

Yours truly

(signed) Howard H. Knight

C
O
P
Y

H. F. Terbush
P. O. Box 123
Coarsegold, Calif.

July 5, 1961

William J. Dawson
3496 Mayfair Blvd.
Fresno 3, California

Dear Sir:

In regards to our previous conversations and trip to the Keystone Mine in conjunction with a drilling program, which you are endeavoring to undertake for a more complete exploration of the Keystone property, I am not interested in placing a bid for core drilling, but will be available for any advice which you might need. I have retired after fifty years of experience in drilling and contract drilling on mining properties for the government and large mining companies all over the world.

From all appearances, I feel that you are justified in further exploration of the Keystone property. After exploring the Adit at the old workings with you, I believe that you have a vast body of ore, which, with the proper drilling and exploring, you will have an excellent chance of opening up a very good and vast body or bodies of ore.

From my experience in drilling and coring ground that is very faulted and has Chert beds and faults, etc., it is going to be very hard drilling in places to keep up the circulation of water and to get good cores. Also, in most places it will be very slow and hard on the Diamond bits, for the Chert is very hard and shows a lot of fractures.

It would be very hard to give an accurate drilling cost, but from all indications, the price per foot will be more than double for drilling over ordinary or conventional ground.

Sincerely

(sgd) H. F. Terbush

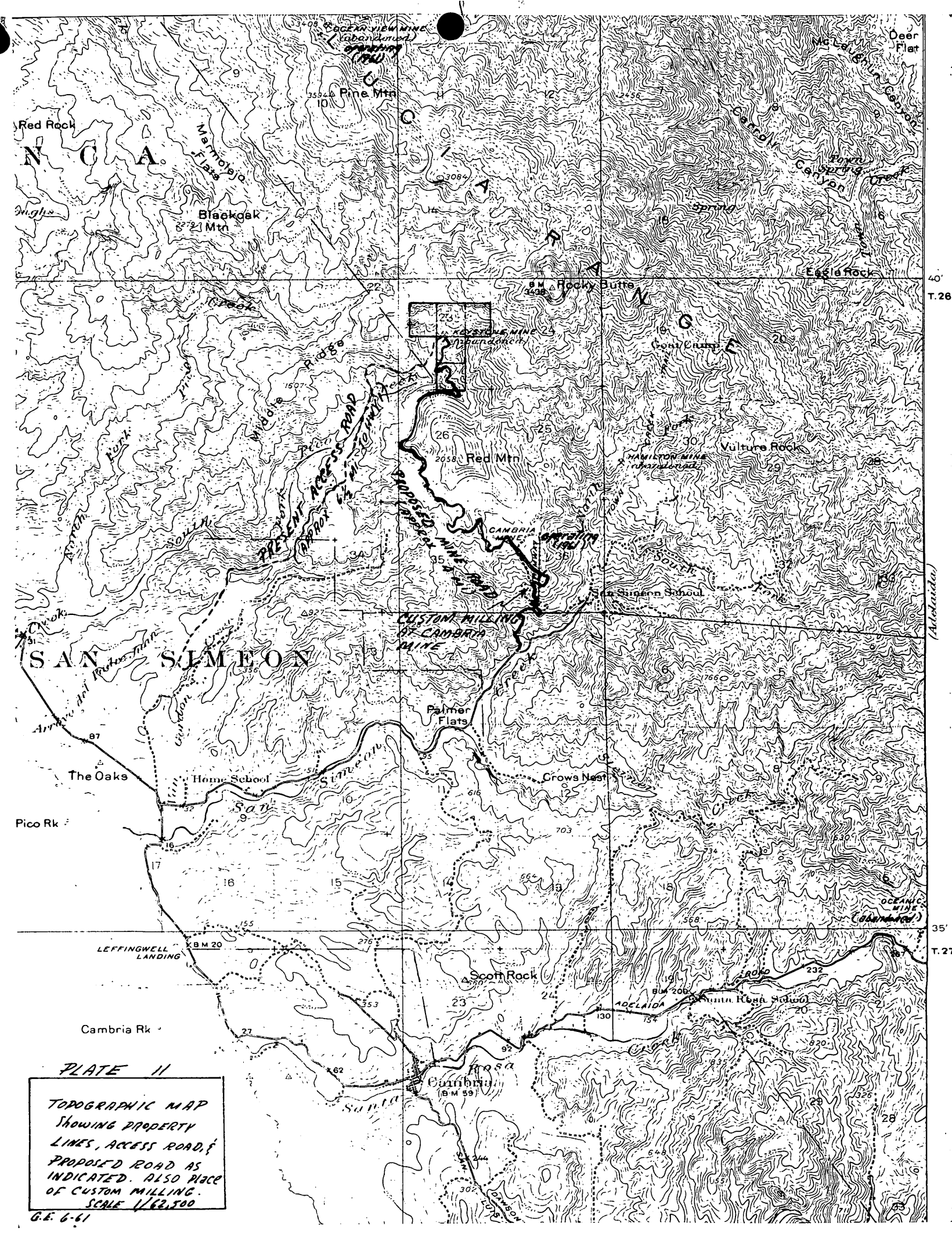


PLATE 11

TOPOGRAPHIC MAP SHOWING PROPERTY LINES, ACCESS ROAD, & PROPOSED ROAD AS INDICATED. ALSO PLACE OF CUSTOM MILLING. SCALE 1/62,500

G.E. 6-61

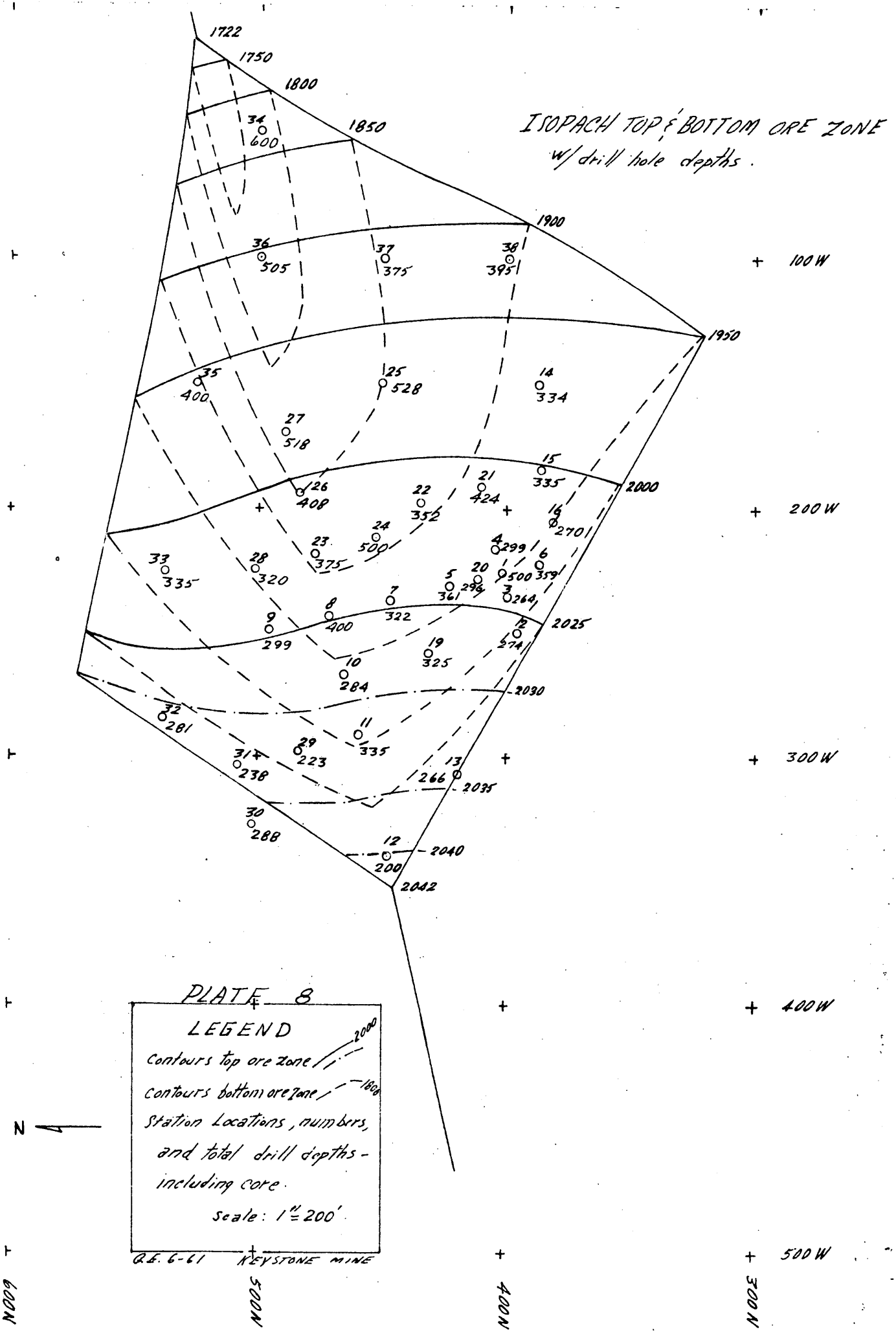
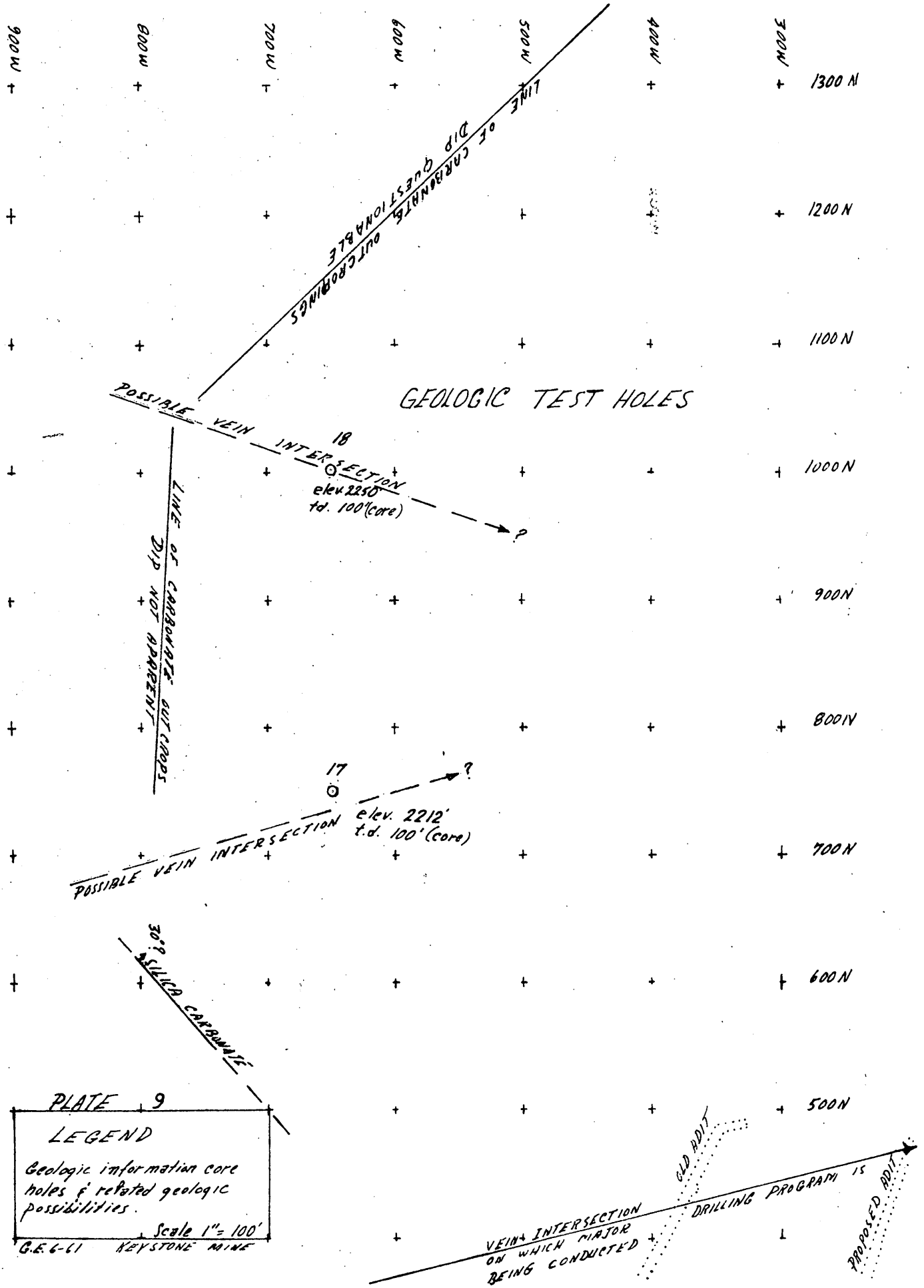
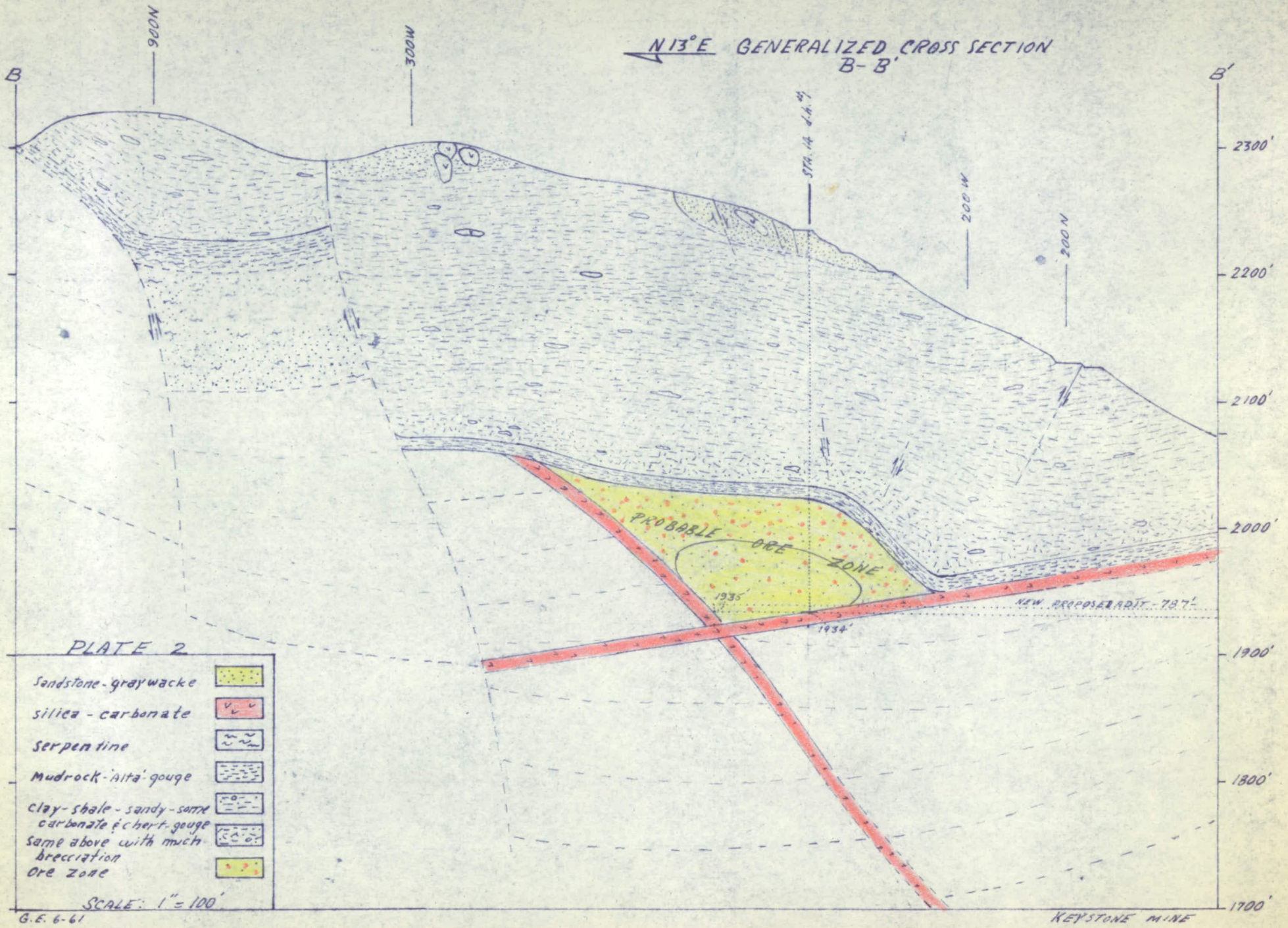

ISOPACH TOP & BOTTOM ORE ZONE
w/ drill hole depths.
1722
1750
1800
1850
1900
1950
2000
2025
2030
2035
2040
2042
100W
200W
300W
400W
500W
600N
500N
400N
300N
34 600
36 505
37 375
38 395
35 400
25 528
14 334
27 518
15 335
26 408
21 424
22 352
16 270
24 500
23 375
4 299
6 359
33 335
28 320
20 500
5 361
3 264
7 322
8 400
9 299
12 274
19 325
10 284
32 281
11 335
29 223
31 238
13 266
30 288
12 200
LEGEND
Contours top ore zone 2000
Contours bottom ore zone 1800
Station Locations, numbers, and total drill depths - including core.
Scale: 1" = 200'
N
Q.E. 6-61 KEYSTONE MINE

PLATE 8


900W
800W
700W
600W
500W
400W
300W
1300 N
1200 N
1100 N
1000 N
900N
800N
700N
600N
500N
GEOLOGIC TEST HOLES
LINE OF CARBONATE OUTCROPPINGS DIP QUESTIONABLE
POSSIBLE VEIN INTERSECTION
18
elev 2250'
td. 100'(core)
?
LINE OF CARBONATE OUTCROPS DIP NOT APPARENT
17
elev. 2212'
t.d. 100'(core)
?
POSSIBLE VEIN INTERSECTION
SILICA CARBONATE
30°
PLATE 9
LEGEND
Geologic information core holes & related geologic possibilities.
Scale 1" = 100'
G.E.6-61 KEYSTONE MINE
OLD ADIT
VEIN INTERSECTION ON WHICH MAJOR DRILLING PROGRAM IS BEING CONDUCTED
PROPOSED ADIT


N 13° E GENERALIZED CROSS SECTION
B-B'
B
B'
900N
300W
STA. 14 d.h.
200W
200N
2300'
2200'
2100'
2000'
1900'
1800'
1700'
PROBABLE ORE ZONE
1935'
1934'
NEW PROPOSED ADIT - 787'
PLATE 2
Sandstone - graywacke
silica - carbonate
Serpentine
Mudrock - 'alta' gouge
clay - shale - sandy - some carbonate & chert - gouge
same above with much brecciation
Ore zone
SCALE: 1" = 100'
G.E. 6-61
KEYSTONE MINE

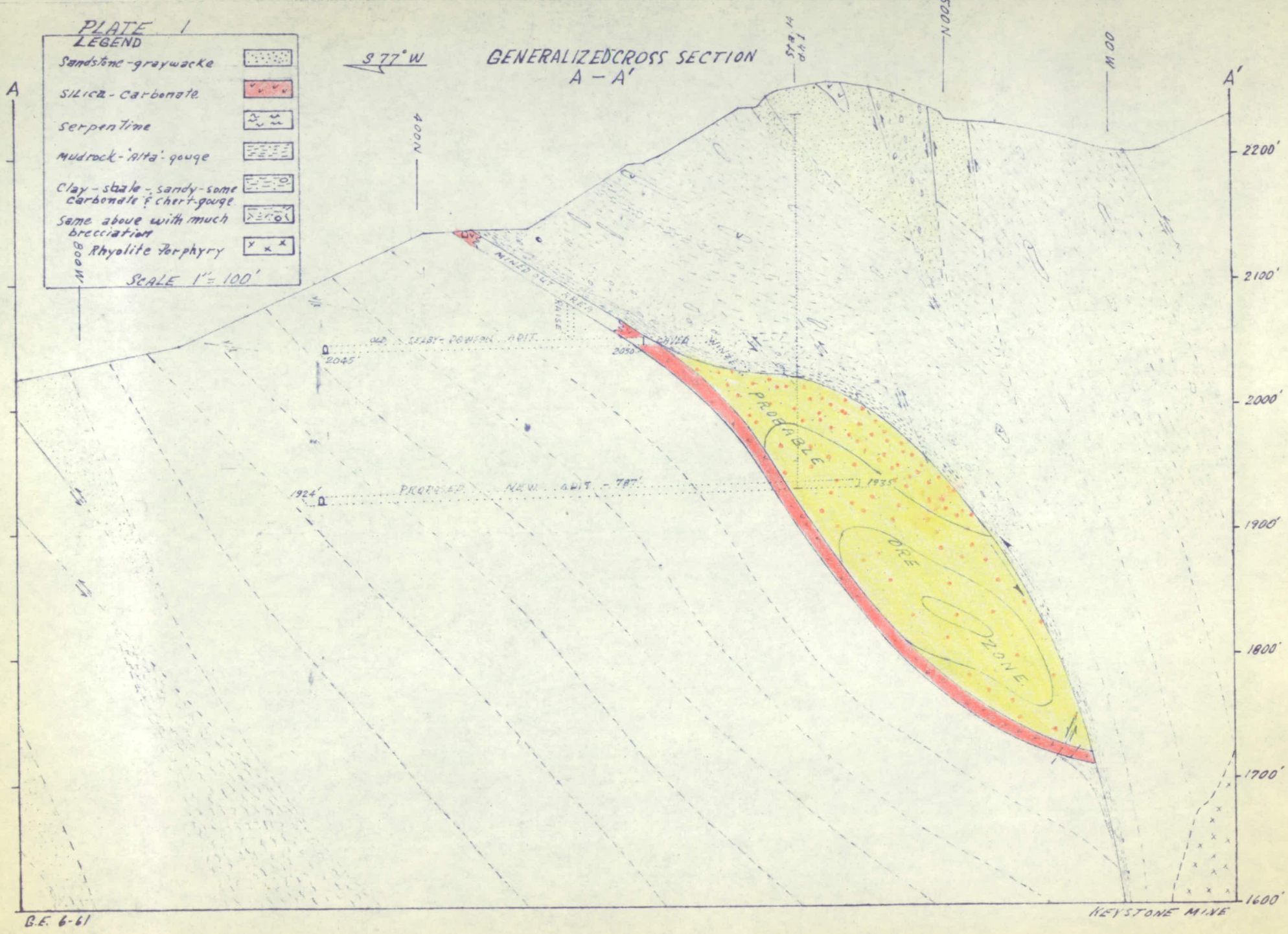


PLATE 1
LEGEND
Sandstone-graywacke
Silica-carbonate
Serpentine
Mudrock-'alta'-gouge
Clay-shale-sandy-some carbonate & chert-gouge
Same above with much brecciation
Rhyolite Porphyry
SCALE 1" = 100'
S 77° W
GENERALIZED CROSS SECTION
A – A'
A
A'
N 400
N 500
N 00
N 600
2200'
2100'
2000'
1900'
1800'
1700'
1600'
MINED OUT STOPE
RAISE
OLD SELBY-DOWNEY ADIT
2045'
2050'
DRIVEN WINZE
PROBABLE ORE ZONE
1924'
PROPOSED NEW ADIT - 78'
1935'
KEYSTONE MINE

B.E. 6-61

Copy # 3.

KEYSTONE PROJECT

COPY

H. F. Terbush
P. O. Box 123
Goatsegold, Calif.

July 5, 1961

William J. Dawson
3496 Mayfair Blvd.
Fresno 3, California

Dear Sir:

In regards to our previous conversations and trip to the Keystone Mine in conjunction with a drilling program, which you are undeavoring to undertake for a more complete exploration of the Keystone property, I am not interested in placing a bid for core drilling, but will be available for any advice which you might need. I have retired after fifty years of experience in drilling and contract drilling on mining properties for the government and large mining companies all over the world.

From all appearances, I feel that you are justified in further exploration of the Keystone property. After exploring the Adit at the old workings with you, I believe that you have a vast body of ore, which, with the proper drilling and exploring, you will have an excellent chance of opening up a very good and vast body or bodies of ore.

From my experiences in drilling and coring ground that is very faulted and has Chert beds and faults, etc., it is going to be very hard drilling in places to keep up the circulation of water and to get good cores. Also, in most places it will be very slow and hard on the Diamond bits, for the Chert is very hard and shows a lot of fractures.

It would be very hard to give an accurate drilling cost, but from all indications, the price per foot will be more than double for drilling over ordinary or conventional ground.

Sincerely

(sgd) H. F. Terbush

O.M.S. APPLICATION

Keystone Mine

Mercury

Contents

Application MMS Form 40
Summary of Criteria Sec.7 a) - h)
Information: Item

1. Financial eligibility.
2. Applicants' rights to land.
3. Physical description.
4. Accessibility.
5. Exploration work.
6. Experience of key personnel.
7. Estimate of costs.

   Summary - total costs of project.
   Estimate of program costs.
   Summary by category.

   7a. Independent contractors.
   7b. Personal services.
   7c. Operating materials and supplies.
   7d. Operating equipment.
   7e. Initial rehabilitation.
   7f. Key buildings.
   7g. Miscellaneous.

Exhibits

1 - 3, as inclosed.

3a. Geological Report (two copies), accompanying.

Frank Kelly & William Dannon
P. O. Box 993
Morro Bay, California

INFORMATION REQUIRED WITH THIS APPLICATION

1. Financial Eligibility:

(a) Submit evidence of efforts made within 90 days preceding the filing of this application to obtain credit from your bank of account and at least one other banking institution or other private source of credit. Such evidence shall include true copies of correspondence which show: (1) date of loan request, (2) amount and terms requested, (3) proposed use of loan funds, and (4) the replies from credit sources. If the loan was offered under terms which you consider unreasonable, state why you consider them so.

(b) List names and addresses of affiliated, parent, or controlling companies or organizations and state extent and nature of their interest.

(c) State how you propose to furnish your share of the exploration [redacted] cost.

2. Applicant's Rights in Land:

(a) State your interest in the land and mineral rights, whether owner, lessee, purchaser under contract, or other. If you are not the owner, submit one true copy of the lease, contract, or other document (with address of owner) under which you control the property. Describe all liens, mortgages, or other encumbrances on the land and state book and page number and official place where recorded.

(b) State the legal description (section, township, and range; metes and bounds; patent number of claims) of the land upon which you wish to explore and all adjacent land which you own or control. Describe any part of the land or workings which should not be subject to Government royalty and liens. If the land consists of unpatented claims, state book and page number for each recorded location notice, including amended locations, and official place where recorded. State all the names by which you know the property.

(c) For all land or mineral rights encumbered or not owned, submit five copies of Lien and Subordination Agreements on MME Form 52. If the agreements cannot be obtained, state reasons and provide copies of letters of refusal.

3. Physical Description:

(a) Describe in detail and illustrate with maps or sketches all mining or exploration operations which you know have been or are being conducted upon the land. Include existing mine workings and all production facilities.

(b) State your interest, if any, in operations described in (a).

(c) State, if you know, the past and current production, supporting your statement with copies of settlement sheets, mine records, or published data if available.

(d) Describe known ore reserves, giving quantities and grades and sampling methods used. Support your statement with copies of assay certificates and assay maps if available.

(e) Describe by narrative and maps or sketches the geologic features of the property, including ore minerals, geologic formations if known, and type of deposit (vein, bedded, etc.).

(f) State your reasons for expecting to find ore, and if you have sampled the area you propose to explore, show where the samples were taken, describe sampling methods used, and provide copies of assay certificates.

(g) Send with your application at least *two* copies of all geologic or engineering reports, assay maps, or technologic information which you have, indicating whether you require their return.

4. Accessibility of Property:

(a) To aid the OME representative who may examine the property, state name and address of person who will meet him; give directions for reaching the property; and describe accessibility of property and of any mine workings.

(b) Name the shipping and supply points and state the distances to the property.

5. Exploration Work:

(a) Describe fully the proposed exploration work giving individual footages and sizes of openings *for each item of work.* Use narrative, maps, plans, and sections as necessary. Show location of the proposed work as related to geologic features such as veins, ore-bearing beds, contacts of rock formations, etc. Show also the relation of the proposed work to any existing mine workings and to *land boundaries* or to the closest identifiable corner.

(b) If an access road must be built, show the proposed location on the property map and state the length, type and construction methods proposed.

(c) If an OME contract is executed, state how soon thereafter work would be started and finished. State your anticipated average daily or monthly rate of progress for each type of work.

6. Experience:

State your operating experience and background to conduct this exploration work and also that of the person who will supervise the work.

7. Estimate of Costs:

Furnish detailed estimates of the necessary costs *for each item of the work proposed in 5(a)* under the headings listed below with a total for each heading and the estimated total cost of the work. Costs for any work to be performed by an independent contractor should be listed separately under category (a) below. Costs for any work that is not to be performed by an independent contractor should be listed under categories (b) through (g).

(a) Independent contracts. State the total cost of any proposed independent contract for all or any part of the work, and the number of units and the unit cost for each type of work, such as per foot of drilling, per foot of drifting, per hour of bulldozer operations, or per cubic yard of material moved. Cost estimates should be supported by bids from three contractors if possible. (*Note*—If none of the work is to be contracted, write "none" after this item.)

(b) Personal services. The cost of supervision, engineering and geological services, outside consultants, and labor should be itemized by numbers and classes of employees; rates of wages, salaries or fees; and periods of employment. State whether these services are available.

(c) Operating materials and supplies. List items of material and supplies giving quantity and cost of each. Include under this heading power, water, and fuel, and units of equipment and tools costing less than $50 each.

(d) Operating equipment. List items of equipment and tools costing $50 or more per unit. Give specifications and indicate how each item is to be acquired—i.e., rented, purchased or provided by the applicant. If rented or purchased, state the estimated rental or purchase price. If furnished by the applicant, state condition and present fair market value.

(e) Initial rehabilitation and repairs. Describe the type and the cost of *initial* rehabilitation or repair of existing buildings, fixtures, installations (exclusive of mine workings), and movable operating equipment now owned by the applicant which will be used in the exploration work.

(f) New buildings, fixtures, installations. Describe each building, fixed improvement, and installation to be purchased, constructed, or installed for the exploration work, stating specifications and cost including labor, materials, and supervision.

(g) Miscellaneous. Describe the type and estimate the cost of repairs and maintenance of the operating equipment listed in 7(d). Do not repeat initial repairs listed in 7(e). Show also the costs of analytical work, accounting, workmen's compensation and employees' liability insurance, payroll taxes, and other required costs that do not fall within the previous categories. [*Note*—The Government will not contribute to costs incurred before the date of the contract, or to costs of or incident to: (1) acquiring, using, or possessing land and any existing improvements, facilities, buildings, installations, and appurtenances, or the depreciation and depletion thereof; (2) general overhead, corporate management, interest and taxes (other than payroll and sales taxes); (3) insurance (other than employees' liability insurance); and (4) damages to persons or property (other than authorized repair to or replacement of equipment or other property used in the work).]

INT.-DUP. SEC., WASH., D.C. 48740

MME Form 40
Dec. 1958

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF MINERALS EXPLORATION

Budget Bureau No. 42-R1368
Approval expires Dec. 31, 1963

APPLICATION FOR FINANCIAL ASSISTANCE IN MINERALS EXPLORATION

Pursuant to Public Law 85-701 (72 Stat. 700; 30 U.S.C. 641)

NAME OF APPLICANT *(Full legal name and mailing address as they should appear on contract if one is executed.)*

Jack Selby & William J. Dawson
P.O.Box 993
Morro Bay, Calif.

APPLICANT DO NOT USE THIS BLOCK

DOCKET NUMBER: OME-6168

DATE RECEIVED: 8-11-61

REGION: II

DIVISION CODE: 500

BUSINESS ORGANIZATION *(Check one)*

- INDIVIDUAL [ ]
- CORPORATION [ ]
- PARTNERSHIP [X]
- OTHER *(Specify)* [ ]

STATE IN WHICH FIRM IS ORGANIZED: Calif.

LIST CORPORATE OFFICERS OR PARTNERS HERE, IF APPLICABLE

NAME	ADDRESS	TITLE
Jack Selby	P.O.Box 993 Morro Bay	Partner
William J.Dawson	3496 Mayfair Blvd. Fresno 3, Calif.	Partner

MINERAL(S) FOR WHICH YOU WISH TO EXPLORE: Mercury (Cinnabar)

ESTIMATED COST OF PROJECT: $ 201,190.91

PROPERTY NAME	LOCATION COUNTY	STATE
Keystone Mine	S.L.O.	Calif.

GENERAL INSTRUCTIONS

Before filling out this application, please read the *OME Regulations for Obtaining Federal Assistance in Financing Explorations for Mineral Reserves* (30 CFR Chap. III). To assure prompt action, your application must provide all applicable material and information specified on the back of this application form. Avoid unnecessary correspondence and delays by submitting complete and accurate information. *Please submit four copies of this application and all accompanying papers* except as otherwise noted. Place your name and address on each sheet. Each item of information, maps, and reports required as a part of this application is described on the back of this form. Identify each attached statement by the item number to which it applies. If an item does not apply to your application, show the item number on your statement and after it write "not applicable." Maps or sketches should be used to supplement narrative descriptions of the property location and boundaries in item 2, existing mine workings and geology in item 3, and the proposed exploration work in item 5. When this information is not too complex, all of it may be shown on one map or sketch. All documents and other attachments submitted as a part of this application, except those in item 3(g) which you mark to be returned, become the property of the Government and will not be returned to the applicant. Send true copies, *not originals*, of leases, contracts, and other documents which are an essential part of your business records. *File this application with the Office of Minerals Exploration, Department of the Interior, Washington 25, D. C., or with the nearest OME Field Office.*

CERTIFICATION

The undersigned, whether as an individual, corporate officer, partner, or otherwise, both in his own behalf and acting for the applicant, certifies that the information set forth in this form and accompanying papers is correct and complete, to the best of his knowledge and belief, and that he would not ordinarily undertake the proposed exploration under current conditions and circumstances at his sole expense.

7/18/61
DATED

Jack W Selby
BY *(Signature)*

PARTNER
TITLE

A wilfully false statement or certification to any Department or Agency of the United States Government is a criminal offense. U. S. Code, Title 18, Sec. 1001.

O.M.E. APPLICATION
CRYSTAL MINE
SUMMARY

It is submitted that the attached application meets the criteria for an O.M.E. exploration contract.

Criteria 301.7

301.7 e) Geological probability of significant discovery.

The accompanying geological report by an independent consulting geologist, G. Eberhardt, indicates the following conservative estimate of probable mercury bearing ore:

High Grade - over 15 lbs. per ton	66,300	tons.
Medium ------10 - 15 lbs. per ton	140,100	"
Low -------- Under 10 lbs per ton	228,900	"
	435,300	

As stated in the report, this estimate of tonnage has been deliberately limited and is regarded as a minimum probable discovery. Refer plates 7 e) 1 - cross sectional and vertical views of probable body, Plates 1 and 2.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

301.7 b) Estimated cost of exploration in relation to size and grade of potential deposit.

The estimated recoverable mercury value of the potential deposit is:

High grade	$2,685,150.00
Medium	3,790,800.00
Low	4,127,760.00
	$10,603,710.00

The total cost of exploration under the proposed program is:

Part I Surface exploration by core drilling (flexible locations)	$147,322.11.
Part II Underground exploration by adit.	53,868.80
	$201,190.91

This represents 1.8% of the minimum probable mercury value, a very low cost in relation to the value of this deposit of strategic metal.

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

301.7 c) Plan and method of conducting Exploration.

The exploration is to be conducted by experienced personnel under the supervision of a qualified resident consulting geologist. The plan, in summary, consists of a drilling program on selected sites to prove the geologically probable location of the main ore body, to be followed by an adit or underground exploration to substantiate the results of drilling.

This program is recommended in the accompanying geological reports and is detailed in information items 5 and 7 herein. - See Grid Map for Exploration 3. c. 1).

301.7 d) Accessibility of the project area.

The project area is easily accessible, lying within San Luis Obispo County, approximately 2½ miles off a well-built County Road, 6½ miles north of the Town of Cambria and 5 miles due east of the San Simeon Hearst Ranch. The Mine site can be approached on an existing trail, by jeep or 4-wheel drive pick-up. The proposed access road - Item 5.b. - will give easy access on an engineered contour-graded all weather surface which can easily be maintained.

No labor or supply problems are expected on account of accessibility of the mine area.

Jack Selby & William Sween
P. O. Box 903
Morro Bay, California

301.7 e) Background and Operating Experience of Applicants.

The background and operating experience of the applicants and their associates is of a high caliber - see information Item 6 - Key Personnel.

Applicants themselves are experienced construction men with several years Mining and Structural experience. Their associate, E. D. Pierce, is an experienced Underground Mine Operator and a successful General Construction Contractor. In addition, applicants have secured the services of a Resident Consulting Geologist and of a Certified Public Accountant experienced in the financial aspects of Mine exploration and development.

This constitutes a Balanced working team which applicants propose to perpetuate on the Keystone Property and to extend to further Mining prospects in due course.

301.7 f) Applicants' Right to Possession of the Property.

Applicants' right to possession of the property stems from their lease with the Owner, binding by renewal until at least May 31, 1972.

This is estimated to be sufficient time to repay by royalties the O.M.E. loan applied for - see 301.7 b) above.

No difficulties are expected in securing further extensions of the lease beyond 1972 and it is intended to negotiate for an extended term after the benefits of production start to reach the Owner by his share of royalties - 10% under the lease.

Jack Selby & William Dawson
P. O. Box 903
Morro Bay, California

301.7 g) Unavailability of Funds from Commercial Sources.

Funds are not available for exploring this project from commercial sources - see information 1. c).

Application was made to known investment sources for $40,000.00 - a minimum sum which, with applicants' own cash resources, would enable only partial exploration and subsequently poor-boy development to production.

Even this limited sum was not obtainable. Insufficient exploration has been done and the deposit is at present insufficiently proven to induce commercial investment.

Applicants are reassured that this exploration program will provide sufficient data to permit proper development of the property. Subsequent development and production can, thereafter, be achieved by the established agreement with an experienced underground Mining associate who will add equipment and labor in return for a profit share - see information memorandum 1.c.1) and 1.c.2) - and by initial custom milling at the adjacent mercury producer, the Jambrin Mine.

Jack Selby & William Dawson
P. O. Box 903
Morro Bay, California

301.7 h) Whether applicants would normally undertake Exploration at sole expense under current conditions.

Applicants would not undertake the proposed exploration at their sole expense.

Applicants have already devoted personally, time, labor and cash exceeding $8,000.00 to this project. They also granted a sub-lease (since expired) under which a sub-lessor invested about $40,000.00 in exploration beyond their control and without benefit of competent geological advice. This has re-emphasized applicants view that a controlled exploration program is an essential preliminary before the property can be brought to production. They now face the alternatives of:

a) Bringing the project to production by poor-boy methods on inadequate data to justify immediate mining, with consequent risk of ruining a valuable deposit.

or b) Collecting comprehensive geological data to determine the location and extent of the ore bodies, the existence of which has been indicated by previous exploration work, and of then following up these scientific results by a properly planned development and mining program, to utilize this deposit economically and fully.

This second alternative b) is clearly the proper and prudent course to adopt. However, applicants cannot obtain the finance necessary for a proper exploration program from commercial sources - see information Item 1. c. 4) - and do not possess sufficient financial resources to enable applicants to carry the entire costs of comprehensive exploration now required - see information 1. c. 3) and 4).

In these circumstances, applicants could not undertake this exploration at their sole expense, although this exploration is essential to the proper utilization of this Mercury Mine.

Jack Selby & William Dawson
P. O. Box 995
Morro Bay, California

INFORMATION FOR APPLICATION

Keystone Mine
Mercury

1. FINANCIAL ELIGIBILITY

a) 1. Application was made on May 15, 1961, to Mr. Selby's Bank of account (copy attached) - 1.a.1), and on May 6 and May 15 to known sources of private credit in similar terms. 1.a.4).

2. $40,000.00 was requested, to be repaid from production within two years with interest and additional participation in the net profits.

3. These funds were requested for the purpose of completing exploration and bringing Mine into production with a rotary mill.

4. Negative replies were received from:

Bank of America, Morro Bay - Bank of Account - May 17 1961 - (copy attached) - 1.a.4).

Dr. Edison French, San Luis Obispo, Calif., - May 18, 1961 (copy attached).

Independent mortgage and investment company, Santa Cruz - May 16, 1961 (copy attached).

In essence, the basis of these refusals is the availability of realty development in the coast area offering attractive investment to venture capital and the aversion of non-venture capital to investment in a mine at this stage of development.

b) There are no affiliated parent or controlling companies or organizations.

c) Applicants share of cost of exploration work will be furnished by applicants Jack Selby and William Dawson by cash contribution and by agreement with W. D. Pierce, an experienced underground miner and general contractor, whereby equipment and labor will be made available in return for a small cash advance in anticipation of a future share of profits, as detailed in attached memorandum of Joint Venture 1.c.1) and 1.c.2). Statements

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

of financial resources of Mr. Jack Selby (Balance Sheet at 4/30/61) - 1.c.3), and Mr. William Dawson (Balance Sheet at 4/30/61) - 1.c.4), are attached showing a joint net worth of $56,402.71 at April 30, 1961; of which $31,876.92 is represented by cash and securities.

Jack Selby and William Dawson
P. O. Box 993
Morro Bay, California

2. APPLICANTS RIGHTS IN LAND

a) Applicants interest in land and mineral rights is set out in attached copy of lease of June 1, 1957, as amended by agreement dated August 6, 1957, (exhibits 2.a.1) and 2.a.2)). Owners' address is: Phelan Land and Cattle Company
P. O. Box 317
San Luis Obispo, Calif.
Applicants Jack Selby and William Dawson are joint lessees of Keystone Field for purposes of conducting quicksilver mining operations and removing quicksilver therefrom.
Lease runs from June 1, 1957 to May 31, 1962, with option to renew by notice in writing for two further periods of five years each from June 1, 1962 to May 31, 1967; and June 1, 1967 to May 31, 1972.

To the best of applicants' knowledge and belief land is unencumbered.

b) Keystone Mine is located in Section 23, Township 26, South; Range 8 East, M.D.B. & M, as shown on U.S.Corp of Engineers' map attached, - exhibit 2b). The mine is located, recorded and recommended for further exploration and development in U.S.Geological Survey 9221.

c). Lien and subordination agreement MMB Form 32 cannot be obtained from the landowner - Phelan Land & Cattle Co. - for reasons set out in landowner's letter of refusal - attached, exhibit 2.c.1). Preliminary agreement is being sought with an acceptable surety company, to complete standard Form 25, Performance Bond, if required in lieu of this lien and subordination agreement.

Jack Selby and William Dawson
P. O. Box 995
Morro Bay, California

3. PHYSICAL DESCRIPTION

The following matters 3 a. - 3 f. are detailed in the Geological Report submitted herewith.

In summary the facts are:

3. a. Past Mining and Exploration

This Keystone prospect is reported in U. S. Geological Survey Bulletin 922-K and recommended:

> "Existence of good ore at surface and reports that even richer ore was extracted from the winze on the lower level both seem to indicate that further exploration and development are advisable".

The prospect was previously mined with the successful extraction of high grade Cinnabar. Mining is believed to have stopped for financial reasons.

Further exploration was conducted later by a sub-lessor without benefit of Geological advice or supervision. Promising showings detailed in the Geological Report were not followed up, no cores were taken and the results are merely indicative of a substantial ore body partially located.

Further exploration of an old adit and by completing a new adit was then conducted by the applicants. Cleaning this adit and exploration with competent geological advice is now included in the program. 5 a) Part I - 4.

All past workings and most of the previous exploration centered around an ore bearing vein leading away from what is now believed to be the main site of an ore body.

The accurate location of this body is the main target of the proposed program.

Existing production facilities are limited to a trial retort built by the applicants. However, provision has been made for initial custom milling by the Owners of the adjacent Cambria Mine. It is expected that revenue from this source will enable the repayment of an OME loan on initial production and the subsequent construction of a mill at the Keystone Mine site.

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3. b. Applicants' interest in past operations was limited to exploration by the two adits mentioned above - 3. a.

3. c. Past production is mentioned above - 3. a. and detailed in the Geological Report - 3 g). There is no current production.

3. d. There are no proven ore reserves in the absence of drill cores. Plates 3. e. 1) - views of probable body show a minimum expection of ore reserves.

These ore reserves are estimated at:

435,300 tons valued at $10,605,710.00 recoverable mercury value, calculated on a conservative basis, as detailed in the accompanying Geological Report - 3 g.

3. e. <u>Geological features and supporting sketches or maps.</u>

Exhibits 3. 3. 1) - Plates 8, 9, and views of probable ore zones are attached.

The main feature of this area is a thrust zone which appears to have trapped ascending mineral solutions, forming a commercially valuable ore deposit.

Full details of the Geology of the area are included in the attached Geological Report.

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3. f. Reasons for Expecting to Find Ore

The Reasons for expecting to find ore are outlined fully in the Geological Report herewith. In summary, competent Geological opinion is that the thrust zone forms a favorable area for the entrapment of ore and that past exploration and production indicate that entrapment has taken place on a moderately wide scale in a specific area.

3. g. Two copies of a Geological Report dated July 14, 1951, by Gerhard E. Eberhardt, Consulting Geologist, are submitted herewith. These Reports should please be returned.

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INFORMATION FOR APPLICATION (contd)

4. ACCESSIBILITY OF PROPERTY

a) Jack Selby, P. O. 993, Morro Bay - SP.2-8154, will be available by appointment to meet an O.M.S. representative. Keystone Mine can be reached by San Simeon Road, off Highway 1, 2 mile, turn left to Machado Ranch and follow trail to Keystone Mill.

In addition to this existing trail, an all weather access road is proposed to be driven - see Item 5 b), Exploration Work - 2½ miles, from good existing County road and to the mine site. This access road presents no problems and will be contoured to ensure permanent accessibility for vehicles.

b) Shipping and Supply points are via Cambria Mine by truck on access road proposed 5.b).

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5. EXPLORATION WORK

a) Proposed Program

The proposed exploration program is described in the accompanying Geological Report - Exhibit 3 G.

The program as a whole is divided into two parts, a drilling and surface exploration program and a subsequent underground exploration adit, with related units of work as follows: and for which estimated costs are detailed separately under Item 7, herein.

5. a) Part I. 1. Preparatory: Cleaning old drill benches, cleaning nearby spring and construction of small earth dam to obtain water for drilling unit, cost 32 hours, estimate $1,446.40.

2. Benching new drill sites for drilling program.

Unit cost 80 hours, estimate $3,216.00.

3. Surface drilling 38 holes in area recommended in Geological Report and sited on Isopach map herewith - Item 3. c. 1), Plate 8 as follows:

Total drilling 12,900 feet, of which 4,654 ft. will be cored.

Unit cost estimate $9.71 per foot.

Note: It will be appreciated that the exact location of drill holes within each of the above areas will be reviewed in the light of preceding drilling results.

It is not proposed to alter significantly the footage to be drilled without first obtaining O.M.B. approval to a program amendment.

5. a) Part I 4. Cleaning existing old adit and exploring.

Unit cost estimate $2,785.00.

5. c) Part II.

On the basis of the drilling program results above, which will be correlated, reviewed, and reported upon by the resident Consulting Geologist, (See Misc. 7 g.) it is proposed to drive an exploration adit. The location of this adit is based on the consistent hypothesis recommended in the Geological Report.

If the drilling results suggest an alternative location for this exploration adit, a program amendment will be submitted for O.M.E. approval.

5. a) Part II. 1. Clear entrance area and erect portal to adit.
Unit cost 16 hrs. est. $622.80.

2. Drive exploration adit (4'x6') 300 ft. from base of Keystone Hill to confirm ore zones indicated by drilling, to locate intervening ore zones and to extend geological knowledge of body. Cost per ft. est. $53.11

3. Provision is also made for timbering the exploration adit. Cost per ft.timbered, est.$13.34.

5. b) Part I. Construction of Access Road.

The location of an existing temporary trail is shown on map in Geological Report 3. g. - and see Item 3 c. -

Extending, grading and levelling an access road is proposed as shown on map in Geological Report 3. g. and 3. a. 1).

The length of this road is estimated at 2½ miles (4,400 yard); Type -- all weather, non-metalled, contoured dirt road with provision for drains construction; by available T. D. 24 under supervision of experienced general contractor.

Unit Cost est. ..... $0.93 per yard.

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5. c. If an O.S.P. Contract is executed, it is proposed to start the above work immediately.

Estimated completion rates are:

5. a. Part I.

		Man Hours	Working days
1.	Cleaning old benches, cleaning springs and constructing dam	144	4
2.	Benching new drill sites	360	10
3.	Drilling program @ av: 5.6 ft. per hour	7,938	284
4.	Cleaning old adit and exploring	224	8
5.	a. Part II		
1.	Erection of portal	128	2
2.	Driving adit @ 8 ft. per day.	5,400.	100
3.	Timbering adit	710	23
5.	b. Part I		
	Access road at av. 357 yards per day.	480	12
		16,384 man. hrs.	443 working days.

It is proposed to work double shifts on the drilling program and on driving the adit. Estimated completion is therefore approximately 16,384 man hours, 242 days.

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INFORMATION FOR APPLICATION (contd)

G. The operating experience and background of key personnel is summarized as follows:

Jack Selby ..... (co-applicant) - Manager of Steiner Creek property, 1955; Superintendent - Pipe-fitting Aton & Smith, Nacimiento Dam, 1956. Foreman - Forgeron, Bakersfield. and with William Dawson, 1957, to date on Keystone project.

William J. Dawson .....(co-applicant) - Mining since 1932. Tunnelling with Bureau of Reclamation 1935. Underground work, P.G.& E. (Hass Power House, 1957). John Hoffman Enterprises - 1958. and with Jack Selby, 1957 to date on Keystone project.

Walter Donald Pierce . (Joint venturer with applicants) - Owner and Manager, surface and underground mining, Pick & Shovel Mine, Morro Bay, 1955 - 1957. (a successful chrome-producing property). Contractor, stripping, mining and hauling, Castro Mine, Trinidad Mine, Hardface Mine, 1953 - 1956. General Contractor- heavy construction 1957 to date.

Gerhard E. Eberhardt . Consulting Geologist - Washington State University, Bachelor of Science in Geology (1953). University of Calif. Post Graduate study. Geophysicist, Standard Oil 1957 - 1960. Consulting Geologist - Bright Outlook, Cima, California. Keystone Mine (1958 to date), and other prospects. Investigated magnetite possibilities of Columbia River Mouth, Washington and Oregon, 1956 - date.

James S. Thwaites .... Certified Public Accountant (California 1958). Fellow of Institute of Chartered Accountants (Eng. 1950). Associate of Institute of Arbitrators,
Former London Secretary - Messina (Transvaal) Development Co. Ltd., Mining properties Transvaal, S. Africa and S. Rhodesia. Director and Secretary, M.T.D.Copper (Sales) Ltd. - sole world sales agents.

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7. SUMMARY

Total Costs of Project

Part I. Core Drilling & Surface Exploration

5. a. 1.	Cleaning benches 16 hrs. @ $50.20 =		803.20
	Dam 16 hrs. @ $40.20 =		643.20
2.	New benching 80 hrs. @ $40.20 =		3,216.00
3.	Drilling.		
	Area detailed in Plates 8 & 9 (see Exhibit 3.e.1))		
	12,988 ft. @ $9.71	= 126,125.76	
	Add allowable overhead costs (7e.-g.) below.	= 9,436.00	
	...12,988 ft. @ $10.44	= 135,561.76	135,561.76
4.	Explore old adit. 64 hrs. @ $43.20	=	2,765.00
5. b.	Access Road. 7,040 yds. @ $0.62 per yard.	=	4,332.96
	TOTAL COST PART I	=	147,322.12

Part II. Underground Exploration

5. a. 1.	Erect portal 16 hrs. @ $51.43	=	822.80
2.	Drive adit 800 ft. @ $53.11.	= 42,488.00	
	Add allowable overhead costs 7.g. below	= 5,222.00	
	800 ft. @ $59.63	=	47,710.00
3.	Timber adit. 400 ft. @ $13.34 per foot	=	5,336.00
	TOTAL COST PART II		53,686.80

TOTAL COST ..... Part I 147,322.12
Part II 53,686.80
201,008.92

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Note:

Allowable overhead costs added to Part I Item 5.a.3) above:

7. e. Initial rehabilitation, repair.	50.00
7. f. New buildings	600.00
7. g. Miscellaneous	8,736.00
	9,436.00

Allowable overhead costs added to Part II Item 5. a. 2) above:

7. g. Miscellaneous	5,222.00

The above costs have been estimated on an overall hourly and footage basis in order to simplify bookkeeping and payment for work accomplished.

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7. ESTIMATE OF PROGRAM COSTS

The exploration costs are based on current wage rates, supply and equipment rates. Personnel, including applicants, are experienced Foremen and Journeymen entitled to standard wage rates for their labor. Corresponding savings in the time of completion through efficiency are included.

Costs based on an overall hourly and footage basis in order to simplify book-keeping and payment for work accomplished.

5. a. Part I

1) Clean benching sites; clean springs and construct earth dam.

Clean old drill benches: 16 hours.

Rental of T.D.24 with operator ($4.00 p.hr.) 16 hours @ 22.50/hr.....	360.00
Labor & supervision (i,ii,iv(½ time)) 40 man hours @ 5.20/hr.	208.00
Geologic supervision (iii).....	75.20
Haulage T.D.24 to site (2-way)	160.00
= $50.20 per hour overall	$803.20

Clean out springs and construct earth dam - 16 hours.

Rental of T.D.24 with operator 16 hrs. @ 22.50/hr.	360.00
Labor & supervision (i, ii, iv (½ time)) 40 man hours @ 5.20/hr.	208.00
Geologic supervision (iii) and mapping 16 hours @ 4.70/hr.	75.20
= $40.20 per hour overall	643.20

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5. a. Part I

2) Benching new drill sites - 80 hours.

Rental of T.D.24 with operator,
80 hours @ 22.50/hr. 1,800.00

Labor & Supervision (i,ii,iv
(½ time)),200 hrs. @ 5.20/hr. .. 1,040.00

Geologic supervision iii,
80 hrs. @ 4.70/hr 376.00

= $40.20 per hr. overall 3,216.00

3) Rental of Geophysical rotary drill with operator & helper:
$3.00 per foot without core.
$7.00 per foot with core to 300 ft.
$12.00 per foot with core below 300 ft.
$22.00 per foot with core below 300 ft.
with allowance for very hard ground
and renewal of bits.
Continuous inclinometry, 10¢ per foot 1,298.80.

Labor and supervision, two drills
including surveying and mapping
assistance.
(i,ii,iv (½-time)) @5.20/hr;5,670-hrs. 29,484.00

Geologic supervision (iii) @ 4.70/hr.
and correlation 2,268 hrs..... 1,065.96

120 core trays and 480 sample bags ... 45.00

Mapping, materials, Isogeoch maps 12.00

Assays 465 @ 5.00 ..... 2,325.00

Areas per plates 9h & 8, (Exhibit 3.e.1) and
grid for exploration.
38 holes 12,088 feet.
8,234 ft. without core, 834 hrs.
@ 3.00 per ft. 25,002.00
4,654.ft. with core, 1,164 hrs -
2,543 above 300-ft. level, @7.00 p.ft. 17,801.00
2,111 below 300 ft. level @ 12.00 " " 25,332.00
Expected loss of circulation, highly
brecciated ground.
1,680 feet - 270 hurs. p.ft. @ 22.00 37,760.00

Jack Selby & William Dawson OVERALL COST 126,125.76
P. O. Box 993 = 10.71 per ft.
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5. a. Part I

4) Clean Old Adit and explore - 64 hours.

Clean to intersection of veins 640' from portal - 24 hours.
Clean from intersection of veins to old winze - 32 hrs.
Sink 8 ft. shaft - 8 hrs.

- $5.00 per day. Rental use of mucking machine.	40.00
Air compressor @ 4.00 per hr.	256.00
Horizontal and inclined drilling: Rental use of core drill $5.00 /hr. 20 hrs	100.00
Labor & supervision (i,ii,iv) 192 man hrs. @ 5.20/hr.	998.40
Geologic supervision & sampling 64 hrs. @ 4.70	300.80
Timbering 30 sets, 36 ft. @ 5.87 p.ft.	1,056.60
Powder 5 sticks p/ft., 8ft. @ 1.20 p.ft	9.60
Primers ..... .15 "	1.20
Fuse ..... .30 p.ft.	2.40
= $43.20 p/hr overall	2,765.00

5. a. Part II

1) Clear back area and construction of Portal - 16 hrs.

Rental of T.D.24 with operator, 4 hrs. @ 22.50	90.00
Labor and supervision (i,ii,iv) 48 man hrs. @ 5.20/hr.	249.60
Mining labor, hauling, etc. 4 men $3.50 per hr. including payroll taxes and dues. 64 man hours @ 3.50	224.00
Geologic supervision and mapping iii 16 hrs. @ 4.70	75.20
Timber, as itemized - 7 c)	184.00
	822.80

= $51.43 per hour overall.

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5. a. Part II

2) Driving adit 800 ft. 40 hr. week.
Advance 8-ft. per day = 100 days.
Labor and supervision.
(i, ii, iv).
2,400 man hours @ $5.20

= $12,480.00	=	15.60 per ft.
Geologic supervision and sampling 800 man hours @ 4.70 = $3,760.00	=	4.70 " "
Mining labor (4), 3,200 man hours @ 3.50. = $11,200.00	=	14.00 " "
Operating materials and supplies, per 7. c).	=	4.20 " "
Air blower @5.00 per day. = $500.00	=	.63 " "
Slusher (first 120 ft) 120 hours @ 5.00 per day. = $75.00	=	.09 " "
Power saw @ 7.00 per day	=	.88 " "
Jackhammer @ 7.00 per day	=	.88 " "
Air compressor @ 4.00 per hour	=	4.00 " "
Mucking machine @ 5.00 per day	=	.63 " "
Light plant @ 5.00 per day	=	.63 " "
Track 600 ft. @ cost 200.00. Add 1,000 ft. @ 12¢ per lb. 50 lbs. per yard. = $1,800.00	=	2.50 " "
Sampling assays 200 @ 5.00.	=	1.25 " "
Inclined Drill @ 25.00 per day	=	3.12 " "
		53.11 per foot

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Morro Bay, California

5. a. PART II

3)	Timbering adit, 6' segments 400 ft., materials cost, per 7 c)	=	5.87 per ft.
	3 Sets, 2 men, 8 hours, 355 man hours @ 3.50 per hour. = $1,242.50	=	3.11 " "
	Supervision and labor (i, ii), 355 man hours @ 5.20/ hour. = $1,846.00	=	4.36 " "
	COST PER FOOT	=	13.34

5. b. PART I

Driving, grading and levelling access road. 4 miles, 96 hours.

Rental T.D.24 @ 22.50/hr.	=	2,160.00
10 Drains; 12" pipe, 15 ft. per drain @ 1.50 per ft.	=	225.00
Supervision and labor (i, ii, iv). 288 man hrs. @ 5.20	=	1,496.76
Geologic supervision, Inc. Surveyors. 96 hurs. @ 4.70	=	451.20
		4,332.96

Est. 7040 yrds. = $0.62 per yard.

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7. ESTIMATE OF COSTS: SUMMARY BY CATEGORY

a) Independent Contracts - nil.

Note: Bids on the drilling program were received (copies attached) as follows:

	John T. Gardner	Jess Barnes	R. B. Yager	W. D. * Pierce
Without core	3.25	3.00	3.00	3.00
With core	7.50	7.25	7.25	7.00
Below 300-ft. without core.	20.00	3.50	-	-
With core.	-	15.00	15.00	12.00
With core hard going.	35.00	25.00	25.00	22.00

*Applicants decided to use bids to determine market value of drilling in view of other work, at proper market rates, undertaken by W. D. Pierce on basis of paying contractor by cash advance and profit sharing arrangement outlined in memorandum 1. c. 1) attached. This payment arrangement gives W. D. Pierce an interest in the ultimate mine production and this work is not therefore listed as an independent contractor.

b). Personal Services

i. Jack Selby - Labor and supervision - $900.00 p.m. = 5.20 p/hr.
ii. William Dawson -" " " - 900.00 " = 5.20 "
iii. Gerhard Eberhardt - Resident Consulting Geologist - $800.00 p.m. = 4.70 "
iv. W. D. Pierce - Labor and supervision -900.00 = 5.20 "
v. Four Mining laborers, including dues and payroll taxes = 3.50 "
vi. T.D.#4. Operator = 4.00 "

7. b) Personal Services - Analysis of Man hours

(continued on page following) .....

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Analysis of Man Hours

	i	ii	iii	iv	v(A)	vi	Total
5.a.Part I							
1. Clean	16	16	16	8	-	16	72
Dam	16	16	16	8	-	16	72
2. Bench	80	80	80	40	-	80	360
3. Drill	2,268	2,268	2,268	1,134	-	-	7,938
4. Clean adit	64	64	64	32	-	-	224
5b.Access road	96	96	96	96	-	96	480
Total PART I	2,540	2,540	2,540	1,318	-	208	8,146
5.a.Part II							
1. Portal	16	16	16	16	64	-	128
2. Drive	800	800	800	800	3,200	-	6,400
3. Timber	178	177	-	-	355	-	710
Total Part II	994	993	816	816	3,619	-	7,238

All the above personal services are available on QM.E approval of contract.

7. c). OPERATING MATERIALS AND SUPPLIES

5. a. Part II 1. Construction of Adit Portal.

Timber:	5 sets 8" x 8" - 100 lin. feet.....	80.00
	2" x 12" 400 lin. feet	104.00
	(including spikes)	
		$184.00

5. a. Part II. 2. Driving Adit - 800 ft.

Powder, 5 sticks per ft;	= 1.20	per ft.	
Primers 11 to round ...	= .15	"	
Fuse	= .30	"	
Air pipe	= .50	"	
Water pipe 3/4"800 ft.+	= .12	"	
Track 2 ft. per ft. delivery			100.00
Timber 4 x 6 ties, 2 ft. per ft.	.60	"	
Lighting wiring	= .15	"	
Ventilation per line ..	= .30	"	
	3.32	"	2,656.00
			2,756.00

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7. c) OPERATING MATERIALS AND SUPPLIES

5. a. Part II 2.
continued.

B/forward		2,756.00
6 new shovels @ 3.50 each...	21.00	
6 " picks @ 3.50 ea.	21.00	
Steel starters 2', 4', 6', @ 30.00 ea.	90.00	
2 carbeloid bits @ 40.00 ea.	80.00	
2 ordinary bits @ 3.00 ea..	6.00	
12 steel helmets @ 4.00 ea.	48.00	
Lights for same @ 12.00 ea.	144.00	
3 sledgehammers @ 10.00 ea.	30.00	
2 axes @ 6.50	13.00	
1 hatchet @ 5.00	5.00	
1 adze @ 15.00	15.00	
Miscellaneous small tools .	50.00	523.00
		3,279.00
= per foot of adit		$ 4.20

5. a) Part II. 3. TIMBERING ADIT, 6' Segments -

12" x 12", 17 lin. ft. per segment.	3.33 per ft.	
Wedges, 16 per segment	.54 " "	
Lagging, per ft. of segment	2.00 " "	
	5.87 " "	
x 400 ft. timbering		2,348.00
= per foot of adit.		2.93

b) ACCESS ROAD

10 drains; 12" pipe, 15 ft. per drain @ 1.50 per ft.	225.00

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7. d. OPERATING EQUIPMENT OVER $50.00 PER ITEM

Items to be provided by W. D. Pierce on rental under memorandum of joint venture 1. c. 1) and 1. c. 2) attached.

Item	CONDITION	SALE VALUE*	RENTAL RATE
Wright Power Saw	Good	150.00	6.00 per day.
Slusher, cables & bucket.	Good	600.00	5.00 " "
Ingersoll-Rand Jackhammer & Jack-leg.	Good	600.00	7.00 " "
Chicago-Pneumatic 105 air compressor	Good	1,000.00	4.00 " hour.
Mucking machine	Good	500.00	5.00 " day.
Track 600' Inc. 3 cars.	Fair	200.00	
Light plan 2 kv.	Good	300.00	5.00 " "
		3,350.00	

* Provisional agreement for sale of these items to applicants out of production profits at above written down values is recorded in Memorandum 1. c. 1) and 1. c. 2). Sale is not effective until production profits are realized.
Norman rental basis applied above.

Other Rental Items

Rotary Geophysical Drill Rig - Rental on fair footage basis plus allowance for drill bits on very hard ground.

T. D. 24 ..... Rental 22.50 per hour.

Air Blower (ventilation ..... Rental 5.00 per day.

Ex-inclined core drill ..... " 25.00 " "
" " core bits @ 120.00 each (2) ... $240.00.
" core barrel @ 100.00 ", (2) ... $200.00.

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7. e) INITIAL REHABILITATION AND REPAIRS

Repair to trailer for overnight accommodation on site.
Trailer contributed by W. D. Pierce. - see 1. c. 1) and 1. c. 2) $50.00

7. f) NEW BUILDINGS, FIXTURES AND INSTALLATIONS FOR EXPLORATION WORK

Previous buildings destroyed by fire.

New tool shed New Wash-ff shed	Material	$250.00
	Labor	250.00
Shower installation Hot water heater	.....	50.00

Stretcher and first aid kit, contributed by W. D. Pierce.

- see 1. c. 1) and 1. c. 2) 50.00

$600.00

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7. g) MISCELLANEOUS

Repairs and Maintenance of Equipment: nil, covered by rental

Analytical work

Surface Geology, 50 assays @ 5.00 ..... $250.00

Accounting (Payroll and costs)

Payroll clerk @ 90.00 per week.
est. 30 weeks. = 2,700.00

C.P.A. Accounting 7.50 per hour.
Monthly reports est. 200 hours. = 1,500.00

W. C. Insurance @ 10.00 per $100.00.

Est. total payroll, per man hour analysis.
$77,122.10 = 7,712.00

Employee's Liability Insurance = 1,000.00

Other - Surveying iii, i, and iv.

Geological analysis, surface and drill results
consulting geologist 180 hours @ 4.70 = 546.00

TOTAL 14,008.00

COSTS APPLIED TO PROGRAM

5. a) Part I. 3 - Drilling -	Surveying	846.00	
	Analytical	250.00	
	Accounting	750.00	
	W.C.I. & Others	6,940.00	8,786.00
5. a) Part II. 2 - Adit. -	Accounting	750.00	
	Remainder	4,472.00	5,222.00
		TOTAL	14,008.00

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EXHIBITS

Attached to O.M.P. Application on Keystone Mine

1. a. 4) True copies of correspondence with financial sources and replies:

Bank of America, Morro Bay, Letter of May 17, 1961.
Dr. Wilson French, S.L.O. " " May 12, 1961.
Independent Mortgage & Investment Co., Santa Cruz, Letter of May 16, 1961.

1. c. 1) True copies of Memorandum of Joint Venture.

1. c. 2) " " " " " " " (equipment list).

1. c. 3) Balance Sheet - Jack Selby, 4/30/61.

1. c. 4) " " William Dawson, 4/30/61.

2. a. 1) & 2) True copies of lease of June 1, 1957, as amended August 6, 1957.

2. b. Copies of U. S. Corp. of Engineers map showing mine area (State of Calif., Department of Public Works, S.L.O. County, San Simeon Quadrangle) - Plate 11.

2. c. 1) True copies of Landowner's letter of refusal, of May 25, 1961.

3. c. Sketch-Maps.

3. c. 1) Plate 8, Isopach top and bottom of ore zone with drill hole depths.

Plate 9, Geologic test holes.

Plates - Crosssection (Plate 1); and vertical view (Plate 2) of indicated ore zones.

Grid for exploration.

7. a. Diamond drill bids, true copies.

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Morro Bay, California.

C
O
P
Y

1.a.1)

James S. Thwaites
Certified Public Accountant
1015 Grand Ave., Arroyo Grande, Calif.
HUnter 9-2362. Res. HUnter 9-7363

May 15, 1961

Confidential

The Manager
Bank of America
5th and M.
Morro Bay, Calif.

KEYSTONE MINE

Dear Sir:

My client, Mr. Jack Selby, who maintains his account with you, has asked me to obtain your views on finance for the Keystone Mine.

This property is held by Mr. Selby and Mr. Hanson on lease for the production of mercury. They have spent four years opening up a very promising vein of cinnabar.

Further finance of the order of $40,000 is now required to complete a new exploration shaft to the face of the vein and to bring the mine into production with a rotary mill.

Geological and financial reports are available, naturally.

At this stage, however, we would appreciate an expression of opinion from you on whether you may be interested in financing this project.

It is estimated on present information that the principal could be repaid from production within a period of two years and that a reasonable rate of interest would be available as a return on this loan.

I will be glad to supply any further information you may require, and look forward to your views at your earliest convenience.

Very truly yours,

(signed)

James S. Thwaites
Certified Public Accountant

COPY

1.a.4)

BANK OF AMERICA
National Trust and Savings Assoc.

Morro Bay Branch, 390 Fifth Street, Morro Bay, California

May 17, 1961

Mr. James S. Thwaites
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, California

Dear Mr. Thwaites:

This is in reference to your letter dated May 15, 1961, pertaining to a loan in favor of Mr. Selby and Mr. Denson who are operating the Keystone Mine located in the Cambria area.

I noticed in your third paragraph you requested a loan for approximately $40,000.00 for the purpose of exploration and production in the mining program at the Keystone Mine. However, due to the fact that this looks like purely a speculation deal we are unable to comply with your request.

Very truly yours

(signed)

J. L. Williams
Manager

JLW/bm

COPY

1.c.4)

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Avenue, Arroyo
Grande.

MU 9 - 2562

May 15, 1961
Confidential

Dr. Wilson A. French
1235 Higuera
San Luis Obispo,

Dear Dr. French:

KEYSTONE MINE

Responsible clients of mine have asked me to make an approach to you and Dr. Geo. O. French as they understand you are occasionally interested in mining properties offering a good return.

My clients and their associates have spent four years opening up a very promising vein of cinnabar on the Keystone property, which they hold for mercury production under lease. Further finance of the order of $40,000 is now needed to complete a new exploration shaft to the face of the located body and to bring the mine into production with a retort mill.

Geological and financial reports are available, of course, and it is understood that any financing would be subject to verification of these reports. However, the development is now so far advanced that a single core-drilling will prove the richness and depth of the main rich zone.

It is estimated on present information that the principal could be repaid from production within a period of two years and that a reasonable rate of interest plus participation in the net profits would be available as a return on this investment.

If I could have the benefit of your preliminary views, I would be glad to arrange an interview with my clients at your convenience.

Yours very truly

(signed)
James S. Thwaites
Certified Public Accountant

c.c. Dr. Geo O. French
244 Longview Lane
San Luis Obispo

C
O
P
Y

1.0.4)

FRENCH MEDICAL CLINIC
San Luis Obispo, Calif.

May 18, 1962

CONFIDENTIAL

Section in Summary
Dr. Ellison A. French

Mr. James S. Thornton
1012 Grand Avenue
Arroyo Grande, California

Dear Mr. Thornton:

Thank you for your letter of May 15 regarding the Keystone Mine. I am not interested at this time.

Sincerely

(signed)

Ellison A. French, M.D.

EAF/ccb

C
O
P
Y

1.a.4)

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Ave. Arroyo Grande
California
EM.9 - 7363

May 6, 1951
Confidential

Mr. Patrick J. Murphy
Tri-County Mortgage Co.
Santa Cruz, California

By hand of: Mr. C. C. Christenson

Dear Mr. Murphy:

Responsible clients of mine have asked me to make inquiries and to apply for finance to bring into production their Keystone mining property in Morro Bay.

They and their associates have invested to date $40,000 in proving a thirty-thousand ton deposit of cinnabar. Further finance of the order of $40,000 is needed to complete a new exploration shaft and to bring the mine into production.

Geological and financial reports are available, naturally, and it is understood that any financing would be subject to verification of these reports and inspection of the underground workings and assays.

However, it is estimated on present information that the principal could be repaid within a period of two years and that a reasonable rate of interest plus participation in the net profits would be available as a return on this investment.

If I could have the benefit of your preliminary views, I would be glad to make a formal application for submission by my clients to any party you may recommend.

Very truly yours

(signed)
James S. Thwaites
Certified Public Accountant

C
O
P
Y

1.a.4)

INDEPENDENT MORTGAGE AND INVESTMENT COMPANY, 113-A Locust Street
Santa Cruz, California
May 16, 1961

John J. Murphy

James S. Thwaites
1015 Grand Avenue
Arroyo Grande, Calif.

Subject: KEYSTONE MINING PROPERTY

Dear Mr. Thwaites:

Mr. C. C. Christensen has given me your letter of May 6, 1961.

I have made quite a thorough investigation into the possibility of finding an investor, or investors, for the Morro Bay Mining properties. I have not as yet received a favorable response from known investors either in this area or in the San Jose area.

I will, of course, keep you in mind and will advise you immediately of any possibilities for financing that may appear in the future.

Thank you for your consideration.

Sincerely yours

(signed)

John J. Murphy

JJM

1.c.1)

MEMORANDUM OF JOINT VENTURE
KEYSTONE MINE

This Memorandum records the intention of Jack Selby, William J. Dawson and W. D. Pierce to join together to explore and subsequently to bring into production the Keystone Mine, Morro Bay, California.

Contributions:

Jack Selby and William J. Dawson will provide finance necessary to carry out the exploration program as agreed with O.M.E.

They will also contribute personal time and labor on the project valued at $900.00 per month each, immediately O.M.E. approval is granted. They will further contribute jointly to the costs of securing a competent resident Consulting Geologist to supervise and direct all exploration work, at a retaining fee of $800.00 per month.

W. D. Pierce will contribute the use of suitable equipment wholly owned by him and listed in the attached exhibit 1.c.2) and will procure and supervise competent labor and efficient equipment to perform the drilling and underground exploration program as agreed with O.M.E. in a workmanlike manner to O.M.E. approval.

On the satisfactory completion of the O.M.E. exploration program, Jack Selby, William Dawson and W. D. Pierce will continue to contribute as above to the work of bringing the Mine into production.

Shares:

W. D. Pierce will be entitled to draw in cash from Jack Selby and William Dawson an advance participation of his share of profit. This advance will be calculated at the following rates on completion of work satisfactorily to O.M.E. approval:

$2.00 per foot of surface drilling without core,
$5.00 per foot of surface core drilling to 300 ft.
$9.00 per foot of surface core drilling beyond 300 ft.
$15.00 per foot of surface core drilling beyond 300 ft. in very hard ground requiring renewed bits.
$16.00 per foot of adit driven.
$10.00 per foot of adit timbered.
$12.00 per hour for roughing access road and benching.
$150.00 for haulage of T.D.24 to and from site.
$400.00 for cleaning area behind and erecting portal.
$3.50 per hour for mining laborers.

Provided that the above work shall be prescribed by and carried out under the direction of the resident Geologist.

Also provided that if W. D. Pierce's share of net profits is less than the total advance participation drawn as agreed above, any deficiency need not be repaid by W. D. Pierce to Jack Selby and William Dawson, who will bear this deficiency in equal shares as a loss.

In computing net profits from production, there will be deducted from gross proceeds of sale of mercury or mercury content:

A. 10% royalty payable to Phelan Land and Cattle Co. in the terms of land lease dated June 1, 1957, as amended by agreement dated August 6, 1957 - copies attached as exhibits 2.a.1) and 2.a.2).

B. 5% royalty payable to U. S. Government under O.M.E. contract, or such other rate as this O.M.E. contract may require.

C. Mining costs, production costs and selling costs normal and necessary to the mining, production and sale of mercury. Including such development work as may be reasonable and prudent to extend the useful working life of the Mine to the benefit of the parties to this agreement. But excluding costs arising from the personal services of Jack Selby and William Dawson, and excluding costs for which W. D. Pierce is entitled to an advance participation of profit under this agreement.

D. Personal services of Jack Selby and William Dawson at the rate of $1,000.00 per month each.

E. Other management and overhead costs normal and necessary to the mining, production, or sale of mercury and to the organization thereof.

The determination of gross proceeds and net profits as defined above will be made by James S. Thwaites, C.P.A., subject to audit by Government agency or any independent Certified Public Accountant engaged by any party to this agreement.

Net profits will be divided as follows:

First. By a reimbursement to Garhard Eberhardt of $1,000.00 for past services in prospecting and preparing geological reports.

Second. By allocation of profit to James Thwaites for financial advice and services in preparing O.M.E. proposal ..... 5%.

Third. By a deduction to reimburse Jack Selby and William Dawson for the advance participation of profits drawn by W. D. Pierce under this agreement.

Fourth. To W. D. Pierce for services and use of equipment as detailed in this agreement 31-2/3%. Provided that the first $3,520.00 so paid shall be considered full purchase of the equipment listed at the prices listed in exhibit 1.c.2) by Jack Selby and William Dawson. ... 31-2/3%

To Jack Selby and William J. Dawson in equal shares ..... 63-1/3%. ... 63-1/3%

100%

Assets and Liabilities

Participation in profits as above shall not constitute W. D. Pierce and James Thwaites partners in the Keystone Mine for purposes of losses or debts. Any losses are to be borne by Jack Selby and William Dawson in equal shares, insofar as losses exceed profits.

All rights to capital equipment purchased from W. D. Pierce as above will remain exclusively in Jack Selby and William Dawson, including capital gain or loss on the disposal of this equipment. Normal depreciation on these and any other capital assets will be charged against income in determining net profits.

Proceeds on sale or disposal of the Keystone Mine or parts thereof or rights therein - excepting the capital equipment belonging exclusively to Jack Selby and William Dawson on purchase from W. D. Pierce, as above - shall be treated as net profit and divided in the net profit ratios:

Jack Selby	31-2/3%
William Dawson	31-2/3%
W. D. Pierce	31-2/3%
James Thwaites	5 %

Bank accounts, Records and O.M.E.Payments:

Payments received under O.M.E. contracts will be placed in a Bank account opened for that purpose and operable by the two signatures of W. D. Pierce and either Jack Selby or William Dawson. These funds will be used at the discretion of Jack Selby and William Dawson as reimbursement to them for the actual costs incurred in exploration and development by payment from this account into the Keystone Mine account.

A separate Bank account will be established known as the Keystone Mine account, operable by the two signatures of Jack Selby and William Dawson, who will maintain this account in sufficient funds to meet agreed exploration, mining, production, selling and organization costs, including advance participation of profits due to W. D. Pierce.

The check books and records adequately showing all transactions will be kept by James Thwaites, C.P.A., who will be entitled to charge a normal and reasonable fee for this professional service, including the preparation of periodic Mine financial statements as required. These records will be open to inspection by any party to this agreement, or to the U. S. Government and its agencies, or to representatives acting on behalf of any of these.

(signed)

..... Jack Selby

..... William Dawson

..... W. D. Pierce

..... James S. Thwaites

LIST OF EQUIPMENT TO BE CONTRIBUTED BY W. D. FIGERT

	Current Market Value
Trailer	$125.00
Stretcher and first-aid kit	50.00
Wright power saw	150.00
Slusher and bucket	500.00
Ingersoll-Rand Jackhammer and Jackleg	600.00
Chicago-pneumatic 105 air compressor	1,000.00
Bucking machine	500.00
Track - 600 feet and 3 cars	200.00
Light plant, 2kv	300.00
	3,525.00

JACK & GERALDINE SELBY

Balance Sheet at April 30, 1961

ASSETS

Current Assets

Cash: Bank of America N.S. & T.			
Morro Bay Checking		57.95	
" " Savings #1006		2,436.71	
" " " #1744		2,600.00	
Santa Maria		702.26	
			5,876.92
Investment: Insurance securities Trust			2,000.00
Prepayment I.R.S. 1960 Income Tax refund credited on 1961 Liability			1,000.00
TOTAL CURRENT ASSETS			8,876.92

Fixed Assets	Cost	Accumulated Deprec.	Net	
9th St. House	13,950.00	66.00	12,984.00	
1960 Dodge P-up	2,516.00	706.22	1,809.78	
Trailer	1,700.00			
" Additions	300.00	577.77	1,422.23	
1957 Pontiac	1,712.80	-	1,712.80	18,928.81
	20,178.80	1,349.99		
				27,705.73

LIABILITIES & CA PITAL

Current Liabilities, contract.			580.56
TOTAL CURRENT LIABIL-ITIES			580.56
Long Term Liabilities			
Contract on 1960 Dodge	1,403.02		
Less current portion	580.56		
			822.46
TOTAL LIABILITIES			1,403.02
CAPITAL: Jack and Geraldine Selby Net worth 4/30/61			26,302.71
			27,705.73

I have examined the Balance Sheet of Jack and Geraldine Selby as of April 30, 1961. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the Accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion the above Balance Sheet presents fairly the financial position of Jack and Geraldine Selby as of April 30, 1961, in conformity with generally accepted accounting principles.

JAMES S. THWAITES
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, California

1-C-4)

WILLIAM DAWSON

Balance Sheet at April 30, 1961

Assets		
Current Assets		
Cash, Bank of America N.S.& T.Fresno	15,000.00	
Account receivable	7,000.00	
Notes receivable	1,000.00	23,000.00
Fixed Assets		
Furniture and tools at valuation	4,000.00	
Auto at cost, less depreciation	1,000.00	
1959 Ford Pick-up at cost	2,100.00	7,100.00
		30,100.00
Liabilities		NIL
Capital, net worth William Dawson 4/30/61		30,100.00

PREPARED WITHOUT AUDIT

MINING AGREEMENT

THIS AGREEMENT, made and entered into this first day of June, 1957, by and between PHELAN LAND & CATTLE COMPANY, a California corporation, hereinafter termed "Owner", and JACK SELBY, WILLIAM J. DAWSON, KARL PIERCE, MARK PIERCE, and PETER PIERCE, hereinafter termed "Operators".

W I T N E S S:

In consideration of the terms, covenants and conditions herein contained, each of which is hereby mutually agreed upon by the parties hereto, and the Operators agree that they shall be jointly and severally responsible and liable for compliance with all of the terms, covenants and conditions herein contained to be kept, paid or performed by the Operators, Owner does hereby agree with Operators that Operators may enter upon two (2) portions of Owners' ranch, each portion being described as follows:

PARCEL I. A portion of Section 23, Township 26 South, Range 8 East, M.D.B.&M., known as the MENDONS FIELD and

PARCEL II. That certain "Red Hill" being on a portion of Owner's ranch known as RED HILL, consisting of a portion of the north half of Section 36.

for the purpose of conducting quicksilver mining operations, and removing quicksilver therefrom.

This Agreement is subject to all of the following terms, covenants and conditions.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

I.

Operators' right of use of said property shall be limited to conducting quicksilver mining operations only, and shall have the right to remove only quicksilver from said property.

II.

This Agreement shall be for the term of five (5) years, commencing on the first day of June 1957, and terminating on the last day of May, 1962.

III.

Operators shall pay Owners as Royalty on quicksilver produced ten per cent (10%) of the gross sums received from the sale of any and all quicksilver recovered. Owner may, at its option, to be exercised in writing from time to time through the term of this Agreement, receive its ten per cent (10%) royalty in kind rather than on the basis of the proceeds received from sales. If Owner should so elect to take its royalty in kind, the value of the royalty interest shall be computed as of the then market value.

It is the intention of the Agreement that a minimum royalty for each parcel shall be paid Owner over the course of each fiscal year of June 1 through May 31, of Twelve Hundred Dollars ($1,200.00), to fall due in advance at the rate of One Hundred Dollars per month, payment of the first month's minimum royalty to be paid upon the signing of this Agreement, receipt of which is hereby acknowledged.

An accounting of each month's production shall be delivered to Owner by the tenth day of the month following. Any

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

royalty payments falling due for the fiscal year's production to date, shall be paid monthly, by the tenth day of the month following. In the event that the actual royalties due for the fiscal year's operations to date are less than the minimum royalty payment due, an additional sum of money shall thereupon be paid, sufficient to bring the total royalty payments up to an amount equal to the minimum royalty payment then due.

IV.

Operators shall, at their sole cost and expense, perform and provide all labor, machinery and materials necessary for the mining of quicksilver on said property.

V.

All all times during the continuance of this Agreement there shall be kept accurate and true books of account by Operators, to be used in common between said Parties, so that Owners may, at reasonable times during the term of this Agreement, have access thereto without interruption or hindrance, to audit said books as to the computation of royalties as hereinbefore provided. It is further particularly agreed that Operators shall furnish monthly photostatic copies of all governmental reports covering the production of quicksilver from the parcels subject to this agreement. Such copies of said governmental reports shall be furnished to Owner within ten (10) days after Operators prepared the originals.

VI.

All royalties, except as otherwise may herein be provided for, shall be payable, in lawful money of the United States of America, to Owner at Cambria, California. The

place and manner of payment may be changed during the term of this Agreement by Owner giving written notice to Operators.

VII.

In the event Operators desire to abandon said parcels, or either of them, they may do so at any time during the term of this Agreement by giving sixty (60) days' written notice to Owner of their intentions to do so, and this Agreement shall terminate at the end of the sixty (60) days period, in whole if both parcels are abandoned, or, if only one parcel is abandoned, then solely as to the parcel abandoned; provided, however, Operators shall be liable for performing all of the terms, covenants and conditions to be kept, paid and performed by them under the terms of this Agreement, up to the date of the expiration of the said sixty (60) days.

VIII.

Operators shall pay all taxes and assessments of every kind and nature which may be levied against the improvements placed on said property by Operators, and further, any increase in taxes or assessments resulting from Operators' improvements, discovery of minerals, or other operations by them.

IX.

Operators shall install and maintain all gates, fences and cattle-guards as Owner may designate as being reasonably necessitated by Operators' operations. Operators shall keep all gates on said roads closed at all times, except when being used, and further, they shall maintain

all roads used by them on the property subject to this Agreement, or which may be used by them in crossing other lands of Owner in reaching said property. It is further agreed by the parties that Owner does not warrant the use of any rights-of-way in reaching the property the subject of this Agreement, but Operators shall have all rights which owner may have for ingress or egress in reaching said lands. Operators, at their own expense, shall build an access road between the Keystone Mine and upper bank level prior to any work on said Red Hill but not later than January 1, 1956, irrespective of any earlier termination hereof. Routing of said road shall be designated by Owner.

X.

Operators shall use such routes as may be designated by Owner to and from such mines as may be operated on the premises, except that once Operators have been instructed to use any particular route and have commenced improvement or maintenance thereof Owner may not thereafter arbitrarily instruct them to use another route if such change will be at an additional expense to Operators.

XI.

Operators are given the right to erect upon said lands such buildings and such equipment as may be necessary and proper for the efficient operation of said quicksilver mines upon said lands, it being understood that title to said buildings and equipment shall remain in Operators, subject to the conditions herein contained. Operators shall have a period of sixty (60) days from the time of expiration or sooner termination of this Agreement to remove such improvements as they have placed upon said

Jack Bailey & William Dawson
P. O. Box 903
Morro Bay, California

property, or upon the one parcel abandoned, if that is the case, and in the event any of said improvements have not been removed within the period of sixty (60) days, such improvements shall become the sole property of Owner.

XII.

Operators shall, at their own cost and expense, obtain all licenses and permits required by reason of the operations herein provided for. Operators shall pay for all utilities used on said premises and all other charges and expenses incurred by them in the course of their operations on said premises.

XIII.

Operators shall keep said premises in a clean condition, free from rubbish, gasoline and like accumulations, and shall, at all times, comply with all State, Federal and local rules and regulations with reference to the operation and occupation of said premises and conduct of mining operations thereon, and shall at all times conduct said operations in a miner-like manner.

XIV.

Owner shall have the right and privilege at all reasonable times of entering upon said premises for purposes of inspecting the same and of determining whether the terms covenants and conditions of this Agreement are being kept and performed by the Operators, and for posting notices of non-responsibility.

Jack Selby & William Benton
P. O. Box 995
Morro Bay, California

V.

Operators shall carry adequate public liability and property damage insurance upon their operations (not less than $25 - $50,000.00) with a responsible insurance carrier, protecting the Owner from any injuries or claims for injuries which might be made by any person as a result of Operators' operations. Operators shall also protect the said Owner from any attorney's fees or costs which may be incurred by them in the defense of any such action. A certificate of such insurance shall be furnished to the Owner within thirty (3) days after the signing of this Agreement. Further, Operators shall indemnify Owner against any expense, loss or liability paid, suffered or incurred as a result of any breach by the Operators, Operators' Agents, servants, employees, visitors, or licensees, of any covenant or condition of this Agreement, or as a result of Operators' use or occupancy of said premises, or the carelessness, negligence or improper conduct of the Operators, Operators' agents, employees, patrons, visitors or licensees.

VI.

The failure of Owner to terminate this Agreement for the violation of any of its terms, covenants or conditions on the part of Operators to be performed, kept or paid, or to enforce any remedy provided for herein or by law, shall not be construed as a waiver of any of its rights for any subsequent or continuing violation thereof.

VII.

Time is made the essence of this Agreement.

Jack Selby & William Dawson
P.O. Box 993
Morro Bay, California

XVIII.

All notices required to be served for any purpose on any party hereto may be served by mail on Owner by addressing the same to PUBLAN LAND & CATTLE COMPANY, Cambria, California, and upon Operators by addressing the same to KARL PIZZOR, Box 353, Morro Bay, California.

XIX.

In the event that Operators have fully observed and performed the terms, covenants and conditions hereof up to the date of the expiration of the term hereof, Operators shall have and they are hereby given the right and option to renew this Agreement for the further period of five (5) years succeeding the date of the expiration of the term hereof, on the same terms and conditions as herein stated; provided, however, that Operators shall give notice to Owners in writing of their intentions to exercise the option to renew herein granted not less than two (2) nor more than four (4) months prior to the date of the expiration of the term hereof, and such notice when so given shall be binding upon all of the parties hereto, and if not so given, Owner shall be released from all obligations to renew said Agreement. In the event that Operators have fully observed and performed the terms, covenants and conditions hereof up to the date of the expiration of the term hereof, and the term of the renewal period, as hereinabove provided, Operators shall have, and they are hereby given, the right and option to renew this agreement for a further period of five (5) years succeeding the date of the expiration of the second five (5) year period, on the same terms and conditions as herein provided; provided, however, that operators shall give notice to Owner in writing of their intention to exercise the option to renew herein granted not less than two (2) nor more than four (4) months prior to the date of the expiration of the first extended term

Jack Selby & William Dawson

hereof, and such notice when so given shall be binding upon all of the parties hereto, and if not so given, Owner shall be released from all obligations to renew said Agreement.

XX.

This Agreement is made in duplicate and each copy hereof is hereby made an original.

XXI.

This Agreement shall not be assignable in whole or in part, either voluntarily or by operation of law or otherwise, nor shall the premises, the subject of this Agreement, be subleased in whole or in part without the written consent of Owner first had and obtained. In the event of bankruptcy of Operators, or any of them, or their successors in interest, this Agreement shall not become an asset in bankruptcy.

XXII.

In the event Operators should form a corporation, ownership of which should substantially vest in Operators for the purpose of conducting the operations referred to in this Agreement, the said Operators may assign this Agreement to the said corporation without Owner's consent, provided, however, that Operators shall remain primarily liable and responsible for the compliance of all the terms, covenants and conditions of this Agreement to be kept, paid or performed by the Operators.

XXIII.

The Owner hereby reserves the surface and subsurface rights in connection with the use of said land insofar as the use

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California.

XXIII.cont'd.

said land lessor as the use thereof does not interfere with the rights herein granted to operators. In this connection, the operators shall construct and maintain adequate fences around such portions of the property than being used so as to protect it from any cattle of Owner's, or its tenants, which may be on said property. In the event that it is determined the property is suitable for production of commercial quantities of oil it is understood that Operators will reasonably co-operate toward allowing oil production which does not interfere with their rights hereunder; or if there is any interference therewith, then they shall endeavor to work out a proper and reasonable agreement by which they shall be compensated by the oil lessee for any damages they may suffer.

XXIV.

Operators shall do all reasonable or necessary acts to prevent trespass and fire, and shall at all times conform strictly with all county, state and Federal regulations relating thereto, shall at no time commit any unlawful act upon said premises or permit any person to do so. In this connection, it is agreed that operators will use reasonable methods to prevent other persons from hunting or fishing upon said premises. Operators particularly agree that they shall neither hunt nor fish upon said premises, and that any breach of this provision of this Agreement shall be a proper basis for Owner to expel such individual operator from the property and such individual shall not thereafter go onto the said premises.

XXV.

In the event it becomes necessary for Owner to commence,

Jno. Selby & Milton Hansen
P. O. Box 985
Morro Bay, California.

any action or proceeding in law or in equity to collect any payment of royalties to fall due herein, or to enforce any of the other terms, covenants or conditions hereof, or to declare a forfeiture of this Agreement, or to enforce any of the rights of Owner, the Operators agree to pay all costs of such suit, action or proceedings, including a reasonable amount as and for attorney's fees, provided, however that Owner prevails in any such suit, action or proceeding.

XXVI.

Each of the terms, covenants and conditions of this Agreement is mutual and dependent, and breach of any of the said terms, covenants or conditions, and failure to begin remedying of said breach within ten (10) days after the personal service of written notice by Owner upon the Operators, or anyone of them, which notice shall designate the particular complaint for which correction is demanded, shall constitute grounds for the termination, cancellation or forfeiture of this Agreement. In lieu of said personal service of notice Owner may serve said notice by certified mail with return receipts signed by any one of the Operators. In the event of breach of any of the said terms, covenants or conditions, and failure to begin reasonable action to remedy said breach within said ten (10) days after said notice, Owner may terminate this Agreement by recording a notice in the Office of the County Recorder of San Luis Obispo County, stating that this Agreement has been terminated, appending thereto a true copy of the affidavit of personal service of said notice or of the return receipt aforementioned. In addition, one copy of said notice shall be posted on the premises, the subject of this Agreement. In the event operators claim any rights under this Agreement, they shall at any

time after the service of notice aforesaid but not later than ten (10) days after the recording of the said notice by Owner, record a notice in the office of the County Recorder of said County, stating that they claim rights under this Agreement. In the event Operators should fail to file said notice, all rights which they might have by virtue of this Agreement shall be terminated. The remedies provided for in this paragraph are in addition to any other rights provided Owner in this Agreement, at law, equity, or otherwise.

XVII.

Operators' activities will be done in a minerlike manner, it being understood in the case of the exploratory work on the Keystone Field that drilling, rather than bulldozer excavation, shall be used unless otherwise consented to in writing by Owner, it being understood that drilling sites must necessarily be cleared and levelled through use of a bulldozer. Operators will use all reasonable methods to restore such drilling or mining sites, at the completion of their use, restoring cattle trails across said sites when possible to do so, or providing an alternate route if the original route cannot be restored. In no event shall Operators leave any portion of said property so that it will be a hazard for livestock ranges. Fencing or filling shall be done wherever appropriate at Owner's option. At the termination hereof Operators shall give Owner a quitclaim deed of all rights hereunder.

XVIII.

Operators' use of water obtained from said premises shall be subject to Owner's approval as to source used and

grounds taken, taking into full consideration the proper and full utilization of said premises for grazing purpose.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands this first day of June, 1957.

PERSAN LAND & CATTLE CO.

By _____

Said Owner.

_____

Jack Selby.

_____

William J. Dawson

_____

Earl Pierce

_____

Frank Pierce

_____

Terre Pierce

Said Operators.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

State of California)
County of San Luis Obispo) S.S.

On _____ 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared _____, known to me to be the _____ of the corporation that executed the within instrument, known to me to be the person who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

WITNESS my hand and official seal.

(seal)

_____
Notary Public in and for said County and State.

State of California)
County of San Luis Obispo) S.S.

On _____ 1957, before me, the undersigned a Notary Public in and for said County and State, personally appeared _____ and _____ known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same.

WITNESS my hand and official seal.

(seal)

_____
Notary Public in and for said County and State.

Jack Selby & William Dawson
P. O. Box 993
Morro Bay, California

C O P Y

EXHIBIT B

SUPPLEMENT TO MINING AGREEMENT

THE parties to that certain Mining Agreement dated June 1, 1957, by and between PRELAN LAND & CATTLE COMPANY, a California corporation, therein termed the "Owner", and JACK SELBY, WILLIAM J. DAWSON, KARL PIERCE, FRANK PIERCE and FERRE PIERCE, therein termed the "Operators", in consideration of the additional covenants herein made mutually agree to the following:

1. The joint venture between the Operators, being dissolved, they shall separate their interests and relationships into the following grouping: Jack Selby and William J. Dawson; Karl Pierce and Frank Pierce and Ferre Pierce.

2. Selby and Dawson shall take the full rights and obligations in connection with Parcel 1, to wit, the "Keystone Field".

3. The Pierce brothers shall take the full rights and obligations in connection with Parcel 2, to wit, the "Red Hill" portion.

4. All five of said "Operators" shall remain individually responsible for the building of the road designated in paragraph IX of the Agreement, the said persons to work out between themselves the manner and by whom said work will actually be done.

5. The Pierce brothers shall not do any operation of any kind in the open grazing land on Red Hill which may interfere with the farming or ranch use thereof, except with the prior permission of the Owner.

6. Paragraph XVIII of the Agreement is enlarged to provide that for purposes of the service of notices the address of Selby and Dawson is as follows: Selby and Dawson, Box 993, Morro Bay, Calif.

7. In all other respects the agreement remains the same, except that it shall now be deemed to be two agreements, one pertaining to Parcel 1 and the other pertaining to Parcel 2, with the parties designated responsible only for the parcel they take under this separate agreement. The Owner hereby releases the parties from liability as to the parcel which they do not take, as the case may be, except as expressly hereinabove provided as to the road

construction.

Dated this 24th day of July, 1957.

PHELAN LAND & CATTLE COMPANY
BY Ernest Vollmer, Jr., President.
Said Owner.

Jack Selby
William J. Dawson
Operators as to Parcel 1.

Karl Pierce
Frank Pierce
Feree Pierce.
Operators as to Parcel 2.

State of California)
) SS.
County of San Luis Obispo)

On July 24 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared Ernest Vollmer Jr., known to me to be the President of the Corporation that executed the within instrument, known to me to be the person who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

WITNESS my hand and official seal. Sgd. A.V.Muller, Notary Public in and for the said County and State.

(Seal)

State of California)SS
County of San Luis Obispo)

On August 4, 1957, before me the undersigned, a Notary Public in and for said County and State, personally appeared Jack Selby and William J. Dawson known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same.

WITNESS my hand and official seal.

(sgd) Lorraine Garratt
Notary Public in and for said
County and State

(Seal)

State of California)SS
County of San Luis Obispo)

On 6th day of August 1957, before,me, the undersigned, a Notary Public in and for said County and State, personally appeared Karl Pierce, Frank Pierce and Feree Pierce, known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same. WITNESS my hand and official seal. (sgd) Wickson R. Woolpert, Notary Public in & for said County & State.
(seal)

C
O
P
Y

2.c.1)

PHELAN LAND & CATTLE COMPANY
Cambria, Calif.

May 23, 1961

Mr. William J. Dawson
3496 Mayfair Blvd.
Fresno 5, California

Dear Mr. Dawson:

This is in reply to your letter of May 15th which I received on May 19th.

Naturally, I am interested in seeing you do everything you can to bring the Keystone Mine into production and, as a consequence, I am willing to do anything reasonable to help you. The lien and subordination agreement which you have asked me to execute in favor of the United States of America I consider completely unreasonable, however, and I would not consider signing it under any circumstances. It is not my intention to become responsible for anything you may or may not do, and I will do nothing that will cloud my title.

If you will let me know to whom I should direct a letter setting forth my refusal and the reasons therefor, I would be happy to see that it is written.

With kindest personal regards, I am

Very truly yours

(signed)

Ernest Vollmer, Jr., President
Phelan Land & Cattle Company

EV/ss

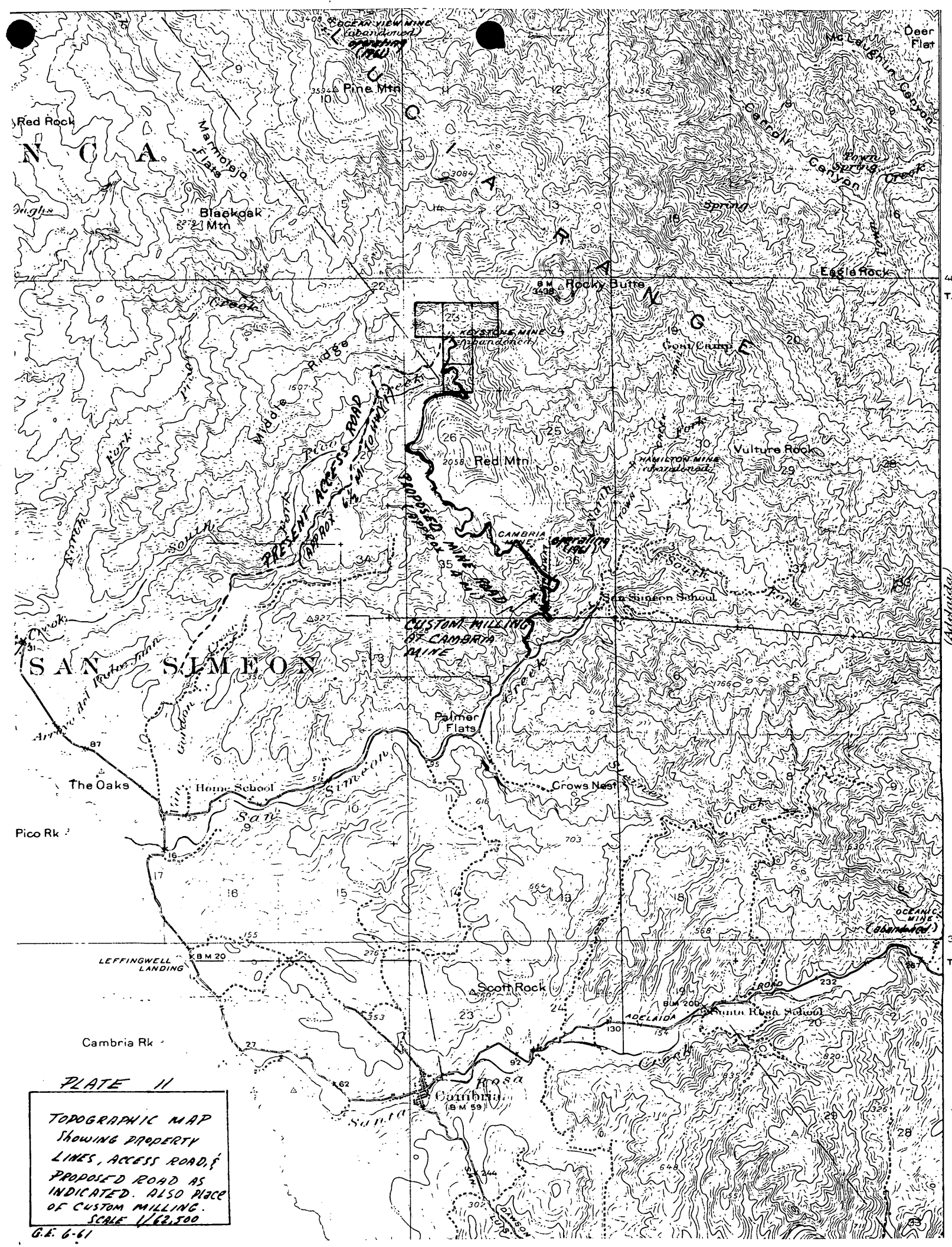
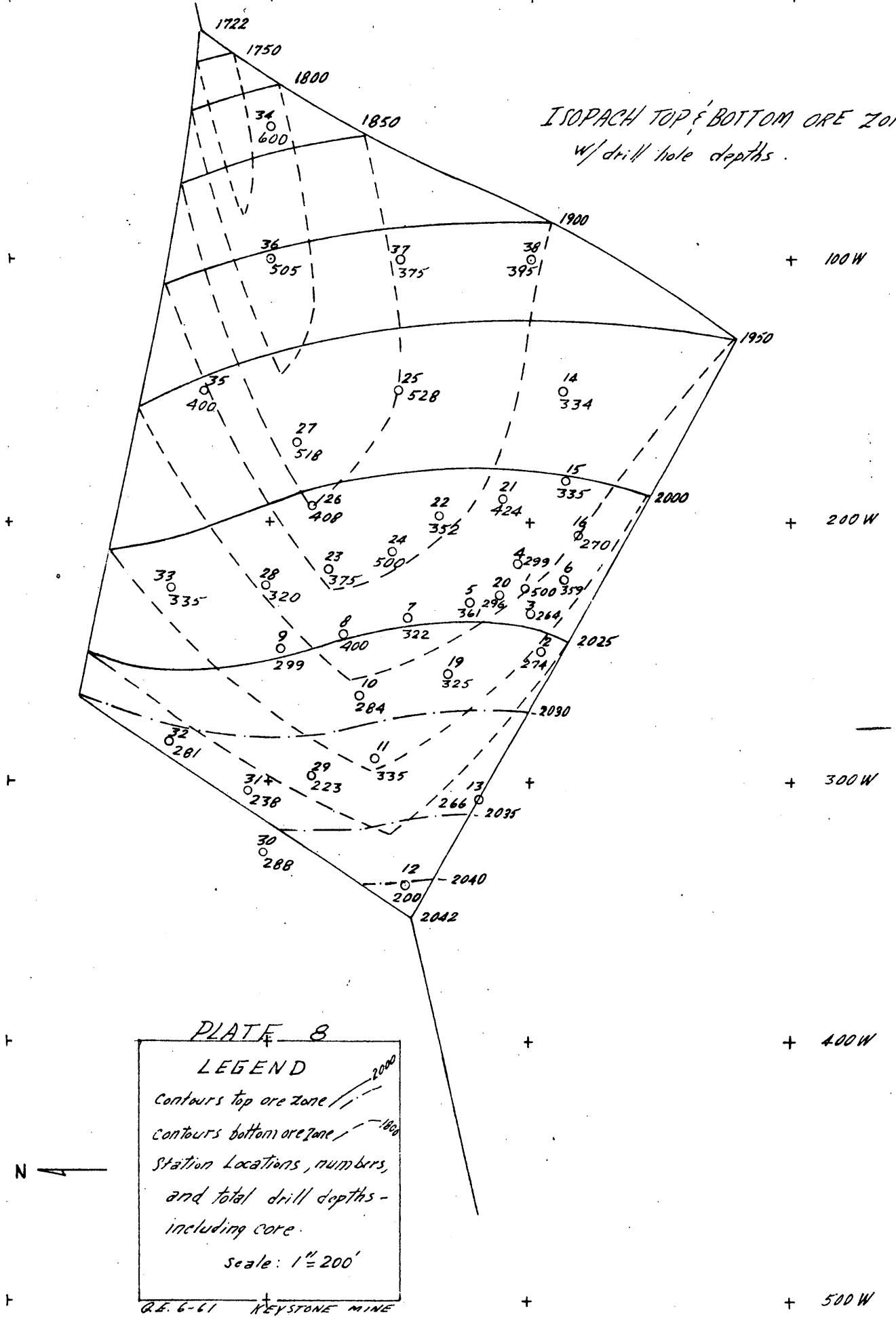
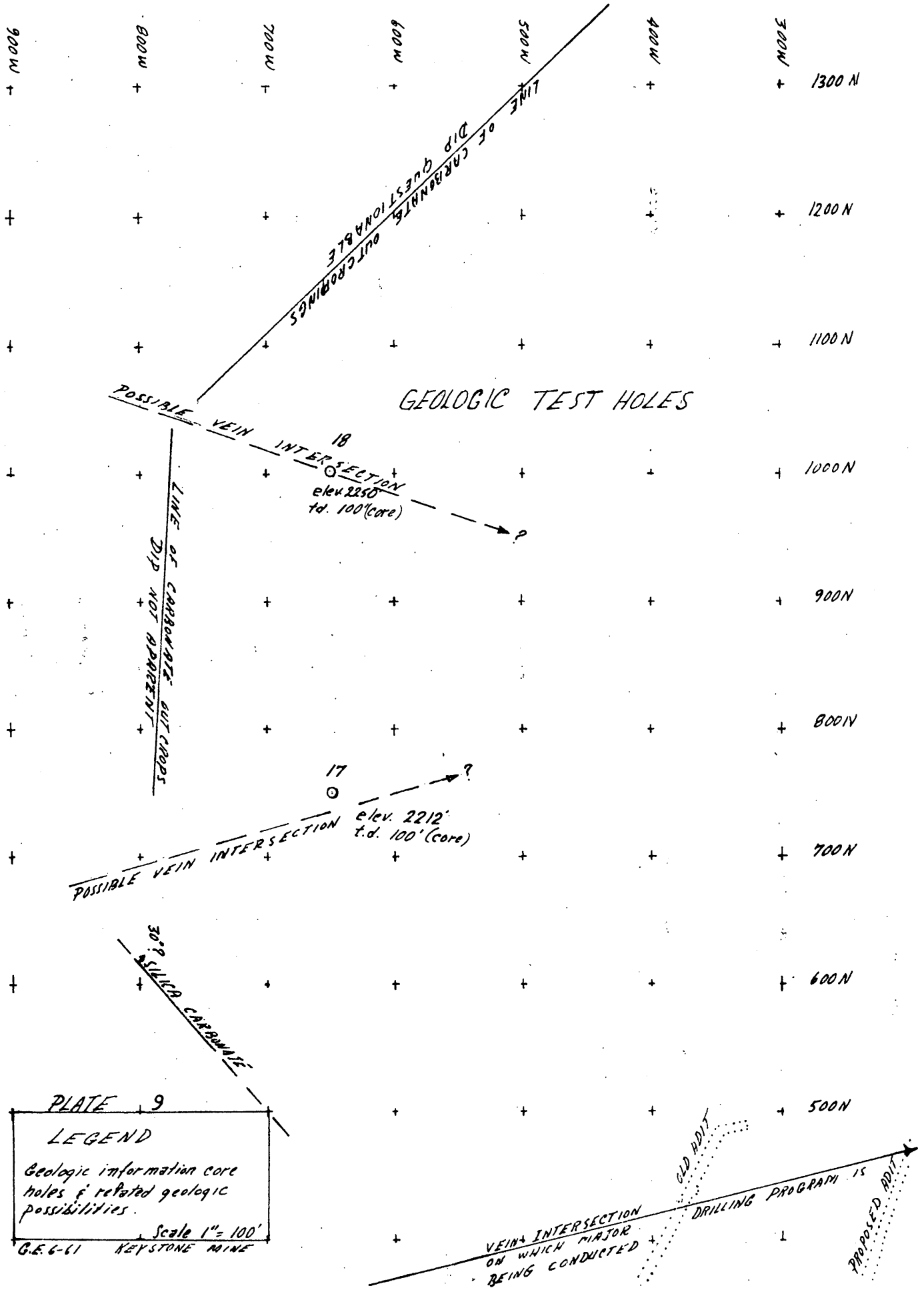


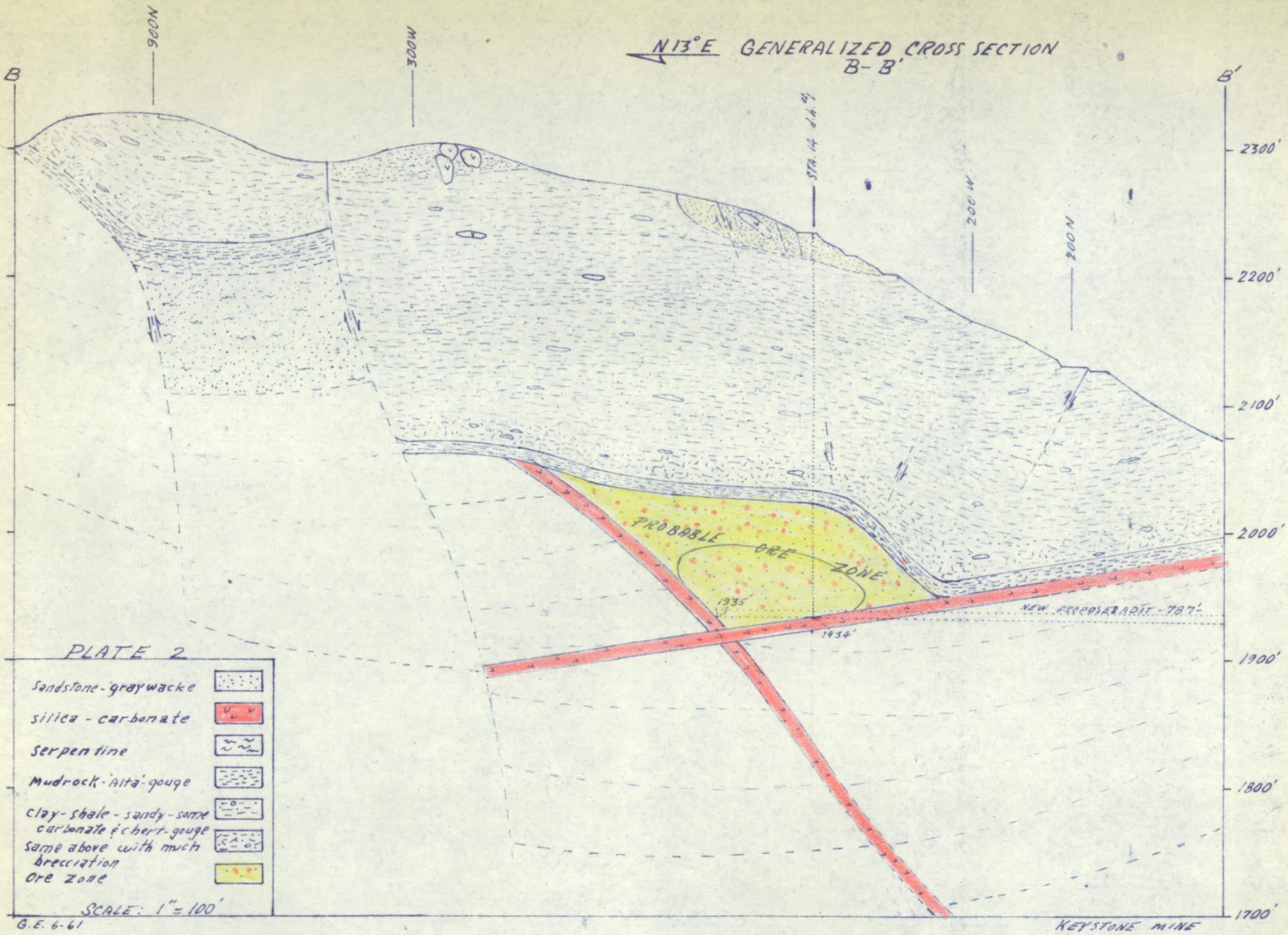
PLATE 11

TOPOGRAPHIC MAP SHOWING PROPERTY LINES, ACCESS ROAD, & PROPOSED ROAD AS INDICATED. ALSO PLACE OF CUSTOM MILLING. SCALE 1/62,500

G.E. 6-61


ISOPACH TOP & BOTTOM ORE ZONE
w/ drill hole depths.
1722
1750
1800
1850
1900
1950
2000
2025
2030
2035
2040
2042
100 W
200 W
300 W
400 W
500 W
600 N
500 N
400 N
300 N
34 600
36 505
37 375
38 395
35 400
25 528
14 334
27 518
15 335
26 408
22 352
21 424
16 270
24 500
23 375
4 299
6 359
33 335
28 320
20 500
5 361
7 322
3 264
8 400
9 299
12 274
19 325
10 284
32 281
11 335
29 223
31 238
13 266
30 288
12 200
N
PLATE 8
LEGEND
Contours top ore zone 2000
contours bottom ore zone 1600
Station Locations, numbers, and total drill depths - including core.
Scale: 1" = 200'
Q.E. 6-61 KEYSTONE MINE


GEOLOGIC TEST HOLES
900W
800W
700W
600W
500W
400W
300W
1300 N
1200 N
1100 N
1000 N
900N
800N
700N
600N
500N
LINE OF CARBONATE OUTCROPPINGS
DIP QUESTIONABLE
POSSIBLE VEIN INTERSECTION
18
elev 2250'
td. 100'(core)
?
LINE OF CARBONATE OUTCROPS
DID NOT APPEAR IN
17
elev. 2212'
t.d. 100'(core)
?
POSSIBLE VEIN INTERSECTION
SILICA CARBONATE
30° DIP
PLATE 9
LEGEND
Geologic information core holes & related geologic possibilities.
Scale 1" = 100'
G.E. 6-61 KEYSTONE MINE
VEIN INTERSECTION ON WHICH MAJOR DRILLING PROGRAM IS BEING CONDUCTED
OLD ADIT
PROPOSED ADIT


N13°E GENERALIZED CROSS SECTION
B-B'
B
B'
900N
300W
STA. 14 d.h.
200W
200N
2300'
2200'
2100'
2000'
1900'
1800'
1700'
PROBABLE ORE ZONE
1935'
1934'
NEW PROPOSED ADIT - 787'
PLATE 2
Sandstone-graywacke
silica - carbonate
Serpentine
Mudrock-'alta'-gouge
clay-shale-sandy-same carbonate & chert-gouge
same above with much brecciation
Ore zone
SCALE: 1" = 100'
G.E. 6-61
KEYSTONE MINE

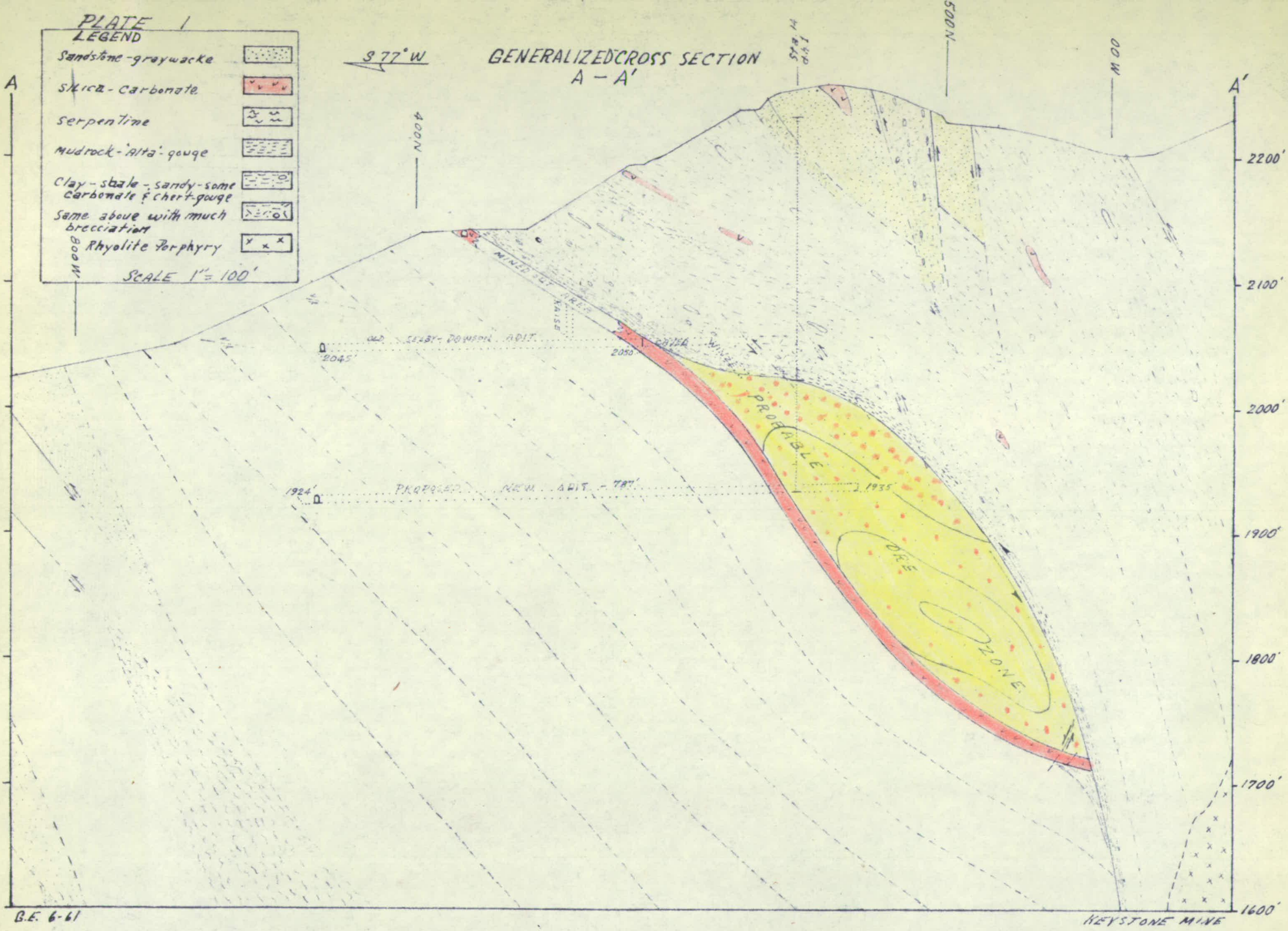


PLATE 1
LEGEND
Sandstone-graywacke
Silica-carbonate
Serpentine
Mudrock-'Alta'-gouge
Clay-shale-sandy-some carbonate & chert-gouge
Same above with much brecciation
Rhyolite Porphyry
SCALE 1" = 100'
S 77° W
GENERALIZED CROSS SECTION
A – A'
A
A'
400N
500N
600N
STA. 14 ADIT
OLD SELBY-DOWNEY ADIT
2045'
2050'
MINED OUT AREA
RAISE
PROBABLE ORE ZONE
1924'
PROPOSED NEW ADIT - 787'
1935'
2200'
2100'
2000'
1900'
1800'
1700'
1600'
B.E. 6-61
KEYSTONE MINE

COPY

W. D. Pierce Construction Co.
Excavating. Grading. Paving.

Rt. 1, Box 1556, Hwy 1. Morro Bay, California.

July 12, 1961.

James S. Thwaites
Certified Public Accountant
1015 Grand Avenue
Arroyo Grande, Calif.

Dear Sir:

I wish to submit the following bid for coring at the Keystone Mine:

Unit Price

$3.00	Drilling without core up to 300 ft.
7.00	" with core up to 300 ft.
12.00	" with core from 300 ft. to 1,000 ft.
22.00	Drilling with core from 300 ft. to 1,000 ft. (very hard rock drilling conditions).

Sincerely Yours

(signed) Walter D. Pierce

W. D. Pierce Construction Co.
Rt. 1. Box 1556, Hwy 1.
Morro Bay, California

7.a)

COPY

OIL WELLS, TEST HOLES, WATER WELLS, PUMPS, PIPE, SUPPLIES

JESS G. BARNES DRILLING CO.
4230 West Coast Hi-Way.
Santa Barbara, Calif.

July 16, 1961.

Jess G. Barnes
Santa Barbara, Calif.
WOodland 7-2244.

Dale Taylor
Arroyo Grande Div.
EL.3-4876

Mr. N. D. Pierce
1556 Hiway #1
Morro Bay, Calif.

Dear Sir:

Please accept this as a bid which you requested by phone.

Price for drilling 6" test holes to three hundred feet; $3.00 per foot. Below three hundred feet; $3.50 per ft.

Price for coring to 300'; $7.00. Below 300' to 900' $15.00.

Any hard silica carbonates requiring diamond heads; $25.00 per ft.

Yours truly

(signed)

Dale Taylor

COPY

7.a)

R. B. YAGER, Drilling Contractor STATE LICENSE NO.199028

Shot Holes, Core Drilling, Sand Drains, Water Wells Gravel Packed

Telephone A.G. 5633
1962 Maple Street
Arroyo Grande, Calif.

July 17, 1961

Mr. Jasper S. Thvoltes
515 Orchard Street
Arroyo Grande, Calif.

Dear Sir:

Below are the prices for drilling and coring at the Keystone Mine that you ask for.

Drilling 5 5/8" to 300': $3.00 per ft.
Drilling 5 5/8" to 600': $5.50 per ft.

Coring with 5 5/8" bit to 300' $7.50 per ft.
Coring with 5 5/8" bit to 600' $16.00 per ft.

For coring any diamond drilling in extra hard rock: $25.00 per ft.

Very truly yours

(signed)

Robert B. Yager

COPY

JOHN GARDNER
Well Drilling Contractor

13655 San Antonio Road Telephone 4202
Atascadero, Calif.

Date: July 17, 1961

Customer: W. P. Pierce
Address: Morro Bay.

Bid prices for drilling test hole at Keystone Mine:

Drill.	0 ft. to 300 ft.	.....	3.25 ft.
Core	" " "	.....	7.50 ft.
Drill	300 ft to 1,000 ft.	.....	20.00 "
Core	" " "	.....	35.00 "

Signed John Gardner.

COPY

ESTIMATE

Phelps Pump and Equipment Co.
400 East College Ave. MI2-1678
North Las Vegas, Nevada

7/20/61

James Thwaites CPA
Arroyo Grande, Calif.

Job Location: CAMBRIA, CALIF
Keystone Mine.

Our estimate for the core drilling as verbally described would be as follows:

1st 300' (without core) drilling only ..... 4.00 ft.

1st 300' coring .....12.00 ft.

Beyond depth of 300' coring .....24.00 ft.

All drilling of hard rock formation or loss of circulation would automatically cause us to operate at the hourly rate of $25.00 hour plus all materials used.

All travel would be charged at the rate of $15.00 hour.

COPY

Howard H. Knighton
Core Drilling Contractor
615 California Ave.
Boulder City, Nevada

July 19, 1961.

Mr. James Thwaites
Certified Public Accountant
Arroyo Grande, California.

Dear Mr. Thwaites:

The following are anticipated costs for drilling the Keystone Mining Property.

NX Hole (3" O.D. - 2" O.D. Core) $5.50 per inch diameter per foot to 300 feet.

NX hole (3" O.D.) $ 2.50 per inch diameter per foot non-coring to 300 feet.

NX hole (3" O.D. - 2" O.D. Core) $ 4.50 per inch diameter per foot coring below 300 feet.

NX Hole (3" O.D.) $ 3.50 per inch diameter per foot non-coring below 300 feet.

All materials are to be furnished by your company except the drilling equipment and the labor to run it.

Yours truly

(signed) Howard H. Knight

cy

OME-6168
Jack Selby & William J. Dawson

COPY

H. F. Terwesh
P. O. Box 185
Ocanrenald, Calif.

July 5, 1961

William J. Dawson
3496 Mayfair Blvd.
Fresno 3, California

Dear Sir:

In regards to our previous conversations and trip to the Keystone Mine in conjunction with a drilling program, which you are endeavoring to undertake for a more complete exploration of the Keystone property, I am not interested in placing a bid for core drilling, but will be available for any advice which you might need. I have retired after fifty years of experience in drilling and contract drilling on mining properties for the government and large mining companies all over the world.

From all appearances, I feel that you are justified in further exploration of the Keystone property. After exploring the Adit at the old workings with you, I believe that you have a vast body of ore, which, with the proper drilling and exploring, you will have an excellent chance of opening up a very good and vast body or bodies of ore.

From my experience in drilling and coring ground that is very faulted and has Chert beds and fouldr, etc., it is going to be very hard drilling in places to keep up the circulation of water and to get good cores. Also, in most places it will be very slow and hard on the Diamond bits, for the Chert is very hard and causes a lot of fractures.

It would be very hard to give an accurate drilling cost, but from all indications, the price per foot will be more than double for drilling over ordinary or conventional ground.

Sincerely

(sgd) H. F. Terwesh

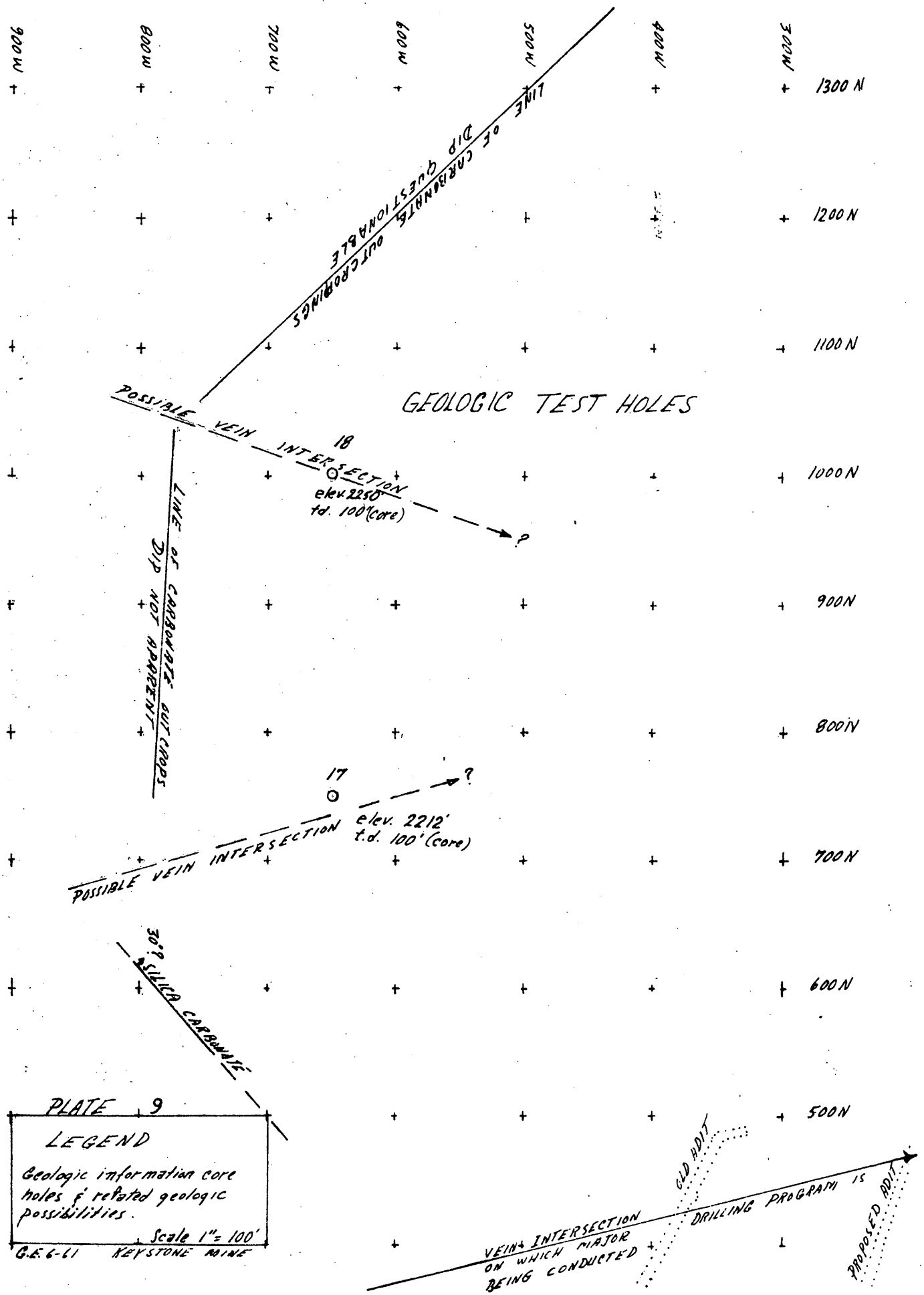

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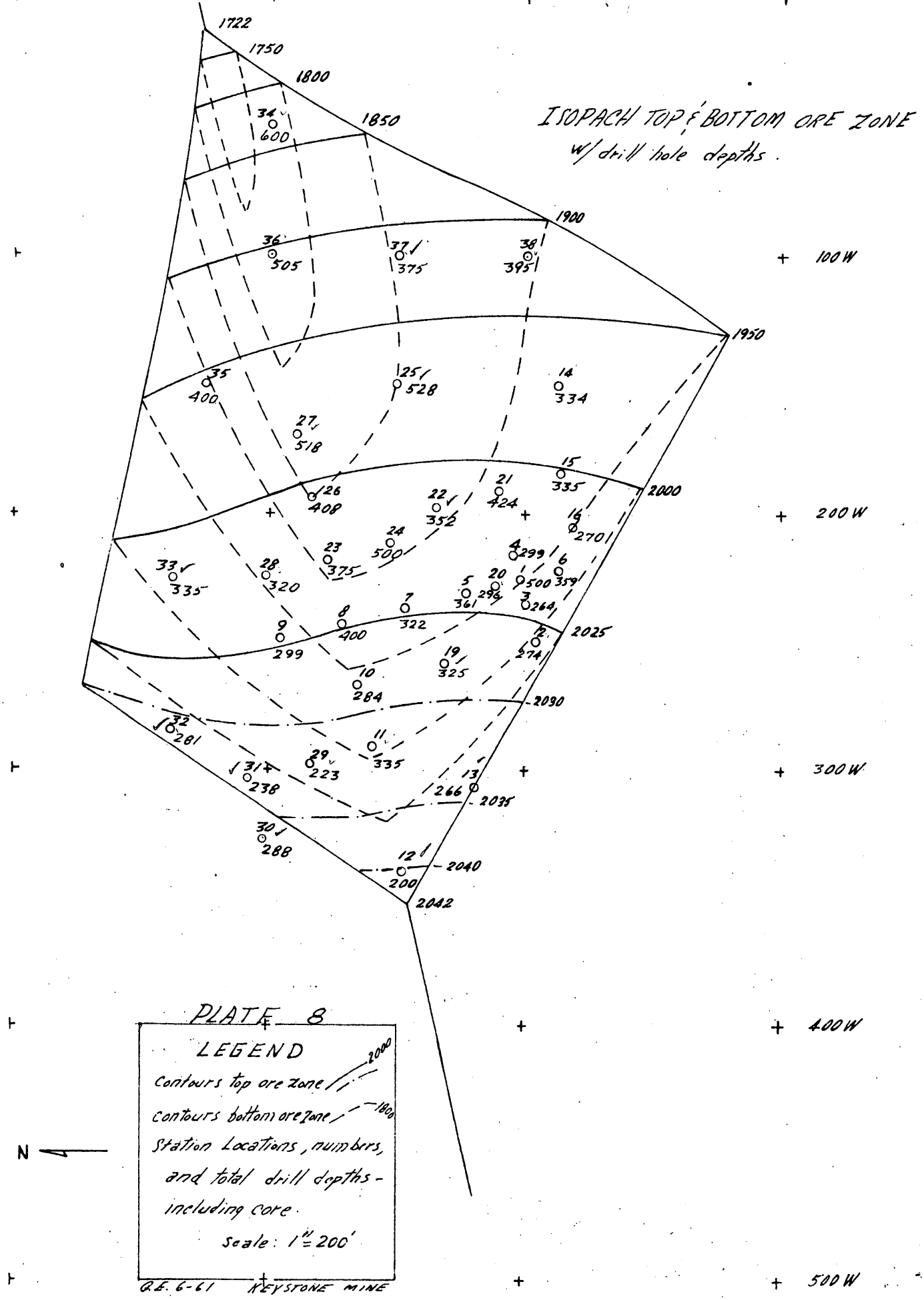
PLATE 9
LEGEND
Geologic information core holes & related geologic possibilities.
Scale 1" = 100'
G.E. 6-61 KEYSTONE MINE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w/ drill hole depths.
1722
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2040
2042
100W
200W
300W
400W
500W
600N
500N
400N
300N
34 600
36 505
37 375
38 395
35 400
25 528
14 334
27 518
15 335
26 408
21 424
22 352
16 270
24 500
23 375
4 299
6 359
33 335
28 320
5 361
20 500
3 264
7 322
8 400
9 299
12 274
19 325
10 284
32 281
11 335
29 223
31 238
13 266
30 288
12 200
N
PLATE 8
LEGEND
Contours top ore zone 2000
Contours bottom ore zone 1800
Station Locations, numbers, and total drill depths - including core.
Scale: 1" = 200'
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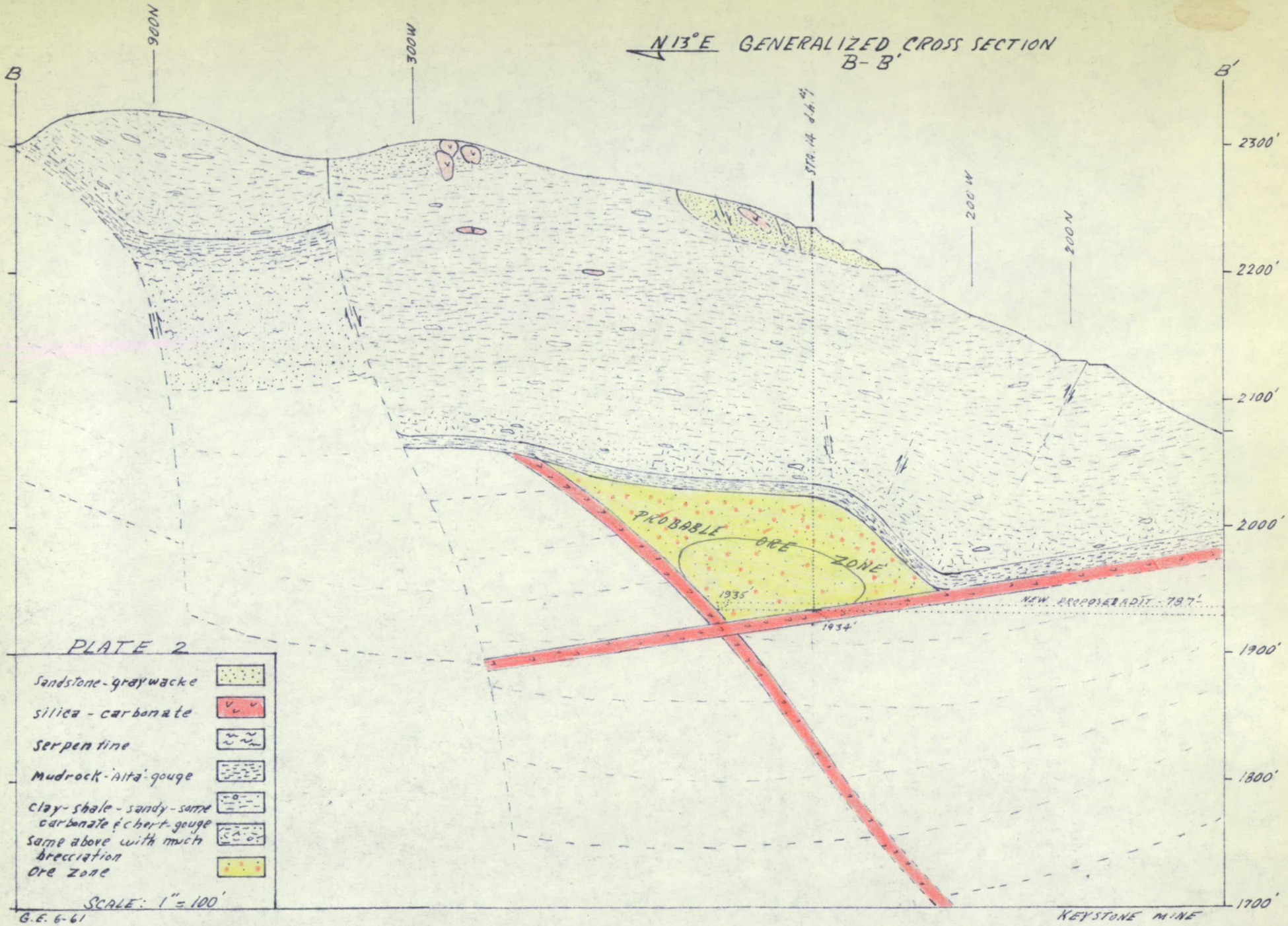
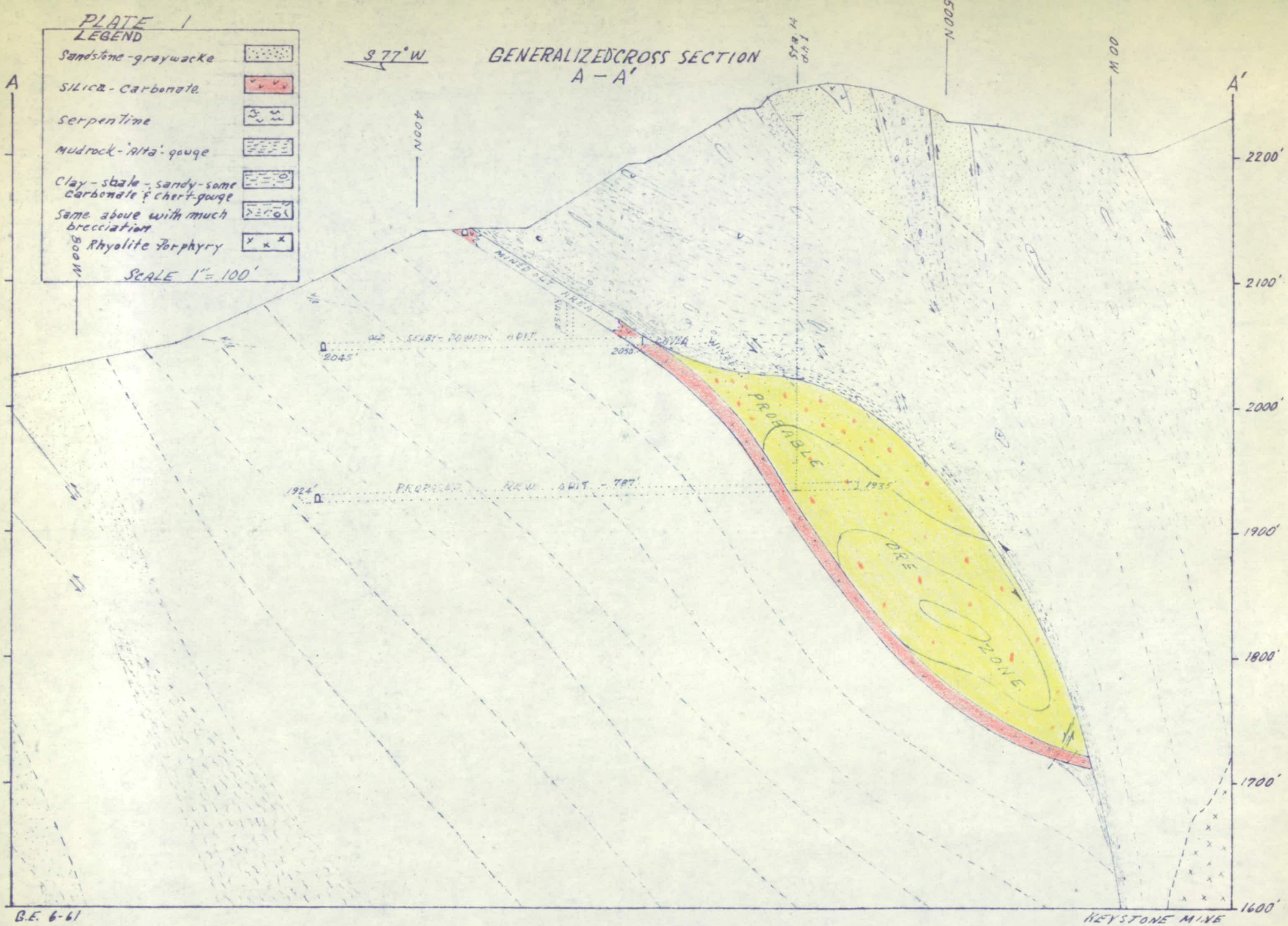

N 13° E GENERALIZED CROSS SECTION
B-B'
B
B'
900 N
300 N
STA. 14 d.h.
200 W
200 N
2300'
2200'
2100'
2000'
1900'
1800'
1700'
PROBABLE ORE ZONE
1935'
1934'
NEW PROPOSED ADIT - 787'
PLATE 2
Sandstone-graywacke
silica - carbonate
Serpentine
Mudrock-'alta'-gouge
clay-shale-sandy-same carbonate & chert-gouge
Same above with much brecciation
Ore zone
SCALE: 1" = 100'
G.E. 6-61
KEYSTONE MINE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LEGEND
Sandstone-graywacke
Silica-carbonate
Serpentine
Mudrock-'alta'-gouge
Clay-shale-sandy-some carbonate & chert-gouge
Same above with much brecciation
Rhyolite Porphyry
SCALE 1" = 100'
S 77° W
GENERALIZED CROSS SECTION
A - A'
A
A'
STA 14 ADIT
500N
400N
300N
OLD SELBY-DOWSON ADIT
2045'
2050'
DRIFT
MINED OUT AREA
PROBABLE ORE ZONE
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KEYSTONE MINE

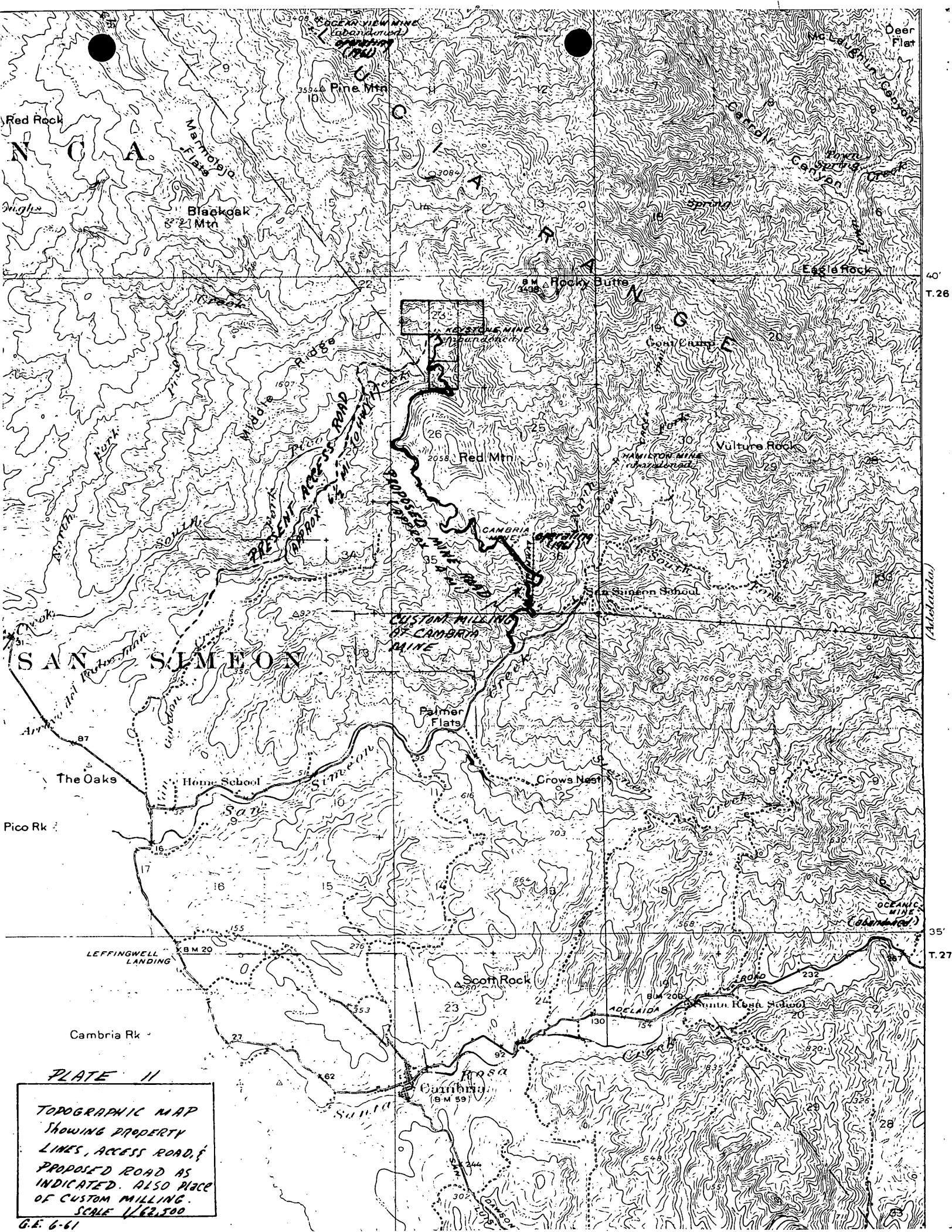

PLATE 11

TOPOGRAPHIC MAP SHOWING PROPERTY LINES, ACCESS ROAD, & PROPOSED ROAD AS INDICATED. ALSO PLACE OF CUSTOM MILLING. SCALE 1/62,500

G.E. 6-61

UNIVERSITY OF SOUTHERN CALIFORNIA
UNIVERSITY PARK
LOS ANGELES 7, CALIFORNIA

Department of Geology

May 28, 1963

MAY 1963
BUREAU OF MINES
OFFICE OF
MINERALS EXPLORATION
REGION 11

Mr. Paul V. Fillo
Acting Field Officer
Region II
Office of Minerals Exploration
113 Custom House
555 Battery Street
San Francisco 11
Calif.

RE: OME 6168 (Mercury)
San Simeon Keystone Inc.
Assignee, Keystone Mine
San Luis Obispo, Calif.
Contract 2157

Dear Sir:

The enclosed report on the Keystone Mine is submitted at the request of Mr. James S. Twaites.

As pointed out in the report I believe that further exploration is justified but there should be a change in procedure.

Yours very truly,

Richard Merriam

Richard Merriam
Professor of Geology

K E Y S T O N E M I N E

GEOLOGIC REPORT ON PROPOSED CHANGE IN EXPLORATION

CONCLUSIONS AND RECOMMENDATIONS

Ore has not been found in four holes drilled according to the original plan of exploration. Re-openning of underground workings has revealed stopes and good shows of cinnabar. Exploration in that area by diamond drilling from underground set-ups or by tunneling is considered preferable to drilling the remaining authorized holes (from surface). The following are recommended:

1) Complete re-openning of tunnel and winze (?).

2) Map underground workings and geology.

3) Sample and assay critical zones.

4) On basis of above investigation derive plan of drilling and/or tunneling and carry out plan.

INTRODUCTION

In compliance with the request of Mr. Charles Ogle and his associates this property has been inspected for the purpose of determining the geological feasibility of a proposed change in the plan of exploration. The failure of four drill holes to encounter ore as predicted has occasioned the proposal to proceed in a manner differing from that indicated under contract 2157.

This report is based on: 1) a review of geologic report by G. E. Eberhardt (July 12, 1961); 2) a one day field inspection; 3) driller's logs of four holes; 4) a survey of underground workings by Mr. Carl C. Adams; 5) assays of samples taken from various underground locations.

WORK COMPLETED TO DATE

<u>Drilling</u>: Four holes were drilled with results as indicated on attached driller's logs. Owing to complex geologic structure, doubtful interpretation of logs and limited time these holes have not served to establish the

geologic picture. However, it is significant that they show an absence of ore in the areas penetrated.

Circulation was lost on holes No.8 and No.13. Although the meaning of this is not altogether clear it is possible that No.13 broke out into a stope whereas No.8 may have struck an old winze reported to exist but of unknown location.

Re-openning of Tunnel: A tunnel, previously driven but caved, was re-openned. A survey of this tunnel, some of the geological features and drill hole locations are shown on the accompanying map. A section at the end of the tunnel is inaccessible due to caving and the adjacent portion has only limited accessibility. Two stoped areas were openned and their approximate positions and extent are indicated on the map.

Assays of Ore Exposed in Workings: Six samples (locations shown on map) were assayed and gave the following results:

#3-	top of stope - - - - - - - - - - - - -	0.46% Mercury
#4-	W. side of #2 stope - - - - - - - - -	2.31
#5-	E.side of #2 stope - - - - - - - - -	3.26
#6-	channel sample "ore shoot" - - - - -	0.65
#7-	S. side of "ore shoot" - - - - -	0.74
#8-	N. " " " " - - - - -	1.35

REVISION OF INTERPRETATION AND PREDICTIONS

According to the data at hand it appears that a large ore body does not exist in the area predicted. It is unlikely that ore exists anywhere on the property as a single large unit. It is more reasonable to expect that mineralization has occurred along zones of fracturing. The location and distribution of veins formed by such mineralization were controlled by the geological structure. The structure is too complex to be clearly understood at this point but probably the bulk of the mineralization took place along small steeply dipping cross faults at or near their intersection with the main "Keystone Fault".

RECOMMENDATIONS FOR CONTINUATION OF EXPLORATION

The history of the property, the favorable geological setting and the assays indicate the advisability of further exploration. It seems reasonable to explore the vicinity where ore was taken out and where cinnabar is now exposed in the stopes and tunnel.

The caved continuation of the tunnel and winze (if found) should be re-openned. After this is done all should be accurately mapped and correlated with surface features. Assays of samples from critical zones will be needed.

On the basis of these,and other pertinent data, a plan for continuation of exploration can be derived. At this time it seems that diamond drilling from various points underground would be advisable. However, it may be that an extension of the tunnel or winze may be more advantageous. In any event it is my opinion that it would not be wise to continue drilling from the surface as originally planned.

Respectfully submitted,

Richard Merriam

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Dept. of Geology
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May 27, 1963

KEYSTONE MINE

Drill Hole No. 1 - Driller's Log

0- 143'	Gray sandstone. Same as shows on surface of cut for drill benoh.
143- 167	gray snadstone as above but of a little coarser texture and somewhat harder.
167- 175	Gray sandstone highly altered by silicac resembling chalcedony with some marcasite inclusions. No colors or oxidation of iron.
175- 196	Gray sandstone with streaks of silica, the streaks being a thickness of 8 to 12". No sulfides.
196- 202	Gray sandstone (slightly darker) showing some serpentine and other dark rock resembling andesite or some other igneous rock. At this point slight signs of calcite crystals appeared and we panned six colors or crystals of cinnabar from one pan; first encountered.
202- 238	Gray sandstone with slight trace of serpentine. Pannings show a little black iron but no sulfides.
238-304	Same as above but with less serpentine and being somewhat darker in color. No signs of mineralization.
304-500	Gray sandstone becoming lighter in color and slightly harder.

Remarks: This sandstone seemed to be laminated at intervals of 12- 25 ft, the seams were 6 to 14" in thickness but showed no signs of any attrition, just silicas. There wasn't any oxidation and the hole appeared to be dry.

The sandstone found in this hole is identical to the sandstone found on the rodd between Rocky Butte Lookout and Pine Mt. and is called "Chico Sandstone".

KEYSTONE MINE

Drill Hole No. 8- Driller's Log

0- 24' sandstone as seen on the surface.

24- 257 light gray sandstone which had breaks of a few inches in thickness at intervals of ten to twelve feet. These breaks showed no signs of clays or any attrition which indicated no movement. This sandstone had no cinnabar colors and the only sulfides were at the small breaks.

Lost circulation at 257'. Note: a small stream of water was encountered at 140' but it had completely stopped percolating by the next day.

Drill Hole No. 13- Driller's Log

0- 13' formation same as seen on the surface, probably a serpentinized sandstone of a dark color; a dark bluish gray.

13- 17 silica carbonate which was not too hard and being quite ocherous. This panned some colors but not enough to leave a tail in the pan. This was evidently a boulder laying alone because there was no more found during the drilling of the entire hole.

17- 33 same as the top formation but with small angular pieces of rock of various origin.

33- 180 light gray sandstone showing no alteration and no sulfides at all. No colors were panned.

180- 265 Lost circulation at this point. Still in sandstone.

KEYSTONE MINE

Drill Hole No. 33- Driller's Log

0- 10'	same as shows on surface.
10- 84	Serpentine and sandstone breccia with some dark argillaceous material indicating gouge.
84- 125	Metamorhic sandstone
125- 133	Brecciated brown chert- not too hard and a little brown clay in it.
133- 150	Brown metamorphic sandstone containing almost every kind of foreign material in it. Some sulfides but no colors of cinnabar.
150- 162	Brown chert , very hard.
162- 335	Gray sandstone unaltered and no sulfides at all. The sandstone darkened at depth.

Remarks: This hole seemed to be on the edge of the gouge as the samples will show and evidence on surface will indicate.

Samples were kept on both these holes at 5 ft intervals.

ED. EISENHAUER, JR.
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Established 1916
ASSAYERS
METALLURGISTS
CHEMISTS
ORE TESTING

May 27, 1963

Richard
~~Robert~~ Merriam
Rolling Hills
California

Subject: Assays of Ores.

	Mercury (Hg)
#3-top of stope	0.46%
#4-W. side of #2 stope	2.31%
#5-E. side of #2 stope	3.26%
#6	0.65%
#7	0.74%
#8	1.35%

Respectfully submitted,

The EISENHAUER LABORATORIES

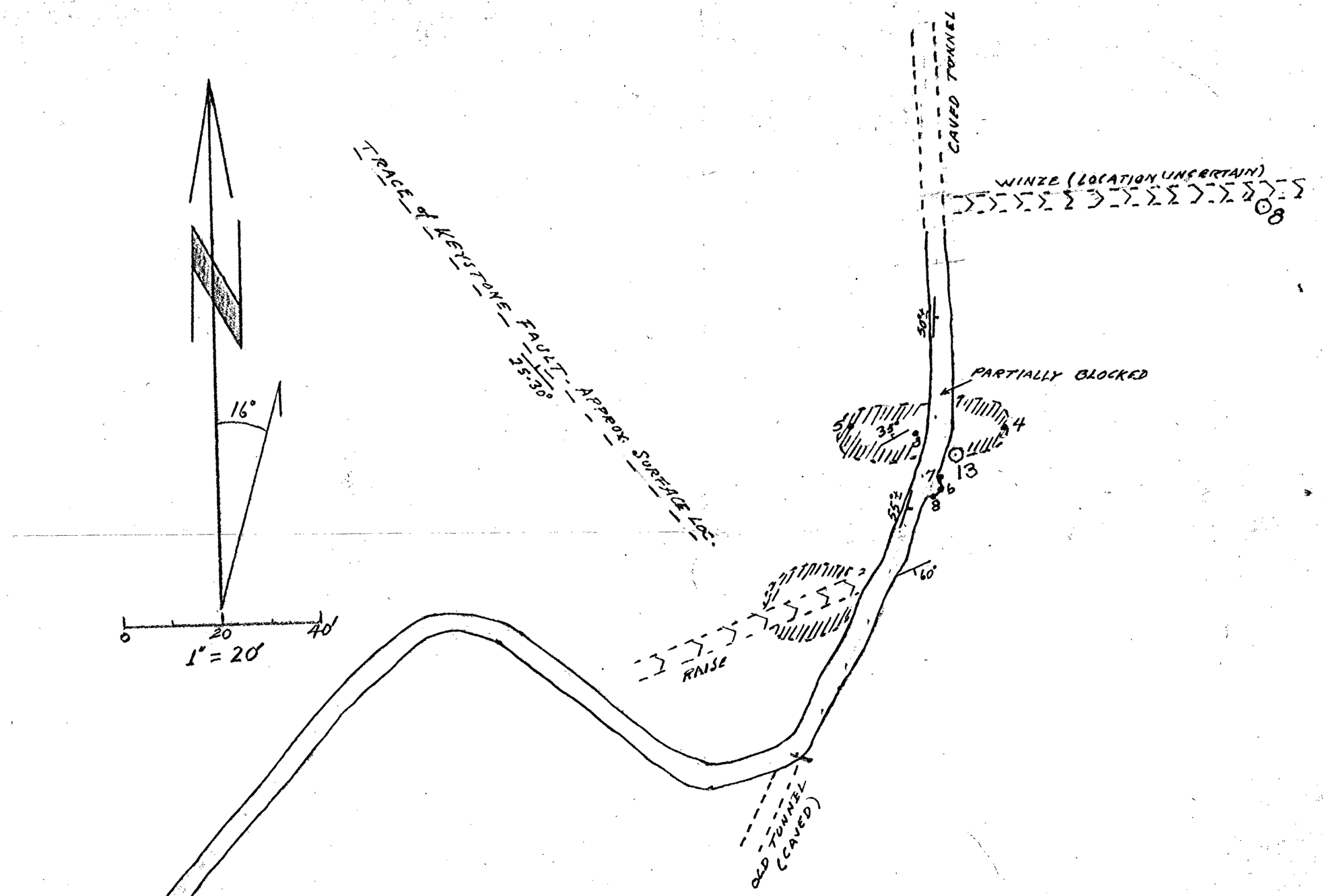
Ed. Eisenhauer, Jr.

Ed. Eisenhauer, Jr.

copy

OME-6168

Jack Ruby & William J. Klawson



⊙1

KEYSTONE MINE

MAP OF UNDERGROUND WORKINGS

TUNNEL SURVEY BY CARL C. ADAMS - CIVIL ENG.

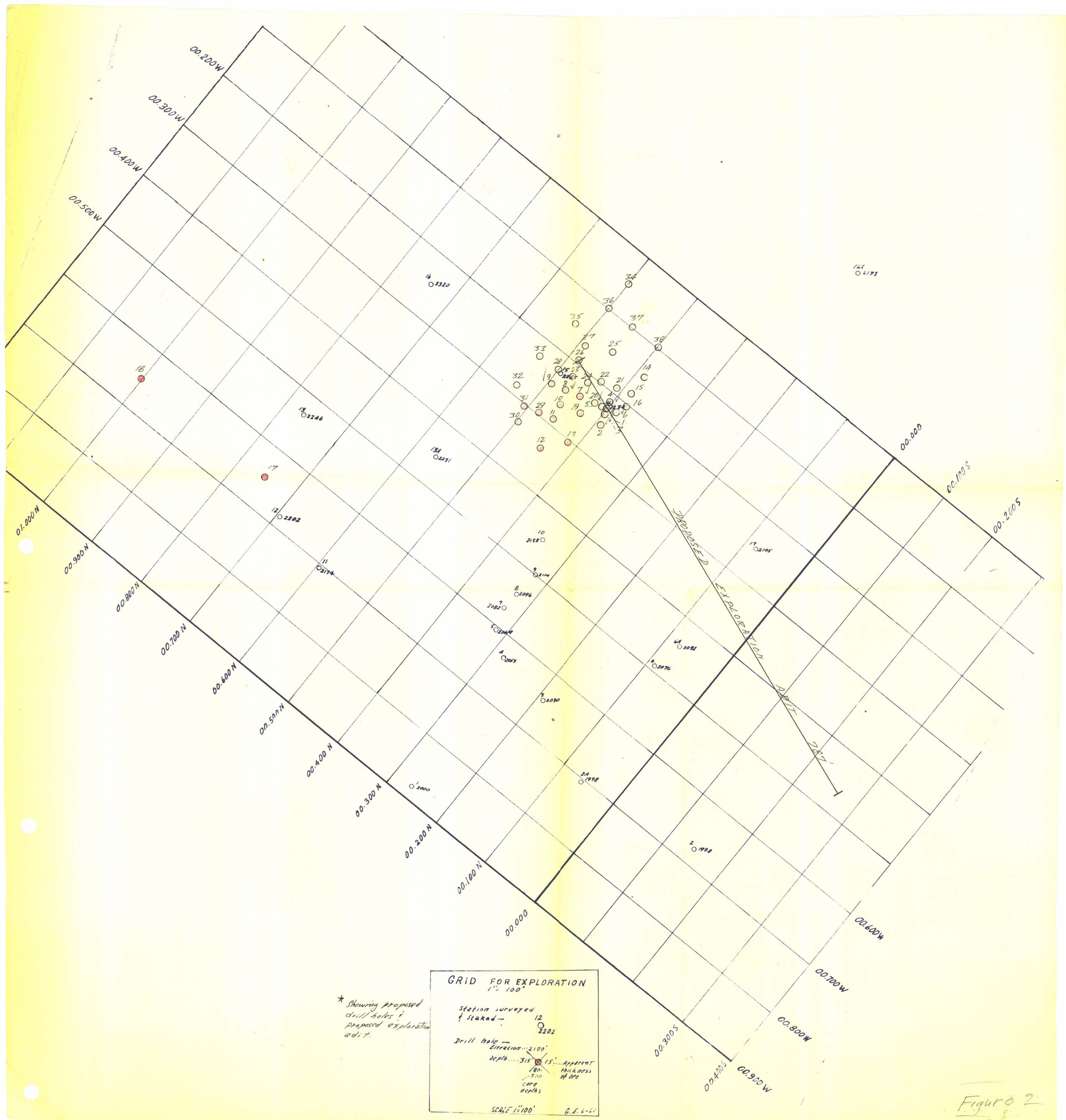
⊙8 = DRILL HOLE - №13 SURVEYED - OTHERS LOCATED BY EBERHARDT REPORT.

•3 = SAMPLE LOCATION

//// = STOPE

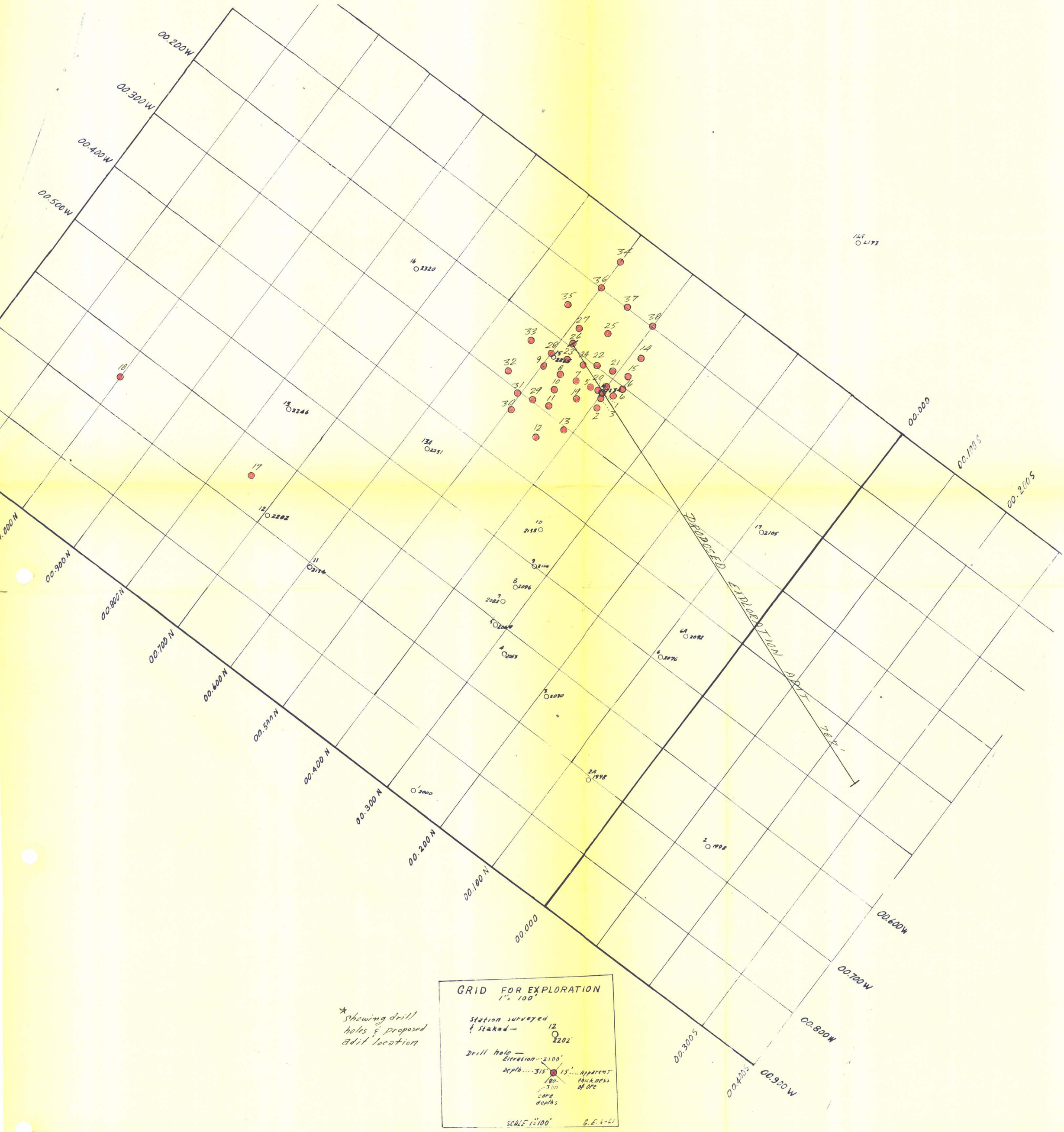
50 = STRIKE & DIP of FAULT

RICHARD MERRIAM MAY 25, 1963

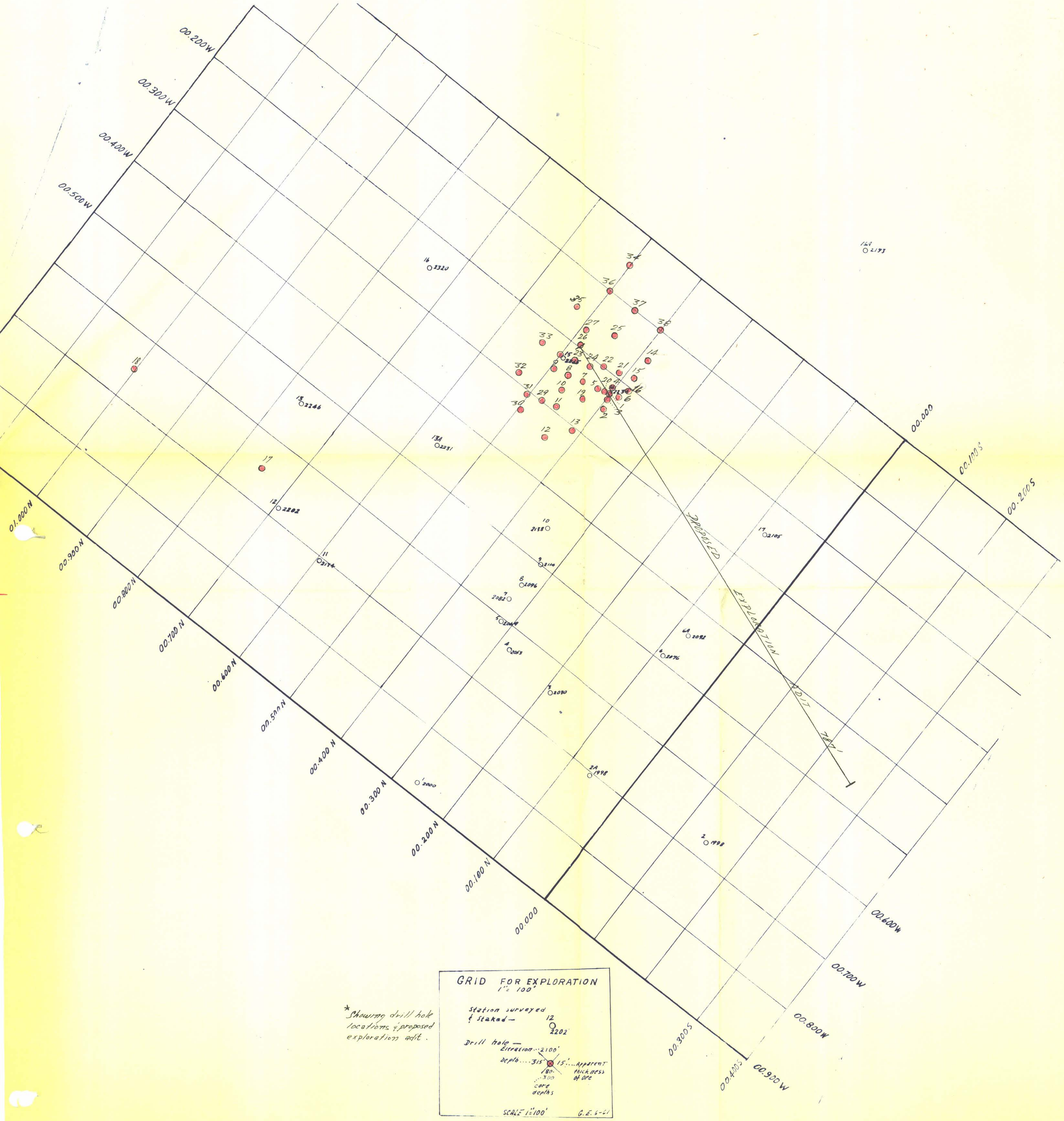


* Showing proposed drill holes & proposed exploration adit.

Figure 2



*Showing drill holes & proposed adit location



*Showing drill hole locations & proposed exploration adit.