HISTORY OF TELEGRAPH ORE DEPOSIT, DEVELOPMENT AND OWNERSHIP

I. Early Historical Mining Data (Through 1967)

The first mining dates back to the late 1800's as evidenced by a spanish arrastras located a quarter of a mile south of the South Telegraph claim. The Telegraph fissure was first discovered during the construction of the highway between Las Vegas and Los Angeles. The Telegraph claims were first located on November 19, 1930, by Ralph and A.A. Brown of Salida, Utah. At this time a discovery of a high grade streak of ore was made on the Telegraph Extension claim, which caused a revival of mining activity. O. Perry Riker of Long Beach, California, operated the property under lease from December, 1932 to January 1935. During this period he shipped 220 tons of ore to a mill located at Yucca Grove (now Halloran Summit), operated by the Consolidated Metal Mines, Ltd., of Salt Lake City, Utah, which was reported to average $16.00 per ton in gold. He also shipped 909 tons to a smelter, valued at $18,963. Solo Engineering Company of Long Beach, California, thereafter leased the property. Total production of the mine for the period of their lease was $35,000. A Judge Nosser then took over mining operations until 1942 which brought the total gold yield to approximately $100,000.

The Nosser mining in 1943 was conducted by a young mining engineer named Harrison Salsbury, who instituted a form of heap leaching for gold recovery. Mr. Salsbury welded fifty five gallon drums into a tall column into which he placed the gold bearing ore he had excavated during the number one shaft construction. By percolating cyanide solutions through the barrels filled with ore he brought the gold into solution which he then arecovered by means of a zinc box. Mr. Salsbury, later worked for the United States Bureau of Mines in the Salt Lake City research office and made the recommendations for and the initial experimental work for heap leaching which has become a standard in the mining industry world wide for the recovery of gold from low grade ores. Mr. Salsbury reported that the number one shaft was completed in recoverable ore to a depth of 250 feet.

The recorded production from the Telegraph Mine prior to 1948 as summarized below identifies 2749 tons were shipped from the mine for gold recovery. The average grade of the ore shipped during this period was:

0.931 Tr. oz. gold/ton,
1.973 Tr. oz. silver/ton.

Since the recovery was certainly less than 100%, the shipped grade was somewhat higher than these values. Over the last three years of production (1946-1948), 285 tons were shipped for gold removal. Again assuming 100% recovery, the average grade would be:

0.488 Tr. oz. gold/ton,
0.919 Tr. oz. silver/ton,

and since the recovery is less than 100%, the shipped grade would be higher than this.

State records (Tucker and Sampson) 1943 reported a 2 inch (5cm) pocket of "high grade" ore in the foot wall of South Telegraph Shaft contained 18.5 oz/ton Au and 25.5 oz/ton Ag. Some intermittent work apparently continued into the 1950's.

TELEGRAPH MINE RECORD OF PRODUCTION THROUGH 1948[1]

Recoverable Metals

Year	Crude Ore (tons)	Gold (Ounces)	Silver (Ounces)	Average Grade AU	Copper (pounds)
1932	65	116.65	310	1.80	
1933	511	298.00	1582	.58	
1934	99	50.30	327	.51	
1935	44	16.81	113	.38	
1936	442	231.65	832	.52	
1937	285	29	129	.10	
1938	32	12	114	.38	
1039	199	286	530	1.44	
1940	452	931	793	2.06	
1941	119	188	187	1.58	
1942	216	261	244	1.21	
1946	155	74	141	.48	
1947	117	47	100	.40	400
1948	13	18	21	1.39	100
Total	2749	2559.41	5423	.93	500

There are three hills (silicified outcrops) along the main Telegraph vein where the vein has widened because of fissure side slipping. Each of the three hills have developed shafts and associated underground workings which are a result of the earlier mining.

A. Underground workings included: (from North to South)

TELEGRAPH EXTENSION - Inclined shaft No. 3 - 35° incline - depth ± 100 feet with Southern side finger stopes at 30' down-dip. Located just north of massive vein quartz outcrop. No drifting or crosscutting was done in this shaft. Exposed is a wide shear

[1] Source: U.S.G.S. Professional Paper 275, 1956; Geology and Mineral Resources of the Ivanpah Quadrangle, California and Nevada, by D, F, Hewett

zone, 6 to 8 feet, showing intense alteration but only a little quartz. Past records show high-grade ore was discovered on this claim.

TELEGRAPH CLAIM - Surface exposure of 500 feet of massive quartz (miner's "blowout") along the strike. This claim has the most surfaces diggings, but not the most underground workings.

(2) Telegraph Shaft 2 (open); 2 crosscuts accessing 100+ drifts at 50' and 100' levels. Main stope of 4-10 ft. (1.2 to 3.3m) width from 50' level to surface (now caved from present surface blasting). Stope (water filled) from 100' to 50' level. No. 2-A opening, originally may have been an inclined shaft, but now opens into main stope.

Underground workings consist of:

1) Main stope, above 50-ft. level, open to surface; width, 4 to 10 feet.

2) Finger-stope at the end of present 50-ft. level

3) Stope above 100-ft. level - combination of underhand stope from first level - partially filled with gob.

Surprise Shaft - shallow, approximately 15 feet in depth, with 20 feet of drift in a shear zone of intense alteration. Encountered small lenticular body of vein quartz and that is obviously not part of the main body. Shaft is located in alluvial material between two outcrops.

SOUTH TELEGRAPH CLAIM - approximately 450 feet of massive quartz outcropping along main structure. South Telegraph Shaft #1 (Main Shaft; covered and secured with timbers and located at south end of hill #1) - begins with low incline 30^{o} for 50 feet then steepens to 52^{o} to the 125-ft. level and beyond with the same attitude. There are drifts at the 75', 125', and 275' levels. It has been reported by Mr. Harrison Salsbury that the shaft had been extended to a depth of 275 feet, and possibly more.

At the 75-ft. level, a drift was driven for 250 feet to the north, and stoped - at one point - to the surface. There is a drift to the south at this level for 115 feet and a reported crosscut to the west, and down the dip; - this crosscut is equipped with rails. (Oral communication - L.J. Post) At the 125-ft. level the vein was explored for 465 feet, presumably to the north. The vein system was therefore explored on at least two levels 1050' along strike and to at least 275' (113m) down dip.

The earliest comprehensive study of the region was completed by D.F. Hewett in 1956. His investigative work which included 3900 Km x 10,154 km (39,600 Km^2) the Ivanpah Quad in Western Nevada and Eastern Nevada. His study reviewed the mineral resource potential of the area (see works written 1946). The mineral resource potential of the area first describes the Halloran Complex of Crystalline Pre-Cambrian and Mesozoic rocks. Building on his work, Warhke (1969) reviewed the geology of the Halloran Hills

north of I-15 and first pointed out the domed multiple intrusive nature of the area. Hall (1972; Thesis on the East Camp of the Turquoise District, 4 km north of the Telegraph Mine) investigated Cu-Mo related porphyry intrusive possibly relating to the NW trending Halloran Wash transverse fault. Kupfen (1954, 1960) studied the igneous complex and faulting, and Heulers described the lead-silver deposits of the Silurian Hills (26 km west). Bell described the deposits of the Shadow mountains, (19.2km north). Bradfield and Davis (1971) outlined sequence of thrust deformation at the Clark Mountains, near Mountain Pass Mine (Olsen et.al 1954) while Sharp (1984) described the gold bearing breccia pipe complex of the Clark Mountain District. Robinson (1979) distinguished 3 pluton structures that comprise the intrusive dome north of Cima, while Turian and Dohreen Wend (1985) have dated and mapped the overlying Basalt sequence from Cima to Halloran Hills.

Dewitt's (1980) study is the most comprehensive work to date in the immediate area aside from the investigations of Lange and Cascade on the subject property from (1984-1986). Ito's report (1969) and Ito's and Morgans report (1980) as well as Joseph Owens (1980) and Dr. Mead L. Jensen (1981) which have evaluated the reserves and ore reserve potential.

II. Drilling by Geologist/Metallurgist Tomo Ito in 1968-1969

With sponsorship of the Office of Mineral Exploration (USGS-OME 6727) a drilling program was conducted by Tomo Ito a Mining Geologist and Metallurgist from Redondo Beach, California on the Telegraph and South Telegraph claims during 1968-1969. The property was owned by W.S. and Morgan McGilvray of Santa Monica, California. The OME Field Officer was Mr. Harold Stager (Menlo Park Office). The OME contributed $19,798.81 of the approximate total cost of $27,000. Of the fifteen holes drilled, 13 were drilled in the hanging wall (not reaching the vein) and the results were not given and holes (7 and 8) were drilled into open workings (then under water) with no recovery (See Ito report).

Mr. Ito estimated the ore reserves within the drilling zone at 72,000 tons averaging 0.51 ozs of gold and 1.16 ozs of silver per ton. Mr. Ito's tonnage calculations were based upon a vein structure having an assumed average width of 4 ft. a height of 150 ft. (Down dip) and a total length of 2000 ft. A tonnage factor of 12 ft3/ton was used. A 28% reduction in the calculated tonnage was made by Mr. Ito based upon various possible conditions (mined out, displaced, non-commercial, etc.).

Mr. Ito's comments respecting this drilling are summarized as follows:

When the main vein structure is encountered, core recovery is poor due to the intense fractured conditions, and the tendencies of the fine heavies to be lost or retained at the bottom of the hole and the sludge appears to be greatly diluted.

2. By projection the drill holes have been intersecting the anticipated vein or vein structures below the water table. (It is believed that these holes were drilled into

old workings which at the time were inundated in water.

3. A strong vein structure has been intersected in the majority of the holes.

The water table in the area fluctuates seasonally but generally is located at approximately 50 feet below the surface and to generally follow the topography. The 150 ft drill holes and water table were measured by the distance down the dip of the vein and not vertically below the surface.

The following comment was later made by Tomo Ito regarding the drilling results in Progress Report No. III to the OME: “The ribbon structure of the vein indicates more than one generation of vein materials."

A. Ore Reserve Calculation by Ito (1969)

In his OME Progress Report IV, Ito estimated the tons and average grade of the "ore reserve" as quoted below. The titles "Tonnage Calculation" and "Grade Assignment" to help the reader follow his discussion.

Our drilling program was concentrated between shafts No. 1 and No. 2, but we were hopeful of extending our ore reserves both to the north and south.

1) Area north of No. 2 shaft - distance of 1100 feet from No. 2 to No. 3, with 4 exploratory holes. Average vein width of 4 ft. with vertical depth of 150’ or vein on dip (height) = 200 feet.

2) Area between shaft No. 1 and No. 2 - distance of 900 feet; average width 4 feet; extending down dip for 200 feet. The block containing hole 11 and Hill OS appears to have moved, east in relation to the blocks to the north and to the south. In other words, the main vein has been offset to the east sufficient to prevent intersection by our drill hole.

3) The camp area, just south of No. 1 shaft produced no evidence of vein structure below line A-A, Figure DH. This was not expected as there are quite extensive shallow diggings in this area, according to oral communication with parties who worked In No. 1 shaft. There is an obvious displacement here which requires more exploratory work to establish.

The results of the drilling indicates good vein structure to at least a depth of 200 feet on the dip from shaft No. 3 southward to No. 1. For our ultra conservative figuring, orebody is assumed only for 150’ to approximately the estimated water table. We therefore have 2 blocks of ore:

Ito’s Estimate of Ore Reserves

a) North of No. 2 shaft - 4’W x 1 50’H x 11 00’L 660,000 ft3 or approx. 55,000 T

Assume 25% non-commercial, displaced, etc. (41,000 T)

b) Between 1 & 2 4'W x 1 50'H x 900'L = 540,000 ft.3 or approx. 45,000 T Less 10% mined out and 20% displaced of 31,000 T

Ito's Grade Assignment

In the drilling process, determination of the vein structure, its thickness, attitude, and composition can be made with a fair degree of accuracy in most types of rocks. However, tenor of ore is most difficult to assess unless in rare cases where the values are evenly distributed in a gangue in which 100% core is available.

Where the values are contained in finely broken and crushed portions of the vein, core recovery is poor and the sludge can be highly diluted. The more shallow holes, such as 9 and 10, gave evidence of better recovery of values and less dilution of sludge.

Our original plan and projection was based on an average gold content of .50 oz/ton at $35/oz. This conservative figure was adopted after many surface (outcrops, cuts, and holes) and underground (old workings - stopes, etc.) samples were taken and assayed.

The results and careful review of the old records justifies our assumed average value or tenor of ore. To further substantiate ourposition, a series of samples were taken near the conclusion of our exploratory program, similar to those taken from time to time in the past. This series as shown as Supplement to Appendix A (Table 12), include samples 2701 -2708 inclusive*, excluding 2707. The average gold content of the 7 samples is .51 oz. and the silver is 1.16 oz. On the basis of $40.00 gold (daily Englehard price lately has been above $43/oz) and $2.00/oz. silver, .51 oz/ton ore is valued at $22.72 per ton. 72,000 tons of ore at this price has a value $2.00/oz. silver, .51 oz/ton ore is valued at $22.72 per ton. 72,000 tons of ore at this price has a value of $1,635,000. (Today's value at $380.00 oz/tAu = $15,532,500)

B. Tomo Ito's Observations and Conclusions

The drilling program was carried on with minimum delay despite unusually inclement weather. The drilling crew was efficient and careful and we received full cooperation. In most cases, drilling results were good, but the writer strongly feels that true information as to values contained is not obtainable in certain types of formation such as encountered at Telegraph. This is especial true when highly fractured vein material with powdered oxides of manganese and iron, together with soft, light carbonates (calcite and siderite) are encountered. This is the type of material most likely to carry high values. Sludge samples submitted where core loss was especially high also may not indicate true values due to heavy dilution. This is particularly true with the deeper holes. The core drilling program did produce sufficient evidence of vein structure to make it possible to estimate an ore reserve of 72,000 tons of ore. If the ore persists to a depth of 200' on the dip as indicated by the drill logs, considerable more ore can be added to the reserve. This justifies a beneficiation plant (mill) of modest capacity - 30 to 50 tons. However, such an

investment cannot be recommended or even considered until more exploratory work is done.

III. Historical Mine Data (1974 Through 1981) Owens and Dr. Jensen's Reserves

In 1974 the Telegraph Mine was acquired from the McGilvray family by Cascade Energy and Metals Corporation, a Nevada Corporation. In 1976 the Telegraph Mine was leased by Cascade Energy and Metals Corporation to Telegraph Mine Ltd., a Utah Limited Partnership. In 1979 a joint venture of the lease, called the Telegraph Mine Joint Venture, was formed between Telegraph Mine Ltd., and Gold Technics, a California Corporation.

A. Ore Reserves Suggested by Owens in 1980:

In 1979 and again in March 1980 the Gold Technics partners retained geologist Joseph Owens to confirm the finding of Tomo Ito and to assess the ore reserve. [2]

Owen's 1980 report is summarized in relevant part as follows:

1. One day was spent inspecting surface alteration, intrusive-Hornfeld contacts and fault contacts. A brief survey of underground workings, including sampling, was undertaken to evaluate previous work completed by Mr. Tomo Ito.

2. During March and April of 1969 approximately 2000 feet of drilling was completed under an Office of Mineral Exploration contract at a cost of $30,000. 00. Core drilling was attempted and apparently loss of circulation, along with other related problems and resulted in unreliable sampling. Drilling provided valuable data on alteration persisting to depths of over 200 feet.

3. No geological maps are known to be available at the present time, as a result, geologic mapping would provide valuable information in determining probable size and depth of ore deposits on the Telegraph Properties. Areas of future interest may be delineated by such activities.

4. Channel samples were cut and assayed to verify Tomo Ito's findings. Results indicate that Ito's report is correct. Ore zones sampled during this examination indicate ore grades to be approximately 0.425 ozs Au and 1.31 ozs Ag. These findings correlate well with Ito's estimated average of 0.51 oz for gold and 1.16 oz for silver.

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[2] An example of the kind of thing that can be overlooked in determining ore reserves is the density of the mineralized rock recovered from a drill hole. All too often an accuracy of two decimal places is used to measure the drill core and to state the assay while the third component of the tonnage calculation--the density of the rock--is either guessed or calculated from very few observations. This is true where the gold is in a gold-bearing sulphide ore in volcanic rock. Five feet of massive sulphides in the middle are bounded by five feet of siliceous rock. Gold found in the greater density of the massive sulphide section will provide a greater yield than what is found in the siliceous section.

B. Owen's Tonnage Estimates--Measured

Measured tonnage estimates based on approximately 2000' of OME drilling were calculated by Tomo Ito and are noted to be extremely conservative. As reported in 1968 by Ito, two ore zones were blocked out during operations providing a total measured tonnage of 72,750 tons.

(1) 0.50 Au x $650.00 = $325.00/ton 1.16 Ag x $35.00 =40.60/ton Total $365.60

(2) Value based on Au, Ag average prices for February 1980 = $26,597,400.00

6. Drilling operations were confined to areas close to the existing workings and was not planned to extend beyond the central area. Limited funding then was obviously the primary reason for not attempting to trace the ore zones beyond a central area. Both ore zones are shown to be open ended and are expected to be continuous.

7. Tonnage Estimates--inferred Ore: As indicated by stope sampling, intensity of alteration and open ended ore zones several reasonable projections of the Telegraph ore zones can be made. Within the area of the drilling undertaken in 1969 because of the intensity of the alteration and the open-ended ore zones on either side of the drilling and of alteration estimated to extend to depths of at least 450 ft, a proposed ore zone of 540,000 tons is expected. With consideration for displacement the gross value of this inferred ore zone would be approximately $146,240,000. This target projection is based on previous stope sampling and on observed intensity of alteration in lower workings. Hydrothermal alteration of this nature is frequently found to be regionalized rather than localized.

C. Drilling and Dr. Jensen's Report (1981)

By March of 1980, the price of gold had increased by approximately a factor of 15 over that of 1969, whereas the costs had only increased by about a factor of 2.5. Today (2011) the price of gold has increased by a factor of 28 over that of 1969. The portion of the mineral inventory which would be considered as ore reserves today would be much higher than in 1969.

In December of 1980 a number of individuals and entities organized themselves as a general partnership under the title Telegraph Mine Associates. This general partnership acquired sublease working interests in the mine (hereafter "Lessees" or "Associates") from the Telegraph Mine Joint Venture. The lease agreement provided for an annual lease payment of $2,600,000 with significant tax benefits. The Associates hired Cascade Energy and Metals Corp as their operator ("Operator").

In 1981 and in 2008 exploration holes were drilled to a depth of 450 vertical feet on the unpatented Telegraph number 4 and 5 claims (adjacent to the South Telegraph and Telegraph patented claims. These holes intercepted the main Telegraph Vein at a vertical depth of 367-376 ft. which indicated a persistent vein structure to a depth of 570' down

dip continuing over a 1000 feet in length. This represents a known extension of the vein of 300′ from the previous mining depth of 275′+ as previously identified in the Number 1 Shaft.

D. Ore Reserves as Calculated by Dr. Jensen in 1981

In October of 1981, the Associate Lessees hired Dr. Meade LeRoy Jensen, a consulting economic geologist and Author to evaluate the mine property and the work of Ito and Owens.[3]

Dr. Jensen calculated the average vein width based on his own observations and Ito's data at 5.52′. Dr Jensen during his visit took 22 verification samples both in the vein and samples away from the shear zones and in the recent pits and cuts on the Telegraph Extension claim through an area a thousand feet north of the No. 3 shaft.

He reported that he had examined the results of the 1981 450′ drill hole. After affirming his acceptance of the reserves reported by both Ito and Owens Dr. Jensen (1981) made the following observation:

Since the above estimates, extension of the vein with depth, at least to 450′, based on the 450′ drill hole results and persistence of the vein with depth more than double the reserves. The volumes used by both Ito and Owens are acceptable, therefore:

450′ deep x 4.0′ wide x 2000′ long /12 ft3/ton - 300,000 tons. The value of the ore mined would be 0.354 oz/T Au x $400/oz + 1.3 oz/T Ag x $10/oz = $141.60/T + $13/T = $154.60/T. Assuming a 70% recoverable of the metals in mining and heap leaching gives a valuation of: $154.60/T x .75 x 300,000 T = $34,785,000 gross. The cost of mining, cyanide leaching, and refining may reach $60/T ($8 for pad and leaching + $40/T mining + $12 overhead). (The major uncertainty will be the cost of mining that could exceed the $60/T). Nevertheless, the net return could be $17,000,000 on the first 300,000 tons.

There is visible evidence that the Telegraph (Mine) vein or en echelon veins continue to the north of the main workings. This extension and persistence of the vein to depths in excess of 450′ would double the net profit to $35,000,000. [4] Dr. Jensen's recommendations reported were:

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[3] Dr. Mead Jensen is the author of the Text "Economic Mineral Deposits", John Wiley & Sons, 1981. Dr.Jensen graduated with a PHD in geology from MIT in 1951. He was the professor of geology at Yale University until 1965 following which he joined the staff of the University of Utah.

[4] In 1984 Dr. Jensen provided expert testimony in the United States District Court for the District of Utah in the trial matter of Cascade Energy & Metals Corporation v. Jeffery Banks, C821223C. Dr. Jensen after defining "Proven" Probable" and "Inferred" ore reserves testified that there were 72,000 tons of proven reserves at the Telegraph Mine and 500,000 tons of probable reserves were easily possible. He believed the deposit was a mesothermal type... "which means that its a persistent vein extending to depths of 1,000 feet or more." He estimated the gross value of 540,000 tons of probable ore based on a gold price of $345.00 to be $131,250,000.

1. The Telegraph area is a previously metal mineralized area of viable potential. Gold occurs in shear zones of mineable thickness, tonnage, and concentration to provide an economically successful venture.

2. Mining to a depth of 450' along the known 2000' strike of the Telegraph (Mine) vein provides a total tonnage of 300,000 T before subtracting 75% reduction for dilution and losses during leaching. (Slurry leaching tanks could raise the leaching operation to more than 90% recovery of -40 mesh crushed material).

3. The tenor of ore varies from nil to several ounces. The average according to my preliminary study and Mr. Ito's results is about 0.354 oz/T but, based on many more assays gives a value of about 0.5 oz/T.

4. Using the 0.354 oz/T assay, the gross value of ore is $34,785,000 or $154.60/T assuming $400/oz Au and $10/oz Ag. More than 90% of the value is derived from gold.

5. My estimate of the cost of the operation is comparatively high, $60/T because of underground selective mining. Nevertheless, a net profit 300,000 t, diluted by 75% should be about $17,000,000. (Royalties, lease agreements, loans, interest, etc are not included because such information is not known by me). As there is visible evidence of the Telegraph vein extending to the north, and evidence of persistence of the vein at depths in excess of 450', the net profit could double to $35,000,000.

6. The development of the property for mining, location of the trailer site and facilities, construction of metal building to house equipment and metal precipitation facilities and the site of the pads meet not only with my approval by also with my praise.

IV. 1982 Research Regarding Surface Mining and Stockpiling of High Grade Ore for Leach Testing Pursuant to Prior Plan of Operations (82M-002):

The Associates agreed upon a plan to develop an open pit at hill number 2 and the heap leach the gold ore as a method of obtaining early profits to augment future underground operations. This plan was based on open pit mining costs (of the order of $2 to $3/ton) being a fraction of those involved in underground methods the average grade of the material needed to qualify as ore can be substantially less. With an average price of about $275/oz (1982) a cutoff grade of 0.07 to 0.09 oz of gold/ton can generally be supported. As part of its approved Plan of Operations (82M-002) in 1982, the Associates retained Dawson laboratories of Salt Lake City for metallurgical testing and initiated independent metallurgical column tests to determine the parameters of the ore for cyanide leaching.

The Associates to delineate the open pit mining zones and size of the ore body percussively drilled 2,960 ft. in 45 shallow exploration holes (150 - 200 feet deep) along the strike of the main vein. When drilling in the area of the No.1 and No.2 shafts it was

discovered that the foot wall of the main vein was intensely fractured and highly silicified. These fractures became ready areas for the deposition of precious minerals and created an ore zone much wider than previously anticipated. In the silicified zone at the No. 2 shaft the Associates conducted open pit mining over a 45 foot width along a strike length of approximately 325 feet. A similar silicified zone identified by sampling and drilling exists along a strike length of 350 feet at the number 1 shaft. Two similar zones were discovered to exist north of the number two shaft. Limited exploration drilling was also conducted in the northern extension of the Telegraph fissure (Telegraph Extension Claim). This area is believed to be much higher in vein elevation than the present erosional elevation found between the number 1 and number 3 shafts located on the Telegraph and Telegraph South claims. An additional fissure system known as the Gold Dyke was also explored by limited cursory drilling and represented another economic mineral target.

A. C. M. Daily - Mining Engineer Report

Following the initial exploratory drilling Cascade entered Into a contract to crush the ore for the Associates and sought a loan from Zions Bank of Salt Lake City to purchase a crushing plan. Zion's Bank hired Mr. C.M. Dailey, a mining engineer, to review the Telegraph Mine project. Mr. Daily examined the mine on May 21, 1982 and submit a report of his findings to the Bank. He expressed the following opinion with respect to the then exposed surface ore reserves.

> ...Cascade Energy & Metals Corp. drilled a number of holes, spaced at 20 foot intervals along the course of the principal Telegraph vein ... . The drill cuttings were assayed at 2 foot intervals to determine ore grade. The results of this development drilling was an estimated reserve of 108,003 tons (30 ft. depth) averaging 0.189 oz. of gold and 1.16 oz of silver which was amenable to open-pit excavation....

During 1982 approximately 28,500 tons of ore was mined from the exploration open pit developed at the Number 2 shaft. This pit was confined to a small hill and mining was confined to the vein breccia zone and fractured footwall. The Mining pit was all developed in ore and comprising a mining width of approximately 58 feet and a height from the normal ground surface extending to the crest of the hill of approximately 45 ft. 24,285 tons of this ore was processed by crushing to a -1/4" following which it was agglomerated and stockpiled on a leach pad. This stockpiled ore contained a conservatively estimated 5,735 ounces of gold. (86% of which is recoverable through a process known as vat leaching (4,932 ounces). As a result of these test results it was confirmed that by using Vat leaching (with ore ground to -5M the gold recovery would be between 86% and 90%. Using the conservative 86% the recoverable gold for the ore presently mined would be 4,932 ounces. (4932 x $275 pr/ oz = $1,356,300.)

B. Martin Hughes - Mining Engineer Report.

During the spring of 1982 and the development of the heap leaching operation,

severe el nino weather dropped extraordinary amount of rain in the upper Mojave. This considerably delayed operations along with problems experience in the zinc merril crow extraction method due to poor quality zinc. In October of 1982 the Associates management committee hired mining engineer Martin Hughes, to evaluate the mining and gold extraction operations. He reported that the operation was just emerging from its start up phase and his review was limited to its presently in place operation. In summary he reported that "This project has been initiated in a very good and effective manner. If, properly supported, it is now at the point of consistent operation and good results.

V. Peter Lange-Cascade In Depth Analysis - 1984-1986:

In April of 1984, Mr. Peter Lange, a geologist, in concert with the mine's owner (Cascade) commenced an intensive study of the economic geology of a four square mile area, that comprises the mining claims of the Telegraph Mine. From 1984 through 1986 his studies included defining the characteristics the mineralization at the property; identifying ore controls as such mineralization related to fluid movement, fluid temperature, and fluid pressure of the hydrothermal mineralizing system; defining the relationship of the fault zones and breccia configurations to ore shoots; studying fluid inclusions in vein rocks; identifying the distribution of gold, silver and trace elements throughout the vein systems and to identify an age for the deposit. Incorporated into the study were drill hole and sample data derived by the Associates drilling. At this time detailed updates of geological maps on a scale of 1" equals 20' for the Telegraph main vein was made and maps of the regional geological settings at a scale of 1" = 200' were made. For the gold dyke area geological maps of scale of 1" = 50' were also made. In late 1984 over 300 hand samples were collected for geochemistry and fluid inclusion studies. Mr. Lange with respect to the geological reports of Mr. Ito, Mr. Owens and Dr. Jensen were analyzed by Mr. Lange and he found that the opinions expressed in these reports were consistent with his own findings.

VI. Department of Interior Unpatented Mining Claim Validity Contest.

In 2002 the Telegraph Mine claims were obtained by HMI Lenders LLC, and Investigold Ventures II LLC. In March of 2004, the Department of the Interior challenged the validity of the Telegraph unpatented claims. This contest originally involved 12 unpatented lode mining claims within Mojave National Preserve (MOJA), Telegraph #4, #5, #6, #7, #8, #19, #20, #32, #33, #34, #35, and #80. The Telegraph claims lie totally within Mojave National Preserve. At the time of location, August 1, 1983, the claims were under the management of the Department of the Interior, Bureau of Land Management (BLM). With the passage of the California Desert Protection Act in October 1994, stewardship of the land upon which the claims were located passed to the Department of the Interior, National Park Service (NPS); specifically, Mojave National Preserve (MOJA). Mining on NPS land is governed by 36 CFR Part 9. Pursuant to the California Desert Protection Act, before any mining can commence a claimant must have an approved Plan of Operation, a determination of valid existing rights and an approved environmental report.

The Interior complaint charged that: (a) minerals have not been found within the limits of the claims in sufficient quantities and/or qualities to constitute a valid discovery of a valuable mineral deposit in 1994, the date of withdrawal pursuant to the California Desert Protection Act of October 31, 1994, (Public Law 103-433; CDPA); and (b) the lands are non-mineral in character. The complaint asked that the mining claims be declared null and void.

HMI Lenders defended contending that: (a) minerals have been found within the limits of the claim or by virtue of the down dip extension of the mineralized vein pursuant to extra lateral lights to Apex rights with respect to the mineralized veins in sufficient quantities and/or qualities to constitute a valid discovery of a valuable mineral deposit; and (b) the land comprising the claims both separately and collectively are mineral in character. Hearing (trial) was held on January 8 through I I, 2008. During the hearing, HMI Lenders relinquished all interest in Telegraph claims #19, #20, #32, #33, #80 (Tr, 5, 447), the contest then only concerned Telegraph claims #4-8, inclusive and #34, and #35. At the conclusion of the hearing Administrative Law Judge Harvey Sweitzer rendered a decision on March 23, 2009 finding that inference of values from the main telegraph vein could not be inferred for the unpatented claims. HMI Lenders appealed this decision on March 23, 2009 Decision to the Interior Board of Land Appeals, who subsequently upheld Judge Sweitzers decision. HMI Lenders will file a Complaint in the United States District Court seeking to have this administrative decisions overturned and its rights to the lands reinstated. Ultimately this decision has little affect on the mine as under existing Apex Law the Telegraph main vein outcrops on the Telegraph patented claims and can be followed and mined extra laterally wherever the vein exists.

VII. Present Ownership

HMI Lenders LC owns 77.45% of the unpatented mining claims and Investigold Ventures II LLC owns 22.55% of the claims. These parties have formed a joint venture known as the Telegraph Mine Joint Venture with Stone Resources LLC as its manager. The Joint Venture has leased the mining claims to Mojave Gold, Inc., for mine development and gold recovery.