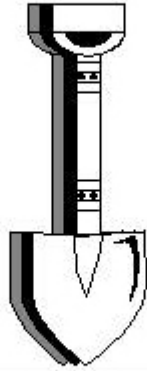


**DIGGING DEEP**



**INTO MINING**

## **Mining Operations & Mining Scams**

**An Overview of the Mining Industry &  
Questions To Ask  
BEFORE  
You Invest in a Mining Operation**

**Provided to you by:**  
*Nevada Office of the Secretary of State,  
Securities Division  
and  
Nevada Commission on Mineral Resources,  
Division of Minerals*

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### **THE LURE OF GOLD— "Dirt Pile Swindles"**

Nevada, known as the Silver State, is the leading producer of gold in the United States today and is experiencing the greatest gold rush since the discovery of gold in California.

Gold mining in Nevada is very real and an investment worth consideration. It is this very premise, however, that has been the foundation for investment fraud, swindling investors out of millions of dollars. Con artists may use the media coverage of facts surrounding the successful, legitimate mining companies, often times using these very news clippings in their promotional pieces. One type of illegitimate operation is sometimes referred to as a "dirt pile" gold swindle.

At the heart of the "dirt pile" swindle is the promise of gold at bargain basement prices. The catch is that the gold, if there is any at all, is not economically recoverable.

A typical "dirt pile" investment may involve a payment of \$5,000 for which an investor holds the title to a 100-ton unit of unprocessed dirt guaranteed by the promoters to contain 20 ounces of gold, which works out to a price of \$250 an ounce, well under the prevailing market price. Delivery of the gold is deferred for several years, allowing the swindler time to abscond with investors' dollars before the investors realize what has happened.

Customers are constantly peppered with advice that they need to sit back and wait with statements like,

**"Trust me, these things take time."**

Time is important to a "con artist" because the statute of limitations on fraud prosecution is three years. Also, the locations of the mine sites are usually in such remote areas that it is difficult to personally visit the mine site.

Investors learn too late that their "ore" is nothing more than a worthless pile of dirt somewhere in the desert or scrubland regions of the Southwest. Productivity of the mines is everything from highly suspect to downright doubtful. Gold found, if any, may not amount to that found in a tooth filling.

### **Telephone Pickpockets**

Promoters and con artists "reach out and touch" your investment pocket. They are smooth, slick, and successful in extracting your investment dollars. To avoid contact, just hang up!

## **FOOLS GOLD RUSH**

Investors are pressured by "dirt pile" gold swindlers and other promoters of mining-related scams to "invest immediately or miss out on the opportunity of a lifetime."

### **Take Your Time**

Don't be fooled and don't rush into any investment. For every story about one person who became rich by investing in their scheme, there are hundreds of stories about people who have lost more than they could afford to lose. These missionaries of hype lure unsuspecting investors on an adventure down the path to financial disaster.

### **All That Glitters Is Not Gold**

The typical con artist polishes his lies so that an investor is blinded by flashing dreams of easy riches. Bear in mind that the clever, convincing con artist, too, has dreams of making a lot of money fast and **you**, his victim, are the answer to *his* dreams.

### **Brochures Can Be Misleading**

Recognize that printed material (brochures, sales kits, and other promotional material) may be **forged**, **fabricated**, and/or **falsified**. Fictional statements may sound credible through false association with factual information. Again, remember, that promoters use the legitimate news and valid news clippings to their advantage.

### **When In Doubt, Don't Invest**

It is far better to wait and lose out on an opportunity than to invest quickly and lose money you can't afford to lose. There are many legitimate investment opportunities worthy of your investment dollars.

### **Investigate Before You Invest**

Unfortunately, investors hesitate to invest \$5 in phone calls to investigate a company before investing \$5,000 in that company. Often a phone call of inquiry will alert you to a financial disaster in the making.

## Pitches & Pitfalls

- *Unsolicited, high pressure phone calls*
- *Claims of confidential, inside information*
- *Urgent advice that you must act immediately*
- *Promises of huge, quick profits*
- *Evasive or incomplete answers to your questions*
- *Claims of no risk*
- *Proprietary "black box" technology that only they possess*
- *Claims that you will get your money back if you are dissatisfied*
- *Company names that sound like the names of well-established firms*

## Investigate BEFORE You Invest

1. *Is the firm registered with city, county, state, and/or federal agencies as required by law? Does the mine have the necessary legal permits to mine in Nevada? Appropriate government approvals include, but are not limited to, the following*
  - a. *Business license - city and/or county*
  - b. *Securities registration and dealer and broker licensing - Office of the Secretary of State, Securities Division.*
  - c. *Approved Plan of Operation - Bureau of Land Management and/or Nevada Division of Environmental Protection.*
  - d. *Water Pollution Control Permit - Nevada Department of Conservation & Natural Resources, Division of Environmental Protection*
  - e. *Air Quality Permits - Nevada Department of Conservation & Natural Resources, Division of Environmental Protection*
  - f. *Record of Mine Inspection - State Inspector of Mines*
  - g. *Permit to Appropriate Public Waters - Nevada Department of Conservation & Natural Resources, Division of Water Resources*
2. *Is the firm listed with the Nevada Division of Minerals as a producing mine?*
3. *How long has the firm been in business? Who are the principals and directors?*
4. *Is there a history of violations of city, county, state, and/or federal law?*
5. *Does the firm have a published disclosure statement or other written materials explaining in detail the company, the proposed transaction, and the risks involved?*
6. *Does the firm have audited financial statements?*

Once you have verified the first three questions, read the company's disclosure material carefully, including the small print. Question everything you do not understand. When the answers are evasive, or if intimidation tactics are employed, do not sign any contract. Invest time in thinking it over and, if necessary, consult legal counsel or third-party consultants before you invest.

## Investing in Nevada Mining

Mining in Nevada is big business. In 2002, 7.7 million ounces of gold and 13.6 million ounces of silver were mined, making Nevada the leading U.S. producer in both commodities. Nevada is also the leading U.S. producer of magnesite and barite, and the second leading producer of lithium and diatomite. Overall, mining is the second largest industry in the Silver State with gross revenues exceeding three billion dollars.

There are well over 100 companies actively mining or exploring for mineral resources in Nevada. If you are planning to invest in Nevada's mining industry, please consider the following:

- 1. Check the legitimacy of the dealer. Investment in most mining companies is made through stock purchases by licensed brokers. Almost all major companies' stocks are traded on the NYSE, AMEX, or other exchanges and in the NASDAQ market. Legitimate mining companies do not generally solicit investors by telephone or mail.*
- 2. Investments take many forms, which can be confusing. Mining companies do not sell ore, processed ("concentrated") or unprocessed, and rarely sell precious metals (bullion) to individual investors. Consult a reputable financial adviser and deal through a recognized merchant, broker, or financial institution.*
- 3. Do not fall for claims of new of "secret" processes. Processes used by mining companies to extract precious metals are well-known and understood. Almost all use one form or another of cyanide leaching. 4) Promises greater than average amounts should be viewed with scrutiny. The average ore grades at most Nevada mines range from 0.04 to 0.20 troy ounces of gold per ton.*
- 4. Precious metals do not mix. Claims of a mine site with high levels of platinum group metals (PGMs) along with gold and silver is almost a certain indicator of fraud. Platinum and palladium have not been mined in Nevada since 1919 and, more than likely, will not be for the foreseeable future. Iridium, osmium, ruthenium, and rhodium have never been mined in Nevada.*
- 5. Reward vs. Risk. Mining is a capital-intensive industry with great rewards possible. However, mining operations are high risk ventures. Investments are usually long-term. Be skeptical of "guaranteed" or promised high returns over short periods of time, i.e., 6 months to 2 years.*

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**Remember, investigate before you buy. Invest your time before investing your money. The name of the mine, principal(s) of the company, and the exact location(s) of the mine site (section, township, and range, for example: Section 12, T18S, R68E) are needed for verification of facts with county, state, and federal agencies.**

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## Requirements for Mining Operations

All mining operations in Nevada must have:

- 1. Legitimate mining claims registered with the U.S. Bureau of Land Management, or ownership or control of minerals rights on private land;*
- 2. Approved "Plan of Operation" from the U.S. Bureau of Land Management, the U.S. Forest Service, or the Nevada Division of Environmental Protection; and,*

3. Necessary state permits, list available for the Nevada Division of Minerals.

**Contact:**

**Office of the Secretary of State, Securities Division**

Las Vegas 800-758-6440 or 702-486-2440 Reno 775-687-9950

Internet <http://nvsos.gov>

**Nevada Commission on Mineral Resources, Division of Minerals**

Las Vegas 702-486-4343 Carson City 775-684-7040

Internet <http://minerals.state.nv.us/>

**Nevada Dept. of Business and Industry**

**Division of Industrial Relations**

**Mine Inspector**

Henderson/Las Vegas 702-486-9131 Carson City 775-684-7085

Internet <http://dirweb.state.nv.us/MSTS/msts.htm>

**Nevada Dept. of Conservation & Natural Resources**

**Division of Environmental Protection**

Las Vegas 702-486-2850 Carson City 775-687-4670

Internet <http://ndep.nv.gov/>

**Division of Water Resources**

Las Vegas 702-486-2770 Carson City 775-684-2800

Internet <http://water.nv.gov/>

**U.S. Bureau of Land Management (BLM)**

Nevada State Office, Reno 775-861-6400

Internet <http://www.blm.gov/nv/st/en.html>

**Securities and Exchange Commission (SEC)**


Telephone 800-732-0330

Internet <http://www.sec.gov>

**Financial Industry Regulatory Authority (FINRA)**

Telephone 800-289-9999

Internet <http://www.finra.org/>

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