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Arvey Drown of Berthoud, accused of mail fraud in an \$11 million gold-mine investment scheme, outside of the Federal Courthouse in Denver Tuesday.

Central City Gold Venture 'Amateurish,' Three Testify

By JOHN TOOHEY
Denver Post Staff Writer

Central City mining operations controlled by promoter Arvey Drown produced little or no gold, three mining experts testified in U.S. District Court Tuesday.

Drown, of Berthoud, and co-defendant Donald Rowberry of Orem, Utah, allegedly told investors in their businesses that those firms were backed by millions of dollars worth of gold-ore reserves generated by mines in the Central City area.

Drown and Rowberry are on trial on 10 counts each of mail fraud in connection with their gold-bullion purchase business, from which they allegedly made more than \$11 million from hundreds of investors in 1981 and early 1982. Federal prosecutors allege most investors

didn't see any return on their money.

But three experts in mining told the jury Tuesday that work at a mine and mill in the Gilpin County town was being done with second-hand equipment and was "amateurish."

William Hester, a mining engineer, said there was no evidence of professional-level work at Drown's mine. Mark Hefner, a former state mining official, said he found only small amounts of ore at the mine when he visited it in February 1982.

Charles Van Culler, a geologist and a Gilpin County commissioner, testified that Drown came to him in February 1982 looking for other gold-mining claims in the county because he hadn't gotten "one ounce off that hill" at the Hays-Wheeler National mine, where Drown had been working for sever-

al months.

Drown and Rowberry allegedly sold investments in gold bullion and were to use those investments to gain lines of credit with the Royal Bank of Canada to buy and sell gold futures from London to Hong Kong.

Each investor was promised 12 percent interest on the gold bullion investments and from \$3.30 to \$4.40 a day for each \$1,000 invested in the futures marketing.

But an official of the Canadian bank testified Tuesday that there never had been any accounts opened for Drown or his firms, based in Denver and Georgetown, Grand Cayman Island.

Several investors complained in testimony Monday and Tuesday that they received little return from the gold bullion purchases and none from the futures trading.

A CUTTING FROM THE DENVER POST IN 1982 SHOWING ARVEY DROWN AS I MET HIM AND REMEMBER HIM LATER IN COURT. THE FBI CAM AFTER ME TO GIVE EVIDENCE WHEN HE WAS TRIED, SUCCESSFULLY, FOR RUNNING A SCAM OPERATION.

met the Englishman. My commission was to visit the mining site and report on what was going on. This sort of work was right up my street, and had the added advantage of being close to home. I could do the job in a day. To Drown's feigned surprise I asked to see the site rather than meet at his downtown office. While waiting for his late arrival, I picked up the news that one of the partners in the venture had disappeared during the previous day, but I gave the matter no further thought. Several years later, the body of the missing partner turned up, still in the missing pickup truck and wedged into an old shaft. The dirty deed that put the poor fellow down the shaft must have been perpetrated only a few hours before my arrival but identity of the murderer has never been discovered.

Drown was probably as ignorant as it is possible to be about mining. The site was a scene of buzzing activity with, among other things, a mill being built. All the equipment was obviously second hand and likely to be junk. What really tipped me off that the whole operation was a scam of gigantic proportions were the two bullion furnaces, one, I was told was for the gold while the other was for platinum. The Central City area supported rich gold mines in the past but there was never any report of platinum. That he was dreaming was about the kindest thought I could have. Part of his mining plan was to lower waste rock in the shaft. You might be obliged to hoist waste but never to lower it. Waste rock is not made of eggs. All you have to do is tip it down an appropriate hole when you want to lower

it. Here was someone who had no idea of what mining is all about yet was evidently able to raise a large sum of money. He was not the first of his kind that I was to meet in my career.

At last our tour brought us to the mine. All the activity was centred on a tunnel declined downwards at about 12 degrees. A small truck containing what looked like waste rock appeared from time to time. Drown insisted it was high-grade gold ore. I felt my client's interests would be served by having me enter this opening to look at the face. Drown agreed that was a good idea too but "we have no spare boots and you cannot go down in those shoes". I had boots in the trunk of my car I explained. "Oh that's great." came the reply "but we have no spare cap lamp. All are in use underground at the moment." At this point, I produced a carbide lamp so he had no excuse for keeping me out of the mine. Down I walked and eventually came to the face that contained a vein about 15 cm wide and containing some lead mineral. I could imagine this might contain a little silver as well as lead but certainly not enough gold to make the full face qualify as high grade. I took a specimen and returned to surface. Everything about Drown screamed "Scam" so I reported accordingly to my client who was not particularly pleased as what I told him confirmed his suspicions but he paid my bill and thanked me.

Mine Promoters 'Lied'

Hundreds of Investors Defrauded, Prosecutor Says

By JOHN TOOHEY
Denver Post Staff Writer

Two alleged promoters of a multimillion-dollar gold-mine tax-shelter scheme "lied" to hundreds of investors about their program, Assistant U.S. Attorney Robert McAllister has told a federal court jury.

McAllister Monday began his case against Arvey Drown of Berthoud and Donald Rowberry of Orem, Utah, each on trial for 10 counts of mail fraud before U.S. District Judge Alfred A. Arraj and the jury.

Larry Naves and Patrick Burke, lawyers for the two men, denied in their opening statements that there was any fraud connected with the gold-buying plan.

Drown and Rowberry raised more than \$11 million in their complicated business, which involved a series of companies and banks in Colorado, Can-

ada, and Georgetown, Grand Cayman Island, McAllister said.

Few investors nationwide got back any of the money they invested in buying gold bullion and in gold commodities deals, McAllister said.

Two prosecution witnesses testified they invested in 1981 and 1982 and have yet to receive full interest or even repayment of their investments.

John Stewart of Yorba Linda, Calif., said he invested \$48,000 and received only a few hundred dollars' interest. Dennis Pearson of San Jose, Calif., a former Atlanta Falcons professional football player, said he invested \$10,000 in March 1982 and never received any money.

Investors were told they would receive 12 percent interest annually on their gold purchases, plus \$4 a day on each \$1,000 invested in the commodities deals made with the Canadian bank and a London broker, McAllister said.

Some investors got interest monthly for about nine months in 1981 and early 1982, but all payments stopped in May 1982, he said.

Money received from new investors was used to pay interest to previous investors, he said.

But defense lawyers Naves and Burke said Drown and Rowberry were handicapped in returning money to investors after the FBI seized all their records in May 1982 raids at their business locations in Colorado and Utah.

McAllister also argued that investors were told Drown and Rowberry had bought or leased mines in Colorado and that 2,000 ounces of gold monthly were being extracted from the ore, but that the mines didn't have nearly that level of production.

Each of the 10 counts in the indictment carries a maximum penalty of 10 years in prison and a \$5,000 fine.

A CUTTING FROM THE DENVER POST IN 1982 ABOUT THE PROSECUTION OF ARVEY DROWN. HE DEFRAUDED MANY FAMOUS PEOPLE BUT FEW WOULD COME FORWARD AS WITNESSES BECAUSE DOING SO WOULD REFLECT BADLY ON THE REPUTATIONS THAT MADE THEM FAMOUS. I GAVE EVIDENCE AND HE WENT TO JAIL.



MEASURING TO A FACE UNDERGROUND AT THE RAND MALARTIC MINE NEAR VAL D'OR QUEBEC IN 1988.

head of the General Electric Company, that is a leading corporation in the U.S.A. How could they be wrong?

I was immediately suspicious of the vendor, who had no technical background in anything remotely related to mining but spoke with great authority. There was at this time a well-known school of people like him, based in the South-western United States, who were peddling platinum prospects on the basis of their analytical 'work' which was

based on the misuse of spectroscopy. The basis for their misleading results was that they confused a reading for iron with that of platinum. It gets very technical so I'll skip over this part, except to say they were both wrong and very articulate in support of their case.

On this occasion, the vendor must have "salted" by adding a platinum compound to the stuff sent to General Electric so I had to be on my guard that he did not add a little "something" to my samples while I was distracted. The ways of performing this addition, known as "salting", are so numerous it would be a challenge to enumerate them but such techniques as squirting a solution of the desirable metal into a sample bag using a hypodermic syringe is one of the more creative. I took my samples at sites I chose and at depths of about half a metre. Then I packed the plastic bag containing each sample inside another and sealed it with fibre tape until I reached my room at the motel where I could lock them in my suitcase. I did not leave the samples accessible for a moment. Nobody was going to use a hypodermic needle to squirt platinum solution into my sample bags, or try something equally nefarious.

Dow was insistent that we prove my claim that the samples contained nothing of value so I recommended he send them to a laboratory in Vancouver that was one of the few on the continent capable of conducting a reliable analysis for platinum and that he insist on a licenced assayer do the work — no underlings. Dow also arranged for the vendor to go and observe the work being done. He followed my advice and I was glad to learn that I was vindicated. There was nothing of value in the samples. The vendor must have added a little platinum compound to the samples he sent General Electric but I did not give him the same opportunity.

Later I was hired to follow up on yet another platinum scam near Rhinelander in Wisconsin but this time the vendor did not show up so I cleared it up more quickly.



Another scam came along soon after the Pioche affair. This one was near Phoenix in Arizona and revolved around a man called Marshall Ott and his girl friend Marianne, a good-looking woman in

her way but hard looking. She smoked cheeroots. Ott was getting heat from his backers so I was called in to give the operation the air of acceptable behaviour. It was too late. Ott had no qualifications in mining or any other business pursuit to the extent I could ascertain.

The whole scam was woven into a tale of religious illumination. Ott claimed to have died and gone to heaven where God told him he was to be returned to earth to carry out His will that consisted of picking up this particular mining property, taking money from believers, and producing gold.

The gold was to be minted into coins for distribution on a tax-free basis to the investors. The elaborations were ornate indeed. A great deal of the money had been wasted in the purchase of useless and inappropriate mining equipment. Most of which was worn out and sat at sites scattered about on the property. I wondered how people could be so gullible as to fall for Ott's story. Several of them were at the site at the same time as me. They appeared to be honest, decent people from the farming communities in Colorado and Washington. All were members of fundamentalist churches.

Ott had raised several millions of dollars from supporters in the West such as the ones I met, but the money was nearly all spent. There was nothing much to show for where the money had gone except a couple of fancy house trailers and cars. Ott and Marianne had spent most of the cash on themselves. I was supposed to write the sort of report that can be used for raising



HERE I AM STANDING WITH OTT SHORTLY BEFORE HE WENT TO PRISON AND EXCHANGED HIS EXPENSIVE LEATHER JACKET FOR AN ORANGE SUIT.



SOME OF THE SPECIALLY MINTED GOLD COINS THAT OTT PROPOSED USING TO PAY OFF HIS BACKERS AS PART OF HIS SCHEME THAT WAS NEVER COMPLETED.



OTT'S 'GOLD RECOVERY PLANT'. IT RECOVERED NOTHING AS THERE WAS NO GOLD IN THE ROCK ANYWAY BUT THE BACKERS WERE CLEARLY IMPRESSED.

We walk down what is left of the road to the lower level to find our driver has befriended a Bedouin man. Would I like a cup of tea? The question had already occurred to me but had been dismissed as an idle thought unlikely to be fulfilled in this arid, remote spot. Our driver produces a can of water which I would not have drunk because it has not been boiled, then produces a kettle of sorts, finds wood in the form of some old packing cases for a fire and we soon have some boiling water. Our new friend fiddles around in his voluminous, black robes for a knot in the fabric of which he undoes to reveal about a cupful of tea leaves. These he throws into the kettle of boiling water and removes it from the fire. By this time I would willingly pay \$10 for a cup of tea. Again he fumbles in his robes for another knot that this time reveals a small glass mug about the size of a liqueur glass. This is our only receptacle. It turns out later that our friend was there by appointment and had set out with a bag containing cups but had slipped on the way and everything was broken. As the honoured guest, I am offered the first cup which after allowing it to cool sufficiently, I savour the tea no end. Of course considerations of etiquette require me to pass the cup to another member of the party. Eventually it returns to me for the second and third time until all the tea is gone. Meningitis is rampant around here so I hope our friend, who has probably never had a bath more than once or twice a year in his life, is in good health. I find a packet of peanuts provided by Air France on the flight out so give it to our friend who expresses thanks and pleasure. He has probably not tasted a peanut in his life but will enjoy the salty taste if nothing else. And so we return to camp still very much in need of a drink. Our cook produces another good meal and off we go back to Mukhalla for the night, and a welcome shower.

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A TYPICAL BACK ALLEY
IN MAKKALA.
THE POTS WERE FOR SALE.

—*August 1st*— Hamisi shows up in the morning to take me for a guided tour of the town by foot. What a fascinating place. We walk along winding alleys onto which great doors open from residences. Some of these doors are intricately carved and I wonder again why the Russians brought a carpenter with them when there is clearly so much local talent. Goats browse through garbage that is strewn everywhere, picking out the paper to eat and leaving the plastic and remains of discarded rubber flip flop sandals. There really is stuff that even a hungry goat refuses to eat. Freighters are moored offshore and some of their crews are sauntering around town. They give me sidelong glances, not sure whether to waive or not. They are a motley bunch in scruffy clothes but I should not judge them. I am not in my best clothes either. After an hour or so, we collect the wife and kids in the new Toyota and set off for Aden with the noise of the air-conditioner going

at full speed swamped by the music of our driver's tapes. Lots of music to belly dance to. It gets boring by the end of the trip. We stop at a village for a moment. There is a fish auction in progress. Great fish are piled everywhere on the ground which again is covered with bits of decaying plastic and old sandals through which goats browse while the inevitable flies browse on the fish. I learned later that if you wanted to buy a fish you should always buy one that is covered with flies as this indicates fly repellent has not been used. Eager buyers stand around responding to the auctioneer's shouts. All I understand is the numbers. The buying is brisk. Off we go again along the same route past the dead camel, which is bloated even more, and thankfully arrive in Aden before prayers. An interesting trip even though it confirmed my opinion that the gold property is not likely to be of commercial interest at the present price of gold, or possibly ever.

—*August 2nd*— We debrief first with Bicker and then more cautiously with the Russians who are now very friendly. The Russian boss now agrees with me that the mine is no good. The fat lady typist offers me more candy of the boiled, hard variety not very different from what we get at home. We get down to discussing the rigors of life in Aden. Life in the single quarters is no fun from her description — all through the interpreter. Many of the people she shares accommodation with are drunk most of the time. They urinate in the showers etc. I offer her the use of the shower in my place but she declines.

We go home early, this is Thursday and the weekend. We eat at Bicker's. His wife makes good food. My British ex-marine friend joins me for the other meals at the Chalet Complex that on closer inspection proves to be entirely of prefab construction. A Saudi comes into the restaurant for lunch with four women (perhaps they are the full compliment of wives allowed by their religion). He is swaddled up in a white galabiya that looks a bit like a nightshirt while all the women are in black with everything covered except their eyes, hands and toes. We wonder how they are going to eat so watch their activities closely. He chooses a table against the wall and seats the women with their backs to the room. He is the only one to take a menu and orders for the women before moving to a separate table where he eats by himself — a strange way to behave in our western view.

The Chalet Complex is a favorite spot for getting away from it all for the Saudis as they can buy beer here. Progress on the road across the causeway to the Chalet is often delayed by a Mercedes Benz full of drunken Saudis dressed in white galabias driving at a snail's pace along the central white line. My friend the ex-marine and I exchange news from the few days I have been away. He tells me that I



A FINE EXAMPLE OF YEMENI
CARVING AT MAKKALA.

***“EXPLICIT HOC TOTUM: PROPERA DA MIHI POTUM – THIS IS ALL FINISHED,
GIVE ME A DRINK” — GIOVANNI CALDERINI.***

FINIS
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