



Q & A - Summary Report dated December 16, 2021

Application by Aquila Resources USA Inc. for Direct Lease of Metallic Mineral Rights

PUBLIC MEETING SUMMARY

Parcel Classification Concerns:

- Q. When the DNR classifies a parcel of land as lease nondevelopment, does that classification make it unavailable for mining exploration and other mining activities?
- A. Non-development simply means the surface cannot be developed to support mining or exploration activities. Parcels classified as non-leasable are unavailable for exploration or mining activities.
- Q. Why does the DNR classify parcels before an archaeological review is completed?
- A. Parcels can be classified at any time and have stipulations attached such as the need for an archaeological survey prior to any surface disturbance. Since both the potential for cultural resources and mineral exploration locations can be in very specific locations, they may not impact each other. Additionally, exploration of the subsurface of a parcel may not occur from the surface of the leased parcel, and therefore may not result in any surface disturbance.
- Q. Please explain the parcel classification process.
- A. Each resource professional with jurisdictional authority over the proposed lease parcel reviews it in accordance with their division perspective in mind, e.g., Wildlife Division reviews for impacts to wildlife and threatened or endangered species, Forest Resources Division reviews for land and vegetation impacts, Fisheries Division reviews impacts to fish and water resources, and Parks and Recreation Division reviews any impacts to trails or recreation that may result from the potential lease and subsequent development.
- Q. Is the parcel classification process revisited each time a parcel is requested for lease?
- A. Yes, each time a parcel is nominated for a lease, the classification is revisited, as circumstances may have changed on that parcel, i.e., new cultural resources or new threatened or endangered species may be discovered. Classifications are not permanent when first established.
- Q. What information or data are used for parcel classifications, and does the applicant provide information?



A. Data used in the classification process includes department data within the databases, as well as any local knowledge of the specific parcel. The applicant does not provide any information, unless specifically asked to do so.

Q. Is there any public comment for parcel classifications?

A. The public can provide information during the public comment opportunities during the lease application process.

Q. Which department or person is responsible for reviewing the nominated parcels, and what documentation is kept of "field review" of the nominated parcels?

A. All Land Administering Divisions within the Department of Natural Resources participate in reviewing the nominated parcels. Since most of the parcels being reviewed typically fall under Forest Resources Division as the Land Administering Division, Forest Resources Division makes the final field recommendation based on input from the other Divisions. All documentation used in the field review is kept on file for the parcel.

Q. Is the documentation of field review publicly available?

A. Most of the field review documentation is available to the public either freely or through the FOIA process. Some documentation is exempt from public disclosure based on its nature, i.e., cultural and heritage resources.

Q. Is there a process for the public to challenge or dispute a parcel classification?

A. After the DNR publishes the parcel classifications as part of the public notice of a metallic mineral lease application, the public has an opportunity during the written public comment period to provide information about the parcel classifications and submit input and suggestions regarding specific parcel classifications and recommended changes to the classifications. The DNR also accepts public comment addressing the parcel classifications and recommended changes to the classifications during the public meeting portion of the mineral lease application review process.

Additionally, parcel classifications are not permanent once initially established. The DNR may obtain new information that will be reviewed, evaluated, and may result in changes to the parcel classifications if appropriate. Such information that may lead to a change in parcel classification may originate from a variety of sources, including public input.

Tribal Concerns:

Q. Will the Menominee Tribe be consulted regarding historical and culturally significant concerns pertaining to this lease; and when will DNR or EGLE formally



reach out to regional Tribes (both in Wisconsin and Michigan) about this lease application?

- A. As part of future land use review of these parcels, the DNR will work with Tribal partners, including Tribal Historic Preservation Officer David Grignon of the Menominee Indian Tribe of Wisconsin, to assess survey needs and identify cultural resources needing protection.

Metallic Minerals Leasing Process Concerns:

Q. What standards (does) the DNR use in denial of a lease?

- A. Under the applicable administrative rules, any qualified party may submit an application for a metallic mineral lease. When the DNR receives an application, the first step in the decision process is to confirm that the applicant is eligible to lease state-owned mineral rights by verifying that the applicant (1) is registered with the Department of Licensing and Regulatory Affairs, (2) is a qualified bonded party with the DNR, and (3) does not appear on the DNR Hold Action List.

Next, the parcels nominated for leasing are entered into the DNR's parcel classification system for review and classified by the Department's resource specialists. This classification process places the nominated parcels into one of four possible classifications: (1) leasable development, (2) leasable development with restrictions, (3) leasable nondevelopment, or (4) non-leasable. Classification categories consider the effects metallic minerals exploration and potential development could have on current and future land uses and other resource values and recognize the DNR's responsibility to manage the land surface and the expertise DNR resource specialists possess to help mitigate impacts.

After parcel classification is complete, the DNR publishes public notice of the lease application and accepts public comment. The DNR reviews all public comments received, and the public comments are utilized as a factor that is considered as part of the decision whether to issue a mineral lease.

Once public comment review is complete, the DNR's Executive Division makes a decision regarding the lease application in consultation with the DNR's Minerals Management Section and other relevant DNR staff. The DNR's decision is based on review of multiple factors, including applicant eligibility, parcel classifications developed by the Department's resource specialists, public comment, and any other relevant factors.

Q. Why grant leases for a company you can't trust?

- A. The DNR processes all applications for direct mineral leases under the applicable statutes, administrative rules, and departmental policies and procedures. When that process is complete, the DNR's Executive Division makes a decision regarding the lease application in consultation with the DNR's



Minerals Management Section and other relevant DNR staff. The DNR's decision is based on review of multiple factors, including applicant eligibility, parcel classifications developed by the Department's resource specialists, public comment, and any other relevant factors.

Q. Why not lease the land to the Menominee Tribe?

A. Under the applicable administrative rules, any qualified party may submit an application for a metallic mineral lease. The administrative rules applicable to metallic mineral lease applications are entitled "Leasing State-Owned Metallic Mineral Rights," R 299.4001 – R 299.4007 and are available on the Department of Licensing and Regulatory Affairs website:
<https://ars.apps.lara.state.mi.us/AdminCode/AdminCode>.

Q. Is it permissible to file an application for mineral leases to the State of Michigan, in order to enforce your mission statement of protecting the lands and our waters from sulfide mining? Can we, as a registered corporation, have a conversation about leasing all or a portion of these lands from the State to simply guarantee the residents of these two counties that no mineral extraction is threatening our Menominee River region?

A. Under the applicable administrative rules, any qualified party may submit an application for a metallic mineral lease. The administrative rules applicable to metallic mineral lease applications are entitled "Leasing State-Owned Metallic Mineral Rights," R 299.4001 – R 299.4007 and are available on the Department of Licensing and Regulatory Affairs website:
<https://ars.apps.lara.state.mi.us/AdminCode/AdminCode>.

Minerals Leasing Rate Concerns:

Q. What is the price that Aquila pays per acre to lease this land?

A. The current lessee of the 1,988 acres that are the subject of this metallic minerals lease application is Back Forty Joint Venture, LLC. The current leases on the 1,988 acres are set to expire on January 22, 2022. As required under the terms of the current leases, Back Forty Joint Venture, LLC paid a yearly minimum royalty. Back Forty Joint Venture, LLC paid the yearly minimum royalty of \$55 per acre in early 2021.

Q. How are the rental rates on the lease application(s) and other existing leases determined/calculated?

A. Rental rates are negotiated by the State of Michigan and the lease applicant.

Q. Are mineral lease and other types of lease rates negotiable?



- A. If lease terms are offered by the State to an applicant, they may be negotiable. If a lease is entered, the lease terms are set and are no longer negotiated during the primary term of the lease.

Competing Mineral Rights Concerns:

- Q. Have the false mineral right claims by Aquila Resources, VMS Development Co., or affiliated or successor entities been researched and resolved by the DNR?
 - A. Yes, when competing claims were brought to the former DNRE's attention, the Department worked with the Attorney General's Office to further verify that the State held good title to the mineral rights that were at issue. After working with the Attorney General's Office to verify the State's title mineral rights, the DNRE directed that the parties making those claims to those State-owned mineral rights, disclaim all of those rights. On January 18, 2011, Aquila Resources recorded a Notice of Mineral Lease Termination and Release with the Register of Deeds in Menominee County that relinquished all rights to the mineral rights at issue. In March of 2011, the DNRE requested clarifications and corrections from Aquila regarding the Notice of Mineral Lease Termination and Release. Aquila provided additional information to the DNRE at that time. In June 2011, the DNRE separated into two separate Departments (DNR and DEQ, now EGLE). In June 2011, the DNR acknowledged receipt of the information that Aquila provided and accepted the steps that were taken to correct the original Notice of Mineral Lease Termination and Release.

Currently, based on review and legal guidance provided to the Department, the DNR has concluded that the original competing claims made to the mineral rights identified in the November 2010 DNRE letter were meritless, and any subsequent claims made to the mineral rights based on the original meritless claims were also meritless. Therefore, the DNR believes that the state's ownership of these mineral rights is clear and valid. If any claims were made against these or other DNR-managed mineral rights in the future, the DNR would take necessary steps to verify and protect those state-owned mineral rights as appropriate.

Public Commentary Value Concerns:

- Q. What value is public commentary in your lease review?
 - A. The DNR reviews all public comments received, and the public comments are utilized as a factor that is considered as part of the decision whether to issue a mineral lease. Public comment regarding a mineral lease application is an important factor in the DNR's decision-making process; however, it is not the only factor considered. The DNR's decision is based on review of multiple factors, including applicant eligibility, parcel classifications developed by the



Department's resource specialists, public comment, and any other relevant factors.

Test Wells/Holes Concerns:

Q. Why aren't all the exploration test wells capped now?

A. Once there is no longer a purpose or use for an exploration test well, it is plugged from bottom to top with cement or another approved material. It was stated during the meeting that most wells at the Back Forty Project (over 80%) have been plugged and the pipe (or surface casing) that was used to drill the hole has been removed at the surface. Test wells that have been determined to have a future purpose remain open, and the pipe is visible above the ground surface. The surface pipe for these open wells is required to be securely capped when not in use.

Q. What steps would the DNR take to ensure that Aquila Resources, or any other mineral exploration company, perform test well hole filling, acid mitigation, and zero chemical contamination at each test well site? Will the Michigan DNR ensure that a field inspector is on hand to witness the Grout Pipe procedure for every test well Aquila Resources is expected to abandon? Will a 3rd party neutral and qualified inspection agency be on hand to witness the process?

A. The test boring abandonment process is overseen by EGLE, and EGLE staff conduct inspections of permitted activities and respond to inquiries as necessary to check for compliance with applicable environmental regulations. EGLE's Oil, Gas, and Minerals Division (OGMD) staff conduct field reviews, inspections, and record reviews of test well drilling for compliance with Part 625, Minerals Wells, of the Natural Resources and Environmental Protection Act, 451 PA 1994, as amended.

Aquila Resources USA Inc. has publicly disclosed that over 700 drill holes have been drilled to advance the Back Forty Project since initial discovery. To date, over 80% of the completed test wells on record for the Back Forty Project have been reported to be plugged (cemented/grouted) in accordance with Mineral Wells regulations. Those test wells that have been identified as remaining open are being further evaluated by the well owner for a possible future purpose, such as conversion to piezometers for continued testing, conducting downhole surveys, or reentry to extend the drill hole to further explore the mineral resource. For test wells that remain open, surface casing is required to remain in place that extends above the ground surface and capped securely while not in use. The well owner is responsible for test wells drilled for exploratory purposes subject to Part 625, Minerals Wells, of the Natural Resources and Environmental Protection Act, 451 PA 1994, as amended.



Financial Assurance and Bonding Concerns:

Q. Who will provide the environmental bonding and financial assurances?

A. If approved for direct leasing, Aquila Resources USA Inc. will be required to file a performance bond acceptable to the State of Michigan (Lessor).

The State of Michigan metallic minerals leases also require the lessees to maintain commercial general liability insurance on an “occurrence basis” listing the Lessor as a certificate holder and named as an additional insured.

The lessee is required to provide Lessor with a certificate of insurance evidencing minimum policy limits of \$1 million per occurrence and \$2 million general aggregate limit. If providing an umbrella or excess liability insurance, the minimum limit is \$5 million. The lessee must also provide proof of worker's compensation insurance, as required by law, with a waiver of subrogation, except where a waiver is prohibited by law. The companies issuing such policies are also required to furnish to Lessor written notice thirty days prior to cancellation, termination, or other change of any such insurance.

Further, an approved surety or security bond must be filed with EGLE’s Oil, Gas, and Minerals Division (OGMD) as part of a permit application to drill a test well that is 50 feet or greater in depth from the surface and encounters bedrock. The bond amount is specified in the Mineral Wells regulations and determined by the depth of the drill hole. A test well drilled in an area of the state where rocks of Precambrian age directly underlie unconsolidated surface deposits is not subject to permits or bonding.

Additionally, a surface use permit or surface use lease may be required depending on the exploration or development activities proposed. DNR permits and surface use leases require additional fees, and insurance and bonding requirements, depending on the nature of the surface use proposed.

If the lease application is approved and if Aquila Resources USA Inc. wishes to assign these metallic mineral leases to another company, in order for the assignment to be approved, the assignee will be required to meet these requirements listed above, be registered with LARA to transact business in the State of Michigan and not be on the Minerals Management Section Hold Action List.

If a transfer of a permit is approved, the acquiring operator assumes the responsibilities specified by law, regulations, and permit, including any financial assurances and bonding that is required.

Q. Since Aquila Resources USA is essentially bankrupt, how can they meet Michigan’s bonding and surety obligations?



- A. The DNR screens applicants for direct lease applications to verify that the applicant: (1) is registered with the Department of Licensing and Regulatory Affairs, (2) is a qualified bonded party with the DNR, and (3) does not appear on the DNR Hold Action List. The applicant met these requirements.
- Q. Is Gold Resources a “qualified” and “bonded” company in Michigan?
- A. Because Gold Resources is not the applicant for this metallic minerals direct lease application, these requirements do not currently apply to Gold Resources.
- Q. If these mineral leases are granted, will “Aquila Resources USA” simply apply to the State of Michigan to “reassign” their working interest in the lease to Gold Resources Corp? If so, which party is responsible for sureties?
- A. DNR cannot speculate what Aquila Resources USA Inc. may do if the lease application is granted. Mineral leases for DNR-managed mineral rights are transferable under a process called lease assignment. Any request to assign a mineral lease must be approved by the DNR, and a lessee must meet all requirements of the lease assignment process established in DNR policies and procedures.
- Q. Can the DNR speak to how the mineral lease application might be impacted by Gold Resources acquisition of Aquila Resources?
- A. Aquila Resources USA Inc. is the applicant. Mineral leases for DNR-managed mineral rights are transferable under a process called lease assignment. Any request to assign a mineral lease must be approved by the DNR, and a lessee must meet all requirements of the lease assignment process established in DNR policies and procedures.

Aquila Viability Concerns:

- Q. Will Aquila, after it is acquired by Gold Resources, be subject to any disclosure for mineral projects in Canada?
- A. The Michigan DNR does not require a lease applicant to disclose information regarding other mineral exploration or development projects as part of the lease application process. Information regarding developments related to the acquisition of Aquila Resources USA Inc. by Gold Resources Corporation (GRC) can be found on GRC’s website. <https://goldresourcecorp.com/>
- Q. Who or what is this corporation? Assets? Filings? Personnel?
- A. The lease applicant is Aquila Resources USA Inc. with a business address located in Stephenson, Michigan. As part of the lease application review process, the DNR confirmed that Aquila Resources USA Inc. is registered with



the Department of Licensing and Regulatory Affairs and is a qualified bonded party with the DNR.

Great Lakes Exploration Public Comments location:

- Q. Can you tell me if there is a location on the DNR website where I can see the comments that came in prior to October 15, 2021, for the Great Lakes Exploration lease application?

- A. A recorded copy of the virtual public meeting for the Great Lakes Exploration lease application held on October 28, 2021, can be found on the DNR Minerals Management webpage, under the “metallic” tab. Questions submitted prior to October 15, 2021, were answered within the PowerPoint presentation portion of the virtual public meeting. A Freedom of Information Act (FOIA) request may be submitted to request specific information.

Environmental Concerns:

- Q. Why would you even consider risking the contamination of this beautiful river?

- A. The relevant state agencies take multiple steps to evaluate risk and consider potential impacts to natural resources and the environment. During the application review process, the DNR utilizes the parcel classification process to consider the effects metallic minerals exploration and potential development could have on current and future land uses and other resource values. The Department’s resource specialists perform the parcel reviews and classifications are applied to protect and mitigate impacts to the natural resource features identified on the parcels.

Additionally, if a lease is issued, further permissions would be required from local, state and/or federal authorities before any invasive exploration or development activities could occur.

Further, protective measures to prevent adverse impacts to natural resources is the fundamental objective of Michigan’s environmental regulations. The Department of Environment, Great Lakes, and Energy’s (EGLE’s) mission is to protect Michigan’s environment and public health by managing air, water, land, and energy resources. Assessment of risk to the environment or public health and safety is carefully considered in all EGLE permitting decisions.

Back Forty Concerns:

- Q. Please describe existing leases with Aquila, or other leases related to the Back Forty Project and address whether rental and other payments for these leases are current or delinquent.

- A. The State’s metallic mineral rights for the area known as the Back Forty Project are currently leased to: Back Forty Joint Venture LLC. There are currently no



active State of Michigan Metallic Mineral Leases issued in the name of Aquila Resources USA Inc. or Aquila Resources Inc.

Currently, 2,966.89 acres of State-owned mineral rights in Menominee County are under lease to Back Forty Joint Venture, LLC, and the leases on 1,988.05 of those acres are set to expire on January 22, 2022. Back Forty Joint Venture, LLC, is currently in compliance with all the terms of these leases, including payment terms.

- Q. Will the Back Forty Joint Venture still be subject to Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”)?
- A. The Michigan DNR cannot comment on any entity’s obligations under another government’s regulations.