State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Tony Delfin
Acting Cabinet Secretary

Fernando Martinez, Director
Mining and Minerals Division

October 7, 2016

Mr. and Mrs. Fred Holley
P.O. Box 162
Dove Creek, CO 81324

RE: Transmittal of Approved Permit and Financial Assurance Agreement
Holley-Rosedale Exploration Project, Permit No. SO021EM
Socorro County, New Mexico

Dear Mr. and Mrs. Holley:

The New Mexico Mining and Minerals Division ("MMD") hereby acknowledge the approval of your Minimal Impact Exploration Permit Application for the Holley-Rosedale Exploration Project, Permit No. SO021EM. Also enclosed, please find a copy of the approved Financial Assurance Agreement. The Holley-Rosedale Exploration Project area is located upon private land and minerals along the flanks of the San Mateo Mountains within the Rosedale Mining District in Socorro County, New Mexico. The proposed exploration drilling project is approved for the advancement of 7 drill holes, 6 inches wide, and up to 500 feet deep, utilizing no more than 7 drill pad surface disturbance areas to explore for precious and other associated minerals. The application states that no additional surface disturbance is necessary and that all drilling locations will be located within existing roadways within the permit area to access each exploration drilling site. If you have any questions, please contact me at (505) 476-3436 or via e-mail at: james.hollen@state.nm.us.

Sincerely,

James Hollen, Permit Lead – SO021EM
Mining Act Reclamation Program ("MARP")

Enclosures: *Permit No. SO021EM*
Copy of the approved Financial Assurance Agreement

cc: Fernando Martinez, Director, MMD
Holland Shepherd, Program Manager, MARP/MMD
Diane Nowlin-Tafoya, Forest Geologist, USFS Cibola N.F.
Michael Johnson, R.G., Chief, Hydrology Bureau, NMOSE
Dr. Matthew Wunder, Ph.D., Chief, Ecological & Environmental Planning Division, NMDG&F
Bob Estes, Archaeologist, NMDCA-HPD
Kurt Vollbrecht, Program Manager, MECS/NMED-GWQB
File SO021EM

PERMIT NO. SO021EM
HOLLEY-ROSEDALE EXPLORATION PROJECT
MINIMAL IMPACT EXPLORATION OPERATION

MINING AND MINERALS DIVISION
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

Permit No. SO021EM ("Permit") is issued by the Director of the Mining and Minerals Division ("MMD") of the New Mexico Energy, Minerals and Natural Resources Department to:

Fred & Betty Holley ("Holley")
Whose correct address is: P.O. Box 162
Dove Creek, Colorado, 81324

("Permittee") for the Holley-Rosedale Exploration Project, located approximately 25 miles southwest of Magdalena within the Rosedale Mining District, in the San Mateo Mountains of Socorro County, New Mexico, as described in Section 3 of this Permit document. The Permittee is authorized to drill 7 exploratory borings, up to 6 inches in diameter, and up to 500 feet below ground level, utilizing no more than 7 drill pad surface disturbance areas; to explore for gold, silver and other precious metals. No additional surface disturbance is necessary and each of the individual drill pads will be situated upon previously disturbed areas and existing roadways throughout the permit area. The project area is situated entirely upon private lands and patented minerals controlled by the Permittee.

Section 1. STATUTES AND REGULATIONS

A. This Permit is issued pursuant to the New Mexico Mining Act, NMSA 1978, §69-36-1, et seq. (1993, as amended through 2016).

B. This Permit is subject to all applicable regulations of the New Mexico Mining Act ("Act"), New Mexico Mining Act Rules ("Rules"; (§19.10.1 through §19.10.14 New Mexico Administrative Code ("NMAC")) and any other regulations which are now or hereafter in force under the Act; and all such regulations are made a part of this Permit by this reference.

Section 2. PERMIT APPLICATION PACKAGE

The minimal impact exploration Permit Application Package ("PAP") for SO021EM was received by MMD on July 18, 2016, and deemed administratively complete August 24, 2016. Any correspondence subsequently submitted to MMD, by the Permittee or its representatives, can be found at MMD offices within the Division's files, and is titled *Holley-Rosedale Exploration Project, SO021EM.*

The PAP is comprised of the following documents:

A. *Subpart 3 Minimal Impact Exploration Permit Application,* dated July 18, 2016,

the disturbed areas within the Permit Area will result in a condition that allows for the establishment of a self-sustaining ecosystem within the Permit Area, appropriate for the life zone of the surrounding areas.

E. The approved Post Exploration Land Use is designated as *livestock grazing and wildlife habitat.*

F. The term of the Permit is governed by Subsections A, C and D of §19.10.4.405 NMAC. The Permit term shall be one year from the date of the Director's signature on this Permit.

Right-To-Enter / Property Access Information

G. The Permit does not grant or create any property rights. Nor does MMD, by issuing this Permit or otherwise, make any comment on the surface or mineral rights that the Permittee may or may not have in the area covered by the Permit; only that the Permittee has provided a statement of the basis on which the Permittee has a right to enter the property to conduct mining, exploration and reclamation. Permittee is solely responsible to take whatever steps are necessary to ensure that Permittee has property rights sufficient to support the activities contemplated by the Permit.

H. The exploration project is not on state or federal land. The Permittee controls the surface and mineral estate within the Permit Area and has adequately demonstrated a right-to-enter the Permit Area as provided through an executed insured Title and Warranty Deed including the owner's policy of title insurance, dated January 12, 2016, and filed with Socorro County on April 8, 2016, which included a listing of Patented Mining Claims covering the permit area that are owned and/or leased by Holley and providing the appropriate acknowledgment that the Permittee has the right to access the mineral estate for the purpose of mineral extraction within the Permit Area.

General Information Regarding the Permittee

I. The Permittee is not in violation of the terms of another permit issued by the Director or in violation of a substantial environmental law or substantive regulation at another mining operation, has not forfeited or had forfeited financial assurance in connection with another mining, reclamation or exploration permit, and has not demonstrated a pattern of willful violations of the Act, the Rules or other New Mexico environmental statutes.

J. The Permittee has signed a statement, provided within the PAP, that the Permittee agrees to comply with the requirements of this Permit, the Rules, and the Act, and allows the Director to enter the Permit Area for the purpose of conducting inspections.

MMD's Request for Comments to the Agencies and Tribes

responsible and obligated to comply with all state and federal laws related to water rights sufficient to support the activities contemplated by the Permit.

Section 6. AGENCY RIGHT OF ENTRY

A. The Permittee shall allow the authorized representatives of the Director, without advanced notice, upon presentation of appropriate credentials, and without delay:

1) to enter upon, or through, any mining, mineral exploration or reclamation operation at any time, as provided for in §19.10.3.302.I (3) and §19.10.11.1101.E (1) NMAC, for the purpose of conducting inspections during exploration, and reclamation, and to determine if the Permittee is in compliance with the permit requirements and conditions; and

2) at reasonable times, and without delay, have access to and copies of any records associated with permitting and compliance required by the Act, §19.10. NMAC or the Permit.

B. In the event that the landowner revokes, terminates, or otherwise prevents or impedes access to the Permit Area by the authorized representatives of the Director, the Director will notify the Permittee. The Permittee shall immediately cease all mining operations within the Permit Area and will not resume mining operations until such authorized representatives' access to the Permit Area has been restored.

C. In the event that the Director's authorized representatives' access to the Permit Area is not restored by the landowner within 60 days after the Director has given Permittee the notice provided for in subparagraph B of this Section 6, the Permittee shall immediately begin reclamation of the Permit Area.

Section 7. PERMIT COVERAGE

A. This permit shall be binding on any person or persons conducting mining, exploration and reclamation operations under this Permit.

Section 8. ENVIRONMENTAL COVERAGE

A. The Permittee shall take all necessary steps to minimize any adverse impact to the environment or public health and safety resulting from noncompliance with any term or condition of the Permit, the Rules or the Act.

Section 9. COMPLIANCE WITH THE PERMIT APPLICATION PACKAGE

A. The Permittee shall conduct mining, exploration drilling and reclamation operations only as described in the approved PAP and any other modifications approved by the Director

E. Overland travel is prohibited within the Permit Area during wet, muddy conditions. No construction or routine maintenance activities shall be performed during periods when the soil is too wet to adequately support construction equipment. If such equipment creates ruts in excess of six (6) inches deep, the soil shall be deemed too wet to adequately support construction equipment.

Best Management Practices to be Performed

F. As necessary throughout the Permit Area, and during the construction of drill pads, the Permittee shall leave all disturbances in a manner that is stable, both long-term and short-term, and are non-hazardous to humans and wildlife, by implementing site-specific erosion-control measures, or Best Management Practices ("BMP"), in a manner that prevents direct impacts to surface water and watercourses and that are designed, constructed and maintained using professionally recognized standards (e.g., Natural Resource Conservation Service Standards, or the Bureau of Land Management's "Gold Book" publication titled: *The Surface Operating Standards and Guidelines for Oil and Gas Exploration and Development*) for surface disturbances during the exploration project and reclamation activities.

BMP's will be implemented, as needed, for erosion control, surface disturbances, temporary low-water crossings, spill prevention and the avoidance of, or damage to, ephemeral stream channels in the area. Placement of water bar structures, or other appropriate measures, should be taken to reduce head-cutting adjacent to roads and to prevent roadways from channelizing surface flow. Erosion control measures or any other BMP's that are damaged or ineffective shall be repaired, replaced or redesigned, as necessary, within 24 hours, or as soon as reasonably possible, following discovery of damages. The Permittee shall commit to using a variety of erosion-control measures, as needed, if erosion control problems develop.

G. A minimum setback of 100 feet away from any watercourse is required of all drill pads and any associated activity within the permit area. *(**Watercourse** means any channel having definable beds and banks capable of conducting generally confined runoff from adjacent lands. During floods water may leave the confining beds and banks but under normal flows water is confined within the channel. A watercourse may be perennial, intermittent, or ephemeral.)*

H. No drilling and no storage of fuels or chemicals shall take place within any watercourse or drainage areas that are in the Permit Area. No excavation or filling shall take place within any watercourse or drainage areas until the required permits or consultations are obtained from the U.S. Army Corps of Engineers. A copy of such approval shall be provided to MMD when obtained.

I. Appropriate spill clean-up materials, such as absorbent pads, must be available on-site at all times during road construction, site preparations, and drilling activities to address potential

O. The Permittee must maintain current MSDS documentation for drilling additives, and any other chemicals to be used throughout the duration of the operation including exploration and reclamation activities, and made available for review upon request.

Cultural and Paleontological Resource Preservation Requirements

P. Any cultural and/or paleontological resources (historic and/or prehistoric site or object(s)) discovered by the Permittee, or by any personnel working on the Permittee's behalf, shall immediately report any such findings to the SHPD. The Permittee shall suspend all operations in the immediate area of such discovery until authorization to proceed is issued by the SHPD. An evaluation of the discovery will be made by the SHPD to determine appropriate actions to prevent the loss of significant cultural or scientific values. The Permittee shall be responsible for the cost of evaluation and any decision as to the proper mitigation measures to be made by the SHPD after consulting with the Permittee.

Q. The Permittee shall notify MMD at least 30 days prior to initiating any subsurface plugging and abandonment activities approved pursuant to this Permit. The drill sites will be considered eligible for release of FA, once the following criteria have been met:

1) no significant erosion is evident on reclaimed areas; and

2) all boreholes have been plugged and abandoned, as described in this Permit.

Release of FA addressing plugging and abandonment costs may occur before expiration of the permit term, once the criteria above have been met.

R. All lands to be disturbed will be addressed under the performance and reclamation standards and requirements of §19.10.3.302 NMAC and in accordance with the PAP and the conditions described within this Permit. The Permittee is obligated to complete reclamation of all disturbed areas upon completion of exploration or upon termination or withdrawal of approval to operate by the landowner. The Holley-Rosedale Exploration Project will not qualify as a Minimal Impact Exploration Operation if permit authority is exceeded or Minimal Impact Exploration requirements are violated.

Changes, Modifications, or Revisions to the Permit

S. Any modifications, or any other field adjustments or changes not preapproved as part of this Permit, must be approved prior to implementation pursuant to §19.10.3.302.J NMAC and §19.10.4.406 NMAC.

T. The Permittee will provide a schedule of exploration drilling activities, prior to the commencement of drilling activities, to facilitate effective inspection and monitoring of drilling and reclamation activities. The schedule includes any exploration drilling activities

(see §19.27.4.36, *Requirements for Mine Drill Holes that Encounter Water*). An NMOSE-approved Well Plugging Plan of Operations shall be provided to MMD following approval of this Permit or within 30 days after the groundwater was inadvertently or unexpectedly encountered during drilling activities. The approved sealant shall comply with all applicable specifications of ASTM D5299-99. The Permittee shall ensure that the correct ratio of solids to water is used during the preparation of the approved sealant. Well plugging records shall be sufficiently detailed to document plugging methodology, the proper constitution of approved sealant, and an adequate volume of sealant was used to meet theoretical volumes of plugged intervals shall be provided to NMOSE and copied to MMD. Additionally, the Permittee is required to consult with NMOSE personnel prior to plugging wet boreholes.

Project Completion Timeline/Termination Report Requirements

W. Notwithstanding any other provision of this Permit, the Permittee shall close and abandon all exploratory boreholes, including all wells, within one (1) year of date of permit issuance, unless documentation is provided from the landowner that:

1) the landowner wants the wells left in place, and MMD approves;

2) the Permittee has submitted a mining permit application to MMD that includes the wells; or

3) the Permittee has received a renewal for an exploration operation, pursuant to §19.10.4.405 of the New Mexico Mining Act Rules.

X. The Permittee shall submit a termination report, pursuant to §19.10.4.407 NMAC, at the conclusion of the exploration operation, unless the Permittee has applied for renewal of the exploration permit, or applied for a mining operation permit. The termination report shall contain, at a minimum:

1) Photographs of the reclaimed areas, including any BMP's utilized by the Permittee during exploration;

2) Global positioning system (GPS) coordinates for the boreholes and/or well locations actually drilled under this Permit; and,

3) Copies of the borehole abandonment and plugging records and forms that includes an affidavit signed by a certified driller, engineer, or the project geologist, attesting to the fact that the holes have been plugged and abandoned according to the requirements of this permit.

Section 11. CONCLUSIONS OF LAW

CERTIFICATION

I certify that I have read, understand and will comply with the requirements of the Permit. I further certify that I am not in violation of the Act or §19.10 NMAC. I also agree to comply with the performance and reclamation standards and requirements of the Permit, the Rules, and the Act, and allow the Director to enter the Permit Area without delay for the purpose of conducting inspections during exploration and reclamation.

Fred Holley
Authorized Representative of the Permittee

Owner
Title

Self
Company Name

Subscribed and sworn to before me this 3rd day of Oct, 2016

DOUGLAS J. AIKEN
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 19944013398
MY COMMISSION EXPIRES SEPTEMBER 20, 2018

Notary Public

My Commission Expires

Sept. 20, 2018

Appendix 1 – Financial Assurance

Surface Disturbance – none. No financial assurance required as no additional surface acreage disturbance is contemplated due to all exploration drilling activity taking place within previously disturbed existing access roads within the Permit Area in which the private landowner wants left in place.

Exploration Activities (subsurface borehole plugging and abandonment)

Boreholes	Depth Each	Total Footage	Cost/Foot	Subtotal	Notes
4	500	2,000	$14.00	$28,000.00	dry holes

TOTAL FA REQUIRED: $28,000.00

IRREVOCABLE STANDBY LETTER OF CREDIT NO-2016-01

Date: October 3, 2016

Director
Mining and Minerals Division
New Mexico Energy, Minerals and Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Upon the application of Fred and Betty Holley ("Applicant"), whose address is PO Box 162, Dove Creek, CO. 81324, The Dolores State Bank ("Issuer"), whose address is PO Box 848, Dolores, CO. 81323, hereby issues this irrevocable Standby Letter of Credit ("LOC") to Director of the Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department ("Beneficiary"), whose address is 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, in an amount not to exceed a total of Twenty-Eight Thousand and No/100 dollars ("Total Credit Amount"), subject to the following terms and conditions:

1. **TERM:** This LOC shall become effective upon the date first written above and expires, unless automatically renewed, one (1) year thereafter.

2. **PRESENTATION AND HONOR:** Any time or at multiple times prior to the expiration of this LOC, Issuer shall pay Beneficiary up to, in the aggregate, the Total Credit Amount, either in whole or in part, as demanded by Beneficiary, upon presentation of a demand letter that contains the following information and representations:

   a. The LOC Number;

   b. A copy of this LOC;

4. **REDUCTION IN TOTAL CREDIT AMOUNT:** Beneficiary may, in its sole discretion, reduce the Total Credit Amount under this LOC by mailing a Notice of Reduction to Issuer, pursuant to Paragraph 8 below, that contains the amount by which the Total Credit Amount is to be reduced.

5. **TERMINATION:** Beneficiary may, in its sole discretion, terminate this LOC prior to the expiration date by mailing a Notice of Termination to Issuer, pursuant to Paragraph 8 below. The Notice of Termination shall include reference to the LOC Number, include the original copy of this LOC, and shall be signed and acknowledged by Beneficiary. This LOC shall terminate upon Issuer's receipt of such Notice of Termination.

6. **APPLICABLE LAW:** This LOC is subject to, and shall be construed and performed in accordance with, the Uniform Customs and Practices for Documentary Credits, 2007 revision, International Chamber of Commerce Publication No. 600 ("UCP 600") and the laws of the State of New Mexico. In the event of a conflict between the UCP-600 and the laws of the State of New Mexico the UCP-600 shall govern.

7. **FORUM:** Any lawsuit regarding this LOC shall be brought and heard in, and Issuer consents to the personal jurisdiction of, the First Judicial District, Santa Fe, New Mexico.

8. **NOTICES:** All notices required under this LOC shall be mailed, Certified Mail - Return Receipt Requested, as follows:

Notices to Beneficiary: Director of the Mining and Minerals

ACKNOWLEDGEMENT

Colorado)
) ss.
Montezuma)

This **Irrevocable Standby Letter of Credit** was duly acknowledged before me on the 3rd day of October, 2016, by Douglas J. Aiken, as Executive Vice President and Cashier of The Dolores State Bank.

Martha A Gustin

Notary Public

MARTHA A. GUSTIN
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20014034520
MY COMMISSION EXPIRES 11/01/2017

My commission expires:

11-01-17