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ENVIRONMENT DEPARTMENT

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Office of General Counsel

June 8, 2006

BY HAND DELIVERY

Jon J. Indall
Comeau, Maldegen, Templeman & Indall, LLP
Coronado Building
141 East Palace Avenue
Post Office Box 669
Santa Fe, New Mexico 87504-0669

Re: Homestake Mining Company Site

Dear Mr. Indall:

On May 3, 2006, the New Mexico Environment Department (Department) received a letter from you on behalf of your client, Homestake Mining Company of California (Homestake), dated April 27, 2006. I am enclosing a copy of the letter herewith. I received a copy of the letter last week, upon returning from a two-week vacation, from staff of the Department's Ground Water Quality Bureau. I am very troubled by the form and contents of the letter.

The letter purports to "memorialize[] the understandings" among representatives of Homestake, the Department, the United States Environmental Protection Agency (EPA), and the United States Nuclear Regulatory Commission (NRC) in a meeting and teleconference call held at the Department's offices on April 7, 2006. The letter is addressed to Gerard Schoeppner, a hydrologist in the Ground Water Quality Bureau. The letter is in the form of a letter agreement. On the last page, the letter states: "If you concur in the approach and terms of this letter, please countersign in the space provided and return one original to me." Following your signature of the letter, is a signature block for Gerard Schoeppner following the word "Agreed."

As you should recall, I was a participant at the April 7, 2006 meeting to which the letter refers, representing the Department in this matter. However, you did not address the letter to me, or even copy me on the letter. I received a copy of the letter from Mr. Schoeppner.

Letter to Jon J. Indall
June 8, 2006
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Rule 402 of the New Mexico Rules of Professional Conduct provides:

In representing a client, a lawyer shall not communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized by law to do so.

16-402 NMRA. Your letter to Mr. Schoeppner, and its request for his agreement to its terms, without my consent or knowledge, is directly contrary to Rule 402 of the Rules of Professional Conduct. I object to your letter in the strongest possible terms. Please ensure that future communications from your firm, or from other attorneys representing Homestake, will be directed to me.

Furthermore, the Department disagrees with several substantive statements in your letter to Mr. Schoeppner.

First, page 1 of the letter states that "constituent levels detected in these wells are below the natural background water quality levels established for the Area," and again on page 2 that the nine residential wells in the Valle Verde Estates are "below background constituent levels." In fact, nine of the residential wells exceed the federal primary maximum contaminant level (MCL) and the proposed background level for at least one contaminant, while another nine residential wells exceed the secondary MCL and the proposed background level.

Second, page 1 of the letter states that the Department, EPA, NRC, and the Agency for Toxic Substances and Disease Registry (ATSDR) "have determined that groundwater in the wells sampled may be safely used for irrigation, gardening, lawn care and for livestock watering purposes." While a representative of ATSDR made such a statement during the public consultation meetings on March 1-2, 2006, the statement was based on individual well results and is not necessarily true for all ground water in the area. The ATSDR will review this issue based on additional sampling and historical data, and prepare a written report either confirming or qualifying the original statement. Moreover, contrary to your statement, the Department has made no such determination. Given that ground water contamination exceeds health-based standards, the Department will defer to the ATSDR risk evaluation on this question.

Third, page 2 of the letter states that Homestake agrees to assist in connecting certain residences with private wells to the Village of Milan water system, but that such assistance is "conditioned upon each resident of the household served by the well granting to Homestake a legally binding comprehensive release of any past and future liability related in whole or in part to the use of water from the well for any purpose." This issue was not raised or discussed during our April 7, 2006 meeting. The Department does not agree that such a condition is appropriate.

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Despite these disagreements, the Department is hopeful that the parties can negotiate an agreement in accordance with our discussions on April 7, 2006. Such agreement would provide for the connection of the nine residences that the Department has identified to the Village of Milan water system, as well as any other residences (not yet identified) that use a domestic well installed prior to April 7, 2006 for their primary drinking water supply, and are located within a reasonable proximity to the Homestake mill.

If you have any questions on this matter, you may call me at (505) 827-2985.

Yours truly,

A handwritten signature in black ink, appearing to read "Charles de Saillan", with a long horizontal flourish extending to the right.

Charles de Saillan
Assistant General Counsel

Enclosure

cc: Bill Olson, Chief, Ground Water Quality Bureau
Dana Bahar, Ground Water Quality Bureau
Jerry Schoeppner, Ground Water Quality Bureau
Jake Ingram, Ground Water Quality Bureau
James Costello, EPA Region 6, Office of Regional Counsel
Sai Appaji, EPA Region 6
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G. Stanley Crout
1937-1987

Charles D. Olmsted
1925-1991

April 27, 2006

MAY 02 2006

Gerard Schoeppner
Groundwater Quality Bureau
Harold Runnels Building
P. O. Box 26110
1190 St. Francis Drive
Santa Fe, NM 87504

Re: *Homestake Mining Company of California*

Dear Jerry:

This letter memorializes the understandings between Homestake Mining Company of California ("Homestake") and New Mexico Environment Department ("NMED"), U.S. Nuclear Regulatory Commission ("NRC") and U.S. Environmental Protection Agency ("EPA") (collectively the "Agencies") representatives in a meeting and teleconference call held in NMED's offices on April 7, 2006.

The purpose of the meeting was to address the results of the recent groundwater sampling program conducted by NMED and EPA which indicated that several wells in the alluvial formation, and possibly the Chinle formation, in the sampled area ("Area") have slightly elevated levels of various constituents relative to the Federal and New Mexico Drinking Water standards. These wells are situated along Ralph Card Road and adjacent to the Valle Verde Estate Subdivision. While the constituent levels detected in these wells are below the natural background water quality levels established for the Area, the Agencies are concerned that groundwater with these constituent levels should not be used for drinking water. The Agencies and ATSDR have determined that groundwater in the wells sampled may be safely used for irrigation, gardening, lawn care and for livestock watering purposes.



MERITAS LAW FIRMS WORLDWIDE

The Agencies have identified nine residences in the Valle Verde Estates along Ralph Card Road whose existing alluvial and Chinle wells, while below background constituent levels, exceed drinking water standards for groundwater. The Agencies would like to have these residences connected to the Village of Milan water system. The wells at these residences were developed subsequent to the connection of other area residents to the Village of Milan water system at Homestake's cost. The Agencies have requested that Homestake assist the residents identified by the Agencies to connect to the Village of Milan water system. Homestake, in an effort to assist the Agencies and those residents with existing alluvial and Chinle wells that are utilized solely for potable water use and who presently are not connected to the Village of Milan water system, has in principal, agreed to assist in the connection of such residents to the Village of Milan water system. The Agencies acknowledge that Homestake's assistance will be offered only to those residents that have not been previously connected to the Village of Milan water system at their current residence and whose wells were installed prior to April 7, 2006. Homestake will not pay any fees with respect to the use of the water system or to maintain such connections (e.g. maintenance, upkeep, periodic inspection), or have any liability associated with the connections, once the connections are accomplished. Homestake's assistance is further conditioned upon each resident of the household served by the well granting to Homestake a legally binding comprehensive release of any past and future liability related in whole or in part to the use of water from the well for any purpose.

NMED will take the lead responsibility for obtaining the necessary approvals from the Village of Milan to connect the nine (9) identified Valle Verde subdivision properties. NMED also will coordinate with the residents to obtain the releases prior to making any commitment to connect the residence to the Village of Milan water system.

The Agencies' sampling program also identified a well, known as the Williams well, that has elevated nitrate levels. The source of the elevated nitrate levels is unknown based on existing data and information. However, the Agencies and Homestake agree that there is no basis for concluding that Homestake has contributed to the present condition of the water quality in the well. Nevertheless, Homestake has agreed to assist the Agencies and public officials in any reasonable efforts to obtain assistance for this resident to achieve a public drinking water source.

The Agencies and Homestake have established that background levels of some constituents of the groundwater in the alluvial and Chinle formations in the Area exceed drinking water standards. In order to discourage future use of alluvial and Chinle formation wells for drinking water purposes, NMED shall work with the New Mexico State Engineer to establish an advisory program. The advisory program will alert existing and future residents that attempt to obtain State Engineer permits to drill new wells in the alluvial and Chinle formations in the Area of the inadvisability of using such water for drinking water purposes.

Gerard Schoeppner

April 27, 2006

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The Agencies will not seek Homestake's assistance in connecting any future residences in the Area that construct water wells after April 7, 2006. It is the intent of Homestake and the Agencies to enter into an agreement setting forth the responsibility and obligations of the parties to meet and support the understandings set out during April 7, 2006, meeting as described in this letter. If you concur in the approach and terms of this letter, please countersign in the space provided and return one original to me.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Jon Indall', written over a horizontal line.

Jon Indall

JJI/cat

Agreed: _____

Gerard Schoeppner
Groundwater Quality Bureau
New Mexico Environment Department

cc: Paul Michalak
Sai Appaji