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m/027/007

March 25, 1998

VIA FEDERAL EXPRESS

RECEIVED
MAR 26 1998
DIV. OF OIL, GAS & MINING

Daniel G. Moquin, Esq.
Assistant Attorney General
Utah Division of Oil, Gas & Mining
1594 West North Temple, Suite 300
Salt Lake City, UT 84114-0855

0013-0022

Re: Drum Mine Site - Western States Minerals Corporation Reclamation of Settlement Agreement

Dear Dan:

I am enclosing five originally executed copies of the Settlement Agreement for you to present to the Board for approval and signature. Once you have obtained the signatures of the state agencies (including the Division of Water Quality), could you please forward the Agreement to Bruce Hill for him to obtain the signatures of BLM.

At the end of the day we request that one fully executed copy of the Agreement be returned to me for our client's records. I believe that I am circulating enough copies for each agency to retain an original for its files.

I am also enclosing four copies of Exhibit A. Could you please attach the fifth copy (which you received by Federal Express this morning) to one of the Agreement copies that is attached to this letter?

Our client is now in the process of making final arrangements for its contractor to commence the sampling phase of reclamation. We understand from the contractor that this is likely to commence in mid-April.

If you have any questions, please give me a call.

Very truly yours,

Craig R. Carver

CRC/my
Enclosures

cc without enclosures:
John F. Carmody
Bruce Hill

U:\Clients\WSMC -\DrumDOGMLit-13-22-4016\Correspondence\3-25-98 D. Moquin.doc

SETTLEMENT AND RECLAMATION AGREEMENT

BETWEEN AND AMONG

WESTERN STATES MINERALS CORPORATION

AND

THE UNITED STATES DEPARTMENT OF INTERIOR, BUREAU OF LAND MANAGEMENT

and STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL, GAS AND MINING and DEPARTMENT OF ENVIRONMENTAL QUALITY, DIVISION OF WATER QUALITY

TABLE OF CONTENTS

1 Coordination of Agency Determinations To Be Made Under the Agreement 5

1.1 Lead Agency 5

1.2 Notices 5

1.3 Administration of the Agreement 7

2 Areas To Be Reclaimed By Western 7

3 The Sampling Plan 7

3.1 Submission and Approval 7

3.2 Implementation 8

4 The Reclamation Plan 8

4.1 Submission and Approval 8

4.2 Reclamation Standards and Monitoring. 8

4.2.1 Variances 8

4.3 Implementation 9

5 Bonding. 9

5.1 Adequacy of Existing Bond 9

5.2 Reduction of Bond once Monitoring Phase of Reclamation Plan is Reached 9

6 Status of Pending Administrative Proceedings 9

7 Time Frames and Extensions 10

8 Relationship Between Western, BLM and the Claimant/Operator of the Remaining Portions of the Drum Mine Site 10

9 Dispute Resolution and Appeal Procedures 11

9.1 Notice of Breach 11

9.2 Mediation of Disputes 11

9.2.1 Appointment of Mediator 11
9.2.2 Mediation Procedures 11
9.2.3 Costs of Mediation 11
9.2.4 Procedures in the event that mediation does not resolve the dispute 12

10 Termination of this Agreement and Release of Western 12

10.1 Termination 12

10.2 Release 12

This Settlement and Reclamation Agreement (the "Agreement") is entered into between and among WESTERN STATES MINERALS CORPORATION ("Western") on the one hand and the UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT ("BLM"), and THE STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL, GAS AND MINING ("DOGM") and DEPARTMENT OF ENVIRONMENTAL QUALITY, DIVISION OF WATER QUALITY ("DWQ") (BLM, DOGM AND DWQ are each individually referred to as an "Agency," and are collectively referred to herein as the "Agencies") on the other.

RECITALS

The Utah State Director of the BLM has issued a Decision dated October 20, 1997, affirming a decision dated July 14, 1997, issued by the BLM Area Manager, and ordering, *inter alia*, that Western submit a plan of operations to reclaim specified portions of the Drum mine site in Millard County, Utah.

DOGM has commenced formal adjudicatory proceedings (Docket No. 97-009, Cause No. M/027/007) to obtain, *inter alia,* reclamation by Western of the specified portions of the site.

DWQ wishes to review and comment upon proposed reclamation plans for the Drum mine site in order to reduce the possibility that there could be any significant long-term discharge of contaminants to the subsurface from the specified portions of the site.

Western has committed to comply with the decision of the BLM State Director by submitting a plan of operations and reclaiming the specified portions of the Drum site in the manner required by the BLM's governing laws and regulations. To that end, Western has committed to perform the obligations specified in this Agreement, and it has commenced performance of those obligations by submitting a proposed sampling plan to the Agencies. The results of the sampling will be used to develop a suitable plan of operations pursuant to which Western will reclaim the specified portions of the site, in the manner set forth herein.

All parties desire to avoid the expenses, delays and other inefficiencies involved in adjudicating past, present and future disputes over Western's reclamation responsibilities at the Drum mine site. To accomplish that goal, the parties have agreed to settle and resolve all such disputes, and to terminate and resolve all pending formal adjudicatory proceedings before the Agencies by entering into this Agreement. Western's performance of the obligations imposed upon it in this Agreement shall constitute full, complete and final compliance by Western of all obligations with respect to the Drum mine site that have been or may be imposed upon it by any of the Agencies.

NOW, THEREFORE, for and in consideration of the mutual covenants set forth herein, the parties agree as follows:

1 Coordination of Agency Determinations To Be Made Under the Agreement.

1.1 Lead Agency.

As specified in the State Director's October 20, 1997, decision, since the Drum mine site occurs on federal land administered by BLM, BLM is and will remain the lead agent for all operations conducted on the site. Pursuant to the terms of the Memorandum of Understanding between DOGM and BLM concerning regulation of minerals mining and reclamation, BLM accepts lead responsibility for management of all operations and other obligations to be performed under this agreement. That responsibility shall be carried out in the manner set forth herein.

1.2 Notices.

Western shall submit copies of all plans and notices required under this agreement to each of the agencies at the addresses, or (where and when appropriate) by fax or e-mail as specified below.

BLM (State Office):
Mr. G. William Lamb
State Director
Utah State Office (UT-930)
Bureau of Land Management
P. O. Box 45155
Salt Lake City, UT 84145-0155
Phone: (801) 539-4010
Fax: (801) 539-4013 With cc to:

BLM (Area Office)
Mr. Rex Rowley, Area Manager
Bureau of Land Management
Fillmore Office
35 East 500 North
Fillmore, Utah 84631
Phone: (435) 743-3104
Fax: (435) 743-3135

Bruce Hill, Esq.
Office of the Solicitor
6201 Federal Bldg.
125 S. State Street
Salt Lake City, UT 84138-1180
Phone: (801) 524-5677 (ext. 228)
Fax: (801) 524-4506

DOGM:
Mr. D. Wayne Hedberg
Permit Supervisor
Division of Oil, Gas and Mining
1594 West North Temple, Ste. 1210
Box 145801
Salt Lake City, Utah 84114-5801
Phone: (801) 538-5286
Fax: (801) 359-3940

With cc of notices and cover letters to:
Mr. Dan Moquin
Office of the Attorney General
Natural Resources Division
1594 West North Temple, Ste. 300
Box 140855
Salt Lake City, Utah 84114-5801
Phone: (801) 538-5243
Fax: (801) 538-7440

DWQ:
Mr. Don Ostler, Director
Department of Environmental Quality
Division of Water Quality
288 North 1460 West
Salt Lake City, Utah 84116
Phone: (801) 538-6170
Fax: (801) 538-6715

Notices shall be provided to Western at the following address or fax:

WESTERN STATES MINERALS CORPORATION
Attn: John F. Carmody
4975 Van Gordon Street
Wheat Ridge, CO 80033
Phone: (303) 425-7042 ext. 23
Fax: (303) 425-6634

With cc to:
Craig R. Carver
Alfers & Carver, LLC
730 17th Street, Suite 340
Denver, CO 80202
Phone: (303) 592-7674
Fax: (303) 592-7680
e-mail: ccarver@alfers-carver.com

1.3 Administration of the Agreement.

All responses to be provided by the Agencies to Western under this agreement will be coordinated through BLM. Upon receipt of and prior to approval of any proposals submitted by Western hereunder, or any revisions thereof, the BLM will consult with and give due consideration to timely comments from DOGM and DWQ. If DOGM or DWQ cannot provide comments within 30 days of receipt of the proposal, BLM will proceed independently in processing it. Should there be any disagreement between any of the Agencies, BLM will take the lead in conducting whatever meetings or negotiations are necessary to resolve the problems, including raising the problem to the directors of the agencies for resolution, if necessary.

The Agencies shall inspect jointly or independently for compliance with all obligations of Western hereunder, and shall promptly notify the other agencies of operations not complying with such obligations.

2 Areas To Be Reclaimed By Western.

As specified in the State Director's October 20, 1997, decision, Western shall submit a plan of operations for, and shall reclaim, those portions of the Drum mine site which are identified on the attached Exhibit A as: lo-grade heap #1, lo-grade heap #2, lo-grade heap #3, hi-grade heap #6, hi-grade heap #7 (marked as HG7 and W7 on Exhibit A), one 3.6 acre waste dump (marked as W-3 on Exhibit A), one 5.2 acre waste dump (marked as W-2 on Exhibit A); plus Western shall reclaim the disturbance around Busby Spring, an unplugged drill hole above Busby Spring, and disturbances caused by exploration activities conducted under notices UT-057-39N, UT-056-64N, UT-056-062N, and unserialized notice submitted December 13, 1983 and unserialized notice submitted February 1, 1985.

In addition to the areas itemized in the BLM State Director's decision, DOGM has asserted that Western is responsible for reclamation of one 20.1 acre waste dump (marked as W-1). For and in exchange for the conditions set forth in this Agreement, Western has agreed that it shall sample and reclaim such area.

The areas identified above shall constitute, and be referred to as, the "Western Reclamation Areas." Western shall have no responsibility to reclaim any other portions of the Drum mine site.

3 The Sampling Plan.

3.1 Submission and Approval.

Western has submitted to each of the Agencies its proposed plan for sampling the characteristics of the Western Reclamation Areas. After consulting with DOGM and DWQ, BLM shall determine whether implementation of the plan as proposed will be adequate to characterize the Western Reclamation Areas for purposes of development of a reclamation plan for such areas. If so, then BLM shall provide notice to Western of its approval of the sampling plan. If not, BLM and Western shall consult in order to seek agreement on the nature and extent of any modifications needed in order to cause the plan to be adequate for such purposes. Once agreement is reached on the sampling plan, BLM shall provide Western with notice of its approval of the agreed-upon sampling plan.

3.2 Implementation.

As soon as practicable after receipt of an approved sampling plan from BLM, Western shall implement the provisions of the approved plan. All results and evaluations obtained as a consequence of implementation of the sampling plan shall be provided to the Agencies within 10 days after receipt by Western.

4 The Reclamation Plan.

4.1 Submission and Approval.

Within 60 days of Western's receipt of the results of the sampling of Western's Reclamation Areas, Western shall provide to the Agencies a detailed plan of operations to reclaim Western's Reclamation Areas in an efficient and effective manner, and in accordance with applicable laws and regulations. After consulting with DOGM and DWQ, BLM shall determine whether implementation of the plan as proposed will be adequate to reclaim the Western Reclamation Areas. If so, then BLM shall provide notice to Western of its approval of the reclamation plan. If not, BLM and Western shall consult in order to seek agreement on the nature and extent of any modifications needed in order to cause the plan to be adequate for such purposes. Once agreement is reached on the reclamation plan, BLM shall provide Western with notice of its approval of the agreed-upon reclamation plan.

4.2 Reclamation Standards and Monitoring.

Prior to commencement of reclamation activities, Western, BLM and DOGM shall mutually select an agreed-upon representative undisturbed off-site reference area and they shall inventory the density of base-line vegetative cover within such area. Unless a variance is granted under section 4.2.1 below, Western shall reclaim the Western Reclamation Areas pursuant to the requirements of R647-4-111.

4.2.1 Variances.

Western may pursue variances following the procedures mandated under R647-4-111 and R647-4-112 and this section 4.2.1. In the event that the results obtained from implementation of the Sampling and Characterization Plan establish to the reasonable satisfaction of DOGM that no specialized reclamation efforts will be required to deal with toxic materials at the site, then the amount of cover material applied to the areas to be reclaimed shall be such amount as Western, in its reasonable judgment, deems appropriate to result in the growths necessary to attain the reclamation standard imposed by R647-4-111 or a variance granted by the Division in writing.

If Western reduces the slopes of all facilities in the Western Reclamation Areas to a maximum 3 to 1 (horizontal to vertical) slope, and if Western prepares all surfaces to accept the growth media application, and if at least 6 inches of growth media are applied to all reclaimed and recontoured surfaces (with the appropriate additives applied, as determined by agronomic analyses), and if a diverse seed mix that includes adaptable perennial species native to the area is applied to all reclaimed areas, all to the reasonable standards and satisfaction of DOGM, then DOGM shall grant a variance to Western under R647-4-111.13 such that reclamation shall be deemed acceptable if the reclaimed areas have attained at least 50% of the vegetative density of

the off-site reference area within two growing seasons following the final seeding of the Western Reclamation Areas.

Notwithstanding the foregoing, if the results of Western's sampling program demonstrate the existence of hazardous materials in any of the reclamation areas that pose a realistic threat to migrate from the site into waters of the State or U.S., then BLM and DOGM shall retain all authority granted by law to impose such reclamation requirements as are appropriate to mitigate such threat.

Upon completion of the reclamation obligations as contained in the approved reclamation plan, Western shall be required to monitor the Western Reclamation Areas for the shorter of the period specified in R647-4-111.13 or any variance granted under this section.

4.3 Implementation.

As soon as practicable after receipt of an approved reclamation plan from BLM, Western shall implement the provisions of the approved plan.

5 Bonding.

5.1 Adequacy of Existing Bond.

The parties desire to increase the efficiency of the reclamation process. The parties also recognize that all activities to be conducted by Western on the Drum site are to take place on or in the immediate vicinity of previously disturbed lands. Western's activities will serve to reduce the potential impacts of the existing disturbances on the environment and the costs required to be spent in the future to reclaim the Western Reclamation Areas. Accordingly, for so long as Western remains in compliance with its obligations under this Agreement, the Agencies agree to accept Western's existing bond as adequate for purposes of securing Western's performance of its reclamation obligations hereunder. Should any of the Agencies determine that Western is not performing in conformance with its obligations under this Agreement, then at the conclusion of the dispute resolution and appeal procedures specified in Article 9 below the Agencies may separately establish any bonding obligations authorized under their governing law and regulations.

5.2 Reduction of Bond once Monitoring Phase of Reclamation Plan is Reached.

Within 45 days of the responsible Agencies' receipt of Western's written notice that their reclamation obligations have been fulfilled, a joint onsite inspection will be performed. Once the Agencies confirm and agree that the applicable reclamation performance standards have been satisfied, then DOGM shall commence proceedings to release all bond funds in excess of those necessary to accomplish actual costs of remaining reclamation or monitoring.

6 Status of Pending Administrative Proceedings.

Submission of its proposed Sampling Plan and execution of this Agreement by all parties constitutes timely compliance by Western of all requirements specified in the State Director's October 20, 1997, decision and the Area Manager's decision affirmed by such decision, and brings Western and its operations into compliance with Federal regulations.

Execution of this Agreement by all parties resolves and settles all issues between Western, DOGM and the Board of Oil, Gas and Mining, in the formal proceeding instituted before the Board entitled "In the matter of the petition filed by the Division of Oil, Gas and Mining For an Order requiring Immediate Reclamation of the Drum Mine From Western States Minerals Corporation and Jumbo Mining Company, Millard County, Utah," Docket No. 7-009, Cause No. M/027/007. Accordingly, Western and DOGM shall jointly file with the Board a notice of dismissal of Western from that proceeding.

Nothing contained in this Agreement shall release Jumbo Mining Company from any proceedings, liabilities or obligations pending or asserted or to be asserted by any of the parties to this Agreement.

7 Time Frames and Extensions.

The sampling plan addendum entitled "Addendum to the Characterization Sampling Program for Heap Leach Pads and Waste Rock Dumps Located at the Drum Mine, dated November 1997" contains tentative time frames for completion of the sampling and reclamation of Western's portion of the Drum Mine site. These time frames will be modified based on the analytical results of the sampling plan. Additional delays may be incurred due to equipment availability and weather. Western shall promptly notify BLM and DOGM of the particulars of the problem and of the additional time required to complete the obligations that are delayed by the problem. BLM and DOGM shall evaluate the problem and the delays incurred as a consequence thereof, and shall extend all affected deadlines by such period as it determines is warranted under the circumstances, which period shall not be less than any delay caused by forces outside of the reasonable control of Western.

8 Relationship Between Western, BLM and the Claimant/Operator of the Remaining Portions of the Drum Mine Site.

The activities undertaken by Western at the Drum Mine site are being conducted on unpatented mining claims on public lands of the U.S., managed by the BLM and regulated by the Agencies. Pursuant to laws and regulations governing such lands, the BLM and the State have issued orders requiring that Western undertake the reclamation activities described in this Agreement. All operations conducted by Western in conformance with such plan and any other BLM or State directives are undertaken under the authority of BLM and the State. The Drum Mine site is covered by unpatented mining claims and the portions of the site not covered by Western Reclamation Areas are operated by Jumbo Mining Company. Jumbo has recently filed for liquidation under Chapter 7 of the United States Bankruptcy Code. Consequently, the parties to this Agreement do not anticipate that any entity will operate or seek to operate the mine site during the pre-monitoring phase of Western's reclamation plan. However, should Jumbo or any successor-in-interest operate or propose to operate the site or any portion thereof, then BLM and the State shall exercise their authority and discretion under all applicable laws and regulations to either: (1) transfer all or any portion agreed to by Western of Western's obligations hereunder to the operator under such terms and conditions as are acceptable to BLM and the State; or (2) regulate operator's activities in such a manner as to prevent it from interfering with the performance of Western's obligations hereunder. In the event of a transfer of all or any portion of Western's obligations hereunder to the operator, then such transfer shall, as to the lands and

obligations affected, constitute a full, complete and irrevocable release of Western from any further obligations with respect to such lands and requirements.

9 Dispute Resolution and Appeal Procedures.

9.1 Notice of Breach.

In the event that any of the Agencies concludes that Western is not complying with its obligations hereunder, that Agency shall provide written notice to Western containing the full details of all breaches asserted to have occurred. Western shall have 30 days after receipt of such notice to either cure the asserted breaches, or dispute the assertions. Should Western dispute any of the breaches specified in the Agency notice, it shall provide a responsive notice to the Agency within 30 days of Western's receipt of the Agency's notice, setting forth the bases for its disagreement.

9.2 Mediation of Disputes.

Upon receipt of a responsive notice from Western, the Agency may work informally with Western toward resolution of the dispute. Whether or not the Agency chooses to work with Western toward resolution, it may, at any time after receipt of a responsive notice, invoke the mediation provisions of this Agreement by providing notice thereof to Western. Mediation shall be accomplished in the manner set forth in this Section 9.2.

9.2.1 Appointment of Mediator.

Within 3 days after receipt of the Agency's notice invoking mediation Western and the Agency shall meet and seek to reach agreement on the appointment of a mediator. In the event of failure to reach such agreement, each party shall present simultaneously to the other a list of five names of proposed mediators, ranked in order of preference (1 highest and 5 lowest). Each proposed mediator shall be a third party professional engineer registered in the State of Utah, with expertise in the issues raised by the dispute. The mediator selected shall be the individual who appears on the lists of both parties, with the highest total ranking. In the event that no engineer appears on both lists, then the process shall be repeated until a mediator is selected.

9.2.2 Mediation Procedures.

Within 30 days of selection of a mediator, the parties shall submit and exchange a written statement of their respective positions, along with all data and documentation deemed appropriate. Within 10 days of the written submission, the parties shall meet with the mediator and follow such procedures as are specified by the mediator in an effort to resolve the dispute. If, at the end of the mediation the parties are unable to reach agreement, then within 10 days thereafter the mediator shall submit to each party a written statement containing his or her recommended resolution of the dispute, and the bases therefore.

9.2.3 Costs of Mediation.

All fees and costs of the mediator shall be paid by Western.

9.2.4 Procedures in the event that mediation does not resolve the dispute.

If the parties to a dispute are not able to resolve their disagreement through mediation, then the Agency shall be entitled to issue such decisions and institute such procedures as are permitted by its governing rules and regulations to enforce the obligations of Western under this Agreement and under the Agency's laws, rules and regulations. In any such procedures, the mediator's recommended resolution shall be admissible evidence and both it and the testimony of the mediator may be submitted by either party.

10 Termination of this Agreement and Release of Western.

10.1 Termination.

Western shall notify the Agencies upon completion of its obligations hereunder. Western's obligations hereunder shall be deemed to be completed when Western's Reclamation Area has been revegetated to establish a diverse, effective and permanent vegetative cover in compliance with the requirements of Section 4.2 and the approved reclamation plan, and when any effluent discharged from such Area has met, without violations and without the necessity for additional treatment, applicable effluent limitations and water quality standards for at least 1 full year. BLM shall promptly inspect the reclaimed area with Western and will then notify Western in writing if it concurs that Western has successfully completed all such requirements, or, if it does not, then what requirements remain to be met. At such time as BLM and DOGM have concurred in writing that Western has successfully completed all its requirements hereunder, then DOGM shall release Western's remaining bond, and this Agreement shall terminate.

10.2 Release.

Termination of this Agreement in the manner specified in paragraph 10.1 above shall constitute the Agencies' full release of Western from any and all future obligations and responsibilities with respect to the Drum Mine site.

WESTERN STATES MINERALS
CORPORATION

By Arden B. Morrow
Name Arden B. Morrow
Title President

UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT

By _____
Name _____
Title _____

THE STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL, GAS AND MINING

By _____
Name _____
Title _____

DEPARTMENT OF ENVIRONMENTAL QUALITY, DIVISION OF WATER QUALITY

By _____
Name _____
Title _____

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