

Responses to MMD Questions Regarding Permit Modification to Iron Duke Mine, Permit No. OT006MN, OTERO COUNTY, NEW MEXICO

In December, 2017, Gulf Coast Mining Group LLC (Gulf Coast) applied to amend their Iron Duke Mine Minimal Impact New Mining Operation Permit (No. OT006MN). The State of New Mexico's Energy, Minerals, and Natural Resources Department (MMD) responded to Mr. David Davidson in a letter on January 18, 2018 requesting additional information. This response is to comments within the letter. The topics discussed in the letter are addressed in the same order below.

Permit Boundary

On February 1 and 2, 2018, Gulf Coast Mining Group LLC (Gulf Coast) had the various claims surveyed. In order to expedite this response, a preliminary overlay of the boundaries on a Google Earth Image provided by the surveyor (Steven Sandoval, PS, Construction Surveying Services) is being provided. When the surveyor has completed drawings, they will be provided to MMD.

Plate 1 shows the preliminary survey results for the Virginia and Barbara Patented claims. Plate 2 shows the relationship of the Evergreen Claims to the Virginia and Barbara Patented claims. As can be seen on Plate 1, the requested additional disturbance is contained within the Virginia Patented Claim. The Evergreen #1 Claim is held by Gulf Coast.

Access Road

Otero County and BLM have a memorandum of agreement between them. We do not have a copy of this document. Because the use of the road is as a mine haul road, MSHA has jurisdiction.

Current Area of Disturbance

The apparent discrepancy regarding the area of disturbance has its root in two tables provided to MMD during the original application procedure. Both tables are attached with this letter. The tables are not contradictory but do present different information.

In order to understand the differences, it is necessary to present the planned usage in detail.

Mining for the Iron Duke Project is to occur in two phases.

The approved permit states that the area involved during mining operations will not exceed 6.9 acres (6.87) during Phase 1 and Phase 2.

The original application had an area breakdown of 16 Areas totaling 7.88 acres (see Table 1 in Attachment to Minimal Impact New Mining Operation, Part 5 Mining Description, shown here in Attachments). These included all areas to be improved, reclaimed, and disturbed.

During each mining Phase, the areas involved for that Phase sum to 6.87.

During discussions regarding financial assurance, MMD requested two additional areas be added to the operating areas to reflect possible future operations. These are Areas 17 and 18 and are shown on the Financial Assurance Plates (Plate 1A and 1B of the November 2011 Financial Assurance, see Attachments). With Areas 17 and 18, the total area to be improved, reclaimed, and disturbed sums to 8.23 acres from 7.88 acres. The area involved for each mining Phase remains at 6.87 acres.

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A synopsis of the operational plans for each Phase of the original application follows.

Phase 1 is the mining/reclamation of the Iron Duke waste rock on the southeast slope of the Iron Duke Area.

- During Phase 1, Areas 1-4, 6-14, and 18 are the active mining areas in use. These areas sum to 4.09 acres.
- During Phase 1, Areas 5, 14, and 17 are in reserve for Phase 2. These areas sum to 2.78 acres. The total of active and reserve areas is 6.87 acres.

At the completion of Phase 1 operations, Areas 2, 12, 13, and 18 are to be reclaimed. These four areas total 1.44 acres. Hence, after the reclamation the areas will be:

$4.09 \text{ acres (active)} - 1.44 \text{ acres (reclaimed)} = 2.65 \text{ acres (active)}$

Phase 2 is to be the mining/reclamation of the North Side Waste Rock (Cinco de Mayo and Iron Duke Patented Claims).

During Phase 2, Areas 1, 3-9, 11, 14, and 17 are the active mining areas in use. These Areas sum to 4.08 acres. Of note, the active mined area during Phase 2 will be 200 feet by 200 feet (0.92 acres). As mining of each 200 by 200 foot segment of Area 14 (the North Side Waste Rock) is finished, that segment will be reclaimed.

During Phase 2, there were to be:

$4.09 \text{ acres (active which includes the } 200' \text{ by } 200' \text{ portion of the North Side Waste Rock being mined)} + 1.35 \text{ acres (to be reclaimed as it is mined)} + 1.44 \text{ acres (reclaimed during Phase 1)} = 6.87 \text{ acres.}$

Amended Area of Disturbance

The amendment proposal of November 2018 requested an increase of Area 3 to 1.87 acres from its previous size of 0.56 acres to provide sufficient space to use the ball mill machine.

Since then, Gulf Coast would like to increase Area 3 further to 2.65 acres total (see Plate 1 in attachments). The additional acreage ($2.65 - 0.56 = 2.09$ acres) would be added to the active mining area during both Phases of mining ($6.87 \text{ acres} + 2.09 \text{ acres} = 8.96 \text{ acres}$)

Vegetation Reference Area

Plate 3 (see Attachments) shows the proposed vegetative reference area. As can be seen it is east of the mining areas and is entirely contained within the patented Virginia and Barbara claims. The area is a slope with gradients similar to those in the mining areas. As there is a small drainage through this area, the slopes locally face from southwest to east-southeast, similar to the mining area. Because of the historic mining activities, there are a number of small, historic, exploratory excavations nearby. Due to their age and size, they have localized effects. There are no modern disturbances above this proposed reference area.

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Financial Assurance Calculation

The approved permit issued to Gulf Coast allowed for Financial Assurance to be calculated based upon two phases of mining. The following provides a calculation of Financial Assurance based upon the approved 2012 permit allowing for increased prices since 2012.

During Phase 1, the areas in active use are Areas 1-4, 6-14, and 18. These areas sum to 4.09 acres. With the requested increase of 2.09 acres to Area 3, Financial Assurance (FA) for the total of 6.18 acres would be:

$$\begin{aligned} \text{Phase 1 FA} &= \$8,900 \text{ (first acre)} + (5.18 \text{ (additional acres)} \times \$4,900) \\ &= \$34,282 \end{aligned}$$

Allowing for inflation with a 20 year running average of 2.2% yields:

$$\begin{aligned} \text{Phase 1 FA} &= \$34,282 \times (1+0.022)^5 \\ &= \$38,222.64 \end{aligned}$$

Not all of the Areas used in Phase 1 will be reclaimed at the end of Phase 1 as a number of them are used in Phase 2. At the conclusion of Phase 1, Areas 2, 12, 13, and 18 will be reclaimed (1.44 acres out of the proposed amended Phase 1 area of 6.18 acres). At the conclusion of Phase 1, it is proposed to move this portion of the financial assurance to the Phase 2 FA as was originally approved.

During Phase 2, the active mining areas are: 1, 3-9, 11, 14, and 17 plus the additional 2.09 acres added to Area 3. These Areas sum to 6.17 acres. With this amended area:

$$\begin{aligned} \text{Phase 2 FA} &= \$8,900 \text{ (first acre)} + (5.17 \text{ (additional acres)} \times \$4,900) \\ &= \$34,233 \end{aligned}$$

Again, allowing for inflation with a 20 year running average of 2.2% yields:

$$\begin{aligned} \text{Phase 2 FA} &= \$30,411 \times (1+0.022)^5 \\ &= \$38,168.00 \end{aligned}$$

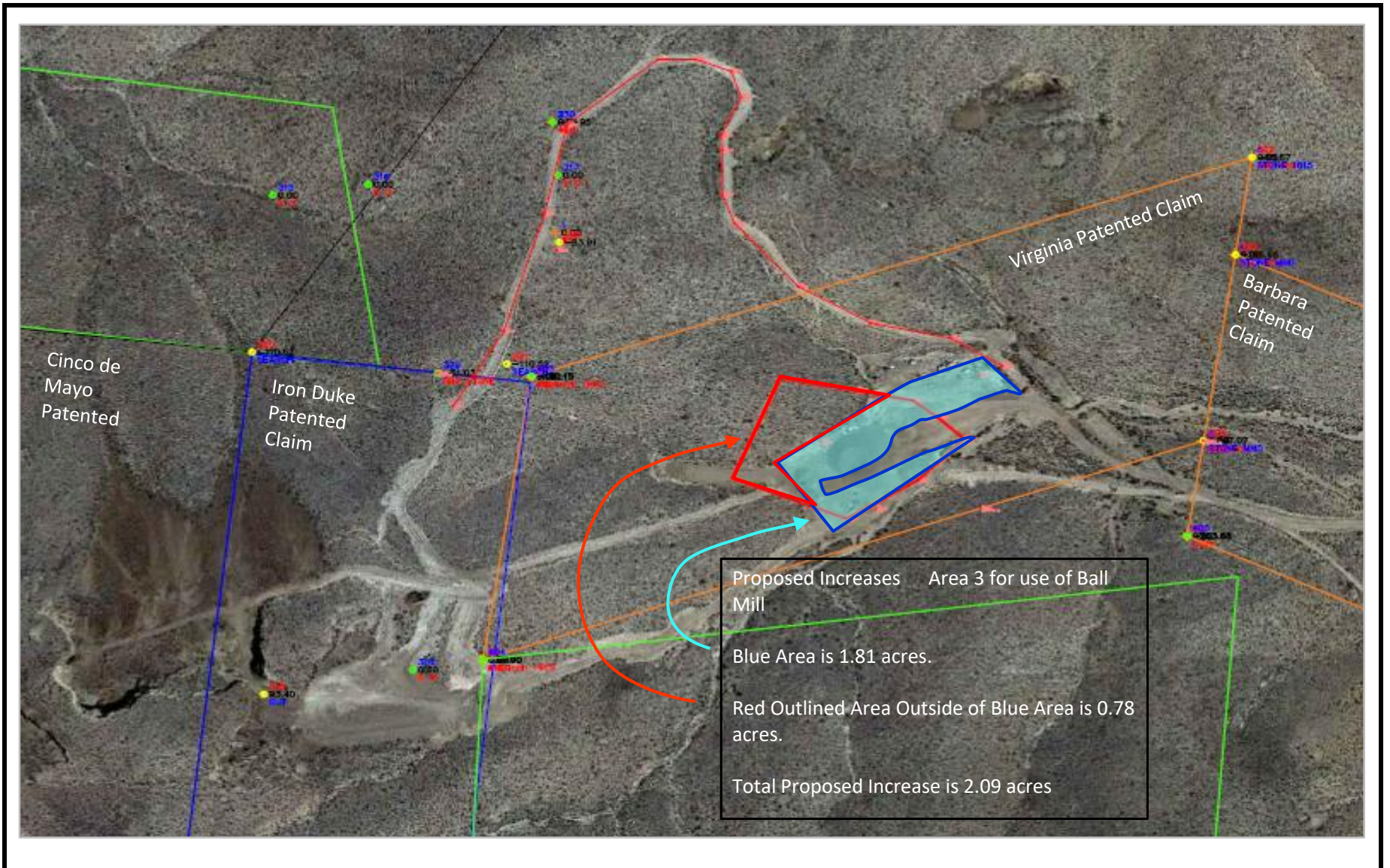
Gulf Coast's intentions to follow the originally planned Phases remain intact. However, the future is unknown. We do note that MMD's calculation of Financial Assurance requires Financial Assurance for Areas that will be disturbed in Phase 2 and are not disturbed at this time. Hence, we ask that MMD consider Financial Assurance based upon the same calculation method that was approved in 2012.

Of note, Gulf Coast expects that reclamation of some portions of the Iron Duke Waste Rock (Area 13) can begin in summer of 2018.

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Please let us know of any comments or additional information that MMD would like in order to respond to the proposed amendment to Gulf Coast's Minimal Impact Mining Permit.

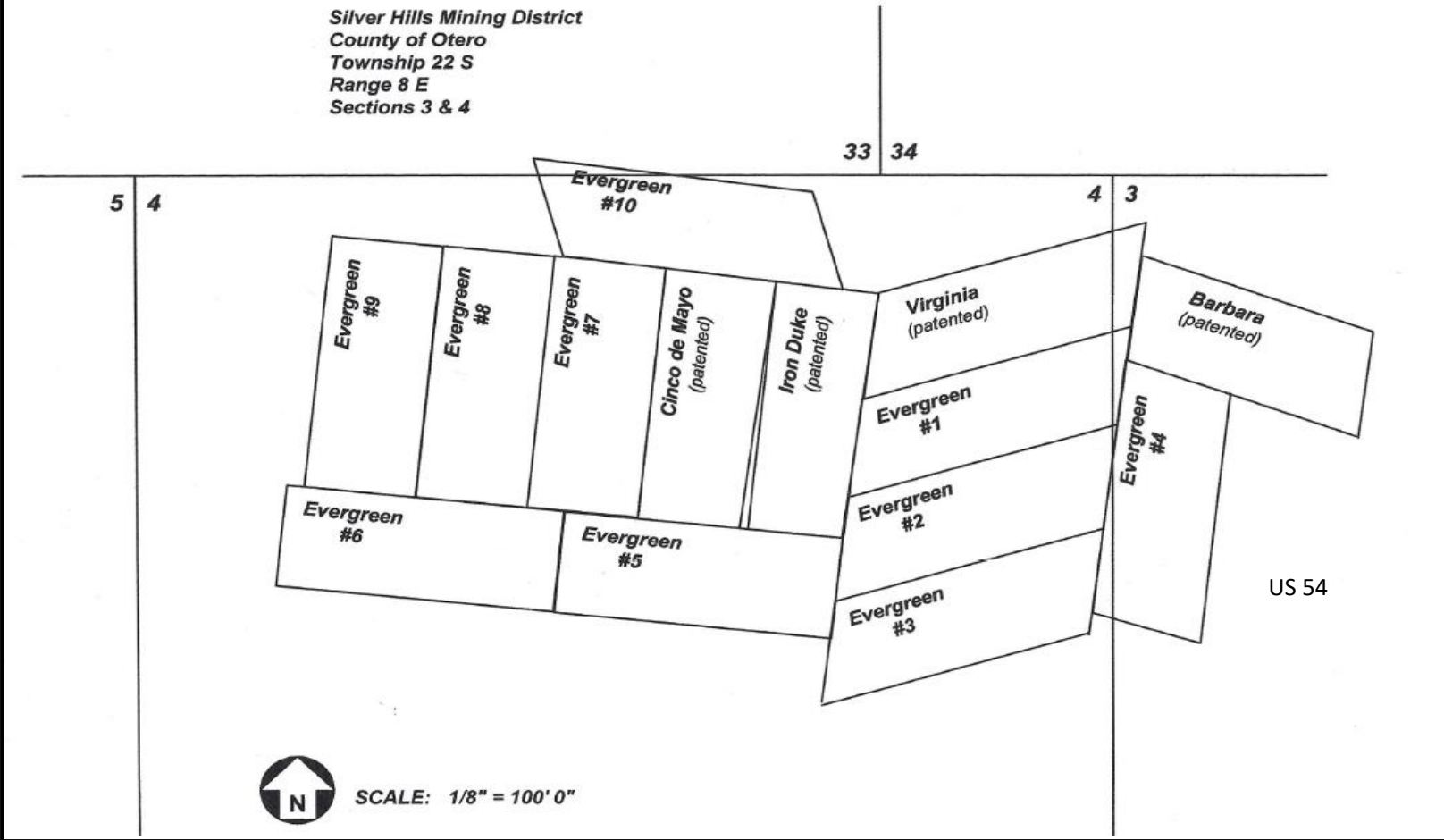
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<p>R.T. Hicks Consultants, Ltd 901 Rio Grande Blvd NW, Suite F-142 Albuquerque, NM 87104 505-266-5004</p>	<p>Proposed Increases to Area 3 Shown With Preliminary Survey Results of Patented Claims</p>	<p>Plate 1</p>
	<p>Gulf Coast Mining Claims, LLC.</p>	<p>February, 2018</p>

**Evergreen Claims
Orogrande, NM USA**

Silver Hills Mining District
County of Otero
Township 22 S
Range 8 E
Sections 3 & 4



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Map of Evergreen Claims and Patented Gulf Coast Mine
Claims

Gulf Coast Mining Claims, LLC.

Plate 2

February, 2018

**ATTACHMENT TO MINIMAL IMPACT NEW MINING OPERATION
IRON DUKE, CINCO DE MAYO, VIRGINIA, AND BARBARA PATENTED CLAIMS
OTERO COUNTY, NEW MEXICO**

Part 5: MINING DESCRIPTION (§304.D.4)

Section A:

Hematite and magnetite are the primary ore minerals

Section B

Surface methods will be used to remove historic waste rock dumps from the claims. This action could be considered reclamation rather than mining.

Section C

The facilities for the mining/reclamation operation are described below, identified in Plates 2 and 3, and presented in tabular form in Table 1. The Area Numbers shown in the left column of Table 1 are plotted on Plate 3.

Table 1: Summary of areas disturbed or improved

Area Number	Name of Area	Description	Status	Acres	Area Subtotals
1	Upper Staging Area	Pads and staging areas	Existing	0.26	
2	Upper Iron Duke Pad	Pads and staging areas	Existing	0.20	
3	Bottom Pad (foot of Rail Grade)	Pads and staging areas	Existing	0.56	
4	Lowermost Pad (on Barbara Patented Claim)	Pads and staging areas	Existing	0.28	1.30
5	Cinco de Mayo Access and Upper Pad	Pads and staging areas	Proposed	0.30	0.30
6	Cat Path- Old Rail Grade	Roads and access	Existing	0.41	
7	Access Road to Iron Duke and Cinco de Mayo	Roads and access	Existing	1.11	
8	Upper Junction Pad (from head of access road to ID And CdM to Cat Path)	Roads and access	Existing	0.09	
9	Upper Access Road (From Junction Pad to North Side Waste Rock)	Roads and access	Existing	0.08	
10	Pad Connecting Road (connects lowermost pad and bottom pad)	Roads and access	Existing	0.16	
11	Widened Drainage Crossing	Roads and access	Existing	0.40	
12	Iron Duke Access Road (to Upper pad from north)	Roads and access	Existing	0.20	2.45
13	Iron Duke Waste Rock	Mining/reclamation areas	Historic	0.90	
14	North Side Waste Rock (Cinco de Mayo and Iron Duke)	Mining/reclamation areas	Historic	2.27	3.17
15	Lower Iron Duke Pad	Pads and staging areas	New	0.28	
16	Access Road to Lower Iron Duke Waste Rock	Roads and access	New	0.38	0.66
	Total Area Improved, Reclaimed, Disturbed			7.88	

Two historic mine waste dumps are to be mined/reclaimed. These are:

- An area approximately 60 yards by 100 yards (0.9 acres) south of the east-west centerline of the Iron Duke Claim (see Plates 2 and 3). This area contains approximately 2 million tons of low grade iron mixed with quarry rock/limestone.
- An area north of the east-west centerline of the Iron Duke and Cinco de Mayo Claims which is approximately 100 yards by 100 yards (2.27 acres) This area also contains approximately 2 million tons of low grade iron mixed with quarry rock/limestone and are identified as mining areas on Plates 2 and 3.

Under this permit, no new pits, quarries or stockpiles will be constructed. Because the quarry rock/limestone will be removed from the site for use in cement, the proposed mining/reclamation program will not create any waste dumps. Some of the rock in the historic waste dumps is "country rock", probably quartz monzonite. This country rock will be left in place or replaced in the area of the historic dump as part of the waste dump reclamation program described in a separate section.

One new road and one new staging/loading pad were recently constructed to facilitate removal and reclamation of the historic waste dumps. These are the Lower Iron Duke Pad (Area Number

R. T. HICKS CONSULTANTS, LTD.

901 Rio Grande Blvd NW ▲ Suite F-142 ▲ Albuquerque, NM 87104 ▲ 505.266.5004 ▲ Fax: 505.266-0745

November 8, 2011

Chris Eustice
Sr. Environmental Engineer
MMD, Mining Act Reclamation Bureau
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Iron Duke Financial Assurance Proposal

Dear Mr. Eustice

This letter is to propose a phased plan of providing financial assurance (FA) for the Iron Duke Project. MMD's Guidance for Estimating Reclamation Costs (Part 3) was used in the preparation of this proposal. The disturbed area will total 6.87 acres. Gulf Coast proposes to proceed with mining reclamation at the site in two phases. In Phase 1, 4.09 acres will be subject to MMD FA. Some of these areas will then be reclaimed while the remaining areas will be used within the Phase 2 activities. During Phase 2, 4.07 acres are subject to MMD FA.

Activities during Phase 1 requiring MMD FA will occur in this order:

- The Iron Duke Waste Pile (Area 13 on Plate 1A, 0.90 acres) will be removed by accessing the waste rock from the Upper Iron Duke Pad (Area 2, 0.20 acres) and an access strip (Area 18, 0.14 acres, Plates 1A and 1B) parallel to the northern edge of the Iron Duke Waste Rock Pile. Staging and processing occur through use of Areas 1, 3, 4, 6-9, 11, and 12.
- After waste rock removal is completed, Areas 2, 12, 13, and 18 are reclaimed.

Areas 15, 16 and part of Area 7 are on BLM land and are not part of this proposed activity and FA (see Plate 1A and Plate 1B). Ownership of the road (Area 10) connecting the Bottom Pad (Area 3) and the Lowermost Pad (Area 4) is in dispute and is also not part of the FA.

The total working area during Phase 1 is 4.09 acres which are subject to MMD financial assurance. Using the MMD guideline, this corresponds to \$15,597.

$$\begin{aligned} \text{Phase 1 FA} &= 1 \text{ acre} * \$5,400 \text{ (first acre)} + 3.09 \text{ acres} * \$3,300 \text{ (additional acres)} \\ &= \$15,597 \end{aligned}$$

Not all of the Areas used in Phase 1 will be reclaimed as several of them are used in Phase 2. As mentioned above, at the conclusion of Phase 1, Areas 2, 12, 13, and 18 will have been reclaimed (1.44 acres out of the 4.09 acres). It is proposed to move this portion of the financial assurance to Phase 2 less a re-vegetation contingency. The re-vegetation contingency is calculated as per MMD practice as:

$$\begin{aligned} \text{Re-veg. Conting.} &= \$800 \text{ per acre re-vegetation cost} * 0.6 \text{ failure rate} * 1.44 \text{ acres} \\ &= \$691 \end{aligned}$$

Therefore, most of the Phase 1 FA can be applied to the Phase 2 FA. With vegetation re-established in the reclaimed areas of Phase 1, the sum held in financial assurance from this portion of Phase 1 (\$691) can be applied to the Phase 2 FA reducing the total amount of FA at that time.

In Phase 2, activities will occur in this order:

- The North Side Waste Rock Pile will be removed in 200-foot by 200-foot segments (about 0.92 acres at a time of the 2.27 acre area) through use of the Cinco de Mayo access and upper pad (Area 5, 0.30 acres) and an access strip parallel to the eastern side of the North side Waste Rock Pile (Area 17, 0.21 acres, Plates 1A and 1B). Staging and processing occur through use of Areas 1, 3, 4, 6-10, and 11.
- After waste rock removal is completed, Areas 1, 3-9, 11, the last portion of 14, and 17 are reclaimed.

The total area working area during Phase 2 is 4.07 acres subject to MMD FA. Using the MMD guideline, this corresponds to \$15,531 plus the \$691 re-vegetation contingency for the Phase 1 areas.

$$\begin{aligned} \text{Phase 2 FA} &= 1 \text{ acre} * \$5,400 \text{ (first acre)} + 3.08 \text{ acres} * \$3,300 \text{ (additional acres)} \\ &= \$15,564 \end{aligned}$$

$$\begin{aligned} \text{Total Phase 2 FA} &= \text{Phase 2 FA} + \text{Re-vegetation contingency} \\ &= \$15,564 + \$691 \\ &= \$16,225 \end{aligned}$$

This total is \$16,225. If re-vegetation of the Phase 1 areas is demonstrated before Phase 2 operations are completed, the Phase 2 FA can be reduced by this amount.

When reclamation of the Phase 1 and Phase 2 areas subject to MMD FA is completed, MMD will release all remaining financial assurance.

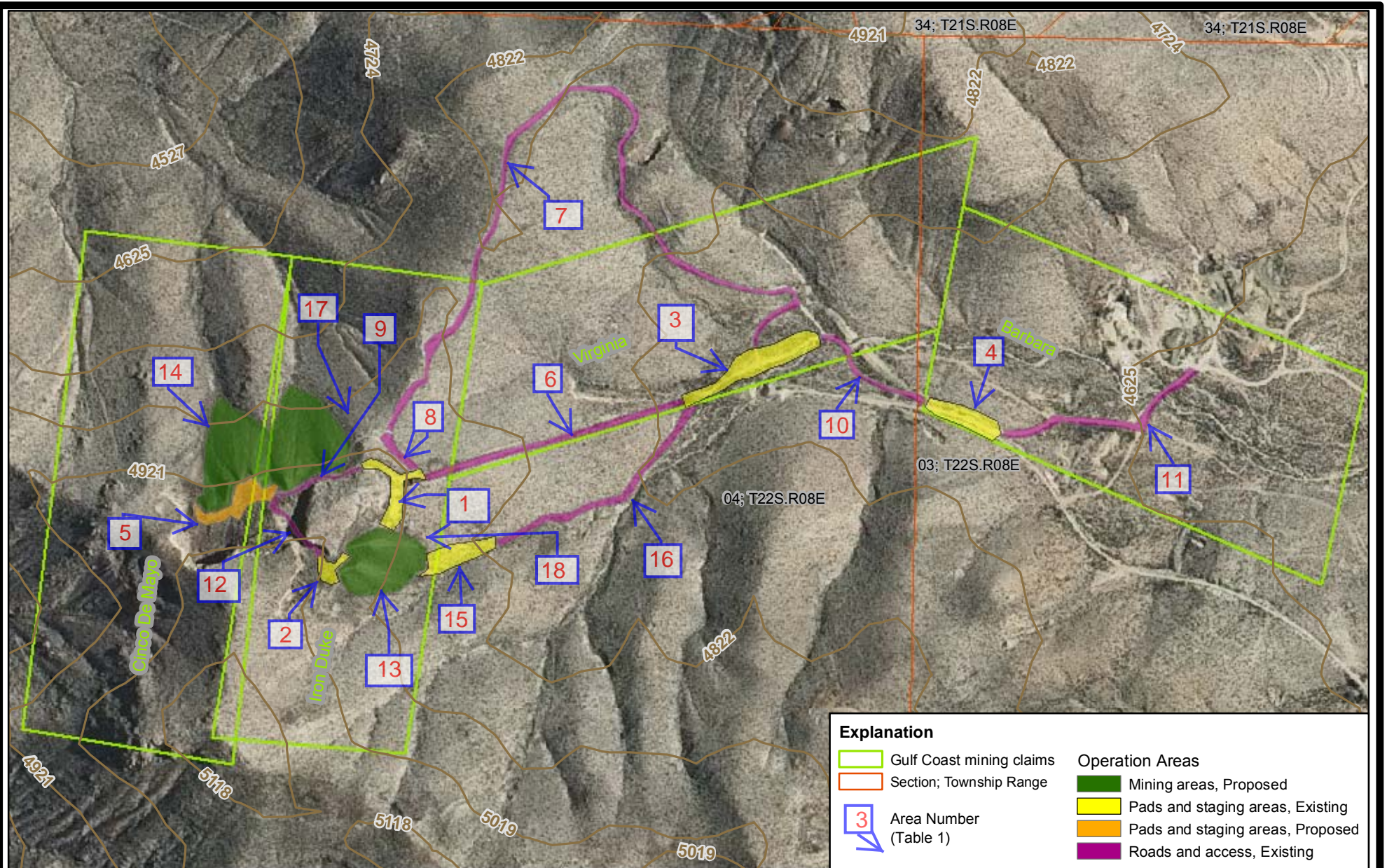
If you have any questions or comments regarding these responses, please contact me or David Hamilton at our Albuquerque office.

Sincerely,
R.T. Hicks Consultants

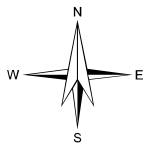


Randall T. Hicks
Principal

Copy: David Shaheen, David Davidson for Gulf Coast Mining Group, LLC.



Base Map: RGIS, EDAC UNM

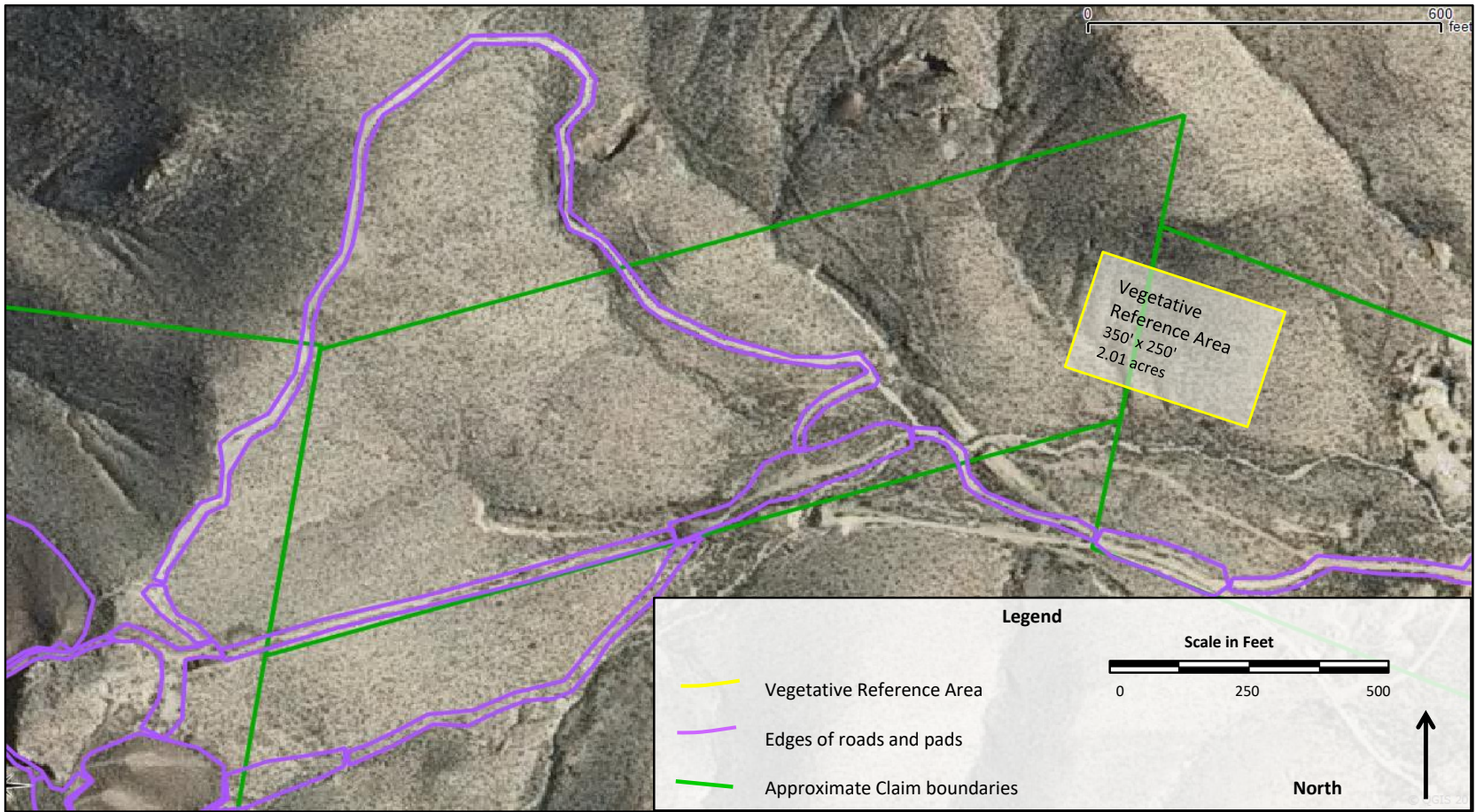


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Aerial Photograph with MS Claim Overlay; Existing and Proposed Operation Areas; and Contours
 Gulf Coast Mining Group, LLC
 Barbara, Cinco de Mayo, Iron Duke, & Virginia MS Claims

Plate 1A
 Nov, 2011

Area Number	Name of Area	Description	Status	Acres	Area to be Mined - Reclaimed sequentially in 200 by 200 foot areas [acres]	Phase 1 (Iron Duke Waste Rock)		Phase 2 (North Side Waste Rock)		
						Active Areas during Phase 1	Inactive Areas during Phase 1	Active Areas during Phase 2		Inactive Areas during Phase 2
						Areas Used in Phase 1 for which MMD Reclamation Applies	Areas not used in Phase 1 (reserved for Phase 2)	Areas Used in Phase 2 for which MMD Reclamation Applies	Area to be mined or area that has been mined and reclaimed in Phase 2	Areas reclaimed from Phase 1
1	Upper Staging Area	Pads and staging areas	Existing	0.26		0.26		0.26		
2	Upper Iron Duke Pad	Pads and staging areas	Existing	0.20		0.20				0.20
3	Bottom Pad (foot of Rail Grade)	Pads and staging areas	Existing	0.56		0.56		0.56		
4	Lowermost Pad (on Barbara Patented Claim)	Pads and staging areas	Existing	0.28		0.28		0.28		
5	Cinco de Mayo Access and Upper Pad	Pads and staging areas	Proposed	0.30			0.30	0.30		
6	Cat Path- Old Rail Grade	Roads and access	Existing	0.41		0.41		0.41		
7	Access Road to Iron Duke and Cinco de Mayo (49% of length is on BLM Land and will not be used under this permit)	Roads and access	Existing	1.11		0.57		0.57		
8	Upper Junction Pad (from head of access road to ID And CdM to Cat Path)	Roads and access	Existing	0.09		0.09		0.09		
9	Upper Access Road (From Junction Pad to North Side Waste Rock)	Roads and access	Existing	0.08		0.08		0.08		
10	Pad Connecting Road (Ownership of Area is in dispute)	Roads and access	Existing	0.16						
11	Widened Drainage Crossing	Roads and access	Existing	0.40		0.40		0.40		
12	Iron Duke Access Road (to Upper pad from north)	Roads and access	Existing	0.20		0.20				0.20
13	Iron Duke Waste Rock	Mining/reclamation areas	Historic	0.90		0.90				0.90
14	North Side Waste Rock (Cinco de Mayo and Iron Duke)	Mining/reclamation areas	Historic	2.27	0.92		2.27	0.92	1.35	
15	Lower Iron Duke Pad (This area will not be used under this permit)	Pads and staging areas	New	0.28						
16	Access Road to Lower Iron Duke Waste Rock (This area will not be used under this permit)	Roads and access	New	0.38						
17	Proposed Access ro North Side Waste Rock	30 by 300 foot area on eastern edge of North Side Waste Rock	New	0.21			0.21	0.21		
18	Proposed Access ro Iron Duke Waste Rock	30 by 200 foot area on the northern edge of Iron Duke Waste Rock	New	0.14		0.14				0.14
Subtotals for each Phase						4.09	2.78	4.08	1.35	1.44
Total Area for each Phase. Does not include Areas that are not part of the Project (Areas 10, 15, 16, part of Area 7)						6.87		6.87		
R.T. Hicks Consultants, Ltd 901 Rio Grande Blvd NW, Suite F-142 Albuquerque, NM 87104 505-266-5004		Plate 1A Identifiers, Areas, and Categorization of Areas for Phased Mining of the Iron Duke Project				Plate 1B				
		Gulf Coast Mining Group, LLC. Barbara, Cinco de Mayo, Iron Duke, & Virginia MS Claims				November, 2011				



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Vegetative Reference Area in Relation to Mining Areas

Plate 4

Gulf Coast Mining Claims, LLC

February, 2018