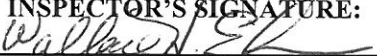




COLORADO DIVISION OF RECLAMATION, MINING AND SAFETY
MINERALS PROGRAM INSPECTION REPORT
PHONE: (303) 866-3567

The Division of Reclamation, Mining and Safety has conducted an inspection of the mining operation noted below. This report documents observations concerning compliance with the terms of the permit and applicable rules and regulations of the Mined Land Reclamation Board.

MINE NAME: San Luis Project	MINE/PROSPECTING ID#: M-1988-112	MINERAL: Gold and silver	COUNTY: Costilla
INSPECTION TYPE: Multi Person Inspection	INSPECTOR(S): Wallace H Erickson & Anthony J Waldron	INSP. DATE: October 29, 2012	INSP. TIME: 11:00
OPERATOR: Battle Mountain Resources, Inc.	OPERATOR REPRESENTATIVE: Lawrence Fiske, Julio Madrid, Steve Carino, Jim Witweer, Esq.	TYPE OF OPERATION: 112d-3 - Designated Mining Operation	

REASON FOR INSPECTION: Normal I&E Program	BOND CALCULATION TYPE: None	BOND AMOUNT: \$7,400,000.00
DATE OF COMPLAINT: NA	POST INSP. CONTACTS: None	JOINT INSP. AGENCY: None
WEATHER: Cloudy	INSPECTOR'S SIGNATURE: 	SIGNATURE DATE: November 19, 2012

GENERAL INSPECTION TOPICS

This list identifies the environmental and permit parameters inspected and gives a categorical evaluation of each. No problems or possible violations were noted during the inspection. The mine operation was found to be in full compliance with Mineral Rules and Regulations of the Colorado Mined Land Reclamation Board for the Extraction of Construction Materials and/or for Hard Rock, Metal and Designated Mining Operations. Any person engaged in any mining operation shall notify the office of any failure or imminent failure, as soon as reasonably practicable after such person has knowledge of such condition or of any impoundment, embankment, or slope that poses a reasonable potential for danger to any persons or property or to the environment; or any environmental protection facility designed to contain or control chemicals or waste which are acid or toxic-forming, as identified in the permit.

(AR) RECORDS----- <u>N</u>	(FN) FINANCIAL WARRANTY----- <u>Y</u>	(RD) ROADS----- <u>Y</u>
(HB) HYDROLOGIC BALANCE----- <u>Y</u>	(BG) BACKFILL & GRADING----- <u>Y</u>	(EX) EXPLOSIVES----- <u>N</u>
(PW) PROCESSING WASTE/TAILING---- <u>Y</u>	(SF) PROCESSING FACILITIES----- <u>Y</u>	(TS) TOPSOIL----- <u>N</u>
(MP) GENL MINE PLAN COMPLIANCE- <u>Y</u>	(FW) FISH & WILDLIFE----- <u>Y</u>	(RV) REVEGETATION---- <u>Y</u>
(SM) SIGNS AND MARKERS----- <u>N</u>	(SP) STORM WATER MGT PLAN---- <u>N</u>	(SB) COMPLETE INSP---- <u>N</u>
(ES) OVERBURDEN/DEV. WASTE----- <u>Y</u>	(SC) EROSION/SEDIMENTATION--- <u>Y</u>	(RS) RECL PLAN/COMP-- <u>Y</u>
(AT) ACID OR TOXIC MATERIALS----- <u>Y</u>	(OD) OFF-SITE DAMAGE----- <u>Y</u>	(ST) STIPULATIONS----- <u>N</u>

Y = Inspected and found in compliance / N = Not inspected / NA = Not applicable to this operation / PB = Problem cited / PV = Possible violation cited

OBSERVATIONS

This inspection occurred as part of the Division's routine monitoring program for permitted operations. The Operator has commenced final reclamation for all affected lands. However, the water treatment plant remains active, as do portions of the tailings pond as necessary to receive fluids and sludge and otherwise support the ongoing water treatment/management requirements unique to this operation. This report is accompanied by six photos and excerpts from the Hard Rock Rules.

Water was being pumped from the seep collection pond, located at the base of the tailings pond embankment, back to the tailings pond. As shown in the photos, irrigation equipment remains at the tailings pond. The Operator indicated irrigation activity at the tailings pond has ceased, pending resolution of various issues currently in water court. If the Operator desires to reactivate the experimental irrigation activity, such request must be submitted for Division review and approval through the Technical Revision process, as described under Rules 1.1(52) and 1.9, or the Amendment process, as described under Rules 1.1(6) and 1.10. Surface reclamation appeared completed for portions of the east pit, waste rock stockpile D and the south waste dump.

Permit records indicate the current permit area at approximately 1801 acres with approximately 560 acres affected lands. The last adjustment to the permit area occurred through Acreage Release No. 1 (AR-01), approved January 26, 2000, whereby approximately 399 acres of undisturbed lands were released from the permit area, resulting in the current total of 1801 acres. Through AM-02 and AM-03 the Operator attempted additional modifications to the permit acreage, including the release of lands deeded to the Animal Welfare Society, but both amendments were withdrawn by the Operator prior to the Division's decision deadline. AM-02 was withdrawn December 19, 2007, and AM-03 was withdrawn December 31, 2008. Therefore, Division records indicate the affected lands deeded to the Animal Welfare Society remains within the permit boundary and have not been removed from reclamation liability. If the Operator believes reclamation has been completed in accordance with the conditions of the Reclamation Plan and Act and Rules, and desires to remove the lands deeded to the Animal Welfare Society from the permit area, please submit a release request in accordance with the requirements of Rules 4.17, 7.2.10, and 7.2.11. Copy of Rules 4.17, 7.2.10 and 7.2.11 are enclosed. The entire Act and Rules may be accessed through the Division's web site, www.mining.state.co.us.

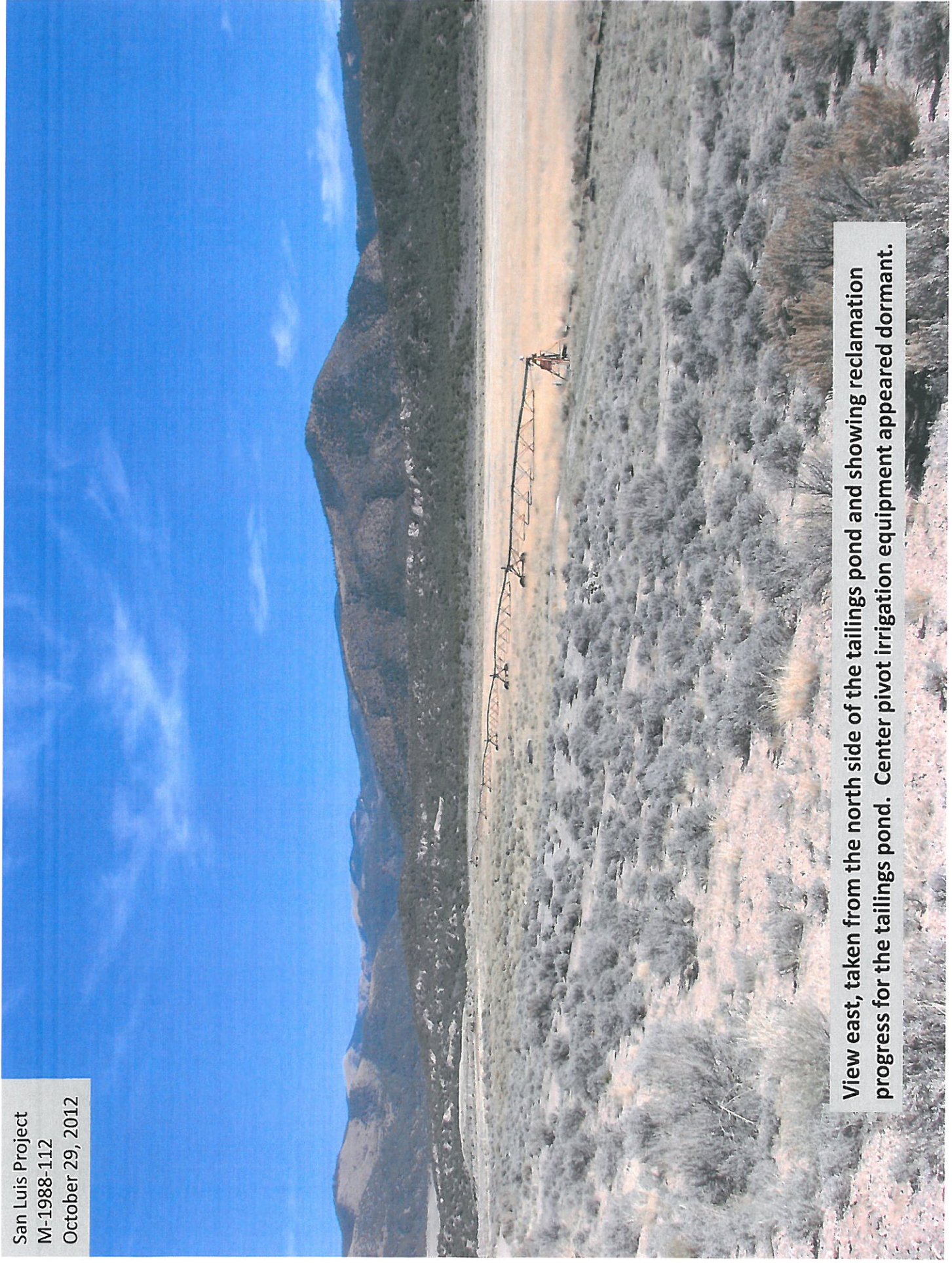
Inspection Contact Address

Lawrence Fiske
Battle Mountain Resources, Inc.
P.O. Box 310
San Luis, CO 81152-0310

Enclosure: copy of Rules 4.17, 7.2.10 and 7.2.11; and
7 photos

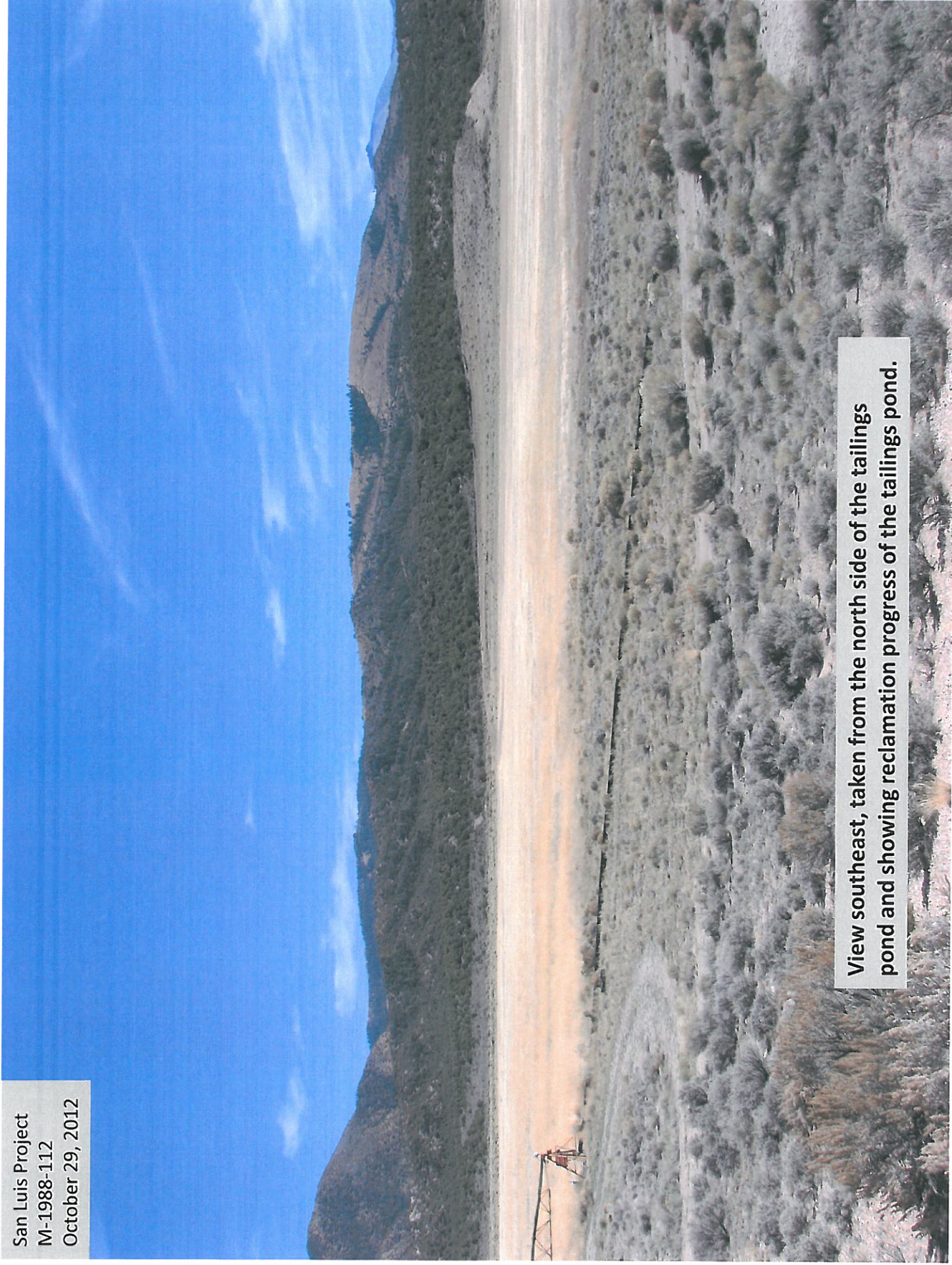
Ec w/enclosure: Lawrence Fiske
Russ Means, DRMS GJFO

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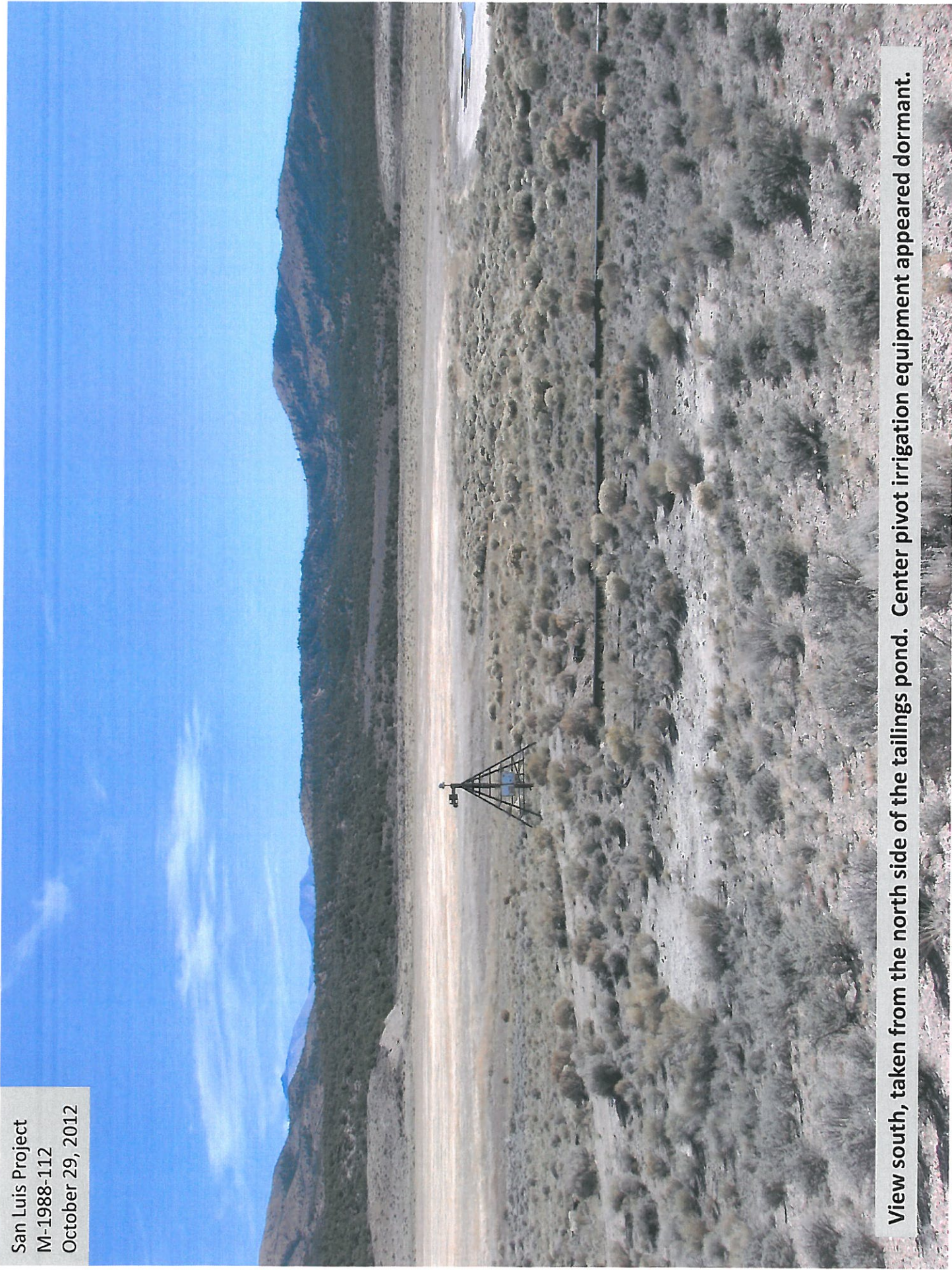
View east, taken from the north side of the tailings pond and showing reclamation progress for the tailings pond. Center pivot irrigation equipment appeared dormant.

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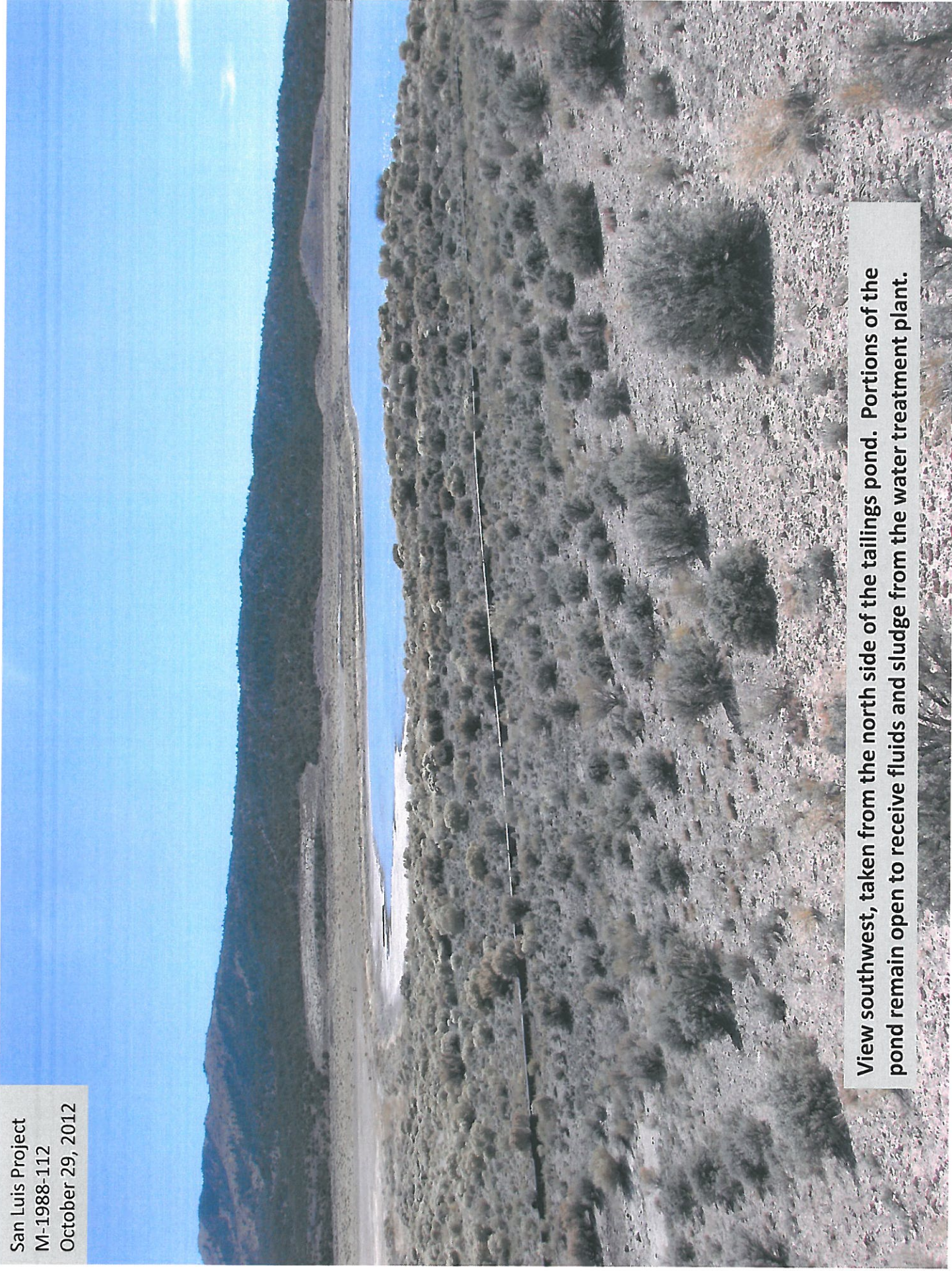
View southeast, taken from the north side of the tailings pond and showing reclamation progress of the tailings pond.

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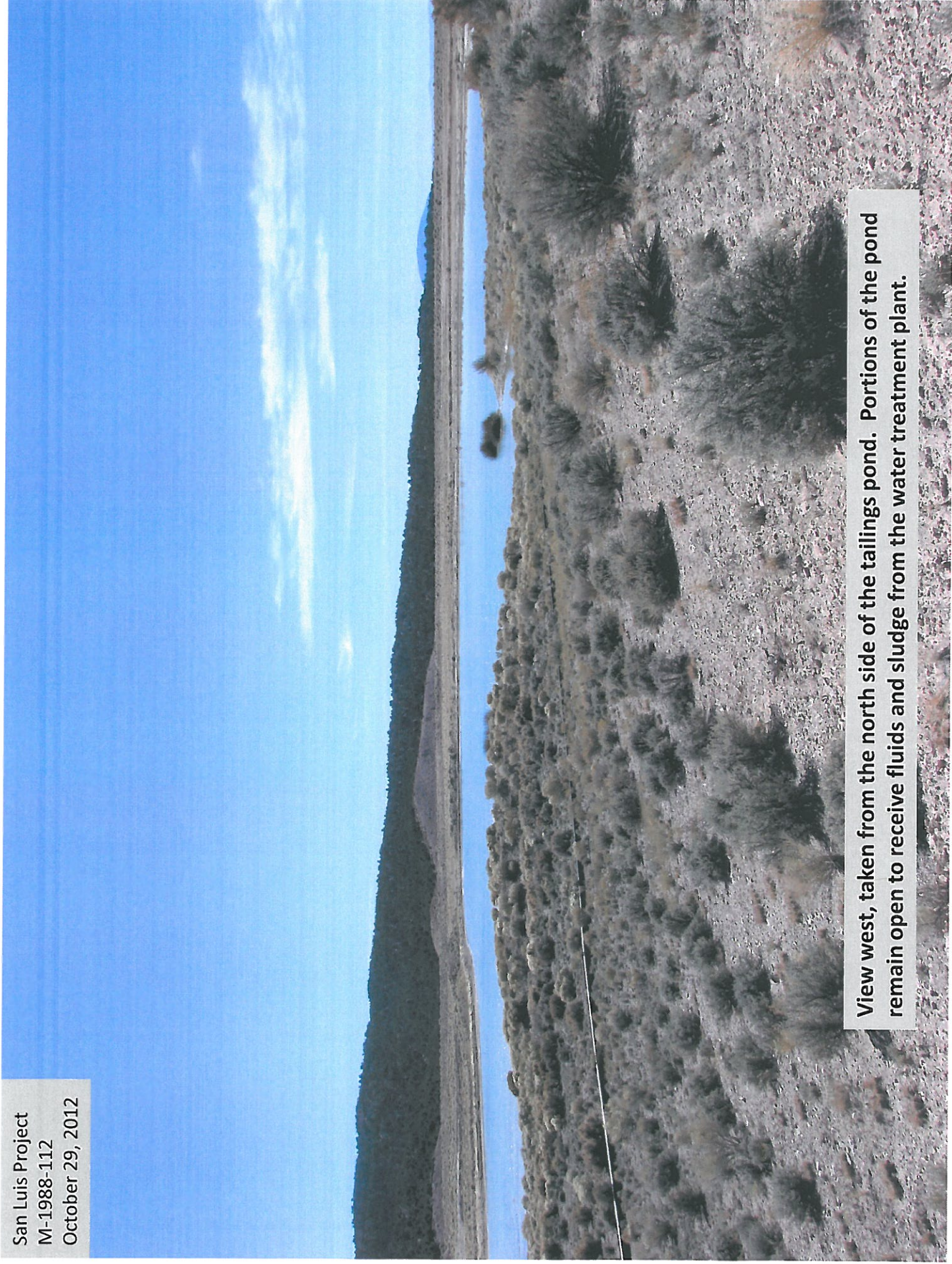
View south, taken from the north side of the tailings pond. Center pivot irrigation equipment appeared dormant.

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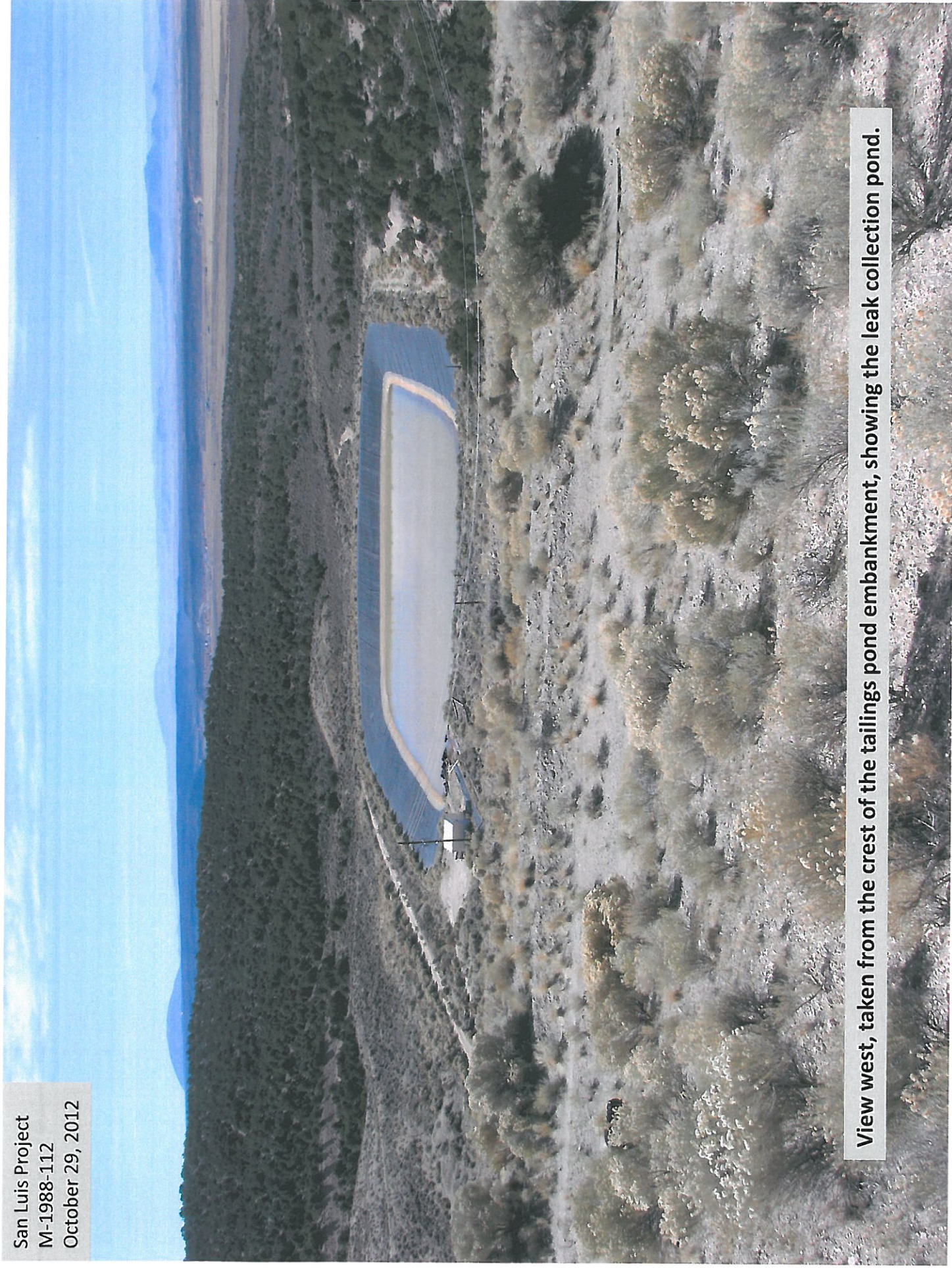
View southwest, taken from the north side of the tailings pond. Portions of the pond remain open to receive fluids and sludge from the water treatment plant.

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View west, taken from the north side of the tailings pond. Portions of the pond remain open to receive fluids and sludge from the water treatment plant.

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View west, taken from the crest of the tailings pond embankment, showing the leak collection pond.

of the Financial Warranties shall stay the release on the thirtieth (30) day pending a Formal Board Hearing.

4.17 RELEASE OF PERFORMANCE AND FINANCIAL WARRANTIES FOR MINING OPERATIONS

4.17.1 Operator Requirements

110(4) and
117(5)

- (1) The Operator of any mining operation may file a written notice of completion of reclamation and request for release of reclamation responsibility with the Office whenever an Operator believes any or all requirements of the Act, the Rules and Regulations, and the approved reclamation plan have been completed with respect to any or all of the Affected Lands.
- (2) The Operator shall include in the notice to the Office the names and addresses and phone numbers of all owners of record to the affected land.
- (3) The written notice requesting release shall be sent by Certified Mail and be separate from other types of communication to the Office.
- (4) Such notice shall contain a signed statement by the Operator or their agent that all applicable portions of the Reclamation Plan requirements have been satisfied in accordance with these Rules and all applicable requirements under the Act.

4.17.2 Division Requirements

117(5)(a)

- (1) The Office, upon receipt of said notice of completion of reclamation, shall immediately provide notice to all owners of record to the affected land and to the county(s).
- (2) The Office shall, within sixty (60) calendar days after receiving said notice, or as soon thereafter as weather conditions permit, inspect the lands and reclamation described in the notice to determine if the Permittee has complied with all applicable requirements.

117(5)©

- (3) If the Office fails to conduct an inspection within the time specified in Rule 4.17.2(2), or fails to advise the Permittee of deficiencies within the time specified in Rule 4.17.2(4), then all Financial Warranties applicable to reclamation described in the notice shall be deemed released as a matter of law.

- (4) Where the Office finds that a Permittee has not complied with the applicable requirements of the Act, Rules and Regulations, or the approved reclamation plan, it shall advise the Permittee of such non-compliance not more than sixty (60) calendar days after the date of the inspection.
- (5) Where the Office finds that a Permittee has successfully complied with the requirements of the Act, Rules and Regulations, and the approved reclamation plan, the Office shall release all applicable performance and financial warranties. Release (pending an appeal) shall be in writing and mailed within thirty (30) calendar days to the Permittee after the date of such findings. However, an appeal to the release of the financial and performance warranties shall stay the release on the thirtieth (30) day pending a Formal Board Hearing.

4.17.3 Reserved

4.17.4 Specific Provisions - Designated Mining Operations

113(6)

- (1) Upon filing a Request to Release Financial Warranty or a Notice of Completion, the Operator/Permittee shall follow the Public Notice procedures as provided for in Subsection 7.2.10.
- (2) The Operator shall request release of any remaining reclamation bond funds at or after such time as is prescribed by the Board or Office which shall be no more than five (5) years after submitting the initial Request for Release of Financial Warranty, and subsequent Office inspection, as provided for in Subsection 7.2.11(2).

4.18 PUBLIC NOTICE AND FILING OF WRITTEN OBJECTIONS REGARDING A REQUEST FOR RELEASE OF FINANCIAL WARRANTY

- (1) Any person who demonstrates that he/she/it is directly and adversely affected or aggrieved and whose interest is entitled to legal protection under the Act may submit written objections on the request for reclamation responsibility release so long as such comments are received by the Office no more than fifteen (15) days after notice by the Office to the county(s) and all owners of record to the affected land.

or aggrieved by the Office determination of designation or non-designation and where such person's interest is entitled to legal protection under the Act may appeal the Office's determination to the Board pursuant to Rule 1.4.11. The operator/applicant may be a party to the appeal.

7.2.8 Plan Inadequacy

If the Office subsequently finds that the approved Environmental Protection Plan is not adequate to comply with the Act and these Rules for protection of human health or property or the environment in conformance with the duties of Operators as prescribed by the Act, the Office may direct the Operator/Applicant to propose a revision to the previously approved Plan within a reasonable time. Provided the Operator is operating in compliance with the approved permit, this Office directive to propose a change shall be considered a "possible problem" and not a "possible violation", unless the time period for submission of the revision is not met by the Operator.

7.2.9 Time Extension for Filing the Environmental Protection Plan

Any Operator not granted relief, upon appeal of a designation as a Designated Mining Operation, shall submit an Environmental Protection Plan to the Office within ninety (90) days of issuance of the Board Order denying the appeal, unless granted additional time by the Board based on all the following:

- (a) the good faith efforts of the Operator to achieve compliance;
- (b) the complexity of the mining operation; and
- (c) a demonstration that harm would not occur to the human health, property or the environment if the additional time were granted.

7.2.10 Public Notice Requirements - Request for Release of Financial Warranty

- (1) Upon filing a written Notice of Completion and a Request to Release Financial Warranty for a Designated Mining Operation, the Operator shall publish a Public Notice according to the following guidelines.
- (2) At the time of filing a written Notice of Completion or Request for Release of Financial Warranty, the Operator shall publish once in a

newspaper of general circulation in the area of the mining operation for which a reduction or release of Performance and Financial Warranties is sought. The Notice shall specify the following:

- (a) the name of the mining operation;
- (b) the location of the mining operation in relation to the nearest municipality, giving direction and miles;
- (c) a brief statement of what is being requested and that public comments concerning the appropriateness of the requested release should be sent within thirty (30) days to the address for the Division of Minerals and Geology, listed on the cover of these Rules.
- (d) The Operator shall submit proof of publication as provided for in Subsubparagraph 1.6.2(1)(a)(ii).

117(5.5) **7.2.11 Partial and Final Release of Financial Warranty**

- 117(5.5)(a)(I) (1) Upon completion of the performance requirements of the Permit and Reclamation Plan, the Operator may file a written Notice of Completion with the Office.
- 117(5.5)(a)(II) (2) The Office shall inspect the affected land within sixty (60) days after receiving such notice, or as soon thereafter as weather permits to determine if the affected land has been reclaimed for a beneficial use and is in compliance with all applicable Performance Standards.
- 117(5.5)(b) (3) Upon a finding by the Board or Office that the Operator has complied with all the Permit performance requirements, the Office shall deliver a written release of all, or portion of, the Financial Warranty, as appropriate, for the applicable Permit area. This release shall be according to a schedule prescribed by the Board.
- 117(5.5)(c)(I) (4) If the Office or Board finds that the performance requirements have not been met, the Office shall advise the Operator, in writing, of such finding and noted deficiencies within sixty (60) days of the inspection conducted pursuant to Paragraph 7.2.11(2).
- 117(5.5)(c)(II) (5) If the Operator is not entitled to release, or a portion thereof, of the Financial Warranty, the Board or Office may specify a reclamation schedule and adjust the amount of the bond and Financial Warranty, accordingly.

- 117(5.5)(d) (6) If the Office fails to conduct an inspection, pursuant to Paragraph 7.2.11(2), or fails to notify the Operator of any deficiencies within sixty (60) days of the inspection conducted pursuant to Paragraph 7.2.11(4), then that portion of the Financial Warranty applicable to the reclamation described in the Notice of Completion or Request for Release shall be deemed released as a matter of law.
- 117(5.5)(e) (7) Within five (5) years after the release of a portion of the Financial Warranty, pursuant to Paragraph 7.2.11(3) the Operator may file, in writing, a Request for Financial Warranty Release for release of the balance of the Financial Warranty according to the provisions of Subsection 7.2.10. The Office shall inspect the affected land within sixty (60) days of such request, or as soon thereafter as weather permits, to determine if the affected land has been reclaimed for a beneficial use and is in compliance with all applicable Performance Standards.

7.3 ENVIRONMENTAL PROTECTION FACILITIES - DESIGN AND CONSTRUCTION REQUIREMENTS

7.3.1 Construction

- (1) Unless otherwise specified by the Office or Board, construction work shall be done in phases. No construction work shall begin on any subsequent phase of the facility without first obtaining Office acceptance.
- (2) No liner of any kind shall be installed where climatic conditions are not within design or manufacture recommendations, and accepted by the Office.
- (3) Such facilities shall be appropriately designed for their intended purpose and shall consider site specific conditions and on or off-site impacts to human health, property and the environment. Design capacities shall be sufficient to handle the design storm event for the area. The design storm event may be the two (2) year, 24-hour storm event up to the Probable Maximum Precipitation (PMP) event plus the ten (10) year, 24-hour storm event.
- (4) It will be the responsibility of the Operator or Applicant to provide adequate Quality Assurance/Quality Control (QA/QC) or certification for any construction activities that are identified in the approved Environmental Protection Plan as specifically requiring QA/QC.
- (5) No chemicals used in the extractive metallurgical process or toxic or acid-forming materials, uranium, uranium by-products or radio nuclides