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Memorandum

To: Trent Peterson, Vice President GCC

From: Steve Harris, Consulting Water Engineer

Subject: King II Mine Redundant Water Sources

The water right in Water Court Decree No. 07CW100 (Decree) will provide a raw water supply for the GCC mine primarily for dust control inside the mine and at the entrance but also treatment for domestic use for the mine employees. The Decree includes three sources of water: Huntington irrigation dry-up, diversion from the La Plata River for storage, and well water. All of the sources require a reservoir to store water for month-to-month and year-to-year usage. From the known data of the Mine's usage to date the existing water supplies in place are adequate to satisfy the demand.

The Decree provides a water supply up to 34.07 AF per year (utilizing Huntington irrigation dry-up, La Plata River diversions, and water wells). At this time, a redundant water supply is being pursued to firm up the Mine's water supply. In conjunction, the existing underground 20 AF reservoir is unavailable for use for storage due to unexpected circumstances. A new storage facility is also being pursued at this time.

The proposed redundant water source and potential storage facility are described below along with steps towards implementation. At this time, the proposed additional supplies are accommodated within the existing augmentation plan.

Additional Huntington Irrigation Dry-Up

To provide additional water, GCC has made arrangements with Huntington Ranches, LLC's (Huntington) using Class A shares in the Hay Gulch Ditch (HGD) to supply the additional water, through the life of the Mine, through the dry-up of an additional 43.5 acres. The change of irrigation water to use at the Mine will be nearly identical to the conversion of the previous dry-up acreage in the Decree. There will be a few exceptions given that the land has been historically sprinkler irrigated, water has been provided through the Huntington lateral of the HGD, and the land is further from Hay Gulch requiring analysis of lagged return flow.

Huntington Reservoir

To provide a new storage facility, Huntington proposed enlargement of an existing pond to accommodate Huntington's needs as well as provide storage for the Mine's water supply. GCC may store in the reservoir its First Lease Water, Second Lease Water, and/or any other water rights decreed in Case No. 07CW100. A key component of utilizing the Decree and additional supplies fully is having storage for usage month-to-month and year-to-year. The proposed

Huntington Reservoir (Reservoir) will have a volume of up to 30 AF dependent upon numerous aspects of design and construction.

Steps for Implementation

1. Secure a letter of intent to lease additional water from Huntington by September 1, 2015.
2. GCC will file a water application and substitute water supply plan (SWSP) to allow the redundant water supply and the Reservoir to be used in conjunction with the Mine's operations. The application and SWSP will be pursued concurrently. While the application is prepared and processed, the SWSP will be requested to be in effect to provide water to the Mine. Typically, a SWSP is reviewed and processed by the Division of Water Resources within 90 days of submittal. The application and SWSP will be submitted no later than December 31, 2015.
3. Preliminary investigation into the Reservoir's potential location has begun. Surveying of the proposed location will commence the first week of September 2015. The Reservoir will be designed to satisfy the needs of Huntington and GCC as well as conform to all applicable regulations. Construction is estimated to begin the winter of 2015. The Reservoir plans to be online and available for use in time to collection 2016 spring run-off.

