

CORRESPONDENCE/MEMORANDUM

DATE: January 4, 2012

FILE REF: Aquila Resources

TO: Nicholas Schlagenhaft, Project Geologist
Aquila Resources, Inc.
4613-A Camp Phillips Road
Schofield, WI 54476

FROM: Philip Fauble – WA/5 *Philip Fauble*

SUBJECT: Exploration Borehole Site Inspection Report, Aquila Resources, Town of Easton, Marathon County, Wisconsin

On December 30th, 2011, staff from the Wisconsin Department of Natural Resources (DNR) and Aquila Resources, Inc. (Aquila) inspected 53 potential metallic mining exploratory borehole sites to be located along Thornapple Creek Road in the Town of Easton, Marathon County. The locations and description of the proposed exploration activities are detailed in the Notice of Intent to Drill: Phase II submitted to the Department on December 19th, 2011 in accordance with ch. NR 130.10(1) Wis. Adm. Code. The purpose of the inspection is to ensure the drill sites will be in compliance with the minimum standards in ch. NR 130.06(2) Wis. Adm. Code, to determine if additional permits might be needed, and to provide appropriate recommendations.

Attendees:WDNR

Philip Fauble – Mining Coordinator, Madison

Aquila ResourcesNicholas Schlagenhaft, Project Geologist
Paul Herder – Education Outreach CoordinatorDrilling Plan

During the site inspection, several aspects of the drilling plan were modified or clarified by Aquila and the DNR. These include the following:

- **Boreholes** - While the initial NOI to drill included 53 potential borehole locations, the drilling effort will be scaled back due to time and money constraints. Nick will submit a revised drill plan map before drilling begins in mid-January 2012. The reduced drill site plan will be comprised of a subset of the locations inspected, so a separate, follow-up site inspection will not be needed.
- **Stormwater Permit** - Based on a review by Brad Johnson (WCR-Water), it is his opinion that the Stormwater Management Permit issued for the previous exploration drilling work this summer, should also cover Phase II of your exploration plan. You will not need to file any additional paperwork to maintain your Stormwater Permit.

- **Drilling Mud** - We approve your use of the bariod drilling lubricant known as "EZ-Mud" as long as it used at no more than the recommended mixture rate of 0.5 to 1.5 lbs/100 gallons of water. If you intend to use concentrations of this product in excess of 1.5 lbs/100 gallons, please let us know prior to its use.
- **Reclamation** - As for reclaiming and revegetating the drill sites and access roads, we recommend waiting to apply seed mixtures until after the ground has sufficiently thawed in the spring. At that time, we would be glad to re-visit the sites and assess the need for additional site reclamation. If the ground stays well frozen and you can minimize site disturbance, you may not need extensive reseeded of the drill sites.
- **Surface Water** - Justin Cavey and Jim Burgener of Marathon County conducted a navigability assessment of the unnamed branch of Mole Brook that crosses the northern edge of your drill site. They determined that the waterway was not navigable where it crossed Thornapple Creek Road, so you will not be required to submit an exemption request under Chapter 30 for drilling within 300 feet of a navigable waterway. It also appears that Aquila will be accessing the drill sites from existing driveways, so there should not be any need for culverts or fill to access the sites.
- **Reclamation Bond** - Your estimate of \$55,450.00 is consistent with your previous reclamation estimates and is acceptable. Please amend the existing reclamation bond to reflect these new costs and submit the documentation to me.
- **Drilling Mud and Cuttings** - Aquila will continue to rely on municipal water for drilling fluid and all spent drilling mud and drill cuttings will be managed at the existing management facility on the Martin Trust Property. The cuttings will be mixed with lime and taken to a landfill and the spend fluid will be sent to a WWT plant for treatment and disposal.

Specific Borehole Site Comments

Aquila identified four separate properties on adjacent parcels on both the eastern and western sides of Thornapple Creek Road.

- **Neiter Property** –The majority of the drill sites were located in the Neiter Property, some on high ground near a residence, but the most in an extensive, thinly forested seasonal wetland to the north. There was no navigable water observed in the wetland area and no evidence of channelized surface flow. All surface water was completely frozen and the ground surface was hard, although it was likely not sufficiently frozen to support the weight of a drill rig at the time. Access will be through the driveway to the residence on the southern end on the property.
- **Michels Property** – The borehole sites here are all located on high ground (no wetlands) in a forested area. The ground was firm and frozen. Again, access to the site would be through the residence’s gravel driveway.
- **Martin Trust** – There would only be 3 additional boreholes on this property and they would be located in a high area of old pasture. As with the previous boreholes located here, it is unlikely that additional seeding will be needed at these three sites.
- **M. Denee Property** – Due to continuing negotiations over surface and mineral rights, the 6 planned boreholes at this location have been postponed for a future drilling effort.

Unless additional permits need to be obtained, Aquila is free to commence drilling at the Reef Gold Prospect site. DNR staff will conduct periodic inspections of the drilling operations over the winter. Please note that s. NR 130.10(2) and (3) Wis. Adm. Code requires you to notify to the DNR (contact me at 608-267-3538) prior to the commencement of any drilling and give the DNR at least 24 hours notice prior to filling the borehole.