



March 20, 2018

CERTIFIED MAIL: 7009 0080 0002 4347 7290
Return Receipt Requested

Doug Stiles
General Manager
Revett Silver Company at Hecla Mining
6500 N. Mineral Drive, Suite 200
Coeur d'Alene, ID 83815

Re: Violation Letter

Dear Mr. Stiles,

Under Section 82-4-361(1), MCA, the Department of Environmental Quality (DEQ) is required to send a violation letter when it has reason to believe that a person is in violation of the Metal Mine Reclamation Act, a rule adopted under the Metal Mine Reclamation Act, or a term or condition of a permit issued under the Metal Mine Reclamation Act.

Based on an investigation, DEQ has reason to believe that Phillips S. Baker Jr. (Phillips Baker), Helca's President and Chief Executive Officer, is in violation of Section 82-4-360(1), MCA, which provides as follows:

When activity prohibited – exception. (1) Except as provided in subsection (2), a person may not conduct mining or exploration activities in this state if that person or any firm or business association of which that person was a principal or controlling member had a bond forfeited under this part, if the department otherwise received proceeds from a surety to perform reclamation on that person's behalf, or if the person's surety completed reclamation on the person's behalf.

DEQ records indicate that Phillips Baker was an Officer, Director or otherwise a controlling principal of Zortman Mining, Incorporated; Pegasus Gold Corporation; Pegasus Gold Montana Mining, Incorporated; and Beal Mountain Montana Mining, Incorporated (collectively, "Pegasus Entities"). DEQ received proceeds from a surety for the Pegasus Entities to perform reclamation work. DEQ has spent millions of public funds on reclamation work at the Pegasus Entities' Zortman-Landusky, Basin Creek, and Beal Mountain mine sites. Ongoing obligations at these sites will cost the State approximately two million dollars per year in perpetuity. Because Phillips Baker was a principal or controlling member of the Pegasus Entities at the time DEQ

received proceeds from the Pegasus Entities' surety to perform reclamation at the sites, he is prohibited from conducting mining and exploration activities in Montana under Section 82-4-360(1), MCA.

Through his role as Helca's President and Chief Executive Officer, however, Phillips Baker is conducting mining and mineral exploration activities in Montana. Under his direction, Hecla and/or its subsidiaries are performing activities in anticipation of or conducting mineral exploration activity under exploration licenses (Exploration License 00648 – Montanore Project; Exploration License 00663 Rock Creek Project) issued by DEQ. In addition, under his direction, Hecla and/or its subsidiaries have sought authorization to conduct mining under an operating permit (Operating Permit No. 00150 – Montanore Project) issued by DEQ. Because Phillips Baker is conducting mining and exploration activities in Montana, he is in violation of the prohibition set forth in Section 82-4-360(1), MCA.

In addition to persons or operators who are in violation, any director, officer, or agent of a corporation who purposefully or knowingly authorizes, orders or carries out a violation is subject to enforcement under Section 82-4-361(2)(a)(ii), MCA. DEQ believes that other directors, officers and agents of Hecla are aware that Phillips Baker was a principal or controlling member of the Pegasus entities at the time DEQ received proceeds from the Pegasus Entities' Surety to perform reclamation. By authorizing Phillips Baker to conduct mining and exploration activities in Montana, they are in violation of the Metal Mine Reclamation Act.

As you are aware, DEQ received an enforcement request in October of 2017 asking DEQ to impute Phillips Baker's violation of Section 82-4-360 to Hecla. The enforcement request asserted that the "bad actor" provisions of the Metal Mine Reclamation Act prohibits Helca from receiving exploration licenses and operating permits based on the failures of Zortman Mining Inc. and Pegasus Gold Mining Inc. to complete reclamation, the receipt of bond proceeds by DEQ, and Phillips Baker's position of control in those entities. As written, that enforcement request is denied. DEQ is not basing its enforcement action against Helca on any theory of vicarious liability for Phillips Baker's violation of Section 82-4-360, MCA. Rather, so long as Phillips Baker is a principal or controlling member of Hecla's mineral exploration and mining activity in Montana, Hecla is supporting his individual violations in violation of Section 82-4-361(2)(a)(ii), MCA.

To return to compliance, DEQ recommends Helca take one of the following corrective actions. First, the remedy set forth in Section 82-4-360(2), MCA, may be pursued. Under that provision, a person who is barred from conducting mining or exploration activity under Section 82-4-360(1), MCA, may become eligible to conduct those activities by paying to DEQ 1) the full amount of the necessary expenses incurred by DEQ in reclaiming the area for which the bond was forfeited; 2) the full amount of any penalties assessed by DEQ under the Metal Mine Reclamation Act; and 3) interest on the expenses incurred and penalties assessed at the rate of 6% a year. In addition, the person must demonstrate and DEQ must determine that the person has remedied the conditions that led to the bond forfeiture or receipt of bond proceeds and that those conditions no longer exist.

Given the complexity of the reclamation efforts at the Pegasus sites, DEQ will work with Hecla to establish a plan for payment and the required remedial demonstration. A letter to DEQ, sent within 30 days of your receipt of this violation letter, noticing an intent to pursue the remedial steps under Section 82-4-360(2), MCA, will result in no further immediate action against you by DEQ.

Alternatively, Hecla may demonstrate Phillips Baker, or any entities under his direction and control, will not conduct mining or exploration activities in Montana. A letter to DEQ, sent within 30 days of receipt of this violation letter, demonstrating the same will result in no further immediate action against you by DEQ.

If DEQ does not receive a letter providing a notice of intent to pursue either one of the corrective actions within 30 days of receipt of this letter, DEQ may issue an administrative order under Section 82-4-361(6), MCA. DEQ may also bring a judicial action for penalties or injunctive relief prior to or instead of initiating administrative enforcement action under Section 82-4-361(2)(a)(i) and (ii), MCA. Finally, DEQ has the authority to suspend exploration licenses and operating permits under Section 82-4-362(1), MCA.

DEQ does not issue this violation letter without careful consideration. DEQ is well apprised of the high reputation Hecla has earned for safety and its commitment to minimizing the environmental impact of its proposed projects. Hecla's cooperation with, and commitment to, the State of Montana are appreciated. Nonetheless, DEQ will enforce Montana law regardless of a company's reputation. The ramification of the Pegasus bankruptcy continues to be felt in Montana in the form of expenditure of millions of dollars of environmental work each year in perpetuity. The amendments to the Metal Miner Reclamation Act born partly of that experience remain controlling law in Montana. In this instance, they bar Phillips Baker from involvement in mining or exploration activities in Montana unless the statute's remedial steps are completed.

If you disagree with DEQ's determination, you may write a letter stating the nature of your disagreement accompanied by any supporting documentation. DEQ will consider the information provided before pursuing further action.

Thank you for your prompt attention to this matter.



Tom Livers
Director, Department of Environmental Quality

cc: Earthjustice