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CERTIFIED MAIL—RETURN RECEIPT REQUESTED

June 13, 2011

Mr. Mark S. Pelizza
Senior Vice President for Health, Safety, Environment, and Public Affairs
Hydro Resources, Inc.
405 State Highway 121 Bypass
Building A, Suite 110
Lewisville, TX 75067

RE: Hydro Resources, Inc. Discharge Permit-558 renewal application—Request for additional information

Dear Mr. Pelizza:

The New Mexico Environment Department ("NMED") currently is conducting technical review of Hydro Resources, Inc.'s ("HRI's") application for renewal of Discharge Permit-558 ("DP-558"). As discussed below, NMED has identified a significant issue related to ground water restoration that must be addressed in order to complete its technical review.

Within section 5209.A of this application, HRI states that "[O]nce the economic recovery limit of a mine area is reached...the affected ground water will be treated (restored) to return the quality of water to regulatory standards" (page 19). These goals are further explained on page 22 of this same section: "...the primary goal of restoration [is] to return all parameters to average preexisting conditions. To the extent that water quality parameters cannot be returned to the identical average pre-mining baseline levels, the secondary goal will be to return water quality to the maximum concentration limits as specified in Section 20.6.2.3103 NMAC..."

In a February 14, 2011 meeting with NMED preceding submittal of the DP-558 renewal application, HRI committed to the submittal of information documenting industry success in achieving regulatory restoration standards at other uranium in-situ recovery ("ISR") mine sites with comparable hydrogeology. To address this commitment, HRI submitted information in its DP-558 renewal application pertaining to the completed ground water restoration of two Production Authorization Areas ("PAAs") in the Rosita ISR facility operated by URI, Inc. in Texas (Volume 5, p. 20 and Appendix 3). NMED's review of this information indicates that URI sought modification of its restoration tables, by which the Texas Natural Resource Conservation Commission ("TNRCC") documents ISR restoration standards, for several parameters, which included uranium for both PAAs. Both of the restoration table modification applications submitted to the TNRCC include the following statement: "The increase in uranium, and other trace elements due to oxidation, are greatly reduced but not eliminated by either ground water sweep or RO. This is because oxidation affects the host rock and the host rock remains slightly more oxidized after mining than it was before mining. Ground water sweep and RO technology do not fully

reverse oxidation of the rocks and the rock continues to "give" soluble trace metal values back to the water. **So regardless of the duration of the restoration effort using ground water sweep or RO technology, the methods are largely, but not completely, effective and residual concentrations may remain [emphasis added]**" ("URI Rosita ISR Project technical report for a restoration table amendment, Production Area Authorization UR02880-011," and "URI Rosita ISR Project technical report for a restoration table amendment for Production Area Authorization UR02880-021," sections F.6, included as Appendix 3).

In light of this information and the associated data, it is not clear that restoration of ground water quality at the proposed Churchrock Section 8 ISR facility to applicable standards can be achieved. Therefore, NMED requests that HRI submit additional analytical documentation to demonstrate that ground water restoration standards for the proposed Churchrock Section 8 ISR facility—in particular for uranium—can be achieved after the proposed ISR mining. The additional documentation may include data from HRI ISR sites or from other ISR facilities.

Please submit the information requested above within 60 days of receipt of this letter so that NMED can continue a technical review of your application. NMED may later request that additional issues be addressed during continued review of your permit renewal application. If you have any questions or would like to schedule a meeting to discuss this letter, please contact David L. Mayerson at (505) 476-3777 or by email at david.mayerson@state.nm.us.

Sincerely,

William C. Olson, Chief
Ground Water Quality Bureau
New Mexico Environment Department

Copies:
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David L. Mayerson, NMED
Mary Ann Menetrey, NMED
Jerry Schoeppner, NMED

WCO/dlm

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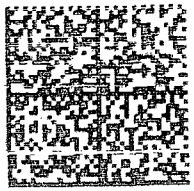

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