STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

REBECCA A. HUMPHRIES
DIRECTOR

November 10, 2010

Certified Mail

Mr. Thomas O. Quigley, President
Aquila Resources, Inc.
E807 Gerue Street
Stephenson, Michigan 49887

Dear Mr. Quigley:

SUBJECT: Menominee County Parcels with Contested Mineral Ownership

The Department of Natural Resources and Environment (DNRE) has been reviewing its title to state-owned minerals in Menominee County. We have found numerous instances where state-owned minerals also appear to be claimed or conveyed by Aquila Resources, Inc., VMS Development Company LLC, or affiliated, or successor entities (collectively Aquila).

The DNRE records show the state has vested ownership of the minerals as shown in the enclosed Exhibit A. Exhibit A identifies 358 parcels by location, parcel ID as shown in our database, the deed type (method of acquisition), date of deed acquisition, interest type held by the State of Michigan, and any encumbrances. For parcels which subsequently had surface rights conveyed, Exhibit A also lists the deed type (method of conveyance), and date of deed disposition.

The DNRE has found recorded documents which assert that Aquila claims mineral rights in these same parcels. The DNRE has conducted a title search on several of the listed parcels and does not find any evidence of Aquila in the chain of title except as it appears in a claim of interest filed pursuant to the Marketable Record Title Act, 1945 PA 200, as amended.

The bulk of the parcels, 330, were obtained by tax reversion. The vast majority of those reverted in 1939. Only two parcels reverted after 1946. The Attorney General's Office has indicated the state acquired good title to the minerals on the tax-reverted parcels, even if the minerals had been severed from the surface ownership prior to the tax foreclosure. The state has not transferred its mineral interests in any of these parcels, having reserved minerals whenever it exchanged or sold any of the lands.

Failure to submit the disclaimer, or to provide additional evidence supporting Aquila's claim of mineral interest in the attached parcels by January 31, 2011, will result in escalated enforcement actions against Aquila. Escalated enforcement actions may include placing Aquila on the Hold Action List. Placement on the Hold Action List would render Aquila, associated companies, partners, and officers ineligible for any future leases, surface use permits, exploration plans, easements, assignments, extensions, amendments or other discretionary approvals. Additional escalated enforcement actions may also include pursuing actions to quiet title, or filing to remove slanderous claims against the state's title under MCL565.108.

If you need further information or assistance, please contact me at Minerals and Land Management, Forest Management Division, P.O. Box 30452, Lansing, MI 48909-7952, or 517-373-7666

Sincerely

Thomas Wellman

Thomas Wellman, Manager
Mineral and Land Management Section
517-373-7666

Enclosure
cc: Mr. Brad Morton, DAG
Mr. Kevin T. Smith, DAG
Mr. Frank Ruswick, Deputy Director, Stewardship, DMRE
Ms. Lynne Boyd, DNRE
Mr. Milt Gere, DNRE
Ms. Julie Manson, DNRE
Ms. Mary Uptigrove, DNRE