

Golden Eagle sues Queenstake for \$40 million

By ADELLA HARDING Free Press Staff Writer

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ELKO — Golden Eagle International Inc. today filed a \$40 million lawsuit in Elko District Court against Yukon-Nevada Gold Corp. subsidiary Queenstake Resources USA alleging breach of its contract to operate the mill at Jerritt Canyon Mine north of Elko.

Yukon-Nevada evicted Golden Eagle from the property June 10, less than two weeks after the Nevada Division of Environmental Protection ordered the mill shut down until new mercury emission controls are installed.

Golden Eagle had been running the mill since April but was hired last October to manage the mill site and prepare the mill to start processing gold ore stockpiles.

Golden Eagle attorney Barbara Torvinen of Elko said today the suit “is alleging Queenstake wrongfully ousted Golden Eagle from Jerritt Canyon,” and she said one aspect of the lawsuit asks the court to allow the company back on the property to finish out the contract.

“In essence, the action cost 82 jobs. It’s a significant issue, and Golden Eagle is on the hook for all those paychecks and benefits,” she said. Queenstake executives weren’t available to comment by deadline today.

Queenstake attorney Gary DiGrazia said today Golden Eagle’s action is in answer to Queenstake’s complaint filed June 10 against Golden Eagle.

Queenstake’s complaint accuses Golden Eagle of breach of good faith and negligence, and states that after an inspection, Queenstake discovered Golden Eagle “has been operating the Jerritt Canyon Mill in a manner that falls well below industry standards, with production being far below what the parties had reasonably anticipated.”

Golden Eagle employed 82 workers to operate the mill, which NDEP had allowed Queenstake to restart in April with the promise that the mercury controls would be in place by May 30. The lawsuit states Golden Eagle relied on the five-year contract to hire staff.

Queenstake originally shut down the mine and mill last August, laying off 400 people.

The suit claims Golden Eagle is losing \$40 million in fees and profits assured with the contract.

Torvinen also said Queenstake owes Golden Eagle nearly \$1.5 million in reimbursements and nearly \$744,000 in unpaid administrative fees.

She also said that "Queenstake has a pattern of signing people on and then walking away from contracts. It looks suspicious. When things get tight, they just take a new avenue."

The lawsuit also is a counterclaim against Queenstake alleging that it used a pattern of fraud, misrepresentation, material omissions and deceptive business practices to induce Golden Eagle into agreeing to operate the mill in the first place.

Golden Eagle Chief Executive Officer Terry Turner said today the counterclaim answers a complaint Jerritt Canyon filed but never served against Golden Eagle after the company was dismissed last month.

One of Queenstake's allegations is that Golden Eagle was obligated by contract to oversee installation of the new mercury emissions control equipment for Jerritt Canyon that must be in place before the mill can operate again.

Golden Eagle countered that it tried to work with Queenstake on the project after contractor AMS walked off the job within "weeks of the system installation deadline," after Queenstake didn't pay the contractor.

Torvinen said Queenstake was supposed to pay contractors in a pass-through agreement with Golden Eagle.

Yukon-Nevada President and Chief Executive Officer Robert Baldock said in June after Golden Eagle was evicted that Queenstake would employ people directly to operate the mill, and the company held a job fair that same week in Elko to accept applications.

Yukon-Nevada spokeswoman Nicole Sanches said late last week there was no news on the mill restarting yet.

The lawsuit also includes third-party claims, to include Yukon-Nevada, Queenstake Resources Inc. and Francois Marland of Switzerland, an investor Queenstake approached for funding. The suit states the third parties interfered with the contract between Queenstake USA and Golden Eagle.

Queenstake has 20 days to respond to the lawsuit.