



Augusta Resource (Arizona) Corporation
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January 5, 2007

Letter to:
Chairman of Pima County Board of Supervisors
Honorable Richard Elias

Members of the Board
Supervisor Sharon Bronson
Supervisor Ray Carroll
Supervisor Ann Day
Supervisor Ramon Valadez

And copy to:

Mr. Chuck Huckelberry
County Administrator

Regarding: Augusta Resource Corporation Rosemont Project

Dear Chairman Elias and Members of the Board:

We appreciate the opportunity to present an update of our plans for the Rosemont Mine at the County Supervisors Meeting scheduled for January 16, 2007. A copy of our planned presentation is attached.

As background information for the meeting, we attach several additional items:

- An outline of the enforceable commitments to be made by Augusta Resource (Arizona) Corporation in the Rosemont Plan of Operations.
- Reiteration of agreement to the five performance standards included in the County Administrator's Report to the Board.
- A discussion on financial assurances prepared by Steve Bateski of Hays Companies, an independent provider of financial instruments. The discussion demonstrates how Augusta Corporation would use financial guarantees to ensure that commitments would remain binding on a successor-in-interest or during a lower price environment for copper and molybdenum.

CLERK'S NOTE:

COPY TO SUPERVISORS

COUNTY ADMINISTRATOR

DATE

1-5-07

WJC

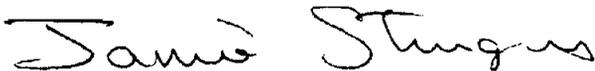
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- Our offer to participate with a community committee to develop a written Rosemont Mitigation Agreement with Pima County. The agreement would cover the five performance standards and other commitments to the community.
- As an alternative to developing a Rosemont Mitigation Agreement, community involvement could take the form of a workshop reviewing the draft Comprehensive Plan of Operations.
- Either of these approaches will avail an opportunity for constructive community involvement in the development of the Comprehensive Plan of Operations for the Rosemont Project.

I need to acknowledge the County request for more details regarding our mine operation and impact mitigation plans. It must be understood that these are very much works in progress, and that the Rosemont Ranch Project Feasibility Study is not scheduled for completion for another several months. As engineering, design, and operating details are completed and become available, they are being integrated into the relevant sections of the Rosemont Plan of Operations. The Feasibility Study and Plan of Operations are scheduled for completion and release after first quarter 2007.

Augusta is committed to a development plan for Rosemont that benefits both the shareholders of Augusta and the citizens of Pima County. We look forward to working with the County as we advance the public process.

Sincerely yours,



Jamie Sturgess
Vice President, Projects and Environment
Augusta Resource Corporation

Attachments:

1. November 28, 2006 letter Augusta to Pima County (with attachments)
2. January 16, 2007 Presentation to Pima County Supervisors
3. Financial Assurance and Performance Guarantees
4. DRAFT Santa Rita Mountains Regional Endowment Trust

Rosemont Ranch

Presentation to

Pima County Board of Supervisors

January 16, 2007



Integrating mineral and cattle production

- ↘ 20,000-acre working cattle ranch
- ↘ 4,000-acre proposed copper mine

Balancing Production and Protection

- ↘ Sustainable design goals
- ↘ Meet current environmental standards
- ↘ Achieve Pima County standards
- ↘ “Greatest good for the greatest number”

Augusta agrees to

1. Meet Open Space CLS Guidelines

- ▲ Conservation easements on Ranch lands not required for mining
- ▲ Mine lands dedicated to Open Space Ranchland following mining
- ▲ Purchase of mitigation lands and enhancement activities in region



Augusta agrees to

2. Protect Waters of Cienega Basin

- ^ Alternate water source
- ^ Closed system process water loop
- ^ DRY-STACK tailings process to conserve and protect water quality
- ^ Design of overburden stockpiles to avoid disrupting surface flows into Cienega Basin



Augusta agrees to

3. Concurrent Reclamation

- ^ Topsoil salvage and reuse
- ^ Start reclamation after first year
- ^ Funding for reclamation in place
- ^ Reclaim throughout mine life
- ^ Expedited closure at end of mine life



Augusta agrees to

4. Visual Considerations

- ^ Shield the viewscape
- ^ Perimeter screening berm
- ^ Contoured stockpile surfaces and slopes
- ^ Low-profile facilities sited below 5200 feet



Augusta agrees to

5. Community Endowment

- ↘ Santa Rita Mountains Regional Endowment Trust
- ↘ Payment every year into SRMRET for use during mine life
- ↘ Endowment fund accumulates during mine life to provide post mining endowment
- ↘ SRMRET funds to exceed total costs for acquisition of CLS lands



| | <u>Rosemont</u> | <u>Endowment</u> |
|--|-----------------------|----------------------|
| Meet Open Space CLS Guidelines | | |
| ^ Conservation easements on 2000 acres of Ranch lands | 6 million | |
| ^ Additional mitigation lands and enhancement activities | | 12 million |
| Protect Waters of Cienega Basin | | |
| • Additional costs for Alternate water source | 10 million | |
| • Replacement water required for TAMA Safe Yield | 10 million | |
| Concurrent Reclamation | | |
| ▪ Expedited reclamation throughout mine life | 34 million | |
| Visual Considerations | | |
| ▪ Expediting Perimeter Screening Berm | 7 million | |
| Community Endowment | | |
| • Annual payments | | 13 million |
| • Endowment fund | | 25 million |
| To be incurred by Rosemont | \$ 67 million | |
| Santa Rita Mountains Regional Endowment Trust | | \$ 50 million |
| | | |
| TOTAL Community Commitment by Rosemont | \$ 117 million | |

"Note: These amounts represent engineering estimates of extra costs required to achieve Pima County and community goals, and are in addition to the costs typically associated with the operation and closure of a modern surface copper operation."



Employment in Pima & Santa Cruz Counties

- ^ 350 direct high-paying jobs for 20 to 25 years
 - ◆ Direct payroll of \$400 million over life of mine
- ^ 700 indirect support jobs for local suppliers

Tax Base (life of mine)

- ^ County Property Taxes and Trust (\$60 million)
- ^ State Taxes (\$490 million)

Local Economy

Goods and services

Gain for all Americans

^ Supplies copper needs for 15 million of us

- ◆ 1 of every 20 citizens for the next 20 years

^ Domestic Production

- ◆ Balance of trade
- ◆ Imports vs. exports

^ Jobs here at home

^ Federal Tax Revenue

- ◆ \$1.8 Billion over life of mine (@\$2.00 copper)



Initial Plan of Operations Response

- ▶ Augusta is updating Initial Plan of Operations

Comprehensive Plan of Operations (CPO)

- ▶ Over 100 drawings, maps, and specifications

**The CPO is scheduled for completion
early 2007**



Commitments go into final Plan of Operations

^ Become legally binding

^ Commitments retained even if

- ◆ Land is sold
- ◆ Company ownership changes
- ◆ Copper price changes

- ↘ Detailed Mining and Ore Processing (Milling, Leaching Operations)
- ↘ Waste Rock and Mill Tailings Management
- ↘ Ancillary Facilities (Labs, Maintenance, Warehouses)
- ↘ Access Road
- ↘ Power Supply
- ↘ Water Supply
- ↘ Water Management
- ↘ Transportation
- ↘ Site Operations Security and Public Safety
- ↘ Financial Assurance and Performance Guarantees

- ^ Groundwater Protection Plan
- ^ Air Quality and Dust Control Plan
- ^ Mine Closure and Reclamation Plan
- ^ Viewshed Protection Plan
- ^ Environmental Monitoring Plan
- ^ Integrated Contingency Plan
- ^ Biological Resource Plan
- ^ Cultural Resource Plan
- ^ Fire Protection
- ^ Solid Waste Plan
- ^ Hazardous Waste Plan



- ↘ Lighting Plan – Dark Skies Initiatives
- ↘ Public Access and Recreation Mitigation Plan
- ↘ Riparian Protection and Mitigation Plan
- ↘ Ranch Management Plan
- ↘ Neighborhood/Community Mitigation Plan
- ↘ Santa Rita Mountains Regional Endowment
- ↘ SDCP Open Space Compliance Plan

Additional Community Commitments

- ^ Helvetia Townsite Cultural Site Preservation
- ^ Dedicated funds for improving recreation access
- ^ Financial guarantees for viewshed protection
- ^ Financial guarantees for concurrent reclamation
- ^ Green Valley Community Opportunities

Commitment to these items:

- **Rosemont Mitigation Agreement with Pima County**
- **Specified conditions in the Plan of Operations**



Comprehensive Plan of Operations

Early 2007

- ^ Includes environmental commitments
- ^ Basis of Contractual Obligations with agencies

Financial Feasibility Study

Early 2007

- ^ To include all commitments of CPO

Draft Environmental Impact Study

2008

- ^ Meetings and public comments throughout 2007
- ^ Final EIS after additional comment period

Final Record of Decision from US Forest Service

Final Plan of Operations by Augusta

- ^ Contractual obligations binding on future operations and operators

Third Party Financial Assurance Guarantees Before Construction

- ^ US Forest Service, ADEQ, Az State Mine Inspector



Next 24-30 months public input process

- ↘ **Comprehensive Plan of Operations**

Help us create the best plan

- ↘ **For the mine**
- ↘ **For return to ranching open space**
- ↘ **For the community**





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November 28, 2006

Letter to:

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Members of the Board
Supervisor Sharon Bronson
Supervisor Ray Carroll
Supervisor Ann Day
Supervisor Ramon Valadez

And copy to:

Mr. Chuck Huckelberry
County Administrator

Regarding: Augusta Resource Corporation Rosemont Project

Dear Chairman Elias and Members of the Board:

We appreciate the County's preliminary review of the Rosemont Project initial Plan of Operations (Rosemont Plan of Operations) dated July 31, 2006.

We solicited and received comments on the initial draft Rosemont Plan of Operations from the U.S. Forest Service, Pima County and a wide range of other individuals and groups in the community. Among the concerns voiced in these comments were questions of whether commitments made by Augusta Resource (Arizona) Corporation (Augusta) in the Rosemont Plan of Operations would remain binding on any successor-in-interest or during a lower price environment for copper and molybdenum.

By its very nature, the Rosemont Plan of Operations is a preliminary and conceptual plan. After further review, we have determined that the most effective way to deal with the concerns expressed is to include substantially more detail in the Rosemont Plan of Operations, which will be binding on Augusta and any future owners/operators of the Rosemont mine. The agreements will be tied to the land regardless of ownership. Even though development of this more Comprehensive Plan of Operations for Rosemont (Rosemont Project CPO) may delay the start of the Environmental Impact Statement (EIS) process and by extension, the start-up for mine operations, Augusta is willing to incur this delay in order to address the various community concerns that have been expressed.

The Rosemont Project CPO is scheduled for completion during first quarter 2007. The CPO will include over 100 engineering drawings, detailed maps, technical specifications, and more than 2 dozen new narrative sections describing the construction, operation, and closure of the Rosemont Project.

In order to illustrate the level of detail to be included in the new CPO, the draft Table of Contents is attached to this letter. The public scoping/review process for the EIS will not begin until after the Rosemont Project CPO has been submitted to and accepted by the Forest Service.

We accept the five performance standards included in the County Administrator's Report to the Board in the Rosemont Project CPO. Based on our initial review, we think that it would be best to enter into a written Rosemont Mitigation Agreement with the County on these five performance standards and other commitments to the community. We suggest that some reasonable period of time, possibly 120 days, be considered to work on a draft written agreement between Augusta and the County. This agreement could be integrated into the Comprehensive Plan of Operations and thus become a contractual obligation binding on any current or future permit holder/operator of the Rosemont Project.

In order to include public input into the process, we suggest the County Administrator convene a committee to work with Augusta to integrate the five county performance standards and the proposed community commitment into the Mitigation Agreement. Such a community group could work with Augusta to formulate firm commitments to be included in the CPO as an agreement with Pima County.

We request an opportunity to make a presentation on the Rosemont Project Plan to the Board of Supervisors at the meeting on Dec. 5, 2006. The information to be presented will include an outline of some significant commitments to be made by Augusta to the community.

Augusta is committed to a development plan for Rosemont that benefits both the shareholders of Augusta and the citizens of Pima County. We look forward to working with the County as we advance the public process.

Sincerely yours,



Jamie Sturgess
Vice President, Projects and Environment
Augusta Resource Corporation

Attachments:

1. Rosemont Project Summary and Economic Benefits to the Community
2. Draft Rosemont Mitigation Agreement Outline
3. Draft Annotated Table of Contents for Comprehensive Plan of Operations

Rosemont Project Summary

Over the past 120 years, Rosemont Ranch has been home to ranching and mining. Augusta Resource Corporation, current owner, will continue both traditions for the next 25 years and then, at the end of the mine life, will commit the reclaimed land to open space ranchland in perpetuity.

The Rosemont Ranch Project will use state-of-the-art processes – unlike any other mine in the state of Arizona. During its 20- to 25-year operation, this one local mine will produce 5% of the annual domestic copper used in the United States from a very small portion of land. Rosemont will produce 4-5 billion pounds copper, 100 million pounds of molybdenum and 100 million ounces of silver.

Under the U.S. Forest Service and the National Environmental Protection Act (NEPA) over the next one to two years, an open public process will take place to seek community input, as well as to complete a detailed environmental impact study and a comprehensive plan of operations for the mine. Every detail will be laid out, examined and re-examined, including:

- Water sources and protection
- Air quality and dust control
- Transportation and access roads
- Lighting
- Viewshed protection
- Open space planning and compliance
- Biological resource and environmental monitoring
- Power supply
- Facilities
- Mining processes
- Mine closure and land reclamation
- Financial assurance and performance guarantees
- Public safety and fire protection
- Ranch management and public access

Augusta Resource's commitment to the community is to:

1. **Meet Pima County open space guidelines** with conservation easements, lands dedicated to open space following mine closure, and purchase of lands for open space
2. **Protect Cienega Basin water** by providing an alternative water source, closed-loop water processing system, and high-tech tailings process to protect water
3. **Concurrent reclamation** beginning within the first year of mining as well as salvaging topsoil for replacement
4. **Visual considerations** to protect the viewscape including screening berms, contoured and sloped stockpiles, and low-profile facilities
5. **Community endowment** for local residents to manage and distribute that will grow with annual payments from Rosemont during the mine life. Millions of dollars will support important improvements such as open space land acquisition, invasive species control, internships, public safety, historic preservation and recreation.

Economic Benefits to Community

Estimated Annual Values \$

Employment in Pima and Santa Cruz Counties

- 350 direct high paying jobs for 20-25 years (Payroll) 30-40 million
- 700 indirect support jobs for local suppliers (Goods and services) 275 million

Tax Base (annual taxes @ \$2.00 Copper, \$20.00 Molybdenum)

- County Property Tax 200-400 thousand
- State Income Tax 15-35 million
- Federal Income Tax 60-150 million

Copper for the country is a nationwide benefit to all Americans

- Provides copper needs for 15 million Americans 1 of 20 US citizens for 20 years
- Domestic Production Imports vs. Exports

Jobs at home

1,000 local jobs for 20 years

DRAFT
Rosemont Mitigation Agreement

A. Summary of Rosemont Approach to the Five Performance Standards

Rosemont Agrees and Proposes to:

1. Meet Open Space CLS Guidelines
 - Conservation easements on Rosemont Ranch lands not required for mining
 - Mine lands to be dedicated to Open Space Ranchland following mining
 - Purchase of mitigation lands and enhancement activities within region
2. Protect Waters of Cienega Basin
 - Alternate water source from outside the Cienega Basin
 - Closed-system process water loop
 - High-tech tailings process to conserve water resources
3. Concurrent Reclamation
 - Topsoil salvage and reuse
 - Reclaim throughout mine life
 - Expedited closure at end of mine life
4. Visual Considerations
 - Perimeter Screening Berm
 - Contoured stockpile surfaces and slopes
 - Facility siting criteria below 5200 feet
5. Community Endowment
 - Annual payment every year into Santa Rita Mountains Endowment Trust (SRMRET) for use during mine life
 - Endowment fund accumulates during mine life to provide post mining endowment
 - SRMRET funds to exceed total costs for acquisition of CLS lands

B. Proposed Community Commitment **Dedicated Endowment**

| | | |
|----|--|-------------------|
| 1. | Meet Open Space CLS Guidelines | |
| | • Conservation easements on 2000 acres of Ranch lands | 6 million |
| | • Additional mitigation lands and enhancement activities | 12 million |
| 2. | Protect Waters of Cienega Basin | |
| | • Additional costs for Alternate water source | 10 million |
| | • Replacement water to meet AMA Safe Yield Goal | 10 million |
| 3. | Concurrent Reclamation | |
| | • Reclaim through first half of mine life | 34 million |
| 4. | Visual Considerations | |
| | • Expedited Construction of Perimeter Screening Berm | 7 million |
| 5. | Community Endowment to SRMRET | |
| | • Annual payments by Rosemont | 13 million |
| | • Endowment Trust funded by Rosemont | <u>25 million</u> |

Spent directly by Rosemont \$ 67 million

Placed into Santa Rita Mountains Regional Endowment Trust \$ 50 million

Community Commitment by Rosemont \$117 million

Santa Rita Mountains Regional Endowment Trust **Potential Beneficiaries**

- Open Space Land Acquisition
- Protection of Existing Open Space Land
- Invasive species control
- Dark skies initiative
- Internships
- Graduate fellowships U of AZ
- Public safety & off-road enforcement
- Historic preservation
- Recreation

Others to be determined

Pima County, Santa Cruz County
Pima County SDCP
Santa Rita Exp. Range, SDCP lands
Smithsonian, Univ. of Arizona
Forest Service, BLM, Pima County
Mines, Geology, Agriculture
Santa Cruz County, Pima County
Santa Cruz Valley, Santa Ritas
Forest Service, Pima County, BLM

By SRMRET Trustees

DRAFT
Rosemont Mine Plan of Operations
Annotated Table of Contents

A. Introduction and Site Description

1. Owner and Operator
2. Project Location, Access, and Areas of Operation
 - general location information
3. Mining and Exploration Background
 - brief mining history for the project area
4. Claims Information
 - narrative description, claim list and associated map
5. Physiographic Setting
 - climate, geology, seismicity, and hydrology.

B. Mine Plan

1. Mining
 - mine schedule, mining rate, blasting schedule, pit sequencing, material balances, equipment, conveyor operation, haul roads, haul profiles
2. Ore Processing (Milling, Leaching Operations)
 - primary crusher, crushing/grinding, flotation, tailings thickening, reagent handling, process ponds, BADCT design
3. Waste Rock and Mill Tailings Management
 - placement schedule, rate of processing, BADCT design characteristics, geochemical information, geotechnical information
4. Ancillary Facilities (Laboratories, Maintenance, Warehouses)
 - facility locations and layouts; waste and product materials management
5. Access Road
 - USFS and engineering road standard information, alignment, profile
6. Power Supply
 - capacities, usage rates, alignment and locations of powerlines and substations
7. Water Supply
 - water source; usage rates; alignment and locations of wells, pumps, and waterlines
8. Water Management
 - pond (BADCT) designs, capacities, diversions
9. Transportation
 - road data, trip estimates, safety evaluation
10. Site Operations Security and Public Safety
 - fencing, security staffing, signage
11. Financial Assurance and Performance Guarantees
 - bonding methods, costing methods

C. Resource Protection and Control Plans

1. Groundwater Protection Plan
 - outlining the requirements of and compliance with the ADEQ Aquifer Protection Permit (APP) program; sustainable water supply design
2. Air Quality and Dust Control Plan
 - air quality analysis and permitting (Title V) program, waste and tailings design and concurrent reclamation concepts, road watering program

3. Mine Closure and Reclamation Plan
 - post-mine land use and reclamation goals, reclamation concepts and techniques for all areas (plant site, waste rock, impoundments, pit leach pad, roadways), stormwater and erosion control, safety, monitoring, financial assurance; in compliance with requirements of the Arizona State Mine Inspector and the US Forest Service
4. Viewshed Protection Plan
 - viewshed analysis, viewshed mitigation controls (perimeter berm and concurrent reclamation), air quality analysis
5. Environmental Monitoring Plan
 - environmental monitoring programs, including air (Title V), stormwater (NPDES), groundwater (APP)
6. Integrated Contingency Plan
 - outlining the requirements of and compliance with RCRA, EPCRA, CERCLA, and SARA
7. Biological Resource Plan
 - sensitive species surveys, Endangered Species Act compliance, operational monitoring, and biological resource mitigation efforts, as necessary
8. Cultural Resource Plan
 - cultural resources survey, resource treatment and data recovery, tribal consultations
9. Fire Protection
 - equipment, fire response program, vegetation/fuel control program
10. Solid Waste Plan
 - identification of onsite solid waste disposal areas (if any), identification of waste collection areas for offsite disposal, waste removal schedule

D. Other Resource Considerations

1. Lighting Plan
 - candle power, light directing, and other designs in conformance with the Dark Skies initiative
2. Public Access and Recreation Mitigation Plan
 - trails and roadway relocation and modification; fencing and security; evaluation and mitigation of effects to other types of recreation, including birding
3. Riparian Protection and Mitigation Plan
 - evaluation of impacts to waters of the US (Clean Water Act) and County-designated riparian areas (Conservation Lands System); discussion of mitigation efforts for impacts, including avoidance
4. Ranch Management Plan
 - delineation of pastures, grazing schedule, number of animals
5. Local Neighborhood/Community Mitigation Plan
 - description of community outreach coordination, including open house and meetings description and schedule,
6. Santa Rita Mountains Regional Community Endowment Plan
 - funding mechanism, organization, implementation schedule
7. SDCP Open Space Compliance Plan
 - map of SDCP designations on project area, amount of impacts per designation, mitigation

E. Rosemont Mitigation Agreement

1. Summary of Rosemont Approach to County Performance Standards
2. Proposed Community Commitments

Augusta Resource Corporation

Financial Assurance and Performance Guarantees

Written by Steve M. Bateski, Hays Companies

Augusta Resource Corporation will secure financial assurance in the form of Mine Reclamation Bonds and/or Mine Reclamation Insurance in accordance with Arizona's Administrative Code, Chapter 2, Article 8, consisting of Sections R11-2-801 through R11-2-822. In addition Augusta Resource Corporation will obtain performance guarantees in the form of performance bonds for the construction and completion of the Perimeter Screening Berm. All financial assurance and performance requirements presented by the United States Forest Service (USFS), Arizona's State Mine Inspectors Office and Arizona's Department of Environmental Quality (ADEQ) will be fully executed prior to the commencement of mining activities.

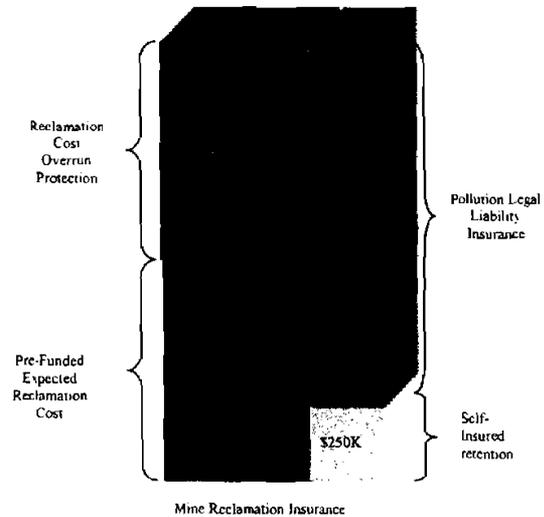
Any and all financial assurance instruments provided by Augusta Resource Corporation will meet or exceed the financial security rating of the following:

1. A current rating for the most recent bond issuance of AAA, AA, A or BBB as issued by Standard and Poor's or Aaa, Aa or Baa as issued by Moody's.

Augusta Resource Corporation and its agents will monitor on an annual basis the financial security of the institutes providing the surety and insurance to ensure financial stability and security. In the event that any one of these institutions are downgraded below acceptable standards, Augusta Resource and its agents will replace the existing surety and insurance programs with new institutions meeting and/or exceeding the financial rating as captioned above.

Mine Reclamation Insurance Program

The Mine Reclamation Insurance Program has been developed as an alternative to mine reclamation bonds. The Mine Reclamation Insurance Program (MRIP) transfers both known cost (i.e. identified remediation obligations) and the associated unknown risks (for example, potential reclamation cost overruns) using a combination of pre-funding and conventional cost cap insurance. In addition, the MRIP is typically combined with a Pollution Liability policy to cover third-party liability claims results from pollution related actions.



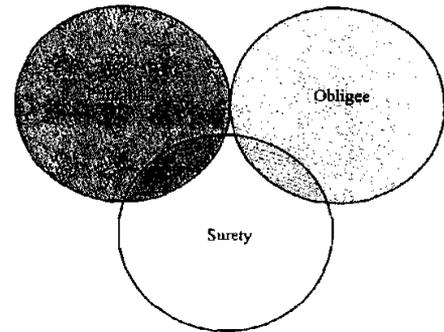
Augusta Resource Corporation will fully fund the experience account based on the predicted reclamation cost. The insurance company will provide an insurance policy (risk transfer) providing coverage for unknown future reclamation costs and timing risks. Once reclamation activities start, the insurance policy will begin to pay Augusta Resource monies to fulfill the reclamation obligations as presented to the USFS, ASMI and ADEQ.

The illustration above demonstrates the structure of the Mine Reclamation Insurance Program. The values contained within the example are for demonstration purposes only.

Mine Reclamation Bond

Surety bonds are designed to guarantee performance in the face of a set of particular risks. Each surety bond must be uniquely tailored to meet specific needs. A surety bond is an agreement under which one party, the surety, guarantees to another party, the obligee, the performance of an obligation by a third party, the principal.

In the event that Augusta Resource Corporation secures a mine reclamation bond, the face amount of the bond will equal that of the expected reclamation cost. Should the mining parties fail to reclaim to land pursuant to the CPO, the bond can be called and the surety company will be allowed to remedy to contract violation, i.e. employ a third party mine reclamation firm to complete the reclamation process as designed.



US Forest Service – Financial Assurance for Public Lands

Augusta Resource Corporation will provide financial assurance to USFS in the form of Mine Reclamation Insurance and/or Mine Reclamation Bonds to ensure that all disturbed lands located on public land will be reclaimed in accordance with the Reclamation Plan as approved and filed with the USFS.

Arizona State Mine Inspectors – Financial Assurance for Private Lands

Augusta Resource Corporation will provide financial assurance to ASMI in the form of Mine Reclamation Insurance and/or Mine Reclamation Bonds to ensure that all mine activities located on private land will be reclaimed in accordance with the Reclamation Plan as approved and filed with the ASMI office.

Arizona Department of Environmental Quality – Financial Assurance and Insurance Protection for Groundwater

Augusta Resource Corporation will provide financial assurance to ADEQ in the form of Mine Closure Insurance and/or Mine Closure Bonds to ensure that closure activities as described in the Closure/Reclamation Plan and Comprehensive Mine Operation Plan are completed. In addition, Augusta Resource plans to secure an appropriate Pollution Legal Liability Insurance Program to provide financial protection including clean-up cost to protect groundwater.

Perimeter Screening Berm - Performance Guarantee

Augusta Resource Corporation will provide a contractual performance guarantee for the completion of the Perimeter Screening Berm. The guarantee will be in the form of a Performance Bond. The Performance Bond guarantees the faithful performance of the terms and conditions of constructing the perimeter screening berm. In the event the mine operator fails to construct the berm as described on the CPO, the bond will provide monies to remedy the construction of the berm.

**Augusta Resource Corporation
Santa Rita Mountains Regional Trust Concept
Discussion Draft**

January 5, 2007

Introduction.

Augusta Resource Corporation (Augusta) owns and plans the development of the Rosemont Ranch Project, an open pit copper mine in Pima County, Arizona. Although mining brings significant economic benefits to the local communities in which it occurs, and is indispensable to the current and future economic well-being of any developed society, Augusta recognizes that even the best-planned mining project will also have significant short- and long-term impacts on the local community. Therefore, in addition to all of the mitigation and reclamation activities required by law and regulation, Augusta has identified at least an additional \$117 million in voluntary commitments that it will make to provide benefits to the region. These voluntary commitments are not required by law.

The Santa Rita Mountains Regional Endowment Trust (Trust) is a key element in the voluntary program proposed by Augusta. Over the life of the mine, the Trust will receive approximately \$50 million in funding from the Rosemont Ranch Project. The Trust will be governed by a local Board of Trustees advised by a broad-based Advisory Council populated by representatives of diverse local interests. While the Board of Trustees and Advisory Council will make most of the specific decisions about how Trust funds will be utilized, Augusta anticipates that key priorities will include protection of open space, establishing a permanent endowment, and providing ongoing funding for a broad range of local priorities.

Trust Goals.

- 1) To establish stable funding streams for identified community goals within the region surrounding the Rosemont Ranch project site.
- 2) To endow those funding streams over time.
- 3) To acquire and provide some management funding for conservation lands identified in the Pima County Sonoran Desert Conservation Plan.
- 4) To provide for an efficient and cost-effective governance structure that allows for some future flexibility in funding priorities.
- 5) To engage positively with and elicit Trust participation from key constituencies that are or might be affected by the Rosemont Project.

Key Concepts.

- 1) Focus Trust funding activities in the region surrounding the Rosemont Ranch project site. This region includes but is not necessarily limited to the Santa Rita

Mountains, the Upper Santa Cruz River basin, the Green Valley/Sahuarita area, the Santa Rita Experimental Range, Davidson Canyon, the Cienega Creek basin, Las Cienegas Riparian Conservation Area, Cienega Creek Preserve, Sonoita, Sonoita Creek, Empire Mountains and Canelo Hills.

2) Engage key constituencies in this region in Trust management and decision-making. Utilize the Trust to provide financial resources and expertise to help achieve key constituency goals. Some of these constituencies are Pima County, City of Tucson, San Xavier District of the Tohono O'odham Nation, University of Arizona, Bureau of Land Management, US Forest Service, Arizona State Land Department, Green Valley, Town of Sahuarita, Sonoita, Pima Association of Governments, FICO, Nature Conservancy, Sonoran Institute, Friends of the Santa Cruz River, and the Arizona Open Land Trust.

3) In the first year of mine construction, Augusta will donate to the Trust conservation easements (valued at more than \$6 million) that prohibit future major development, but allow for continued ranching and public recreational use, covering approximately 2,000 acres of Augusta fee lands in the Rosemont Ranch project area.

4) Augusta will provide initial Trust funding of \$12 million dollars in the first 4 years after mine construction begins. Augusta anticipates that this initial funding will be utilized primarily for the acquisition of conservation lands by the Trust.

5) Augusta will also provide \$500,000 per calendar year for 26 years from the beginning of mine construction through completion of mine closure as an annual baseline Trust operational funding commitment.

6) Augusta will also contribute an additional capped contribution of \$25 million to the Trust over the life of the mine as variable contributions based on the price of copper, beginning in the first full year of copper and molybdenum production. These funds could be utilized for any of the Trust objectives, as determined by the Board of Directors. The formula for variable contributions is:

Additional Trust contribution =

- 0.0% of revenue generated up to \$1.50 per lb Cu equivalent production, plus
- 1.0% of revenue generated between \$1.50 and \$2.00, plus
- 1.5% of revenue generated between \$2.00 and \$2.50, plus
- 2.0% of revenue generated between \$2.50 and \$3.00, plus
- 2.5% of revenue generated above \$3.00 per pound

In this example, if Rosemont produced 300 million lbs of Cu equivalent in a particular year, and if the average price realized for that year was \$2.20 (total annual revenue of \$660 M), the contribution to the Trust would be 0% of first \$450 M, plus 1% of next \$150 M, plus 1.5% of final \$60M, for a total Trust contribution of \$2.4 M. In a year in which the average price of copper realized was \$1.30 (annual revenue of \$390 M), no Trust contribution would be made. If the average price reached \$3.50 (the approximate average for 2006), the Trust contribution under the formula would be \$10.5 M. The total aggregate variable contributions to be capped at \$25 million.

7) When operations, and therefore Trust contributions, cease at the Rosemont Project, the Trust will continue to operate and provide funding based on the annual revenue yield from the Trust corpus, provided the Board of Trustees determines that a

permanent endowment is an appropriate disposition for a portion of the Augusta contributions to the Trust.

8) The Board of Trustees, assisted by the Advisory Council, will identify specific funding priorities for all of the funds provided by Augusta to the Trust. As an example, a funding 'menu' like the following could be considered:

| | |
|--------------------------------------|--|
| Land protection and management | (Pima County SDCP priorities) |
| Invasive species control | (Santa Ritas, Exp Range, Las Cienegas) |
| Dark skies initiative | (Smithsonian, U of A,) |
| Internships and graduate fellowships | (USFS, BLM, Pima County, U of A (mines, geology, agriculture, etc.) |
| Public safety | (Pima County, Sahuarita, Tucson, GV, etc) |
| Historic preservation | (Santa Cruz Valley, Santa Ritas, etc) |
| Recreation | (Forest Service, Pima County, BLM, etc) |

9) For administrative efficiency, the Trust will affiliate with a local entity like the Arizona Open Land Trust or Tucson Community Foundation. This independent entity would receive administrative funding support in return for providing administrative services and providing an office for the Trust operations. In addition, a local trust fund investment manager (trust company, local bank, etc) will be selected early in the process to ensure Trust independence and sound fiscal management.

Governance.

- 1) The Trust will be established as an independent charitable trust, with tax-exempt status.
- 2) The Trust will be able to accept contributions from sources other than Augusta or any successor-in-interest at Rosemont.
- 3) The Trust will be governed by a Board of Trustees made up of key constituents. Terms will be three years with overlapping terms. The Board will have an odd number of members, not to exceed 9. One possible alignment might be as follows:
 - 1 member appointed by the Pima County Administrator
 - 1 member appointed by the Tucson City Manager
 - 1 member appointed by the U of A President
 - 1 member representing the company managing the Trust corpus
 - 1 member appointed by the Congressional Representative for the Rosemont site
 - 1 member (appointed by the Governor) representing the general public
 - 1 member selected by the Advisory Council
 - 2 members appointed by Augusta or its successor-in-interest

The Board of Trustees will elect from among themselves a President, Vice President and Secretary/Treasurer who, together with the immediate past President, will make up an Executive Committee.

4) An Advisory Council made up of other key constituents and individuals with specific expertise will be established with a membership of about 25-30. One possible configuration might be:

- 1 member representing the Green Valley Coordinating Council
- 1 member representing the Town of Sahuarita
- 1 member representing the Sonoita/Patagonia area
- 1 member representing the Vail/Corona de Tucson area
- 1 member appointed by the Arizona State Land Commissioner
- 1 member appointed by the Santa Cruz County Board of Supervisors
- 1 member from Pima County representing Sonoran Desert Conservation Plan
- 1 member from the U of A College of Mines
- 1 member from the U of A College of Agriculture
- 1 member representing the astronomy community
- 1 public safety expert
- 1 member representing the San Xavier District of the Tohono O'odham Nation
- 1 member representing the Nature Conservancy
- 1 member representing the Sonoran Institute
- 1 member representing Friends of the Santa Cruz River
- 1 member representing the Forest Service
- 1 member from BLM representing Las Cienegas
- 1 member representing hunting/off-road vehicle users
- 1 member representing hiking/camping/birding groups
- 1 accountant/investment professional
- 1 member representing local Chambers of Commerce
- 1 historian/archaeologist/cultural resource expert
- 1 representative of mineral collectors
- 1 rancher
- 1 hydrologist/water resource expert
- 1 public communications expert

All members of the Advisory Council and Board of Trustees would serve without compensation.