



COUNTY ADMINISTRATOR'S OFFICE

PIMA COUNTY GOVERNMENTAL CENTER
130 W. CONGRESS, TUCSON, AZ 85701-1317
(520) 740-8661 FAX (520) 740-8171

C.H. HUCKELBERRY
County Administrator

December 17, 2007

Jamie Sturgess, Vice President
Projects and Environment
Rosemont Copper Company
4500 Cherry Creek South Drive, Suite 1040
Denver, Colorado 80246

**Re: Your December 3, 2007 Letter Regarding December 4, 2007 Green Valley Proposed
Central Arizona Project Water Pipeline Memorandum and Resolution 2007-321**

Dear Mr. Sturgess:

This letter responds to the above referenced letter.

1. The proposal meets less than ten percent of the present projected water use of the area in 2015. Pima County does not believe that any individual private enterprise or pair of enterprises, or even large group of enterprises must meet the entire projected future water use of an area. In fact, in my December 4, 2007 memorandum, I stated that regional collaboration is needed and that all the water use sectors need to financially participate in and become a partner in the long-term solution. Rosemont's addition of five percent more water than it consumes will do little to address the estimated 30,000 to 40,000 acre-foot annual groundwater overdraft in the Upper Santa Cruz Valley Basin.

Pima County has not determined that a 72-inch diameter pipeline is needed. I stated that past studies indicated that the size of a pipeline that would convey CAP water for direct use or recharge for the entire Upper Santa Cruz Valley Basin would need to be at least 72 inches in diameter. This information is based on a CAP feasibility study conducted in 1998 and was cited in my October 2, 2007 memorandum to the Board of Supervisors. The discussion of only a partial solution, a 20-inch pipeline, is counterproductive, and spending money for such a limited solution would be a waste of resources.

I am well aware that Green Valley area water providers have only a 5,000 acre-foot CAP allocation. This water is not physically available since the delivery facilities do not exist. For this area to be sustainable a mix of all available water resources must be used efficiently and effectively. These include groundwater replenishment, use of effluent,

Jamie Sturgess

Your December 3, 2007 Letter Regarding December 4, 2007 Green Valley Proposed Central Arizona Project Water Pipeline Memorandum and Resolution 2007-321

December 17, 2007

Page 2

additional CAP supplies, storm water and water conservation. It is essential that the area obtain physical access to renewable supplies and use these supplies to augment groundwater imbalance through recharge or to supplement groundwater use by direct use of CAP water.

Pima County is not a water provider, therefore, we can only facilitate, offer advice and encourage the various water users and water providers in the Upper Santa Cruz Valley Basin within Pima County to cooperate in their endeavor to secure a more permanent and stable water supply. I am encouraged by the formation of the Upper Santa Cruz Providers and Users Group as it includes the major water use sectors, and I hope Rosemont Copper Company will be a willing participant as we seek sustainable water options.

2. There appears to be no requirement that Augusta Resource funding will be committed to the pipeline extension if the mine is not permitted. Until a contract between Community Water Company and Augusta Resource or Rosemont Copper Company is executed that expressly states that Rosemont will pay for the CAP Pipeline, irrespective of the mine development, there is no contractual obligation decoupling the two issues.
3. The funding obligations or other commitments for pipeline expansion must be made by mid-November, which did not allow for collaboration by any other parties on this project. We are not aware of Rosemont's design schedule or the time limits for finalizing the agreement. At an October 30, 2007 community forum, Community Water Company mentioned a time extension for the agreement, but no time period was given. A regional solution would consider how much CAP water is needed and a suitable location for underground storage and recovery, and then the pipeline sized accordingly. To determine the pipeline size without these parameters is short-sighted. We would welcome more information from Rosemont on the status of project design and capacity, the design schedule and agreement.
4. The recharge site is in a different, unrelated location from where Augusta Resource Corporation will be pumping groundwater. The recharge will occur three miles southwest of the Rosemont recovery wells. Because hydrological studies and groundwater modeling have not been completed, there is insufficient information on the recharge and recovery impacts associated with the proposed CAP water pipeline. Additional groundwater modeling may provide more information on the impacts of CAP recharge and Augusta's withdrawal. Until these impacts are known, we understandably have concerns about this proposal, as do others.

We have many concerns regarding the localized depletion of the regional aquifer. In Pima County, domestic wells have been deepened or gone dry because groundwater pumping depleted the shallow aquifer. Stressed mesquite bosques have burned and died as a result of groundwater pumping in shallow aquifers. In the Tucson Active Management Area, much of the groundwater replenishment is occurring in the downstream areas of the

Jamie Sturgess

Your December 3, 2007 Letter Regarding December 4, 2007 Green Valley Proposed Central Arizona Project Water Pipeline Memorandum and Resolution 2007-321

December 17, 2007

Page 3

basin, leaving the upstream areas to experience decreasing groundwater levels and the adverse impacts they create. To accept the status quo is simply untenable. Pima County recently approved an amendment to its Comprehensive Plan Update to consider localized water resource impacts before land use decisions are made, thus raising the bar for higher water management standards. We hope Rosemont is willing to do the same.

5. There is no commitment regarding the fate of CAP water stored by Augusta Resource Corporation. Long-term credits could be accumulated and would not benefit the regional aquifer, because credits could be recovered as groundwater in the future. Your response assumes the mine will be built and that most of the credits will be extinguished. The Letter of Intent has no provisions detailing what will happen to storage credits in the event the Rosemont Mine is not built. Augusta Resource may extinguish, sell, or otherwise dispose of the credits at its sole discretion. Our concern is that long-term storage credits will be sold to an entity that will recover in areas that are experiencing local groundwater depletion and may have adverse impacts to Pima County residents or natural resources. Unfortunately, these issues will not be resolved until the final contract is executed.
6. The agreement clearly advantages Augusta Resource Corporation. This proposed project delivers CAP water for indirect use for the proposed mining operations instead of investing in the direct use of CAP water. As you know, Pima County is in opposition to the Rosemont Mine and any project that facilitates development of the mine is in conflict with Pima County's position. The long-term sustainability for the Upper Santa Cruz Valley Basin centers on all the water use sectors participating to bring Central Arizona Project water to the area, with costs shared in proportion to the use. This proposal does not meet these objectives.

I appreciate your bringing these issues to my attention. I believe that the interest this proposal has raised in the Green Valley area, as evidenced by the recent meeting of the Arizona Corporation Commission, further demonstrates that there are many unresolved questions and concerns about the proposed CAP Water Delivery System.

Sincerely



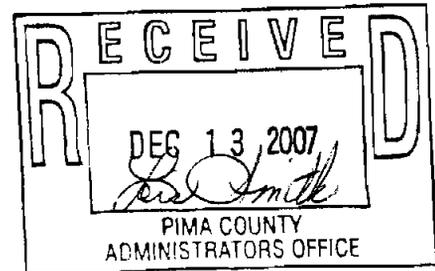
C.H. Huckelberry
County Administrator

CHH/jj

- c: The Honorable Chairman and Members, Pima County Board of Supervisors
John Bernal, Deputy County Administrator - Public Works
Suzanne Shields, Regional Flood Control District Director
Kathleen Chavez, Water Policy Manager, Regional Flood Control District

December 3, 2007

Chuck Huckelberry
Pima County Administrator
130 West Congress Street, 11th Floor
Tucson, Arizona 85701



RE: December 4, 2007 Green Valley Proposed CAP Water Pipeline Memorandum and Resolution 2007-321

I am writing in response to the above-referenced materials and the "issues" referred to in them.

First, you note that the letter of intent (LOI) between Community Water Company of Green Valley (CWC) and Augusta Resource Corporation (*Please note the proper name of our company; it is not "Resources."*) was dated July 12, 2007 and not made public until October 25, 2007. This letter, which has not been finalized, is between two private corporations, and these types of letters are typically not made public until finalized. As the letter of intent states, the terms of the LOI will be memorialized in an agreement that will be subject to review by applicable regulatory bodies.

Second, I am responding to the six "issues" that you state as "related to the proposal":

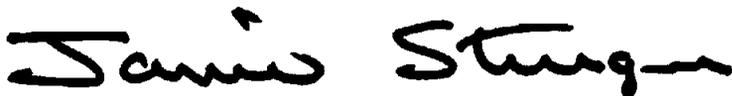
1. "The proposal meets less than ten percent of the projected water use of the area in 2015."
 - Would the County Administrator clarify which authority you cite for Pima County to determine that any individual private enterprise, or pair of enterprises, or even larger group of enterprises must meet the entire projected future water use of an area? With the proposed recharge, Rosemont will add five percent more water to the aquifer than it consumes. Even without recharge, Rosemont will pump only a six percent to seven percent increase over current projected pumping in the Sahuarita/Green Valley area. With the recharge, that usage will be offset by recharging available Central Arizona Project (CAP) water at 105 percent of the amount of water to be used by the mine. This not only would leave the community with a fully funded new pipeline (using no taxpayer dollars), but would leave a net gain of water to the community over the total amount that would be there if the mine were never built.
 - If your intent in this statement is to indicate that it is not acceptable if the pipeline would only partially meet the water use needs of Green Valley, what alternative do you offer? Though you have now allowed more than three months to pass without any effort at positive engagement on this project, there is still time (perhaps another 90 days) to work with CWC on expanding the pipeline. Even if other water users determine to eventually construct another pipeline, the CWC pipeline – fully funded – would diminish the total amount Pima County and its taxpayers would be required to build.

- Further, for three reasons, it will not be necessary (or possible) to build a pipeline large enough to replace all of the groundwater pumped in the area. First, the uncommitted capacity in the CAP system is insufficient to meet that goal, even if you could somehow acquire the water. Second, Green Valley area water companies only have some 5,000 acre-feet of CAP allocation, and additional supplies will be extremely difficult to obtain. Any CAGR usage of the project will only offset new municipal uses, not golf courses or the vast majority of the existing pumping that is used for agriculture and existing mining operations. Third and, fortunately, given the two reasons listed above, the groundwater overdraft in the region is probably around 30,000 acre-feet per year – still a large amount, but not requiring a pipeline anywhere near the size (72-inch pipeline) stated to the Board as required. The County is free to explore its own water supplies and construction resources for a 72-inch pipeline.
 - According to our engineers' analysis, the proposed alignment for the CWC pipeline is one of at least two that are very viable, leaving another option for the County if it were to construct an additional line in the future to serve more of the area. Thus, the CWC project funded by Rosemont can only be characterized as beneficial to the area, and does not in any way prevent other, future projects.
2. "There appears to be no requirement that Augusta Resources [*sic*] funding will be committed to the pipeline extension if the mine is not permitted."
- Though the agreement is not finalized, the intent remains as we have stated – for CWC to build the pipeline as soon as possible with full funding from Rosemont Copper up front. Engineering design work (all paid for by Rosemont) continues with a dedicated design team engaged. The pipeline will almost certainly be completed and operational before the mine review process is completed.
 - We are perplexed to note that, on the one hand, Pima County criticizes CWC for moving too quickly, while on the other hand, Pima County cites concerns that Rosemont will not pay if the mine permits are not issued. This concern is vacuous because the pipeline will be built and paid for well before the mine permits are issued.
3. "The funding obligations or other commitments for pipeline expansion must be made by mid-November, which did not allow for collaboration by any other parties in this project."
- As noted above, the terms of the letter of intent were announced in July, and an invitation was issued to all parties, including the County, to participate in making the pipeline larger. Since then, more than three months have passed. The County response has been to undermine efforts to build the pipeline at all, with substantial interference in the private business interests of the parties involved.
 - The parties remain open to discussion and constructive suggestions for improving the project design and capacity.
 - The current design schedule should allow another three months or so for a partner to step in and upsize the project before the engineering would have to be significantly reworked. Until designs and capacity are fixed for final engineering, parties are open to offers of participation.
4. "The recharge site is in a different, unrelated location from where Augusta Resources [*sic*] Corporation will be pumping groundwater."
- Simply incorrect. The preferred storage location is adjacent to the primary planned production site and is as closely related as possible.
 - The whole regional aquifer is related. Water moves within that aquifer and there is no guarantee that recharging finished in the first 15 years will remain in the same location throughout the mine life. As with any other recharge project, recharged water tends to spread out laterally over a fairly large area with time.

- There is only one CAP recharge project in the Tucson AMA (CAVSARP) where water recovery occurs at or near the recharge site. Water recovery for all other existing recharge sites occurs well outside, often many miles, from the recharge sites. Rosemont's proposed pumping will actually occur much closer to its recharge site than is the case for most other Tucson AMA recharge projects.
 - What is the basis for Pima County to hold CWC and or Rosemont to a separate, unknown, higher standard for water management?
5. "There is no commitment regarding the fate of CAP water stored by Augusta Resources [*sic*] Corporation. Long-term credits could be accumulated and would not benefit the regional aquifer because credits could be recovered as groundwater in the future."
- The only credits that will remain after the life of the mine will be those not extinguished if water is not pumped by Rosemont, in other words if Rosemont does not use as much water as is stored.
 - The agreement between CWC and Rosemont is for all credits necessary to meet the 105-percent commitment to be extinguished, thereby guaranteeing no "double-dipping."
 - In the event any credits are left over after mine operations cease, CWC will have the first option to purchase a portion of those credits at Rosemont's actual cost. The remaining balance, if any, will potentially be available for disposition.
6. "The agreement clearly advantages Augusta Resources [*sic*] Corporation."
- How does an agreement that will give the community a fully funded pipeline at no cost to the taxpayers – whether or not the mine is permitted – give "clear" advantage to Augusta?

I appreciate your responsibility to the citizens of Pima County, the difficulties you must face in allocating public funding among competing interests, your desire for due diligence, and the importance of doing something about the Green Valley water issue. What I do not fully appreciate is the continued use of incorrect assumptions to justify interference into the CWC pipeline project. However, it will be a true loss to the taxpayers and especially to the residents of Green Valley if they are denied funding for the much-needed water pipeline simply because of politics. We will, therefore, continue to fund the development and construction of this project, and look forward to constructive participation by any interested parties.

Sincerely,



Jamie Sturgess
Vice President, Projects and Environment
Rosemont Copper Company