

June 20, 2014

BY HAND DELIVERY

C.H. Huckelberry
County Administrator
Pima County Administrator's Office
130 W. Congress St., 10th Floor
Tucson, AZ 85701

Re: Rosemont Copper Company
Proposed Mitigation Agreement w/ Additional Mitigation

Dear County Administrator C.H. Huckelberry:

Rosemont received your June 2, 2014 letter, which contained detailed suggestions on additional State Trust land purchases and mitigation measures that Rosemont could use to meet Pima County Conservation Lands System's guidelines, and to achieve other conservation and mitigation goals. Rosemont appreciates your suggestions, and is prepared to work with the County on developing an agreeable mitigation package.

Rosemont proposes the mitigation package outlined below, which is consistent with the measures set forth in your June 2, 2014 letter and includes a secure water supply for an In-Lieu Fee ("ILF") project at Pantano Dam (the "ILF Project").

I. PROPOSED MITIGATION TERMS

A. Land Acquisitions.

- In addition to the more than 6,000 acres of lands already committed to conservation, Rosemont will seek to acquire the 7,624 acres of Arizona State Trust lands shown on **Table 1** below and on the attached map (**Tab A**) for additional conservation and mitigation purposes. Of the 7,624 acres shown on **Tab A**, Rosemont will initiate acquisition of the 5,194 acres in the Cienega Basin from State Land after the Pima County Board of Directors ("Board"), both on behalf of Pima County and the Pima County Regional Flood Control District, approves the ILF Project. Rosemont will acquire the remaining 2,430 acres of property ("2430 Additional Acres") from State Lands within three years after construction of the Rosemont mine is finished.
- Rosemont will designate the 7,624 acres of lands for conservation purposes by recording restrictions such as conservation easements, transferring title to a conservation agency, or using other appropriate methods.

Table 1. Proposed and Enhanced Mitigation Opportunities

Land and Water Rights	Proposed Mitigation Plan	Enhanced Mitigation – Period for Purchase		Total
		Construction	Operations	
404 Mitigation				
Fullerton Ranch	1,763			1,763
Sonoita Creek Ranch				
Lands	1,420			1,420
Water Rights ¹	588			588
Cienega Creek				
Pantano Dam Lands	2			2
Pantano Dam Water Rights	1,122			1,122
Pima County Cienega Creek Preserve		2,388		2,388
Las Cienegas National Conservation Area		2,497		2,497
Other				
Davidson Canyon	540	309	2,430	3,279
Helvetia Ranch	930			930
Total	6,365	5,194	2,430	13,989

B. Water Rights.

- Rosemont will purchase and convey to the County or the County’s designee approximately 400 acre feet of the 1908 priority Del Lago water rights (“Del Lago Water Rights”), to be used in an ILF mitigation project between Pantano Dam and Colossal Cave Road (the “ILF Project”).
- Rosemont will purchase the remaining 197.76 acre feet of the 1908 water rights, plus 227.55 acre feet of the 1933 water rights to be dedicated and used in an underground storage facility (“USF”) located in the Pantano floodplain, below Pantano Dam. Remaining portions of the 1933 and 1935 rights will be dedicated for conservation uses in the watershed under previous commitments by Rosemont (**Table 2** below).

¹ Water rights are calculated as one acre foot of annual water rights equalized to one acre of land for conservation purposes.

Table 2. Water Rights Allocations

Agency	Use	Water Right (acre-feet per year)			Total
		1908	1933	1935	
Arizona Game and Fish	Conservation Cienega Creek		250.00		250.00
	Protection of Davidson Canyon OAW			46.46	46.46
Pima County	ILF Project	400.00			400.00
Rosemont	USF	197.76	227.55		425.31
Total		597.76	477.55	46.46	1,121.77

- Rosemont will convey to Pima County CAP credits it currently holds in the amount of 1,200 acre-feet of water to ensure the County has access to additional water.
- Rosemont will acquire and donate to Pima County the existing well located upstream of the Pantano Dam.
- Any surplus storage credits earned through operation of the USF or direct sales of water beyond that required to meet the ILF minimum flows can be used or sold solely for the purpose of providing water or funds to maintain the ILF Project area below Pantano Dam.
- Rosemont will pay the transaction costs associated with the sever and transfer of the water rights.
- If the Arizona Department of Water Resources will not approve the transfer of the Del Lago Water Rights for use in the ILF Project, Rosemont will work with the County to secure an alternative supply.

C. In Lieu Fee Project.

- Pima County will design, permit, operate, and sell mitigation credits to Rosemont from the ILF Project. To the extent advance ILF credits are available, Pima County will allow Rosemont to purchase any available credits.
- Pima County and Pima County Regional Flood Control District will commit to design the ILF Project to maximize the compensatory mitigation credits available and will provide Rosemont the opportunity to acquire all credits generated by the ILF Project that are necessary to compensate for the loss of twenty acres of waters of the U.S. filled by discharge of dredged or fill material to waters of the U.S. (referred to by the Corps as “direct impacts”).

- The ILF Project cost per credit includes all construction, maintenance, and development costs, including endowment and trust funds for ILF Project. Additionally, the ILF Project cost per credit includes construction costs and design costs for a recovery well (“Recovery Well”) and delivery pipeline dedicated to provide a backup water supply to the ILF Project area during low flow drought periods when the surface water flows are diminished, to assist with meeting performance standards established under the ILF Project.
- Any credits earned in excess of those needed by Rosemont to compensate for direct impacts may be sold by the County through the ILF procedures.
- Pima County shall advance the ILF Project, including costs and credit calculations, to the U.S. Army Corps of Engineers in July 2014.

D. Other.

- This agreement is contingent upon (1) approval of the ILF Project by the Pima County Regional Flood Control District; and (2) U.S. Army Corps of Engineers approval of the ILF Project under the Pima County Regional Flood Control District and Tucson Audubon Society ILF Program’s Enabling Instrument, executed July 29, 2013. If one or both of these events do not occur, the parties will be relieved of any commitments identified in this letter.
- Approval of a final written agreement between Rosemont’s Board of Directors and Pima County’s Board of Supervisors, with terms and conditions substantially as presented herein.

II. CONCLUSION

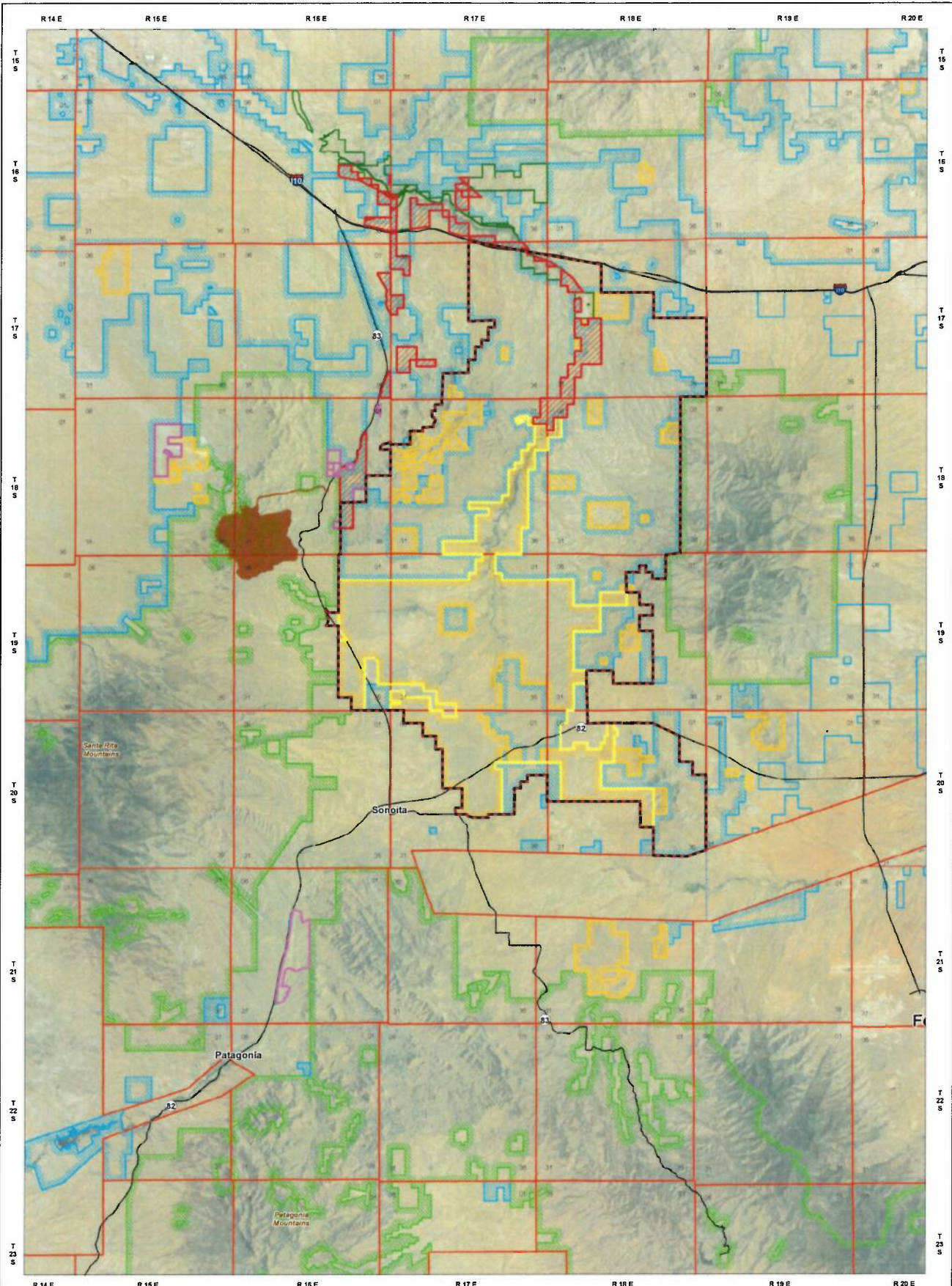
Rosemont is committed to working with Pima County to develop an agreeable mitigation package. If the terms proposed above are acceptable, please let Rosemont know by sending a letter accepting the terms. Because of the Board’s summer schedule, it is critical that both parties work to resolve any outstanding issues immediately.

If you have any questions, do not hesitate to contact me directly.

Regards,

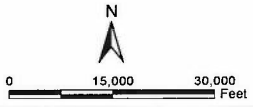


Rod Pace
President / CEO



Pima & Santa Cruz Counties, Arizona,
 Data Source: ALRIS, BLM and Pima County
 Photo Source: NAIP2013

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Legend	
 	ASLD Acquisition Parcels (7,615 Acres)
 	Cienega Creek Natural Preserve
 	Sonora Valley Acquisition Planning District
 	Rosemont Conservation Parcel
 	Rosemont Copper Project
 	Las Cienegas NCA
 	BLM
 	STATE TRUST LAND
 	USFS

ROSEMONT COPPER PROJECT
 ASLD Acquisition Parcels
 (Davidson Canyon and Lower Cienega Creek)