

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary

Fernando Martinez, Director
Mining and Minerals Division



7012 0470 0000 0880 6641

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

July 7, 2016

Mr. William E. Cobb
Vice President Environmental Services and Sustainable Development
Freeport-McMoRan Inc.
333 North Central Avenue
Phoenix, AZ 85004

Mr. Jerry Roose
Director of North America Environmental Operations
Freeport-McMoRan Inc.
333 North Central Avenue
Phoenix, AZ 85004

RE: Applications for Permit Modifications Required for the Chino, Tyrone and Continental Mining Facilities to Address Failure to Maintain Financial Soundness Permit Nos. GR009RE, GR010RE, and GR002RE

Dear Mr. Cobb and Mr. Roose,

The Mining and Minerals Division (“MMD”) received a letter from Freeport-McMoRan Inc. (“FCX”) dated May 20, 2016 presenting *pro forma* adjustments to the Certificate of Compliance for the Chino, Tyrone and Continental Mining Facilities. MMD has reviewed the *pro forma* adjustments and has the following comments and requirements:

Chino Mine, Permit No. GR009RE

The required amount of financial assurance (“FA”) for the Chino Mine is \$166,336,545. In the FCX letter dated May 20, 2016, FCX proposed a reduction in the amount of the FCX guarantee from \$102,294,241 to \$45,336,545 and proposed to do so by accounting for the full value of the Chino Trust Fund, which is valued at \$120,464,355 (1Q16 value). This proposal from FCX results in a shortfall of \$535,645 according to the following calculations:

Total FA Required for Chino Mine = \$166,336,545

Third Party Guarantee + Chino Trust Fund = \$45,336,545 + \$120,464,355 = \$165,800,900

MMD’s June 9, 2016 letter notified FCX that Modification 16-4 being processed by MMD needs to be amended; however, to date, MMD has not received an amended application from FCX.

Re: Applications for Permit Modifications Required for the Chino, Tyrone and Continental Mining Facilities to Address Failure to Maintain Financial Soundness Permit Nos. GR009RE, GR010RE, and GR002RE

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MMD requires FCX to submit an amended application for Modification 16-4 within 15 business days of receipt of this letter. The revised application shall address the shortfall in FA noted above.

Tyrone Mine (Permit No. GR010RE)

The required amount of FA for the Tyrone Mine is \$179,504,992. In the FCX letter, dated May 20, 2016, FCX proposed a reduction in the amount of the FCX guarantee from \$92,601,614 to \$50,804,400 and proposed to do so by accounting for the full value of the Tyrone Trust Fund, which is valued at \$48,029,957 (1Q16 value), and 80% of the 2014 appraised value of the Tyrone collateral (\$48,549,200). MMD is currently reviewing the 2014 Tyrone collateral appraisals. This proposal from FCX results in a shortfall of \$170,043 according to the following calculations:

Total FA Required for Tyrone Mine = \$179,504,992

Third Party Guarantee + Tyrone Trust Fund + 2014 Appraised Collateral Value @80% + Surety Bonds + Letter of Credit = \$50,804,400 + \$48,029,957 + \$48,549,200 + \$31,780,518 + \$170,874 = \$179,334,949

Continental Mine (Permit No. GR002RE)

The required amount of FA for the Continental Mine is \$27,355,272. In the FCX letter, dated May 20, 2016, FCX proposed a reduction in the amount of the FCX guarantee from \$18,181,672 to \$8,146,372 and proposed to do so by accounting for the full value of the Continental Trust, which is valued at \$5,278,566 (1Q16 value), and 80% of the 2014 appraised value of the Continental collateral (\$13,908,800). MMD is currently reviewing the 2014 Continental collateral appraisals. This proposal from FCX results in a shortfall of \$21,534 according to the following calculations:

Total FA Required for Continental Mine = \$27,355,272

Third Party Guarantee + Continental Trust Fund + 2014 Appraised Collateral Value @80% = \$8,146,372 + \$5,278,566 + \$13,908,800 = \$27,333,738

Conclusions and Requirements

MMD's June 9, 2016 letter notified FCX that modification applications for the Tyrone Mine permit and Continental Mine permit are required. To date, MMD has not received applications to modify permit numbers GR010RE and GR002RE. MMD requires FCX to submit modification applications for the Tyrone Mine and the Continental Mine within 15 business days of receipt of this letter. The applications for modification shall provide details on FCX's proposed adjustments to the existing FA instruments in order to maintain adequate FA for these mines.

Please contact the undersigned with any questions regarding this letter.

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Sincerely,

A handwritten signature in blue ink, appearing to read "Fernando Martinez", with a long, sweeping flourish extending to the right.

Fernando Martinez
Division Director, Mining & Minerals Division
Energy, Minerals, and Natural Resources Department

cc: Bill Brancard, General Counsel, EMNRD
Gabriel Wade, Assistant General Counsel, EMNRD
Holland Shepherd, Program Manager, Mining Act Reclamation Program
Kurt Vollbrecht, Manager, Mining Environmental Compliance Section, NMED

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