



Tyrone Operations
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August 7, 2020

Via Email

Mr. David Ohori
Supervisor, Senior Reclamation Specialist
New Mexico Mining and Minerals Division
1220 So. St. Francis Drive
Santa Fe, NM 87050

Dear Mr. Ohori:

Re: Financial Assurance Securing Closure of the Tyrone and Cobre Mines; Collateral Deliverables by Freeport-McMoRan's Subsidiaries and Independent Contractors

Introduction

Thanks to you and the several representatives of both the Mining and Minerals Division ("MMD") and the New Mexico Environment Department ("NMED") for meeting telephonically on June 12 and 24, 2020 with representatives of Freeport McMoRan and its subsidiaries (collectively, "FMI") to discuss the status of FMI's collateral deliverables that relate to a portion of the financial assurance for both the Tyrone and Cobre (now Cobre/Chino) mines. Thanks also for conferring among yourselves between the June calls to allow for your considered input on the issues in the June 24 call.

This letter re-caps FMI's proposals and seeks the formal concurrence of both MMD and NMED for adjusting and bringing the collateral deliverables process current based upon the preliminary conceptual understandings reached during our June teleconferences. FMI appreciates the opportunity to seek memorialization of our understandings in this letter and looks forward to the State's response on a schedule of your choosing.

Background

As reviewed in the June calls, FMI has posted fifteen southern New Mexico ranches as part of the financial assurance jointly securing the closure requirements of both agencies. Thirteen of the ranches serve as collateral for the Tyrone Mine, and two ranches serve as collateral for the Cobre Mine. FMI's independent contractor performing appraisals for the ranches has been challenged by workload volume and practical considerations relating to the COVID-19 pandemic. The State, meanwhile, is hoping to gain some understanding of what, if any, impact the pandemic may have on collateral values.

The issues discussed in the June calls included: (a) possible adjustments to the timing of the five-year appraisals for the ranches securing Tyrone and Cobre, respectively; (b) the timing of submitting the five-year environmental assessments; (c) the timing and content of market analysis

letters for the Tyrone ranches; (d) whether and what kind of third-party appraisal reviews are needed for the current and future rounds of appraisals; and (e) the status of the Antelope Wells Border Crossing as it impacts the Alamo Hueco and Timberlake Ranch withdrawals. Each of these five topics is addressed in this letter.

Discussion

A. Five-Year Appraisals for Tyrone and Cobre Ranches

As discussed, due to various challenges, the independent contractor performing the appraisals for the thirteen ranches serving as collateral for the Tyrone Mine was unable to complete the appraisals by the April 12, 2019 date originally contemplated when a five-year cycle of deadlines was established in 2009. Based upon the discussions, we understand the State is willing to accept those appraisals on or before April 12, 2021. Adjusting the date to April 12, 2021 is feasible for the appraiser and will allow more time for possible comparable sales used in the appraisal process to account for any impacts to the market for ranches due to the pandemic. FMI requests that the five-year schedule thereafter be readjusted to build off of the 2021 date such that future five-year appraisals (and other five year deliverables) for the Tyrone ranches would fall in 2026, 2031, etc. FMI understands, however, that the State is considering this and may prefer that the next round of appraisals be submitted sooner than 2026 based upon factors such as possibly better aligning the future rounds of appraisals with expected updating of the Tyrone closure/closeout plan (“CCP”) and/or the renewal schedule for discharge plan (“DP”) 1403 under the Copper Rule.

FMI’s independent appraiser, meanwhile, already has provided final drafts of the appraisals for the Cobre Ranches (Baker and H Heart), and those were e-mailed to the State along with the Transactional Screen Reports for both ranches on June 5, 2020. As a result, our understanding is that there would be no need to adjust the future schedule of Cobre five-year deliverables that will come due in 2025, 2030, etc.

B. The Timing for Environmental Assessments of the Tyrone Ranches

Because FMI already has received Transactional Screen Reports for the Tyrone ranches, there was a consensus that those could all be submitted, and that there would be no need to have the submission of transactional screens for the Tyrone ranches await submission of the appraisals of those ranches in April of 2021. Accordingly, FMI proposes to provide the Transactional Screen Reports for all the ranches on or before August 31, 2020, and to thereafter align the delivery of transactional screens (as well as future title updates) with the future deliverables deadlines for Cobre (2025, 2030, etc.) and Tyrone (as hereafter determined).

C. Timing and Content of Market Analysis Letters

As you know, FMI’s independent appraiser has been providing market analysis letters during interim years between the five-year deliverables. Because we understand the State has agreed to accept the Tyrone ranch appraisals next spring, and has received the Cobre ranch appraisals this year, the group discussed providing the market analyses for the Tyrone ranches this year. Two letters will be provided, and we propose to provide those to the State by August 31, 2020.

In the June 24 call, there was a discussion of what might be addressed in this round of market analyses. The letters will include a synopsis of ranch sales since March, in hopes of being able to capture any impacts the pandemic may have on ranch values. There was agreement that it would be helpful to add some general analysis to capture ranch sales in the western part of New Mexico, as well. The letters will also include some discussion of distinctions involving ranchers in the market for leasing ranches versus buyers in the market for large, rural ranch properties. During the June 24 call, MMD asked if FMI could offer anything to allay the State's concerns about market fluctuations due to COVID-19 and the delay in the submittal of new appraisals. FMI believes that the data that will be submitted within a few weeks should be considered by all parties concerned to see if the information sufficiently addresses the concerns noted.

D. Third-Party Appraisal Reviews

As discussed, James Jones is no longer available to serve as an independent appraisal reviewer for the State. In the June calls, FMI discussed difficulties in identifying a replacement as well as questions about the utility of an independent appraisal review given professional restrictions on second-guessing valuations without performing a fully independent appraisal. It is our understanding that the State is willing to waive having a third-party appraisal review for the Cobre appraisals being submitted this year, but that it reserves the right to use a third-party appraiser either to review future appraisal submissions or, perhaps, to selectively do full appraisals for a limited number of ranches concurrently with FMI's independent contractor to allow for comparisons. We would like to set forth here an alternative approach, as well as our rationale for why FMI feels strongly that neither of these possible reserved approaches being considered by the State are preferred.

Appraisals done by Scott McNally or other licensed appraisers in the State of New Mexico are required to be done pursuant to requirements of state law and standards of the state board that licenses appraisers. The process and conclusions are not likely to be altered by any reviewing appraiser that desires to stay in compliance with state regulations. In FMI's view, a review of the appraisal methods is likely a futile effort in that it is a rare occurrence that the process and rules are not followed by licensed appraisers.

A more useful approach, if one is needed, would be to review the comparable sales used. An appraisal is based upon an appraiser's review of the market and thus the quality of the information gathered to conclude a market value is important and could influence the final market value determined. A review of the comparable sales in the region where the subject property is located and the comparison of those comparable sales to the appraiser's comparable sales data would help to ensure the quality of data gathered for the appraisal. This can be accomplished with minimal fieldwork but may include some to ensure comparable sales are relevant to the subject property. This would include a comparison of the condition of the properties as well as ensuring that they are similar in a multitude of aspects. This can be difficult, but adjustments are common amongst comparable sales and subject properties because of the limited data available at times. Lastly, a review of the comparable sales could help to ensure they are the most recent sales available and to see if the appraiser missed any pertinent data.

This process should affirm whether the appraisal captured the best and most accurate data available. If so, then the Company and the State could feel comfortable about the appraised values

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given. If by chance there are discrepancies such as missed data, or irrelevant data was used in the appraisal, we could ask the appraiser to comment on the findings and justify the findings of the appraisal.

E. Antelope Wells Border Crossing Impacts to Alamo Hueco and Timberlake

In the June calls, FMI agreed to update the State relating to small carve-outs from two of the very large ranches serving as collateral for Tyrone, Timberlake and Alamo Hueco, in order to combine the small carve-outs into one tract to accommodate Homeland Security's purchase of the combined parcels. By a December 28, 2018 letter from Holland Shepherd to Stuart Butzier, MMD supported this plan and agreed that changes in the legal descriptions for the two ranches, as well as any change to the value of the ranches, can be accommodated during the five-year update and re-appraisal process. FMI is moving ahead with the approved plan of accomplishing and appropriately documenting the carve-outs, will be combining the carved out parcels and selling them to Homeland Security, and proposes to that any changes in legal descriptions and values of Timberlake and Alamo Hueco be accommodated as part of the reappraisals of the Tyrone ranches that now will be submitted on or before April 12, 2021 as discussed above.

Again, FMI appreciates the opportunity to work through these collateral deliverables issues with both MMD and NMED, and we look forward to the State's response to this letter.

Sincerely,



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General Manager

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