



Freeport-McMoRan Chino Mines Company
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April 2, 2019

Certified Mail #7016137000038214182
Return Receipt Requested

Mr. Fernando Martinez, Director
Energy, Minerals and Natural Resources Department
Mining and Minerals Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Certified Mail #7016137000038214175
Return Receipt Requested

Ms. Jennifer Pruitt, Acting Director
New Mexico Environment Department
Water Protection Division
P.O. Box 5469
Santa Fe, New Mexico 87502

Dear Mr. Martinez and Ms. Pruitt:

**Re: Freeport-McMoRan Chino Mines Company -
Continental Mine Financial Assurance Cost Estimate and
Net Present Value Calculation Permit No. GR002RE and Discharge Permit 1403**

Freeport-McMoRan Chino Mines Company (Chino), Continental Mine submitted to the Mining and Minerals Division (MMD) and the New Mexico Environment Department (NMED), an application to update the Continental Mine Closure/Closeout Plan (CCP) in a letter dated December 12, 2014. The CCP update provided a conceptual plan for closure and reclamation (technical scope of work) of the site. A financial assurance (FA) cost estimate was submitted to the agencies on May 21, 2018.

Section N.6 of Revision 15-2 to Permit GR002RE and Part C113.6.D of Discharge Permit 1403 requires Continental Mine to submit an update to the May 2018 FA estimate based on the outcome of a FA Work Group. The FA Work Group comprised of representatives of the Chino and Tyrone Mines, MMD, NMED and the Gila Resources Information Project (GRIP) and was established in August 2018 to set the basis for developing financial assurance (FA) cost estimates. The working group came to an agreement on December 11, 2018. This letter transmits the FA cost estimate for the Continental Mine as well as a net present value calculation (NPV) in accordance with the work group agreement.

Current Dollar Cost Estimate

The cost estimate was developed in accordance with the FA Work Group agreement. A copy of the agreement is included as Appendix C of Attachment 1. Attachment 1 contains the Earthwork and Water Management Cost Estimates with accompanying text explaining the estimating process as well as derivation and standard practice sources for unit rates.

The FA in place for Continental in current dollars is \$42,475,244. The updated FA in current dollars is \$24,965,679 (see Table 1 below for details).

Net Present Value (NPV) and Financial Assurance (FA) Proposal

Attachment 2 to this letter contains the NPV calculations, supporting information and justifications. Based upon application of 19.10.12.1205 NMAC and established agreements for the FA cost estimate calculation with MMD and NMED, the proposed NPV amount for Continental Mine is \$20,861,054 (See Attachment 2).

- Attachment 2A provides the Summary and Rationale for the Net Present Value Calculation, and the NPV calculations. The summary, rationale and rates were developed for New Mexico Operations (i.e. Chino, Continental and Tyrone Mines).
- Attachment 2B provides the escalation rate for earthwork and water management. The appropriate escalation rate for earthwork was calculated as 3.41% and water management as 2.99%.
- Attachment 2C provides the discount rates for earthwork and water management. The appropriate discount rates for both earthwork and water management were calculated to be 7.09% and 7.27% applied to cash flow years 1 -10 and 11- 100 respectively based on Barclays US Government/Credit and Barclays US Aggregate Indices.
- Attachment 2D contains an electronic copy of the NPV calculations.

Table 1 below shows the comparison between the current FA and the updated FA both in current and NPV dollars.

Table 1

| Continental Mine Financial Assurance Summary | | | |
|---|-----------------------|----------------------|---------------------|
| Category | Current Dollar | Total | NPV |
| Current FA | | | |
| Earthwork and Water Management | \$42,475,244 | \$42,475,244 | \$28,359,230 |
| 2018 FA | | | |
| Earthwork | \$22,821,163 | \$24,965,679 | \$20,861,054 |
| Water Management | \$2,144,516 | | |
| Change from Current FA | | -\$17,509,565 | -\$7,498,176 |

Electronic Copy of Submittal

Attachment 3 is a compact disk which contains an electronic copy of this submittal (including spreadsheets).

Thank you for taking the time to review and approve this information. Once these figures are reviewed and approved, Chino will be prepared to submit a proposal for the financial assurance instruments in accordance with the agreed-upon schedule. Please contact Ms. Rita Lloyd-Mills at (575) 912- 5778 if you have any questions.

Sincerely,



Sherry Burt-Kested, Manager
Environmental Services

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Enclosures

c: Holland Shepherd, Manager, Mining Act Reclamation Program, MMD
Kurt Vollbrecht, Manager, Mining Environmental Compliance Section, NMED