NORD RESOURCES CORP
Form 10KSB
March 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[X] Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

for the fiscal year ended **December 31, 2006**

[ ] Transition Report Under Section 13 or 15(D) of the Securities Exchange Act of 1934

for the transition period from _____ to _____

Commission File Number: **0-26407**

NORD RESOURCES CORPORATION

(Exact name of small Business Issuer as specified in its charter)

Delaware	**85-0212139**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1 West Wetmore Road, Suite 203 Tucson, Arizona	**85705**
(Address of principal executive offices)	(Zip Code)

Issuer s telephone number, including area code: **(520) 292-0266**

Securities registered under Section 12(b) of the Exchange Act:
Common Stock, par value $0.01 per share

Securities registered under Section 12(g) of the Exchange Act: **None**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X]Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

State issuer s revenues for its most recent fiscal year: $0.00

The aggregate market value of voting Common Stock held by non-affiliates of the registrant was $25,335,310 based upon the closing price of such Common Stock on the Pink Sheets LLC of $0.74 per share on February 15, 2007, and determined by subtracting from the total number of shares of Common Stock issued and outstanding on that date all shares held by the directors and executive officers of the registrant and by persons holding at least 10% of such number of shares of Common Stock as of that date.

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date. 34,236,906 shares of common stock as of February 15, 2007.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

NORD RESOURCES CORPORATION

Form 10-KSB

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-KSB contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of copper, availability of funds, government regulations, common share prices, operating costs, capital costs, outcomes of ore reserve development and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration and development, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may , will , should expect , plan , intend , anticipate , believe , estimate , predict , potential or continue , the negative of s comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports we file with the SEC. These factors may cause our actual results to differ materially from any forward-looking statement. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

We are in the business of exploring for and developing mineral mining properties. Our principal asset is the Johnson Camp property located in Arizona. The Johnson Camp property includes the Johnson Camp Mine and a production facility that uses the solvent extraction, electrowinning (SX-EW) process. SX-EW processing uses electrolysis in the production of pure copper from a copper concentrated sulphuric acid solution. This solution is obtained by leaching copper from broken ore, then extracting the copper from the leach solution using an organic solvent, and finally returning the copper contained in this organic solvent into a concentrated solution for the electrowinning stage. The Johnson Camp Mine is an existing open pit copper mine; it includes two existing open pits, namely the Burro and the Copper Chief bulk mining pits.

The Johnson Camp property has had a long history of development and mining, dating back to the early 1880s. A number of underground mines operated during the 1880-1975 period. In 1974, Cyprus Mines Corporation developed a large scale open pit heap leach mine and SX-EW processing complex on the Johnson Camp property. Operating as Cyprus Johnson Copper Company, Cyprus began mining in the Burro pit in 1975 and continued until 1986 when the operation closed. After the closure, Cyprus dismantled the original SX-EW plant. Cyprus continued to maintain ownership of the Johnson Camp property until 1989, when it sold its holdings in the district to Arimetco, Inc. In mid-1990, Arimetco constructed a new SX-EW plant at the Johnson Camp Mine and resumed mining in the Burro pit in 1991. Arimetco began limited open pit mining from the Copper Chief deposit in 1996. Mining continued from both the Burro and Copper Chief deposits until 1997, when production was terminated.

In 1998, Summo USA Corporation entered into a Sale and Purchase Agreement with Arimetco to acquire the Johnson Camp property, subject to successful completion of due diligence work. As part of the due diligence, The Winters Company was commissioned by Summo to complete a feasibility study for the resumption of mining and SX-EW processing at the Johnson Camp Mine. Although the study indicated that mining was feasible at a copper price of $0.85 per pound, Summo did not pursue mining at the Johnson Camp Mine and assigned its right to the Sale and Purchase Agreement to us in June, 1999.

We continued production of copper from ore that had been mined and placed on leach pads until August 2003 when we placed the Johnson Camp Mine on a care and maintenance program due to weak market conditions for copper at that time. Although mining ceased in 1997, the Johnson Camp leach pads and SX-EW operation remained active until 2003, producing approximately 6.7 million pounds of copper cathode from residual copper in the heaps over the period 1998 to 2003. Currently, the existing Johnson Camp leach dumps are being rinsed in a limited manner with the goal of managing solution inventories.

Our near term objective is to resume mining and leaching operations at the Johnson Camp Mine, with the view to producing approximately 25 million pounds of copper per year. However, since reactivation of the Johnson Camp Mine is subject to obtaining sufficient financing, the board of directors has not yet made a production decision.

We obtained a feasibility study containing a mine plan for the Johnson Camp Mine that was completed by The Winters Company, called Nord Copper Corporation Feasibility Study, Johnson Camp Copper Project, Cochise County, Arizona , dated March 2000. We also obtained an update to the feasibility study prepared by Winters, Dorsey and Company called Johnson Camp Copper Project, Arizona, United States of America, 2005 Feasibility Study , dated October 11, 2005. In June 2006, Winters, Dorsey provided us with an addendum to the 2005 feasibility study. We refer to the 2005 feasibility study and the June 2006 addendum in this annual report as the updated feasibility study .

The Winters Company no longer exists. Winters, Dorsey is not a successor company to The Winters Company, but certain authors of the 2000 feasibility study were also involved in the preparation of the updated feasibility study. In preparing the updated feasibility study in 2005 and the addendum thereto in 2006, Winters, Dorsey utilized much of the earlier data contained in the 2000 feasibility study after concluding, in its professional judgment, it was reasonable to adopt and rely on such data.

The updated feasibility study contains an economic assessment of the Johnson Camp Mine based on the mine plan included in the 2000 feasibility study, capital and operating cost estimates as of the third quarter of 2005, and 36 month average copper prices ending on September 30, 2005 of $1.14 per pound (although our reserve estimates are based on a copper price of $0.90 per pound to maintain consistency with the pit design used in the 2000 feasibility study and adopted by Winters, Dorsey in the updated feasibility study). Winters, Dorsey concluded that resumption of operations at the Johnson Camp Mine in accordance with the mine plan will generate positive discounted cash flows over an eleven year mine life at 8%, 10% and 15% discount rates.

In order for us to resume full mining operations, we will have to complete the mine development schedule outlined in the updated feasibility study. This mine development schedule will require that we reline an existing solution pond, construct three new lined solution ponds, prepare a new, stand-alone lined leach pad facility for approximately 60 percent of the new ore that will be leached, and install a two-stage crushing circuit. The SX-EW plant will have to be rehabilitated to meet production goals and the electrowinning section expanded. Our mine operating plan calls for an active leach program of newly mined ore and the residual leaching of the existing old dumps.

At the time the updated feasibility study was completed, the initial capital costs to be incurred within the first two years of start-up were expected to exceed $22 million (including working capital). We now expect that the initial capital costs will exceed $28 million. Such costs relate primarily to the rehabilitation of solution ponds, refurbishment and a modest expansion of the copper production facility, and the purchase and installation of crushing and conveying equipment. The increase in our capital cost estimate is primarily due to inflation and the fact that our original capital cost estimate was premised in part on the availability of used conveying equipment which is increasingly becoming difficult to find; we anticipate that we will have to purchase new conveying equipment during the initial start-up period. We estimate we will incur a further $3 million in capital costs in the following two years, which is less than the $9 million in such capital costs that we had originally projected due to our intention to defer the

construction of a planned leach pad until seven years after the start-up date, as we now anticipate that we will be able to accommodate any ore that is mined during the intervening period by expanding one or more of our existing leach pads. These cost figures do not include estimated reclamation bonding requirements, and do not account for inflation, interest and other financing costs.

We presently do not have sufficient cash or working capital necessary to implement the mine development schedule and commence mining operations. Our ability to commence mining operations will be subject to our obtaining sufficient financing to enable us to fund the necessary initial capital costs and start-up operating expenses and working capital. In addition, certain permits must be in place before mining operations are commenced. Once financing and permits are in place, we anticipate it will take approximately three months to complete sufficient rehabilitation of the Johnson Camp Mine to allow the production of copper from the existing heaps, and approximately nine months from the start of construction to begin producing copper from new ore placed on the heaps.

We believe the resumption of mining activities at the Johnson Camp mine is warranted based on the recent increase in the market price of copper. The market for copper is cyclical and over the last fifteen years the price of copper has fluctuated between $0.60 and $3.98 per pound. In its most recent cycle the price fell to a low of $0.62 per pound in 1999, due primarily to increased supply with the commissioning of several new mines while demand decreased, largely due to a reduction of consumption in Asia. Although there has been a slight decline in the price of copper over the past twelve months, it remains relatively high: the average price of copper was $2.57 per pound in February 2007 (as reported by the London Metal Exchange). This increase in the price of copper since 1999 is due to an increase in worldwide demand for copper. We believe that the strengthening market for copper has created an opportunity for us to reactivate the Johnson Camp Mine, despite the anticipated high costs that this will involve. However, we caution investors that the market price for copper has historically been cyclical and there is a significant risk that copper prices will not remain at current high levels.

In addition to the Johnson Camp property, we have options to acquire interests in three exploration stage projects, Coyote Springs and the Texas Arizona Mines project, both located in Arizona, and Mimbres located in New Mexico (see Description of Property - Other Properties). We are planning to conduct further preliminary exploration activities at the Coyote Springs and Mimbres properties to help us determine whether we should exercise the options. Any such exploration activities are subject to the availability of sufficient financing, which cannot be assured. We do not believe that these properties are material to our overall operations at this time.

In addition to reactivating the Johnson Camp Mine, as described in more detail under the heading, Description of Property Landscape and Aggregate Rock Operation, we are also planning on expanding the existing decorative and structural stone operation on the Johnson Camp property within the first year of bringing the Johnson Camp Mine into operation. We are currently leasing this landscape and aggregate rock operation to JC Rock, LLC. Our current contract expires April 30, 2007, and we plan to renew the contract on a short term basis until we are ready to take over the operation. JC Rock has the right to remove the landscape and aggregate rock from the Johnson Camp property and pays us a royalty of $1.50 per ton, subject to reduction to $1.00 per ton where the wholesale price realized by JC Rock upon resale is less than $6.00 per ton.

Name and Incorporation

Nord Resources Corporation was formed under the laws of Delaware on January 18, 1971.

Our principal business offices are located at 1 West Wetmore Road, Suite 203, Tucson, Arizona 85705, and our telephone number is (520) 292-0266.

We own 100% of the issued and outstanding shares of Cochise Aggregates and Materials, Inc., which was formed under the laws of Nevada on December 9, 2003. We have no other subsidiaries. As used in this annual report, the terms we , us and our mean Nord Resources Corporation and its subsidiaries, taken as a whole.

In this annual report, our references to the Johnson Camp property refer to the entire property we own, while the previously mined area of the Johnson Camp property and the area proposed for further development under the mine plan contained in the 2000 feasibility study, together with the facilities and equipment on the Johnson Camp property, are collectively referred to as the Johnson Camp Mine .

ITEM 2. DESCRIPTION OF PROPERTY

A glossary of Technical Terms appears at page 87.

Johnson Camp Property

Description and Location

The Johnson Camp property is located in Cochise County, approximately 65 miles (105 kilometers) east of Tucson, in Cochise County, Arizona, one mile north of the Johnson Road exit off of Interstate Highway 10 between the towns of Benson and Willcox in all or parts of Sections 22, 23, 24, 25, 26, 27, 35 and 36, Township 15 South, Range 22 West. (See Figure 1)

The Johnson Camp project currently includes two open pits, one waste dump, three heap leach pads, a SX-EW processing plant along and administrative facilities. The Burro Pit is larger than the Copper Chief Pit and contains 64% of the project reserves. The Burro Pit is located east of the SX-EW process plant. The Copper Chief Pit is located approximately 2,000 feet northwest of the Burro Pit.

The existing heap leach pads are located west of the open pits. The leach pads are divided into two major sections with solution collection facilities downstream of the first pad and downstream of pads two and three. A new leach pad is planned for future use and is anticipated to be located north of the Burro Pit and northeast of the Copper Chief Pit. The mine waste dump is located immediately to the east of the Burro Pit.

Figure 1

Titles

The Johnson Camp property consists of 59 patented lode mining claims, 102 unpatented lode mining claims and 617 acres of fee simple lands (see Figure 2). The patented claims comprise approximately 871 acres and the unpatented claims comprise approximately 1,604 acres. Thus, the Johnson Camp property covers approximately 3,092 acres. All of the claims are contiguous, and some of the unpatented mining claims overlap. We keep the unpatented mining claims in good standing by paying fees of $13,250 per year to the United States Federal Government. We keep the fee simple and patented claims in good standing by paying property taxes and claims filing fees of approximately $35,000 per year. The copper processing facilities and the Copper Chief and Burro open pits that serve as focal points for our mine plan are located on the patented mining claims or the fee simple lands.

We are the owner of the Johnson Camp property and the owner or holder of the claims. We are allowed to mine, develop and explore the Johnson Camp property, subject to the required operating permits and approvals, and in compliance with applicable federal, state and local laws, regulations and ordinances. We believe that all of our claims are in good standing.

Our patented mining claims give us title to the patented lands and no further assessment work must be done; however, taxes must be paid. We have full mineral rights and surface rights on the patented lands. Unpatented mining claims give us the exclusive right to possess the ground (surface rights) covered by the claim, as well as the right to develop and exploit valuable minerals contained within the claim, so long as the claim is properly located and validly maintained. (See Description of Property United States Mining and Environmental Laws Arizona State Mining Laws) Unpatented mining claims however, may be challenged by third parties and the United States government. (See Risk Factors Risks Related to Our Company)

Figure 2
Johnson Camp Land Status Map

Source: Nord Resources Corporation

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access to the Johnson Camp property is via Interstate Highway 10 and by gravel road. Due to its location just one mile north of Interstate Highway 10, the Johnson Camp property provides excellent access for transportation and delivery of bulk supplies and shipment of copper cathodes. The Johnson Camp property s close proximity to the Union Pacific Railway mainline through Dragoon, Arizona gives us the option of shipping cathode direct to customers by truck or rail.

The Johnson Camp Mine is located on the eastern slope of the Little Dragoon Mountains. The average elevation of the property is approximately 5,000 feet above sea level. The climate of the region is arid, with hot summers and cool winters. Freezing is rare at the site. Historically, the Johnson Camp Mine was operated throughout the year with only limited weather interruptions.

Vegetation on the property is typical of the upper Sonoran Desert and includes bunchgrasses and cacti. Higher elevations support live oak and juniper, with dense stands of pinyon pine common on north-facing slopes.

The existing facilities include the SX-EW processing plant, an administrative and engineering office and warehouse, laboratory, truck shop, core storage building, plant mechanical shop, and various used vehicles, pumps and other equipment. In addition, we own a large gyratory crusher which will be installed at Johnson Camp.

The SX-EW processing plant is comprised of a solvent extraction plant, an electrowinning tank house, a tank farm and four solution storage ponds. The solvent extraction plant consists of four extraction mixer-

settlers operated in parallel and two strip mixer-settlers, and has a capacity of 4,000 gallons per minute. The electrowinning tank house consists of 74 electrowinning cells with a full complement of cathodes, and has a 20 million pound-per-year capacity. The tank farm, located in front of the tank house, is used for intermediate storage of electrolyte. The four solution storage ponds have a total capacity of approximately eight million gallons.

The Johnson Camp Mine facilities and equipment were placed into care and maintenance in 2003. The updated feasibility study concludes that the existing SX-EW plant will have to be rehabilitated to meet future production goals. The rehabilitated SX-EW plant will be of conventional design, and we plan to use as much of the existing equipment as possible.

In addition to the real property included in the Johnson Camp property, there are several access rights of way and three water wells which are located on the Johnson Camp property. We also have an agreement with a local rancher which allows us access to a fourth water well in which we hold water rights, located on private land just to the east of the Johnson Camp property (see Description of Property Status of Permits). Production water for the Johnson Camp property is currently supplied from two of the three wells located on the Johnson Camp property and from the well located on the private land. We currently do not use the third well located on the Johnson Camp property. Additional water will be required to expand the leaching operation, so we anticipate that it will be necessary to drill another well on our land near the Section 19 well. In addition, although three of the four wells have been upgraded since 1999, additional upgrades may have to be undertaken.

Commercial electrical power and telephone lines remain in place and operational at the Johnson Camp property. The Johnson Camp property receives electrical power from Sulphur Springs Valley Electric Cooperative (SSVEC). We will need to negotiate a new power contract with SSVEC, as we do not currently have one. Power is received at a single substation owned by us, and our substation transformer must be upgraded for the expansion to 25 million pounds of copper per year.

We plan to expand our workforce at the Johnson Camp Mine to approximately 60 employees, and hire various contractors. We intend to utilize contractors for mining, drilling and blasting, and for hauling the mined material. We will manage all other activities at the Johnson Camp Mine. We believe that there are sufficient skilled operating, maintenance, and technical personnel available that can be employed for the Johnson Camp Mine.

Geological Setting and Mineralization

The Johnson Camp property is located along the east fold of the Little Dragoon Mountains in southeastern Arizona. The rocks exposed on the Johnson Camp property range from the pinal schist that is located at the western end of the Johnson Camp property to the escabrosa limestone that is located at the eastern end of the Johnson Camp property, all of which contain some quartz monzonite porphyry. Large disseminated copper deposits occur in several rock formations at the Johnson Camp Mine. In the region of the Burro and Copper Chief open pits, the copper-bearing rocks dip moderately to the northeast and consist of sedimentary rocks that have been intruded by two diabase dikes.

The main copper bearing host rock units at the Johnson Camp Mine are the Abrigo, Bolsa Quartzite, Pioneer Shale, and the Diabase formations. The Diabase formation is positioned at the base of the copper bearing rock units, overlain by the Bolsa Quartzite, and the lower and middle Abrigo formations. In the Burro pit, oxide copper is located primarily on bedding planes as veins and replacements and along various fractures. In the Copper Chief pit, located approximately 1,500 feet to the north of the Burro pit, oxide copper occurs as disseminations in the Diabase formation and along fractures within the Diabase and in the Bolsa Quartzite units. Other bulk-mineable copper exploration targets lie along trend from both the Copper Chief and Burro deposits.

The style of mineralization and the type of alteration recently mapped on the northern lower benches of the Burro pit suggest the possible presence beneath the property of a mineralized porphyry-type deposit. In addition to the alteration evidence, a prominent magnetic low anomaly is present between the Burro pit and Copper Chief deposit supporting the possible presence of a porphyry-type deposit at depth. Porphyry copper deposits are typically very large, low grade and require processing by recovery processes much different than those planned for the Johnson Camp Mine.

The following cross section diagram illustrates the relative positions, and the geologic and mineralized nature of the various formations in the Burro pit.

Source: Nord Resources Corporation

The following cross section diagram illustrates the relative positions, and the geologic and mineralized nature of the various formations in the Copper Chief pit.

Source: Nord Resources Corporation

Feasibility Study

Summo commissioned The Winters Company to complete a feasibility study on the Johnson Camp Mine in 1999. Upon our acquisition of the Johnson Camp property, we engaged The Winters Company to update the feasibility study in 2000. We engaged Winters, Dorsey to prepare an update to the 2000 feasibility study prepared by The Winters Company, and received the updated feasibility study on October 11, 2005. We received an addendum to the updated feasibility study in June 2006. We refer to the 2005 feasibility study and the June 2006 addendum in this annual report as the updated feasibility study . In preparing the updated feasibility, Winters, Dorsey:

- visited the Johnson Camp property and collected data;
- performed data verification activities;
- reviewed the metallurgical section of the 2000 feasibility study;
- developed copper recovery estimates;
- determined Lerchs-Grossman pit shell reserves;
- completed open pit mine scheduling of the Burro and Copper Chief deposits;
- determined reserve estimates for the Burro and Copper Chief deposits;
- reviewed the SX-EW plant expansion plan;
- reviewed infrastructure and support facilities;
- reviewed the heap leach pad, pregnant leach solution, raffinate pond design and capital cost estimates; and
- reviewed operating, capital and general and administrative cost estimates.

Reserves

Reserves are part of a mineral deposit which can be economically and legally extracted or produced at the time of the reserve determination. Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade and/or quality are computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are defined as reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Methodology

The proven and probable reserves reflect variations in the copper content and structural impacts on the Burro and Copper Chief deposits, and the reserve estimates give effect to these variations. For both proven and probable reserves, only total copper assay values were used, mainly because assay values measured in total copper were available for both the Burro pit and Copper Chief pit, and in part because the soluble copper assay techniques used by Arimetco were not comparable to the soluble copper assay techniques used by Cyprus. (See Description of Property Johnson Camp Property Historic Copper Production and Risk Factors Risks Related to our Company.)

Statistical methodologies were used to classify mineralized material. Such methodologies involved, among other things, interpolation between, and projection beyond, sample points. Sample points consist of variably spaced drill hole intervals throughout a given deposit. The closer that mineralized material is situated to a drill hole composite, the more confidence exists in the accuracy of the estimation of the grades of mineral in that material. A drill hole composite is, generally speaking, an average of the sample assays taken from a 20-foot fixed length portion of the drill hole.

For proven reserves in the Burro deposit, a minimum of one drill hole composite within 160 feet is required. For probable reserves in the Burro deposit, a minimum of one drill hole composite within a range of 161 to 260 feet is required. For the Copper Chief deposit, the classification criteria for proven and probable reserves vary depending on rock type. For proven reserves a minimum of one drill hole composite within a distance ranging from 0 to between 88 to 150 feet is required, depending on rock type. For probable reserves a minimum of one drill hole composite within a range of between 89 to 245 feet is required, depending on rock type.

A summary of the Johnson Camp proven and probable reserves are presented in the table below.

Johnson Camp Mine
Summary of Proven and Probable Reserves*

	Class	Total Ore Tons (000)	% Total Cu	Waste Tons (000)	Total Tons (000)	Strip Ratio Waste/Ore
Burro Pit	Proven	16,695	0.426			
	Probable	5,667	0.394			
Total Burro Pit		22,362	0.418	8,087	30,449	0.36
Copper Chief Pit	Proven	11,346	0.354			
	Probable	1,434	0.315			
Total Copper Chief Pit		12,780	0.350	10,278	23,058	0.80
Total	Proven	28,041	0.396			
	Probable	7,101	0.378			
	Total	**35,142**	**0.393**	**18,365**	**53,507**	**0.52**

Notes:

- The ore reserves were estimated in accordance with Industry Guide 7 of the Securities and Exchange Commission (sometime referred to in this annual report as the “SEC”).
- The reserves as stated are an estimate of what can be economically and legally recovered from the mine and as such incorporate losses for dilution and mining recovery.
- The actual tonnage and grade of reserves are generally expected to be within 90-95% of the estimate for proven reserves, and 70-80% for probable reserves.
- Reserves are based on a copper price of $0.90/lb and on total copper assays.
- The break-even cutoff grades are assumed by rock type and range from 0.109% to 0.129% total copper depending upon the specific rock type. In order for rock to be above the cutoff grade, the net revenue from processing the rock must exceed the sum of all cash operating costs excluding the mining cost. The mining costs are then applied to determine the actual mine cutoff or breakeven grade. If the ore is at or above the cutoff grade (breakeven grade), the ore is hauled to the crusher. If the ore is less than the cutoff grade (breakeven grade), it is hauled to the waste dump.
- Break-even cutoff grade is defined as the lowest grade of mineralized material that can be mined and processed considering all applicable costs, without incurring a loss or gaining a profit. The break-even cutoff grades used for the reserve estimates summarized in the foregoing table were determined having regard to the following factors: ore grade for each block and rock type; tonnage factor (which expresses the density of the ore and host rock, in terms of cubic feet per ton); estimated total copper recovery; a copper price of $0.90/lb; projected gross revenue from the copper mining and processing operations at Johnson Camp Mine contemplated by our mine plan; estimated mining costs; estimated crushing and conveying costs; SX-EW processing costs for each ore type; estimated general and administrative expenses, severance taxes (which become payable in connection with extraction of ore from the mine), and freight and marketing expenses associated with Johnson Camp Mine under our mine plan; and estimated sustaining capital required for the

mining and processing operations contemplated by our mine plan.

- The following break-even cutoff grades were used for the reserve estimates summarized in the foregoing table:

	Burro Pit	Copper Chief Pit
Rock Type	**% TCu**	**% TCu**
Upper Abrigo	0.113	0.123
Middle Abrigo	0.113	0.123

Rock Type	Burro Pit % TCu	Copper Chief Pit % TCu
Lower Abrigo	0.113	0.123
Bolsa Quartzite	0.109	0.126
Upper Diabase	0.129	0.121
Upper Pioneer Shale	0.124	0.122
Lower Diabase	0.129	0.121
Lower Pioneer Shale	0.124	0.122

- Copper recoveries are estimated to range from 74% to 81% total copper depending upon specific rock type. (See Description of Property Johnson Camp Property - Metallurgical Test Work .)

In Winters, Dorsey s opinion, the reported estimated reserves are reasonable for the economics used. Winters, Dorsey updated the block model dollar values and estimated reserves within the pit design adopted in the updated feasibility study, and used a copper price of $0.90 per pound. Operating and processing costs were provided by Nord and estimated as of the third quarter of 2005 (see Description of Property - Johnson Camp Property - Project Feasibility). Winters, Dorsey based the copper recovery on previous metallurgical test work that Winters, Dorsey reviewed for the updated feasibility study (see Description of Property - Johnson Camp Property - Metallurgical Test Work and Description of Property - Johnson Camp Property - Recovery Curves).

Use of Total Copper Assays

For the reasons discussed below, our estimate of ore reserves at the Johnson Camp Mine is based on total copper assays and recoveries rather than soluble copper assays and recoveries.

Total copper values were available for both the Copper Chief and Burro deposits. However, only 39 percent of the Copper Chief assay intervals also had acid soluble copper values, and the available data on acid soluble copper was incomplete for all samples. In addition, the database of acid soluble copper values for the Burro deposit reflects two different analytical techniques: (a) a conventional acid soluble method used by Cyprus for 94 of the holes included in the drill hole database; and (b) a more aggressive methodology used by Arimetco for the other 48 drill holes included in the database for the purpose of estimating the ultimate recoveries that may be experienced in the heaps at the Johnson Camp Mine. In summary, total copper assays were the only common denominator for all drill hole assays included in the drill hole database. As a result, only a total copper grade resource model was constructed for both deposits.

Estimation of total copper recovery for each ore type involved:

- examination of Cyprus drill hole data that contained both acid soluble assays and total copper assays, with the view to determining a correlation (expressed as a percentage) between such acid soluble assays and total copper values for each ore type; and
- application of the correlation to the acid soluble copper recovery determined for the particular ore type based on column tests and other parameters as described in the 2005 Feasibility Study. Four column tests were used to estimate recoveries, one for each of the following major rock types at the Johnson Camp Mine: Abrigo, Bolsa Quartzite, Pioneer Shale, and the Diabase formations (see Description of Property Johnson Camp Property Geological Setting and Mineralization).

Thus, expressed as a formula:

[(A ÷ B) X C] = D

Where:

A is the acid soluble assay;

B is total copper assay;

C is the acid soluble recovery for an ore type; and

D is the total copper recovery for that ore type.

A reserve estimate based on total copper is an indirect measurement of the amount of copper that is metallurgically available for recovery. Accordingly, there is a risk that we may have over-estimated the amount of recoverable copper. (See Risk Factors Risks Related to Our Company .)

Historic Copper Production

From 1975 to 1986, Cyprus mined approximately 15 million tons of ore grading approximately 0.4 percent acid soluble copper from the Burro pit. In addition, approximately 12 million tons of waste rock was produced. All ore placed on the heaps was run-of-mine (that is, not crushed). In total, approximately 107 million pounds of cathode copper were produced by SX-EW methods.

Cyprus used a variety of analytical techniques to determine acid soluble copper grades during its operation of the Johnson Camp property and the copper grades for ore placed for leach were reported as acid soluble copper. Recovery of copper by Cyprus totaled 80 percent of the acid soluble copper grade placed on the leach pads. After the closure, Cyprus dismantled the SX-EW plant and moved the plant to another mine. Cyprus continued to maintain ownership of the Johnson Camp property until 1989, when it sold its holdings in the district to Arimetco.

In mid-1990, Arimetco constructed a new SX-EW plant on the Johnson Camp property, and rehabilitated the leach systems on the existing Cyprus pads and the collection, raffinate, and plant feed ponds. Arimetco resumed mining in the Burro pit in 1991, and made further improvements to the facility between 1993 and 1996. Arimetco began limited open pit mining from the Copper Chief deposit in 1996, and continued mining in both the Burro and Copper Chief deposits until 1997 when production was terminated. Ore placed on the heaps from 1991 through 1995 was run-of-mine (not crushed).

In 1996, based on metallurgical testing it conducted, Arimetco added a crushing plant to reduce the particle size of ore placed on the heaps in an effort to improve recoveries. The metallurgical test work indicated improved recoveries from crushed ore (see Description of Property Johnson Camp Property - Metallurgical Test Work). We believe that the initial results from leaching of crushed ore placed on a new liner system installed by Arimetco were an increase in leach solution copper grade and an improvement in recoveries to the point where they matched the metallurgical test work performed on certain ore at a similar crush size. However, crushed ore represented less than 25 percent of the total ore that Arimetco had under leach. In the updated feasibility study, Winters Dorsey concluded that these operating results, along with the column leach test results, clearly support the need to crush the ore to obtain reasonable recoveries under heap leach conditions.

Production by Arimetco between 1991 and 1997 for the Burro and Copper Chief pits totaled approximately 16 million tons of ore grading approximately 0.35 percent total copper and 12 million tons of waste, primarily from the Burro pit, producing approximately 50 million pounds of cathode copper. Arimetco achieved recoveries of approximately 43 percent of the total copper grade from mostly uncrushed ore placed on the heaps. Arimetco was unable to continue mining operations beyond mid-1997 due to financial difficulties.

The soluble copper assay techniques used by Arimetco for ore grade estimation are not directly comparable to the soluble copper assay techniques used by Cyprus. Arimetco recoveries were calculated based on total copper assays. The use of two different assay techniques by Cyprus and Arimetco could have led to inconsistencies in or the skewing of the data underlying our estimates, thereby increasing the risk of an overestimation of ore reserves at Johnson Camp Mine (see Risk Factors- Risks Related to Our Company).

The Johnson Camp Mine is not currently a producing mine. Historical data is presented for general information and is not indicative of existing grades or expected production. Reports on past production vary. The past production from pits on the Johnson Camp Mine, as reported by Cyprus and Arimetco, is tabulated below:

Historic Copper Production Statistics

Cyprus

Year	Tons Ore to Pad[1]	Soluble Copper Grade %	Contained Soluble Copper	Lbs. Copper Shipped
1975	2,132,260	0.496	21,152,019	6,143,024
1976	1,821,476	0.357	13,005,339	10,059,807
1977	1,563,030	0.399	12,472,979	10,327,424
1978	1,202,500	0.426	10,245,300	10,205,142
1979	1,588,400	0.522	16,582,896	10,032,003
1980	1,499,600	0.411	12,326,712	10,320,407
1981	1,551,500	0.470	14,584,100	10,693,485
1982	1,894,700	0.322	12,201,868	9,702,272
1983	1,962,600	0.504	19,783,008	9,717,616
1984	52,100	0.713	742,946	8,803,361
1985	0	0	0	6,200,836
1986	0	0	0	4,854,796
Total	**15,268,166**	**0.436**	**133,097,167**	**107,060,173**

(1) Ore production run-of-mine (not crushed).

Arimetco

Year	Tons Ore to Pad	Total Copper Grade %	Contained Total Copper	Lbs. Copper Shipped
1991[1]	750,100	0.340	5,100,680	5,549,725
1992[1]	2,516,320	0.480	24,156,672	8,156,435
1993[1]	3,259,320	0.340	22,163,376	7,386,504
1994[1]	2,719,690	0.290	15,774,202	5,618,012
1995[1]	2,995,592	0.290	17,374,434	6,345,518
1996[2]	3,084,254	0.350	21,589,778	9,921,576
1997[2]	1,254,971	0.370	9,286,785	4,747,995
1998	0	0	0	2,181,304
Total	**16,580,247**	**0.348**	**115,445,927**	**49,907,069**

(1) Ore production run-of-mine (not crushed).

(2) Less than twenty-five percent of ore under leach was crushed to a nominal size of 3 inches.

The following table contains a breakdown of the actual copper cathode production for Johnson Camp Mine since we have owned the Johnson Camp property (the production was accomplished by our then subsidiary, Nord Copper Company):

Nord

Year	Lbs. Copper Shipped[1]
1999	672,004
2000	1,632,245
2001	1,133,914
2002	495,494
2003	556,388
Total	**4,490,045**

(1) All copper production derived from existing heaps by residual leaching. There was no new ore mined and placed on the heaps during 1999-2003.

The following table shows the total pounds of copper shipped from the Johnson Camp Mine:

Total Pounds Copper Shipped	
Cyprus	107,060,173
Arimetco	49,907,069
Nord	4,490,045
Total:	161,457,287

Drilling

The initial drill hole database for the Johnson Camp Mine consists of a total of 293 drill holes totaling 90,418 feet. Of these, 142 drill holes are contained in the Burro pit area and 151 drill holes are contained within the Copper Chief pit area. This database includes 12 confirmation diamond drill holes in the Burro and Copper Chief pit areas totaling 5,793 feet that were completed by Summo in 1998.

Drilling Summary
Burro & Copper Chief Pit Area

Company	Years	Core Drilling, feet	Reverse Circulation Drilling, feet	Rotary Drilling, feet	Total Drilling, feet	Assay Method
Cyprus	1961-1982	49,724	0	13,257	62,981	CuT, CuS, BRC[1]
Arimetco	1991-1993	2,874	25,618	0	28,492	CuT, CuS[2]
Summo	1998	0	5,793	0	5,793	CuT
Totals		**52,598**	**31,411**	**13,257**	**97,266**	

(1) Cyprus used bottle role composite recovery (BRC) tests in addition to total copper (CuT) and soluble copper (CuS) assay tests on certain drill hole samples.

(2) Soluble copper assay techniques by Arimetco were not comparable to the soluble copper assay techniques used by Cyprus because Arimetco wanted to estimate the ultimate recoveries that may be experienced in the heaps.

From October 1999 to January 2000 we conducted four exploration drilling programs using reverse circulation drilling in areas of the Johnson Camp property other than the Burro and Copper Chief deposit

areas. Forty-three holes were drilled in the North area (above the Copper Chief), 17 holes were drilled in the Keystone area about one-half mile south of the Burro pit, a deep hole was drilled in the area between the Burro pit and the Copper Chief pit, and three condemnation holes were drilled in the area of our planned future leach pad and plant. Although certain drill results achieved in these four exploration drilling programs were encouraging, we found no copper mineralization that could be classified as reserves as a result of these programs.

Projected Copper Production from Existing Leach Pads

In 1999 we conducted a limited drilling program to evaluate actual copper content of the existing heaps. The drilling program was conducted to provide an estimate of the copper values in the heaps, but cannot be considered a definitive measure of copper in the heaps. Based on estimated heap tonnages, there are approximately 75 million pounds of acid soluble copper remaining in the heaps, of which 11.3 million pounds is projected to be produced over the initial six years of the project. The following chart contains the actual copper cathode production for Johnson Camp Mine during the years indicated:

Year	Production
2000	1,632,245 lbs
2001	1,133,914 lbs
2002	495,494 lbs
2003	556,388 lbs
Total	3,818,041 lbs

The above production was achieved by our company with a significant portion of the heap area not under leach and little or no sulfuric acid makeup to the available leach solution.

Using the time that each dump had been under leach, the estimated feed grade, the estimated recovery to date, and the limit of 80 percent maximum total copper recovery, a shrinking core leaching model was used to predict ongoing copper production as leaching of the existing, old dumps continues. The results of this modeling effort project that the residual copper production from the old heaps is as follows:

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Lbs Cu (1,000)	2,275	2,600	1,600	1,600	1,600	1,600

Winters, Dorsey has concluded that the shrinking core model projection provides a reasonable estimate of future production from the existing dumps at the Johnson Camp Mine.

There has not been any additional drilling in the Burro and Copper Chief deposits since the 2000 feasibility study, and we have not conducted any other exploration programs (see Description of Property Johnson Camp Property Drilling).

Resource Model

In Winters, Dorsey s opinion, the resource model and estimates used as the basis for the updated feasibility are appropriate and reasonable, and are in accordance with SEC Industry Guide 7. There has not been any additional resource drilling or mining in the Burro and Copper Chief deposits since the 2000 feasibility study.

The information required to construct and validate the resource model was initially provided by Summo in 1998 and 1999. The information including an electronic drill hole database that Summo had obtained from Arimetco, rock density data and various historical production data, along with supplemental information that facilitated the estimation of soluble copper values. The information also included copper

assay values from the twelve confirmation drill holes that Summo drilled in the Copper Chief and Burro deposits as part of its due diligence efforts (see Description of Property Johnson Camp Property Drilling). This data was compared to earlier adjacent drill hole results, and to validate locally the block model copper grade estimate.

In comparing the block model resource estimates to historic production at the Johnson Camp property, we note that the block model produced results that were comparable to historic mined tonnage and grade factors in areas of past mining. This close comparison suggests that the resource model is reasonable in the area of past mining.

Copper grade reconciliation proved to be more difficult to analyze since the reported Cyprus and Arimetco copper grades were stated in different units (acid soluble copper and total copper, respectively). However, it is possible to calculate total copper grade for the Cyprus mine production, and it can be observed that there is close agreement between the two data sets.

Data Verification

As indicated above, the electronic database that Summo had obtained from Arimetco was used for resource modeling and estimating. Arimetco used its electronic database for mine planning and ore reserve estimation. The electronic database contained all of the Johnson Camp drill hole data collected by Cyprus and Arimetco, but was not verified at the time it was provided by Summo by inspection of available core and check sampling. Summo elected to deal with the verification and confirmation issue by drilling 12 confirmation holes in total in the Copper Chief and Burro deposits (see Description of Property Johnson Camp Property Drilling) and by reliance on agreement between historical production and historical ore reserve projections. In addition to the confirmation drilling and historical methods, Summo took samples from the Burro and Copper Chief pits for metallurgical testing (see Description of Property Johnson Camp Property - Metallurgical Test Work).

Limited Inspection and Check Sampling by Winters, Dorsey, January and February 2006

Typically, verification work does not include an exhaustive check sampling program whereby all the samples are submitted for re-assay, and only a random re-sampling of the available drill holes is conducted. In January 2006, at our direction, Winters Dorsey undertook a limited inspection and check sampling of remaining drill core as an additional means to verify the electronic database. Our geologist and a geologist from Winters Dorsey visited the Johnson Camp Mine and initiated a random sampling program of available drill core sample intervals in order to compare the assays of the Winters, Dorsey samples with prior assays of the same intervals done during previous exploration drilling work.

Winters, Dorsey sampled a total of 17 drill cores that we had in storage, all of which were taken from holes located within the pit design contained in the 2000 feasibility study. Winters, Dorsey also sampled one Arimetco hole which was not in the electronic database. A total of 18 samples (11 from the Copper Chief pit and 7 from the Burro pit), representing 130 feet of existing drill core, were gathered. All of the intervals represented mineralization still remaining in place. All 18 samples were delivered to Skyline Laboratory in Tucson, Arizona on January 20, 2006, where they were assayed for total copper, acid soluble copper, and cyanide soluble copper.

For the Copper Chief deposit, the average of the total copper assays in the electronic database were in close agreement with the samples taken by Winters, Dorsey. On an individual basis, there were significant differences in six holes between the total copper assays in the electronic database and the Winters Dorsey samples. In the case of the Burro pit, the total copper assays in the electronic database were in close agreement to the total copper assays of the Winters, Dorsey samples, and the acid soluble assays in the electronic database were relatively close to those of the Winters, Dorsey samples.

In contrast, the soluble copper assays completed by Arimetco were very different from the acid soluble copper assays of the Winters, Dorsey samples. Winters, Dorsey concluded that this difference may be attributed to use by Arimetco of soluble copper assay techniques that are not directly comparable to those used on the Winters, Dorsey samples.

Winters, Dorsey concluded at the time that although the limited sampling work completed in January and February 2006 shows good correlation on average to the existing electronic database, it is not possible at this time to verify the entire original drill hole database used for the current mineral resource model and ore reserve estimates because of the following reasons: (i) missing core for the Arimetco drilled holes; (ii) missing or incomplete original logs for the Arimetco drilled holes; (iii) missing core and cuttings for the Cyprus Mines Corporation drilled holes; (iv) check assaying of old reverse circulation drill cuttings for acid soluble copper may be of limited value due to oxidation over the years they have been in storage, and (v) there are no acid soluble copper assays against which to compare the acid soluble assays of the Winters, Dorsey s samples. (See Risk Factors Risks Related to Our Company.) Winters, Dorsey noted that lack of core and cuttings from old drilling is not an unusual situation in the mining industry.

Examination of Additional Drilling Records, April 2006

In April 2006, we located a large amount of additional drilling records at the Johnson Camp Mine, which included geologic logs of drill holes by Cyprus and Arimetco and assay reports on samples of drill core and cuttings. We asked Winters Dorsey to inspect these drilling records as an additional verification to the electronic database. Winters Dorsey determined that the electronic database contained all of these additional drill holes as well as some Cyprus and Arimetco holes for which the logs could not be located. In their verification activities, Winters Dorsey concentrated mainly on Arimetco holes (86 holes totaling 25,468 feet of drilling).

Cyprus, Arimetco, and Summo all used outside, reputable commercial laboratories for assaying of the drill core sample intervals that were checked by Winters, Dorsey. Winters, Dorsey confirmed that the relevant Arimetco and Summo logs pertaining to such assayed drill core sample intervals were accompanied by signed assay certificates from each laboratory used. Winters, Dorsey further confirmed that the values from the assay certificates were in fact the values contained in the electronic database.

Cyprus drill core samples were taken predominantly through core drilling, which provides the most accurate drill hole sample.

Winters, Dorsey noted that Summo s logging details are good for the 12 confirmation reverse circulation holes. However, it does not appear that Summo carried out sample quality assurance and quality control for the reverse circulation drilling. Therefore, Winters, Dorsey could not determine how representative Summo s reverse circulation samples were, although Winters, Dorsey stated they had no reason to question the quality of Summo s reverse circulation samples.

Winters, Dorsey concluded that the overall quality of Arimetco s drilling logs is sufficient for an experienced geologist to interpret them. Winters, Dorsey noted that the drill hole log forms were not completed in ink, and the log forms did not include core recovery figures for the core holes. Almost 89 percent of the drilling Arimetco carried out representing approximately 23 percent of the total project drilling carried out by Cyprus, Arimetco, Summo and our company was reverse circulation drilling, but the relevant drilling logs did not contain any record of sample quality assurance and quality control being carried out. Therefore, Winters, Dorsey could not determine how representative Arimetco s reverse circulation samples were. However, virtually all the Arimetco drilling was logged and sampled by the same geologist which indicates continuity of the geologic work. Winters, Dorsey did review the associated assay laboratory drill hole sample records which indicated custody of the samples was maintained by the Arimetco project geologist, consistent with standard operating procedure at the time the drilling work was carried out.

Interview With Cyprus Geologist, May 2006

Cyprus had their samples assayed at a laboratory in Tucson, Arizona, or in their own on-site laboratory at the Johnson Camp Mine. In May 2006, Winters, Dorsey met with the geologist who was responsible for much of the drilling, logging and sampling of many of the Cyprus drill holes which are in the electronic database. As a result of that meeting, Winters, Dorsey was able to confirm that the sampling procedure used by Cyprus met industry standards in place at the time it was completed.

Winters, Dorsey s Conclusion

The electronic drill hole database was relied upon by Winters, Dorsey in the updated feasibility study to estimate ore reserves. Therefore, the validity of the estimates assumes the accuracy of the underlying electronic database. The purpose of the random sampling program of available drill core sample intervals was to compare the assays of the Winters, Dorsey samples with prior assays of the same intervals done during previous exploration drilling work. Winters, Dorsey concluded that while the electronic database cannot be verified other than by further drilling, it reflects the geology and assays in the logs of the Cyprus and Arimetco drill holes. (See Risk Factors Risks Related to Our Company.)

Summary

In summary, there have been four separate levels of data verification that have been completed by prior operating companies and others at the Johnson Camp Mine in evaluating the geological, drill hole, and assay database. Each major category or level of data verification provides a measure of confidence in the database. Taken in aggregate, all four categories provide corroboration and thus a higher degree of confidence in the data. The categories are:

- Individual inter-company verifications Cyprus conducted their drilling and assaying with both internal and external check assay procedures for data verification, and had samples assayed at more than one external laboratory for both total and acid-soluble copper. While Arimetco did not have the same quantity of internal or external check assays, Arimetco also used a reputable independent laboratory.
- Intra-company verifications Notwithstanding that Arimetco s soluble copper assaying techniques was not directly comparable to the soluble copper assaying techniques used by Cyprus, Arimetco s drilling and assaying work generally confirmed the prior drilling and assaying work undertaken by Cyprus. In addition, Summo, in evaluating the Johnson Camp Mine prior to our ownership, conducted drilling and assaying work that confirmed the work of Cyprus and Arimetco.
- Third party reviews The updated feasibility study is an example of a third party review.
- Mine-to-deposit model production reconciliations A comparison of total historical production with the resource model indicates both tonnage and grade to be within approximately 0.8% of the combined Cyprus and Arimetco production. This represents a close correlation between the historical production and the resource model used in the updated feasibility study.

All four levels of data verification have shown only minor database errors. Winters, Dorsey have concluded that the minor database errors are within acceptable levels, and have no reason to believe that the Johnson Camp resource database does not accurately reflect the drill logs.

Metallurgical Test Work

Metallurgical testing was completed in two programs. The first was authorized by Arimetco in May 1995 and was completed at an independent laboratory. The two ore samples that were subjected to testing were collected at the Johnson Camp Mine by Arimetco personnel and consisted of, respectively, approximately 2,000 pounds of run-of-mine schist/shale ore and 8,500 pounds of run-of-mine diabase ore.

Seven column tests were used to evaluate the influence of crush size on copper extraction and each ore was tested at a nominal crush size of three inches and a nominal crush size of one inch. The results of the tests showed that when leached for 60 days, crushing the ore significantly increased the copper extraction for both sizes of crushed ore. The ore was still leaching copper when the test program was stopped at 60 days.

The second test program was authorized by Summo in August 1998 and was completed at another independent laboratory. Summo personnel collected the bulk ore samples from the Burro and Copper Chief pits. The locations of the bulk samples were based on preliminary channel sampling. The rock types chosen for sampling from the Burro pit included Lower Abrigo Formation, Bolsa Quartzite, and two types of diabase ore. Only a bulk sample of oxidized diabase was obtainable to represent the Copper Chief ore, but a study of polished mineralogical sections prepared from core and/or reverse circulation drill cuttings indicated that the diabase samples taken from the Burro pit were representative of the diabase material contained in the Copper Chief deposit.

Copper mineralogy varies within the deposits. In the Burro Pit, approximately 76% of the total estimated ore reserve tonnage is located above a depth of 4,560 feet in a zone dominated by the copper oxide minerals chrysocolla and malachite. Some native copper has been observed disseminated throughout this range. In addition to copper oxide mineralization, copper sulfide mineralization is evident below an elevation of 4,600 feet in a mixed zone . Sulfide minerals, which typically convert to oxides on exposure to oxygen, are not as amenable to heap leach copper recovery techniques as oxides. Accordingly, we believe that approximately 24% of the ore reserve in the Burro Pit could exhibit reduced copper recovery due to the presence of copper sulfide mineralization.

In the Copper Chief Pit, the oxide copper mineralization is similar to that of the Burro Pit. The entire Copper Chief Pit ore reserve is located above the 4,560 elevation in the zone dominated by the copper oxide minerals chrysocolla and malachite. We do not expect that the recovery of copper from this deposit will be materially affected by sulfide mineralization.

In summary, for the total project, approximately 85% of the ore reserves are located above the 4,560 elevation in the zone dominated by the copper oxide minerals chrysocolla and malachite. Approximately 15% of the total ore reserves could exhibit reduced copper recovery due to the presence of copper sulfide mineralization.

The bulk samples for the Summo metallurgical testing were taken from several areas of the Burro and Copper Chief Pits, with all sample locations above the 4,560 foot elevation in the zone dominated by the copper oxide minerals chrysocolla and malachite. The assay results for the Abrigo formation sample taken from an elevation of 4,620 feet, however, indicated a sulfide content of 4.49% . This suggests that the leaching of copper from ore mined at this elevation may be less than optimal.

The Summo test work initially consisted of five columns, each containing 135 kilograms (approximately 298 pounds) of ore, taken from five ore samples of approximately 1,000 pounds each. Some problems were encountered with the first five columns, however, so an additional six columns were prepared and tested. All column tests were conducted at a nominal crush size of one inch based on the results from the Arimetco program, except one which was done at a nominal crush size of ½ inch.

The forecasted recoveries of copper that were relied upon by Winters, Dorsey in preparing the updated feasibility study are based on the column tests and are dependent on the crushing of the ore to a nominal size of one inch. The Arimetco test program indicated the importance of this parameter. Cyprus operated Johnson Camp Mine was for a run-of-mine operation whereby non-crushed ore was placed on the leach pads. Arimetco also ran the Johnson Camp Mine as a run-of-mine operation until late 1995, when it began crushing the ore to approximately 3 inches. Our current copper recovery estimates provide for

extracting 74 to 81 percent of the total copper content of the ore mined, depending on ore type and with crushing to a nominal size of one inch.

According to Cyprus records, it achieved copper extraction of up to 80 percent of the acid soluble copper from uncrushed, run-of-mine material. However, the Arimetco operation, which leached new run-of-mine ore, old Cyprus run-of-mine ore, and 4.3 million tons of ore reported to have been crushed to a nominal size of three inches, achieved copper recovery (from 1991 through 1998) of 43 percent of total copper. Arimetco s records do not distinguish between copper extracted from old Cyprus material, new run-of-mine ore, and new crushed ore.

In the updated feasibility study, Winters, Dorsey reviewed the metallurgical test work and concurred with the metallurgical recovery estimates. As indicated above, however, the increase in projected copper recovery rates over the historic copper recovery rates is premised on ensuring that the ore is crushed to a nominal size of one inch prior to being placed on the leach pads. This is consistent with Arimetco s initial results from leaching of crushed ore placed on a new liner system namely, an increase in leach solution copper grade and an improvement in recoveries to the point where they matched the metallurgical test work performed on certain ore at a similar crush size.

In summary, our expectations with respect to copper recovery rates significantly exceed historical experience at the Johnson Camp Mine, as we plan to crush the ore to a smaller size with the view to increasing leaching efficiency. We believe that our expectations are reasonable, given our view that Cyprus and Arimetco placed uncrushed or improperly crushed ore on the leach pads, which resulted in differing recovery projections and rates. However, there can be no assurance that we will be able to meet these expectations and projections at an operational level. (See Risk Factors Risks Related to Our Company.)

We caution that copper recovery rates for ore anticipated to be mined below the 4,560 foot elevation (approximately 15% of estimated total ore reserves) may be inhibited due to the presence of copper sulfide mineralization. In addition, although the column test on the sample of Abrigo ore which contained 4.49% sulfides exhibited good copper recoveries (as shown in the table below under the subheading Recovery Curves), the leaching of copper from ore mined below this elevation may be less than optimal.

Recovery Curves

A summary of the recovery curve projections for the Copper Chief and Burro deposits is shown below. A recovery curve is essentially the amount of the copper projected to be recovered over time, expressed as a percentage of the total copper contained in a particular ore type.

The projected recoveries are based on column tests using best industry practices at the time of estimation and extrapolation. Four column tests were used to estimate recoveries, one for each major rock type (see Description of Property Johnson Camp Property Geological Setting and Mineralization). However, these projections have been prepared on the assumption, which cannot be assured, that the samples tested are representative of the entire deposit, not only with respect to ore grade and copper mineralogy, but also general leaching characteristics of the ores such as fines or clay content. The reliability of the recovery estimates is also limited by the small sample size that has been used to forecast the overall ore body recovery; the projected final copper recoveries for the deposit are merely extrapolations from the laboratory test program.

Month	Recovery (Cumulative Percent) Rock Type			
	Burro Pit Diabase	Copper Chief Diabase	Shale and Bolsa	Abrigo
1	42.0	33.5	34.5	58.0
2	55.0	45.5	47.0	65.0
3	63.0	53.5	55.0	70.5
4	68.0	59.0	61.0	74.0
5	71.0	61.5	64.5	76.0
6	75.0	65.0	67.5	77.8
7	76.0	66.5	69.0	78.5
8	77.0	68.0	70.0	79.0
9	77.5	69.0	71.5	-
10	78.0	70.0	72.5	-
11	78.5	70.7	73.3	-
12	79.0	71.3	74.0	-
13	79.5	72.0	74.5	-
14	80.0	72.6	75.0	-
15	80.5	73.3	75.5	-
16	81.0	74.0	76.0	-

Mineral Reserve Sensitivity

Winters, Dorsey used the mine design from the 2000 feasibility study, and tested it with an estimated production rate of 25 million pounds per year and operating and capital cost estimates as of the third quarter of 2005. In the updated feasibility study, Winters, Dorsey ran Lerchs-Grossman shells and compared the pit shell volumes to the volumes of the previous pit designs. The following table is a summary of Winters, Dorsey s results, and is included to illustrate the sensitivity of the pit shells to copper price.

Lerchs-Grossman Pit Shell Reserves at Various Copper Prices*

	Proven & Probable Ore		Dump	Other Waste	Total Waste	Total Material	Strip Ratio
Base case	**Tons (000)**	**Total Copper %**	**Tons (000)**	**Tons (000)**	**Tons (000)**	**Tons (000)**	**Waste:Ore**
$0.90/lb Copper							
Burro	32,125	0.389	2,292	11,470	13,762	45,887	0.43
Copper Chief	14,920	0.357		8,682	8,682	23,602	0.58
Total	47,045	0.379	2,292	20,152	22,444	69,489	0.48
$0.95/lb Copper							
Burro	35,492	0.378	2,735	13,214	15,949	51,441	0.45
Copper Chief	16,742	0.348		10,019	10,019	26,761	0.60
Total	52,234	0.368	2,735	23,233	25,968	78,202	0.50
$1.00/lb Copper							
Burro	36,873	0.372	2,874	13,465	16,339	53,212	0.44
Copper Chief	24,168	0.334		19,692	19,692	43,860	0.81
Total	61,041	0.357	2,874	33,157	36,031	97,072	0.59
$1.05/lb Copper							
Burro	41,301	0.371	5,446	20,183	25,629	66,930	0.62
Copper Chief	27,842	0.321		22,071	22,071	49,913	0.79
Total	69,143	0.351	5,446	42,254	47,700	116,843	0.69
$1.10/lb Copper							
Burro	42,972	0.369	6,206	22,177	28,383	71,355	0.66
Copper Chief	30,407	0.312		23,599	23,599	54,006	0.78
Total	73,379	0.345	6,206	45,776	51,982	125,361	0.71

Note:

* The projected results disclosed in this table are based on four leach column tests and are therefore inherently less accurate than if our company had chosen to complete a more extensive leach testing program.

Pit Design

Winters, Dorsey found that the 2000 pit design was smaller than the pit indicated by current Lerchs-Grossman pit shells. Therefore, it is a conservative design for the current production rate and cost estimates. Winters, Dorsey concluded that after pit optimization is done and a new pit is designed, the open pit reserve estimates would probably increase.

Processing

Copper production is anticipated to originate from both an active leach program of newly mined ore and the residual leaching of the existing old dumps. Crushed leach ore will be placed on top of the old heaps for the first four years. Commencing in year five the remaining leach ore will be placed on the new pad, but rinsing will continue on the older pads until the pregnant leach solution (PLS) grade is too low for profitable processing. Our operating plan includes

mining, crushing the ore to a nominal size of one-inch, acidulating and drum agglomerating the crushed ore with sulphuric acid, and conveying the acidulated ore through a series of movable conveyors to the leach pads.

Winters, Dorsey examined the throughput capacity of the proposed crushing and conveying circuit and found that the equipment is adequate to meet the production goals. We have already purchased the

primary crushing station for use at Johnson Camp. Winters, Dorsey has also reviewed the SX-EW processing plant expansion plans to reach production of 25 million pounds per year, and believe the modifications are adequate to reach this target. In addition, Winters, Dorsey have evaluated the PLS solution pumping system and has determined that several of the solution pumps are adequate for the system with minor modifications, and that our heap loading plan is well conceived and manageable.

Solvent Extraction Electrowinning Plant Expansion

The existing electrowinning plant consists of an older section consisting of 56 cells, each containing 21 cathodes, and a newer section made up of 16 cells, each containing 36 cathodes. Our mine plan calls for the addition of a third set of cells (termed expansion) with 16 cells, as well as the addition of a new automated stripper to strip copper cathodes from the stainless cathodes. Other planned improvements included in the SX-EW modifications are a new cell house crane, a new boiler and associated heat exchanger, a new set of electrolyte filters, a clay filter press, and an upgrade to the transformer. In addition, new pumper-mixers, a crushing system, and a sulphuric acid storage tank, will be installed. These improvements will augment the many modifications that have already been made to the original plant**.** In addition, a new leach pad, a new combined PLS-intermediate leach solution pond (ILS) and a storm water pond are to be constructed in an area northeast of the existing plant facilities during year four.

Production Schedule

In the updated feasibility study, Winters, Dorsey developed yearly mine schedules by pit, by ore type, and by total copper grade, and the projected recovery curves for each ore type were applied to the appropriate ore type. (See Description of Property - Johnson Camp Property - Recovery Curves). A monthly ore placement and copper recovery was developed from the yearly data by dividing yearly values by twelve. Winters, Dorsey estimated overall copper production using the monthly tons of ore placed, the ore type, the ore grade, and timed recovery curves. This data was also used to determine leach area available and to calculate required leach solution flow rates and resulting copper concentration of leach solution grades. In the production schedule as set out below, Winters, Dorsey assumed that ore placed one month would not be leached until the subsequent month and that copper cathode would not be produced from the resulting leach solution until the third month.

Our proposed operations at the Johnson Camp Mine will derive their economic value from the production and sale of copper. The projected annual production volumes for the anticipated life of the mine are as follows:

Summary of Projected Production

		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Total
Ore mined	tons (000)	2,240	4,408	3,149	4,100	4,765	4,317	3,071	4,621	4,471			35,142
Ore grade	% TCu	0.271	0.364	0.544	0.385	0.312	0.397	0.558	0.356	0.382			0.393
Contained Copper	lbs (000)	12,163	32,133	34,292	31,610	29,780	34,319	34,302	32,947	34,202			275,748
Annual Recovery, ore mined [1]	TCu	38%	68%	68%	74%	79%	68%	73%	76%	73%			77%
Cathode Production													
Copper extracted from ore mined	lbs (000)	5,413	22,844	24,527	25,963	24,706	25,902	25,854	24,259	25,189	8,391	265	213,313
Copper from residual leach	lbs (000)	2,275	2,600	1,600	1,600	1,600	1,600						11,275
		(767)	(913)	(1,127)	(2,563)	(1,306)	(2,502)	(854)	741	(189)	5,708	3,772	

Change in copper inventory	lbs (000)											
Total	lbs (000)	6,921	24,531	25,000	25,000	25,000	25,000	25,000	25,000	25,000	14,099	4,037	224,588

Note

(1) Copper in ore mined in a given year may not be recovered until the following year. Excludes copper from residual leach.

Project Feasibility

The updated feasibility study contains an economic assessment of the Johnson Camp Mine based on the mine plan included in the 2000 feasibility study, capital and operating estimates as of the third quarter of,

2005, and 36 month average copper prices ending on September 30, 2005 of $1.14 per pound. However, Winters, Dorsey did not redesign the open pit phases used in the 2000 feasibility study, but instead investigated the economic viability of the 2000 designs at third quarter 2005 costs, a higher copper production rate and a copper price of $0.90 per pound. The copper price of $0.90 per pound reflects our view of the long-term price of copper at the commencement of the 2005 feasibility study. We instructed Winters, Dorsey to use a three-year trading average copper price of $1.14 per pound in our economic assessment in compliance with SEC guidelines.

The economic assessment was developed by Winters, Dorsey, using a production schedule derived from reserve estimates. Because the estimated reserves are based on a copper price of US$0.90 per pound that is lower than the current market price, the economic assessment should be viewed as subject to change.

The table below includes a summary of production, cash operating costs, and capital costs estimated for the life of the Johnson Camp Mine as of September, 2005. The mine production includes the combined annual mine production schedule for the Burro and Copper Chief open pits. The operating costs represent the costs for contractor mining of both the ore and waste (as we plan to use a mining contractor to mine both the Burro and Copper Chief deposits, but our own employees for other activities), crushing and conveying, leaching, solvent, extraction and electrowinning, and plant auxiliary costs. The total cash operating costs shown in the table below are the sum of all administrative, operating and property and severance tax costs. Finally, the table includes the capital cost estimate for the life of the operations at the Johnson Camp Mine. The first year s capital cost is estimated to be $20.495 million including approximately $17.946 million for initial plant cost.

Production, Operating and Capital Costs
for the Johnson Camp Mine

	Production Ore mined tons (000)	Operating Costs, Excluding Delivery $(000)[1]	Capital costs $(000)[1]
Year 1	2,240	8,060	20,495
Year 2	4,408	18,052	53
Year 3	3,149	14,445	58
Year 4	4,100	19,776	8,603
Year 5	4,765	18,979	68
Year 6	4,317	15,634	2,168
Year 7	3,071	12,571	78
Year 8	4,621	18,875	78
Year 9	4,471	17,046	438
Year 10	-	4,497	53
Year 11	-	2,406	43
Year 12	-	25	1,483
Year 13	-	25	1,483
Total	35,142	150,391	35,101

(1) Cost estimates as of September 2005.

Royalty Obligations

Copper metal produced from Johnson Camp Mine is subject to a $0.02 per pound royalty payable to Arimetco when copper prices are in excess of $1.00 per pound. The royalty is capped at an aggregate of $1 million.

United States Mining and Environmental Laws

Arizona State Mining Laws

Mining in the State of Arizona is subject to federal, state and local law. Three types of laws are of particular importance to the Johnson Camp property: those affecting land ownership and mining rights; those regulating mining operations; and those dealing with the environment. All of the Johnson Camp mining operations are located on private land including both patented mining claims and fee simple lands.

Our exploration activities in the United States are subject to regulation by governmental agencies under various mining and environmental laws. The nature and scope of regulation depends on a variety of factors, including the type of activities being conducted, the ownership status of land on which the operations are located, the nature of the resources affected, the states in which the operations are located, the delegation of federal air and water-pollution control and other programs to state agencies, and the structure and organization of state and local permitting agencies. We believe that we are in substantial compliance with all such applicable laws and regulations. While these laws and regulations govern how we conduct many aspects of our business, we do not believe that they will have a material adverse effect on our operations or financial condition. We evaluate our projects in light of the cost and impact of regulations on the proposed activity, and evaluate new laws and regulations as they develop to determine the impact on, and changes necessary to, our operations.

The rights of mineral claimants on federal lands are governed by both the *Mining Law of 1872* and the mining claim location requirements of Arizona law. Under federal mining law, a mining claim may be patented and conveyed from the United States into fee ownership. An unpatented mining claim is a right of possession in the claimant to develop and mine federal lands and minerals owned by the United States. Mining claims are located in accordance with both state and federal law, which require notice by monumenting and registration with the county recorder; an annual affidavit showing monies spent on labor or improvements is required to maintain the claim. Congress has placed a moratorium on the processing of mineral patent applications filed after 1994.

Generally, compliance with environmental and related miner health and safety laws and regulations, including the federal *Mine Safety and Health Act*, requires us to obtain permits issued by regulatory agencies and to file various reports, keep records of our operations and respond to governmental inspections. Some permits require periodic renewal or review of their conditions and may be subject to a public review process during which opposition to our proposed operations may be encountered.

U.S. Federal and State Environmental Law

Our past and future activities in the United States may cause us to be subject to liability under various federal and state laws for the protection of the environment.

The *Comprehensive Environmental Response, Compensation, and Liability Act of 1980*, as amended (CERCLA), imposes strict, joint, and several liability on parties associated with releases or threats of releases of hazardous substances. Liable parties include, among others, the current owners and operators of facilities at which hazardous substances were disposed or released into the environment and past owners and operators of properties who owned such properties at the time of such disposal or release. This liability could include response costs for removing or remediating the release and damages to natural resources. Arizona s analogue to CERCLA, the *Water Quality Assurance Revolving Fund* (WQARF), imposes liability for releases of hazardous substances on parties similar to the CERCLA program. We are unaware of any reason why our undeveloped properties would currently give rise to any potential CERCLA or WQARF liability. We cannot predict the likelihood of future CERCLA or WQARF liability with respect to our properties or surrounding areas that have been affected by historic mining operations.

Under the *Resource Conservation and Recovery Act* (RCRA) and related state laws, including the *Arizona Hazardous Waste Management Act* (HWMA), mining companies may incur costs for generating, transporting, treating, storing, or disposing of hazardous or solid wastes associated with certain mining-related activities. Administration of the federal RCRA programs was delegated to Arizona and is handled through the HWMA. RCRA and HWMA costs may also include corrective action or clean up costs.

Mining operations may produce air emissions, including fugitive dust and other air pollutants, from stationary equipment, such as crushers and storage facilities, and from mobile sources such as trucks and heavy construction equipment. All of these sources are subject to review, monitoring, permitting, and/or control requirements under the federal *Clean Air Act* and related state air quality laws. The substantive requirements of the *Clean Air Act*, including permitting and enforcement of standards are administered by Arizona and its counties depending upon the size and nature of sources of air emissions. Air quality permitting rules may impose limitations on our production levels or create additional capital expenditures in order to comply with the permitting conditions.

Under the federal *Clean Water Act* and delegated state water-quality programs, point-source discharges into Waters of the United States are regulated by the National Pollution Discharge Elimination System (NPDES) program. Section 404 of the *Clean Water Act* regulates the discharge of dredge and fill materials into Waters of the United States, including wetlands. Discharges of pollutants to the groundwater is regulated by the state *Aquifer Protection Permit* Program, which sets standards for water quality discharges and requires permits for discharges. Storm water discharges also are regulated and permitted under that statute. All of those programs may impose permitting and other requirements on our operations. The delegation to Arizona of administration of the federal NPDES permitting program was recently voided by the Ninth Circuit Court of Appeals, and there is some uncertainty as to how future permitting will be handled. The federal *Pollution Prevention Act of 1990*, which implements the Community-Right-To-Know portions of CERCLA, may require us to file annual toxic chemical release forms.

The *National Environmental Policy Act* (NEPA) requires an assessment of the environmental impacts of major federal actions. The federal action requirement can be satisfied if the project involves federal land or if the federal government provides financing or permitting approvals. NEPA does not establish any substantive standards. It merely requires the analysis of any potential impact. The scope of the assessment process depends on the size of the project. An Environmental Assessment (EA) may be adequate for smaller projects which are found to have no significant impacts. An Environmental Impact Statement (EIS), which is much more detailed and broader in scope than an EA, is required for larger projects with significant impacts. NEPA compliance requirements for any of our proposed projects, such as federal approval of a mine plan involving more than five (5) acres per year on unpatented mining claims, could result in additional costs or delays. There is no Arizona law or state procedure comparable to the federal NEPA and the EA/EIS process. Although all current mine facilities on the Johnson Camp property are situated on private land, future exploration on the Johnson Camp property and our other properties may involve unpatented mining claims.

The *Endangered Species Act* (ESA) is administered by the U.S. Department of Interior s U.S. Fish and Wildlife Service. The purpose of the ESA is to conserve and recover listed endangered and threatened species of flora and fauna and their habitat. Under the ESA, endangered means that a species is in danger of extinction throughout all or a significant portion of its range. Threatened means that a species is likely to become endangered within the foreseeable future. Under the ESA, it is unlawful to take a listed species, which can include harassing or harming members of such species or significantly modifying their habitat. Arizona has similar laws protecting wildlife and native plants. We conduct wildlife and plant inventories as required as part of the environmental assessment process prior to initiating exploration projects. We currently are unaware of any endangered species issues at any of our projects that would have a material adverse effect on our operations. Future identification of endangered species or habitat in our project areas may delay or adversely affect our operations.

We are committed to fulfilling our requirements under applicable environmental laws and regulations. These laws and regulations are continually changing and, as a general matter, are becoming more restrictive. Our policy is to conduct our business in a manner that safeguards public health and mitigates the environmental effects of our business activities. To comply with these laws and regulations, we have made, and in the future may be required to make, capital and operating expenditures.

U.S. Federal and State Reclamation Requirements

We are subject to mine plan and land reclamation requirements under the *Federal Land Policy and Management Act* and the Arizona *Mined Land Reclamation* provisions, which are implemented through permits and operations and reclamation plans that apply to exploration and mining activities. These requirements mandate reclamation of disturbed areas and require the posting of bonds or other financial assurance sufficient to guarantee the cost of reclamation. If reclamation obligations are not met, the designated agency could draw on these bonds and letters of credit to fund expenditures for reclamation requirements.

Reclamation requirements generally include stabilizing, contouring, and re-vegetating disturbed lands, controlling drainage from portals and waste rock dumps, removing roads and structures, neutralizing or removing process solutions, monitoring groundwater at the mining site, and maintaining visual aesthetics. We believe that we currently are in substantial compliance with and are committed to maintaining all of our financial assurance and reclamation obligations pursuant to our permits and applicable laws.

Our Reclamation and Closure Plan

The previous owner of the Johnson Camp property, Arimetco Inc., had no reclamation or closure plans, nor is there a bond outstanding to perform reclamation and closure activities. Our reclamation plan will reclaim all mining disturbances occurring after 1987 to a level that will support the designated post-mining land use. Open pit mines are excluded from reclamation requirements; however, waste dumps, tailing piles, leach facilities, process water ponds, site buildings and roadways will require closure and reclamation. Our closure plan will present measures to be taken to prevent discharges of pollutants from the facility after operations cease, the methods that we will use to secure the facility, and any other measures needed to protect groundwater resources, including post-closure monitoring and maintenance as needed. We discuss our reclamation and mine closure plan in more detail under Status of Permits below.

Environmental and Permitting Issues

The Johnson Camp property has undergone mining activities for a period of over 125 years. Consequently a number of impacted areas exist on the site. When we acquired the Johnson Camp property, it included a number of conditions which constituted state environmental violations which we assumed from Arimetco Accordingly, in connection with the acquisition, we entered into a Consent Order in January 2001 with the Arizona Department of Environmental Quality (ADEQ). We agreed to upgrade and improve certain of the facilities and complete certain remediation activities at the Johnson Camp property by September 2000. On September 7, 2002, the ADEQ issued a Compliance Order to us indicating that our operation of the Johnson Camp Mine was in violation of certain aquifer protection laws, as well as the terms of our Consent Order and ordering us to bring the Johnson Camp Mine into compliance with the aquifer protection laws. We are allowed to produce copper from the Johnson Camp Mine while the Compliance Order is in effect (see Legal Proceedings).

In the updated feasibility study, Winters, Dorsey concluded that there are no environmental or permitting issues that would pose a barrier to the current development schedule. The Aquifer Protection Permit is in the last stages for approval/negotiation, as are some of the issues on closure and reclamation. Several of the closure issues are tied to the final Aquifer Protection Permit.

In addition to the rinsing costs in the last two years of the life of the Johnson Camp Mine, Winters, Dorsey has provided for $1,000,000 for closure and reclamation, which is net of any value received from selling the property assets. This $1,000,000 estimate includes the impact of future mining operations that may be conducted over the nine year life of the reserve estimates as contemplated by the updated feasibility study. Based on current understandings of what will be required by the regulatory agencies, Winters, Dorsey has concluded this value for closure is reasonable. In addition, we anticipate on-going sales from the aggregate resource could offset future closure costs.

Status of Permits

The development, operation, closure and reclamation of mining projects in the United States requires numerous notifications, permits, authorizations and public agency decisions. This section does not attempt to exhaustively identify all of the permits and authorizations that need to be obtained, but instead focuses on those that are considered to be the main efforts that are on the critical path for project start-up.

These are summarized in the table below:

Permit	Status
Compliance Order	Currently allows copper production from site. This will be superseded by the Aquifer Protection Permit when issued.
Air Quality Permit	We will require a new air quality permit from ADEQ for the Johnson Camp Mine. We will also require a new air quality permit from ADEQ for the screening plant for the landscape and aggregate rock operation. Estimated time to receive air quality permits is 3-6 months from time the application is submitted.
Hazardous Material Transport and Storage	None Required. Material Safety Data Sheets will be maintained on property.
Explosives Storage and Use	Mining Contractor will be responsible for use and storage of explosives.
Weights and Measures	Site is licensed by the Arizona Department of Weights and Measures for the weighing of cathode copper for shipment and sale.
Aquifer Protection Permit (APP)	Pursuant to the compliance order, we filed an APP application in July 2003 which was accepted by the Arizona Department of Environmental Quality (ADEQ). ADEQ responded to the application stating certain deficiencies needed to be corrected to allow for APP issuance. In September 2006, we filed a response to the noted deficiencies. ADEQ has our response under consideration.
Storm Water National Pollutant Discharge Elimination System	Permit number AZR05B377 issued on March 7, 2001 which authorizes us to discharge storm water. A Storm Water Pollution Prevention Plan will be further developed.
Water Supply	4 existing wells are permitted: Moore Mine (#36-66376), Republic Mine (#36-66377), Black Prince Mine (#36-66378) and Section 19 Well (#36-66379).

Permit	Status
Reclamation and Mine Closure Plan	Our proposed reclamation plan was preliminarily reviewed with the Arizona State Mine Inspector Office in November, 2003, and the Arizona State Mine Inspector Office gave us a 90-day extension to submit a reclamation plan. Pursuant to Arizona regulations, we have been requesting, and have been granted, an extension of the required submittal date for the reclamation plan every 90 days. We will not submit the reclamation plan until we have the APP permit finalized, and the reclamation plan will become part of the final APP. The reclamation plan is not required to reactivate operations at the Johnson Camp Mine as we are currently operating under the compliance order.

Landscape and Aggregate Rock Operation

In addition to reactivating the Johnson Camp Mine, we are also planning on expanding the existing decorative and structural stone operation on the Johnson Camp property. Our lease contract with JC Rock, LLC, the current operator of this operation, was extended and expires on April 30, 2007. We plan to take over the operation through Cochise Aggregates and Materials Inc., our wholly-owned subsidiary corporation, within the first year of bringing the Johnson Camp Mine into operation. Until that time, we plan to renew our contract with JC Rock on a short term basis.

We recently received a report, Decorative and Structural Stone Demand Study, Tucson Metropolitan Area and Pima, Pinal, and Cochise Counties, Arizona, January 6, 2006 completed by Stagg Resource Consultants, Inc. (the Aggregate Study). The Aggregate Study evaluated the potential for increasing the quantity of value added waste rock processing on the Johnson Camp property. We used the Aggregate Study to support certain projections in our financial analysis for the Johnson Camp Mine.

Stagg Resource Consultants estimates we can realize wholesale prices for the product in the range of $11.50 to $14.00 a ton free-on-board the mine site, based on the demand study conducted in the Tucson Metropolitan area and in Pima, Pinal and Cochise Counties, Arizona, indicating that: (a) retail prices of $28 to $32 per ton for similar product appear to be typical; and (b) in establishing the retail price for similar product retailers typically include a 100 percent mark-up of the wholesale prices free-on-board the production source (meaning that the retailer is responsible for the costs of transporting the product to the retail location) and their transportation costs. Stagg Resource Consultants have estimated that retailers trucking costs, as at January 2006, will be in the range of $4.00 to $5.00 per ton.

We are planning on building a new screening plant or buying the existing screening plant from JC Rock. We expect to incur initial capital costs of approximately $500,000 to acquire the screening plant, and an additional $100,000 in installation costs if we do not buy the existing screening plant from JC Rock. In addition, we must obtain an air quality permit from the Arizona Department of Environmental Quality (ADEQ) for the screening plant, whether we build a new screening plant or buy the existing one. (See Description of Property Status of Permits .) Our estimated capital costs are considered by Stagg Resource Consultants to be achievable, and are summarized below:

Summary of Forecast Capital Expenditures
20,000 Tons Monthly Production
Decorative Rock Facility - Johnson Camp Mine

Item		Cost[1]
Screening Plant		
Rip Rap Plant	$	144,420
Stackable Conveyor		42,400
Stackers		113,100
Screen Structure		56,500
Screen		49,380
Freight		4,094
Electrical Control Plant		105,457
Subtotal Screening Plant		515,351
Installation		100,000
Total Plant and Equipment	$	615,351

Notes:

(1) Forecasted as of January 2006.

Source: Stagg Resource Consultants

Projected operating costs for the landscape and aggregate rock operation are estimated to be approximately $93,874 per month or $4.69 per ton (based on projected monthly production of 20,000 tons per month). The following estimates of operating costs have been reviewed by Stagg Resource Consultants, who consider them to be achievable:

Summary of Forecasted Cash Operating Costs
20,000 Tons Monthly Production
Decorative Rock Facility - Johnson Camp Mine

Item		Monthly[1]		Per Ton[1]
Direct Operating Cost				
Labor	$	24,000	$	1.20
Power		1,898		0.09
Equipment Operation		54,600		2.73

Plant Maintenance	6,376	0.32
Sub-Total Direct	86,874	4.34
Sales and Administration	7,000	0.35
Total Operating Costs	**$ 93,874**	**$ 4.69**

Notes:

(1) Forecasted as of January 2006. Excludes: (a) anticipated leasing costs for mobile equipment; and (b) the costs of transporting the aggregate rock to retail locations, as the product is anticipated to be sold free-on- board the Johnson Camp property.

Source: Stagg Resource Consultants

In addition, we intend on leasing the required equipment such as front end loaders and a haul truck from a third party. We believe that our anticipated lease obligations will add approximately $10,000 to our projected monthly cash operating costs disclosed above (for total monthly operating costs of $103,874), or an additional $0.50 per ton (for total operating costs of $5.19 per ton), in each case based on our planned production level of 20,000 tons per month.

The landscape and aggregate rock operation is based on recovering and screening rock from existing and future mine waste dumps. We do not plan to crush any of the rock at this time, and we have not made any provision in our anticipated capital expenditures for the acquisition of dedicated crushing equipment. The rock being sold for landscape rock on the Johnson Camp property is bolsa quartzite, and is known in the market as Coronado Brown. We caused Cochise Aggregates and Materials, Inc. to certify Coronado Brown Landscape Rock as a trade name in the State of Arizona on July 15, 2005. In the Aggregate Study, Stagg Resource Consultants concluded that the Coronado Brown is one of the most desired materials for use in Arizona s Pima, Pinal and Cochise Counties (which includes the Tucson metropolitan area), as decorative and construction stone in landscaping. They estimated the current market for the product in these areas at approximately 20 thousand tons a month, and concluded that the market is expected to increase. Stagg Resource Consultants also concluded that a significant opportunity exists for the sale of additional material for further processing into a variety of sizes of construction aggregates.

Other Properties

In addition to the Johnson Camp property, we have options to acquire interests in three exploration stage projects, described in more detail below: Coyote Springs and the Texas Arizona Mines project, both located in Arizona; and Mimbres, located in New Mexico. We are planning to conduct preliminary exploration activities at the Coyote Springs and Mimbres properties to help us determine whether we should exercise the options, subject to the availability of sufficient financing for the exploration work. We do not believe that any of these properties are material to our overall operations at this time.

Coyote Springs

In January 2004, our company acquired an exclusive option from Thornwell Rogers, South Branch Resources, LLC, and MRPGEO, LLC to purchase the leasehold rights and mining claims located in the Safford mining district in Graham County, Arizona, described as Coyote Springs , consisting of two State of Arizona exploration leases and 52 unpatented mining claims. The Coyote Springs property is a porphyry copper-gold exploration target with exposed, surface copper oxides and considerable potential for deeper copper sulfides.

The Coyote Springs option provides that we may acquire the Coyote Springs project in exchange for (i) the issuance of certain shares of our company s common stock, as described below, to Thornwell Rogers, South Branch Resources, LLC, and MRPGEO, LLC in their respective capacities as the Coyote Springs owners; (ii) at the election of the Coyote Springs owners, the issuance of either 149,994 shares of common stock or $165,000 cash in the aggregate, to be paid in three annual installments of $50,010, $54,990 and $60,000 beginning in January 2006; (iii) the issuance of 99,999 stock options in each of January 2004, 2006 and 2008; and (iv) in January 2009, at the election of the Coyote Springs owners, payment of $1,600,005 cash or the equivalent value in shares of common stock. The stock options are to have an exercise price 15% below the value of our company s common stock on the date of grant, must be immediately exercisable, and are to expire 36 months following their respective grant dates.

During 2004, we issued 199,998 shares of common stock valued at $80,000, paid $22,500 in cash, and granted options to purchase an additional 99,999 shares of our common stock in conjunction with the Coyote Springs option. The stock options were valued at $39,453 under the fair value provisions of SFAS No. 123. As of December 31, 2004, the total consideration paid under the Coyote Springs option was $141,953.

During 2005, we issued an additional 86,538 shares of common stock valued at $22,500 in conjunction with the Coyote Springs option.

Pursuant to an amendment agreement dated January 27, 2006, the Coyote Springs owners agreed to accept an aggregate of $21,000 in cash and an aggregate of 83,844 shares of our common stock valued at $29,010, in satisfaction of the $50,010 payment due in 2006. We also issued 99,999 stock options to the Coyote Springs owners with an effective grant date of January 28, 2006 and an exercise price of $0.47 per share. As at December 31, 2006, the total consideration paid under the Coyote Springs option was $234,803.

In January 2007, we paid an additional $18,330 and issued 33,332 shares of common stock valued at $36,665 in conjunction with the Coyote Springs option.

The Coyote Springs option also provides fo