Copy : Richard

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Fife Symington, Governor Russell F. Rhoades, Director

Feb. 13, 1996

Mr. Dirk Den-Baars, Vice President
Keystone Minerals, Inc.
6318 East Hayne St.
Tucson, Arizona 85710

Dear Mr. Den-Baars,

This concerns our telephone conversation concerning the "unique waters" designation of Beuhman Canyon Creek being proposed by the Arizona Department of Environmental Quality as part of its Water Quality Standards triennial review. The Department is required to prepare an "Economic, Small Business and Consumer Impact Statement" (EIS) in compliance with the Arizona Administrative Procedures Act (§41-1052 et seq.) for rules that are sent to the Governor's Regulatory Review Council for approval.

In order to prepare the EIS, a cost-benefit analysis of the rule's impacts has to be made. In your letter to the Dept. dated Feb. 2, 1996, you stated that a copper deposit of economic importance lies in and near Beuhman Canyon, and that your company has an agreement with two Canadian mining companies to develop the property. In order for me to assess the economic impacts of the proposed rule, please supply me with information specific to the following items:

1. Size of the ore reserves and other pertinent information that will help identify the economic feasibility of the project.

2. Expected time frame of the project: when is the development expected to commence, and how many years would a project of comparable size to this one last? How many months or years after breaking ground would you expect your company to be fully operational and generating an income stream?

3. How many workers would the project employ and what types of occupations would be needed? Would the workers be hired from the Arizona labor pool, or would they be brought in from out of State? What would be their average annual wages?

4. What would be the initial capital requirements for the project? What is the company's expected average annual expenditures, and what percentages of the total would be broken down into a) management costs, b) labor costs, c) land acquisition costs, if relevant, d) equipment and other

material costs, e) borrowing costs , and f) all other costs. (Please ascertain that items a) to f) add up to 100%.)

5) What is the company's expected rate of return on investment?

6) Who would be the company's primary customers? Would they be other copper producers, manufacturers of finished products or consumers? Would you be selling essentially to customers within Arizona or to customers out of state? Do you anticipate exporting some or all of your production to other countries?

7) Please estimate as best you can what taxes your company, assuming it is fully operational, would be paying to the federal, state and local governments (if applicable). Also, please indicate whether these would take the form of corporate income taxes, excise taxes, royalties, etc..

The answers to these questions will be used for assessing the cost and benefit impacts of the rule. Hopefully, the feasibility study your company has commissioned will aid you in compiling the answers. Since the close of comment for this rule is Feb. 23rd, I would like to receive your reply by that date.

If you have any questions about the above or about the EIS, please give me a call. My phone no. is (602) 207-4435; and my fax no. is (602) 207-2251. And I look forward to hearing from you.

Yours Truly,

Mila H. Hill

Mila H. Hill
Economist

Cc. Steve Pawlowski
Richard Meyerhoff

Marsett and Associates
5031 N. Calle Tobosa
Tucson, AZ. 85749
Ph. (520) 760-1667

AZ DEPT. OF ENVIRONMENTAL QUALITY
MAR 11 1996
WATER QUALITY DIVISION

7 Mar. 1996

Mr. Richard D. Meyerhoff
Water Quality Standards Coordinator
Arizona Department of Environmental Quality
3033 N. Central Av.
Phoenix, AZ. 85012

Dear Mr. Meyerhoff:

This letter is in reference to the pending decision about weather or not to declare Buehman Canyon a unique water.

I have conducted a study of the area for the purpose of determining the dollar value of the water which is collected by the Buehman Canyon water shed. I used the Hydrography vector data from the Arizona State Land Office, The Digital Elevation Model from the U.S.G.S., Landsat Thematic Mapper Imagery, C.A.P. water rates, and local weather data.

My findings are: one that the Buehman Canyon water shed covers an area of 33,688 acres, two that the average rainfall for the past three years was 22.38 inches per annum, three that 62,828 acre feet of water are collected by the Buehman Canyon water shed per annum, and finally that at C.A.P. rates of no less than $20 per acre foot the annual value of this water is over **one and a quarter million dollars** ($1,256,560).

This only includes the water actually collected by Buehman Canyon stream and its tributaries. It should also be noted that any contamination of this water would have a serious effect on the San Pedro River, which is a significant resource in southern Arizona.

I hope this information is of value to you. If you have any questions please do not hesitate to contact me.

Sincerely,

Robert C. Marsett

LAW OFFICES

Mendelsohn, Oseran & Eisner, P.C.

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Tucson, Arizona 85716

LINDA C. McNULTY

TELEPHONE
(520) 325-7500

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March 8, 1996

VIA FACSIMILE and FEDERAL EXPRESS

Mr. Richard D. Meyerhoff
Water Quality Standards Coordinator
Arizona Department of
Environmental Quality
3033 North Central Avenue
Phoenix, Arizona 85012

Re: Buehman Canyon Creek

Dear Mr. Meyerhoff:

Enclosed please find the following materials describing economic benefits arising from conservation of natural areas in the San Pedro River watershed and generally:

(i) several news articles showing the value of tourism arising from, and the public interest in, riparian resources of the San Pedro River Basin to the Arizona economy;

(ii) a summary of several studies documenting the economic benefits flowing directly from conservation and recreation areas;

(iii) a 1989 Arizona State Parks Board publication describing the economic benefits of recreation to rural Arizona communities;

(iv) the Executive Summary of a study describing the economic benefits of the Ramsey Canyon Creek and the San Pedro Riparian National Conservation Area, prepared by faculty from the University of Arizona, Department of Agricultural and Resource Economics.

In addition, the following information pertains to the letter dated February 19, 1996 to Mila Hill from Dirk Den-Baars, concerning the purported value of unpatented mining claims. I think its important to observe that this rulemaking does not directly

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pertain to these claims. As they have been raised, however, these comments are germane.

Under the Mining Law of 1872, a mining claimant does not have an entitlement or property right unless a "discovery" has been made. This is a legally defined construct which requires that the claimant is capable of showing, in a legal proceeding at any given time, that a "valuable mineral deposit" has been identified. The United States Supreme Court has established, in the case of *United States v. Coleman*, 390 U.S. 599 (1968), that a valuable mineral deposit exists where mineral resources are identified which can be "extracted, removed, and marketed at a profit." This standard is generally known as the "marketability test," and a showing has never been made that these unpatented mining claims satisfy this standard, although they were staked thirty years ago.

The recent withdrawal of Gold Giant Minerals and Corner Bay Minerals - the result of their conclusion based on exploration that the minerals at this prospect cannot be extracted and marketed at a profit - would in a judicial or administrative proceeding be important prima facie evidence that a valuable mineral deposit has not been discovered. The practical implication of industry's decision is that net economic value is not present, and the information submitted about the mining claims does not support a different conclusion.

The letter of February 19, 1996 consists of unsubstantiated assertions. Geotechnical data consistent with industry standards which would be necessary to justify attribution of net economic value has not been provided.[1]

In addition, information necessary to ascertain the enormous production costs associated with opening a wholly new mining operation at the site are not addressed. This includes, for example, data concerning amounts of copper actually recoverable,

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[1] Nor do the attachments to the claimant's letter appear to contain such data, based on the descriptions in the letter. ADEQ has declined to make these public. Arizona Revised Statute § 41-1029 provides that the record on a rule making must be available for public inspection, and must contain all written submissions and other written materials considered by the agency in connection with the rule proposal. These materials do not properly fall within any exemption from this statute.

anticipated rates of recovery, and actual metallurgy (including cost implications of low grade ore which occurs in deep veinlike skarns, at random, which is difficult to quantify and expensive to extract), costs of removing extensive overburden, costs of purchasing rights to and making necessary improvements to access roads to accommodate heavy trucks, costs of complying with environmental regulations, compensating the surface land owner for surface damages, completing reclamation, and the extensive water demands of a leaching or in situ operation.

Finally, it is significant that no prefeasibility, feasibility, or mining operation plan has ever been submitted to the Coronado National Forest. No environmental assessment or environmental impact statement process has ever been initiated in connection with these claims.

Very truly yours,

MENDELSOHN, OSERAN & EISNER, P.C.

Linda McNulty

Linda C. McNulty

LCM:jh

Enclosures

LAW OFFICES

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March 11, 1996

VIA FACSIMILE and U.S. MAIL

Mr. Richard D. Meyerhoff
Water Quality Standards Coordinator
Arizona Department of
Environmental Quality
3033 North Central Avenue
Phoenix, Arizona 85012

Re: Buehman Canyon Creek Proposed Unique Water Designation

Dear Mr. Meyerhoff:

At the request of Mr. William McGinnis, our firm has asked Professor Bonnie G. Colby to examine the economic benefits of the designation of Buehman Canyon Creek as a unique water. Professor Colby, an associate professor of Natural Resource and Agricultural Economics at the University of Arizona College of Agriculture, is a well recognized authority in the file of natural resource economics. Her report is enclosed for review and consideration in this rule making.

Very truly yours,

MENDELSOHN, OSERAN & EISNER, P.C.

Linda McNulty

Linda C. McNulty

LCM:jh

Enclosure

F:\[illegible]

BONNIE G. COLBY, PhD
NATURAL RESOURCE AND AGRICULTURAL ECONOMICS
4525 East Bermuda
Tucson, Arizona 85712
Phone: 520-621-4775
Fax: 520-621-6250

March 11, 1996

MEMO

To: Linda C. McNulty, Esq.
Mendelsohn, Oseran & Eisner, P.C.
2730 East Broadway, Suite 100
Tucson, Arizona 85716
(phone: 325-7500, fax: 323-6614)

BY Colby

Project: ***Buehman Canyon – Economic Benefits of Unique Water Designation***

The purpose of this memorandum is to summarize economic considerations in support of ADEQ's proposed unique water designation for Buehman Canyon Creek. My work on this matter is authorized in your memorandum to me of March 5, 1996, and constitutes only a brief outline of relevant economic factors given the short time line for my work. I have reviewed the Arizona Revised Statutes addressing review of proposed rule makings by the Governor's Regulatory Review Council and the specific requirements of economic impact statements to be submitted to the Council for their consideration. This memo is not intended to provide the full information required in an economic impact statement. However, it addresses some of the probable costs and benefits of a unique water designation for Buehman Canyon Creek and comments on the adequacy of reasonably available data for quantifying benefits and costs. In particular, the information summarized here provides guidance on what factors need to be considered in a comprehensive examination of probable costs and benefits in the economic impact statement on the proposed unique water designation to be submitted to the Governor's Council.

Economic rationale in support of the proposed unique water designation are outlined below. To the extent that data is available to discuss probable benefits and costs, some economic factors are discussed in more detail than others.

1. A unique water designation is consistent with the State of Arizona's commitment to cost-effective resolution of tribal water claims in the Gila River Basin, and in particular the large (approximately 1.5 million acre feet) and unresolved claims of the Gila River Indian Community. There have been six Congressionally ratified negotiated settlements of tribal claims involving central Arizona tribes, and these have relied upon a combination of surface water, groundwater and Central Arizona Project water to satisfy tribal water needs (Checchio and Colby, 1993). Surface water has been particularly critical as a component of water supplies for settlements due to the relative scarcity of surface flows in central Arizona and to the emphasis that many tribes place on obtaining surface water to restore stream flows and riparian areas.

The waters of Buehman Canyon Creek are tributary to the San Pedro River, which joins the Gila River less than 50 miles downstream from where Buehman Canyon Creek enters the San Pedro. The Gila River Indian Reservation is located a short distance below this confluence. In adjudication proceedings on the San Pedro River in 1995, the Special Master found that the average annual outflow of the San Pedro at its mouth (confluence with the Gila) is only 18,094 acre feet per year (order of the Special Master in the Gila River Adjudication, filed February 23, 1995, Arizona Supreme Court). Marsett and Associates has estimated the annual water production of the Buehman Canyon watershed at 62,828 acre feet per year (Marsett and

Associates finding cited in March 5 memo from L. McNulty to Colby). Buehman Canyon Creek contributes a substantial amount of flows to the lower San Pedro River system.

To the extent that a unique water designation protects both water quality in Buehman Canyon and constrains new consumptive uses of Buehman Canyon Creek, surface water supplies for resolution of tribal claims are enhanced. An economic value of $1,200 per acre foot of water available for tribal claims can be imputed from the water leases that are part of the Salt River Pima Maricopa Settlement ratified by Congress in 1988 and the Fort McDowell settlement ratified in 1990 (P.L. 100-512, 102 Stat 2549 (1988) and P.L. 101-628, 104 Stat 4480 (1990)). Were the water yields of Buehman Canyon to be reduced in quality or quantity so as to be less available for tribal water settlements, substitute surface water would have to be acquired elsewhere at significant cost to federal and state taxpayers. For illustrative purposes, assume that the unique water designation preserves the quality and availability of 20,733 acre feet per year (one-third of the watershed yield estimated by Marsett and Associates) from Buehman Canyon Creek for tribal water settlements. The economic benefit of the unique water designation for this purpose alone would be $24.8 million at a value per acre foot of $1,200. The unique water designation would also, simultaneously, provide other benefits outlined below

2. In addition to tribal water settlements, there are other competing demands for water supplies in central Arizona. Diminished water flows or water quality from Buehman Canyon Creek, occurring due to the absence of a unique water designation, would cause downstream water users to incur costs to replace impaired supplies. Evidence regarding the economic value of preserving the water yields of the canyon so that they are available for downstream uses comes from recent water transactions in central Arizona. For instance, the Scottsdale City Council recently approved seven negotiated acquisitions of CAP water allocations at prices per acre foot ranging from $1,080 to $1,188 per acre foot (Water Intelligence Monthly, October, 1995). Del Webb, the largest developer in Arizona, negotiated an option to lease water from the Ak-Chin Indian Community at a price of $1,200 per acre foot in late 1994 (Water Strategist, April, 1995). These figures are consistent with the economic benefits cited above related to water supplies for tribal settlements.

3. Preserving the quality and volumes of flows out of Buehman Canyon Creek reduces costs to downstream dischargers of complying with surface water quality standards. As noted above, flows out of Buehman Canyon Creek are a non-trivial portion of the flows of the San Pedro River prior to its confluence with the Gila River. Small towns, mines and other point source dischargers into the San Pedro River along this reach incur costs to meet water quality standards. Flows from Buehman Canyon Creek provide economic benefits to these dischargers related to their costs of providing additional treatment (and upgrading treatment facilities) to remain in compliance with surface water standards, in the event that flows or water quality from Buehman Canyon Creek were impaired. With such impairment, downstream pollutant loads become more concentrated and the probability of surface water quality standard violations increases (Colby, 1994). While a specific dollar estimate of water quality benefits from the unique water designation is not possible within the limited scope of this memo, such benefits should be considered under the specific requirements of economic impact statements submitted to the Governor's Regulatory Review Council.

4. Riparian recreation areas in southern Arizona are heavily used and generate increased economic benefits as population and demand for outdoor recreation grows in the region. Buehman Canyon is particularly well situated for the rapid population growth occurring on the north side of the Tucson metropolitan area near San Manuel and Oracle and for the rapidly growing east side of Tucson, with access over Reddington Road. A comprehensive survey of economic benefits to recreationists at streamside sites in the western United States indicates recreation benefits of $18 to $27 *per visitor day* for general hiking and wildlife viewing (Walsh et al, 1992). Data collected for southern and central Arizona riparian areas indicates values *per visitor* of $65 to $102 to maintain the quality of the Hassyampa River Preserve, and $65 to $97 to protect the riparian ecosystems of the San Pedro Riparian National Conservation Area and The Nature Conservancy's Ramsey Canyon Preserve (Kirchoff, 1994, Crandall, Colby and Rait, 1992).

Visitation data is not collected for Buehman Canyon. However, it is known to be heavily visited for

birding and hiking, and for javelina hunting during the spring season. For comparative purposes, Aravaipa Canyon Wilderness (another canyon riparian area located within 25 miles of Buehman Canyon) has approximately 8,600 visitor days per year, even though visitors require a permit to enter Aravaipa Canyon. The San Pedro Riparian National Conservation Area and The Nature Conservancy's Ramsey Canyon Preserve (both located within two hours of Tucson) have annual visitation of approximately 12,000 and 26,000 visitor days, respectively. Assuming a relatively low use rate of 6,000 visitor days per year for Buehman Canyon and economic benefits to recreationists of $25 per visitor day, current recreation benefits may be in the range of $150,000 per year and will increase steadily with population growth. Visitor studies in Aravaipa Canyon establish that visitors are aware of even small reductions in stream flow levels or water quality and that these variables affect the value of the riparian area recreational experience (Moore, Wilkosz and Brickler, 1990).

A unique water designation for Buehman Canyon Creek also supports recreation benefits downstream. Pima County recently acquired the Bingham Cienega (located just below the confluence of Buehman Canyon Creek and the San Pedro River) for flood control, open space and recreation purposes. Buehman Canyon Creek appears to be an important source of flows for maintaining the integrity of the Cienega (letter from Fonseca, Principal Hydrologist, Pima County Flood Control District to ADEQ staff, dated January 26, 1996).

5. In addition to economic benefits to recreationists themselves, small businesses and outlying communities depend economically on spending by outdoor recreationists. Tourism linked to outdoor recreation is an important component of the economy of southern Arizona. Restaurants, retail stores, motels, bed and breakfasts, gas stations and other businesses benefit from preservation of attractive outdoor recreation sites. In the Sierra Vista area alone, expenditures by visitors to riparian areas stimulate $3 million per year in local economic activity (Crandall, Leones and Colby, 1992).

6. There are substantial economic benefits associated with special status species and habitat preservation, in addition to the economic benefits to recreationists described above. These preservation values (also termed "nonuse or passive use" values) have been affirmed by the courts as a valid component of economic costs and benefits (State of Ohio v U.S.Department of Interior, 880 F.2d 432 (D.C. Circ. 1989)), and are incorporated into assessments of proposed federal regulatory actions as well as in assessing liability for environmental damages under CERCLA. Examples of the application of these values in Arizona include the Environmental Impact Statement for Operations of Glen Canyon Dam (1995) and assessments of changes in air quality and visibility in the Four Corners region. Recent studies of preservation values associated with streamside and riparian areas in the western United States indicate economic benefits of $15 to $80 annually per household located in the general region of the site (Sanders, Walsh and Loomis, 1990 and Brown, 1991). Using the lower figure of $15 per household, for approximately 370,000 households in the greater Tucson Metropolitan area, preservation values associated with Buehman Canyon are on the order of $5.5 million per year.

7. The value of private property located adjacent to or near streams and riparian areas is enhanced when water quality, flow levels and riparian habitat are protected. Studies elsewhere in the U.S. indicate a twenty percent increase in private property values due to water quality protection in nearby water bodies (Young, 1984). In the Tucson area, economic studies document an increase in property values associated with proximity to wildlife habitat, such as washes and riparian areas (King, White and Shaw, 1991). A unique water designation for Buehman Canyon Creek will preserve private property values near the canyon and along the San Pedro River where Buehman Canyon Creek flows enhance the riparian corridor.

MAR-11-1996 15:45 FROM MENDELSOHN OSERAN EISNER TO 16022074528 P.05

8. Documentation provided by Keystone Minerals, Inc. to which I have had access (consisting of letters addressed to ADEQ staff dated February 2 and February 19, absent four attachments which were appended to the February 19 letter) does not provide sufficient information for determining probable net losses (if any) to Keystone Minerals, Inc. as a consequence of the proposed unique water designation. Full data to document probable social costs and benefits with respect to mining operations should include (but are not limited to) the following:

1) full costs to undertake an adequate EIS process for proposed mining operations (including not only costs to Keystone Minerals and their partners, but also probable costs to participating public agencies and citizen groups)

2) start up costs to develop the site as necessary for proposed operations, including the costs of obtaining capital for site development

3) costs of obtaining an adequate and reliable water supply for proposed mining and processing operations, including an estimate of legal fees that will be incurred to secure such supplies in a basin that already faces severe water allocation shortages and competing claims. If the anticipated water supply is to be extracted from wells located in the canyon, then hydrologic studies likely will be necessary to be necessary to establish the extent of linkages between pumping for mining operations and surface flows. Such pumping could be determined to be "subflow", as defined under Arizona case law, and thus subject to the Gila River Adjudication and the priority of senior water rights in the Gila River Basin. In any case, substantial expenditures for legal and technical analyses would be incurred, in addition to the direct costs to obtain and transport water supplies for proposed mining activities.

4) all usual and customary costs associated with the proposed mining operations and sales of copper, including but not limited to: annual operations costs projected for the life of the mine, processing and transportation costs, environmental compliance costs, taxes and royalties and marketing costs for minerals produced.

5) a projection of annual revenues from copper sales over the life of the mine that accounts for business risks associated with volatility in the world price of copper.

6) end of mining costs, such as site reclamation and cleanup.

7) estimation of losses in recreation value, wildlife habitat values and water quality values as a consequence of mining operations. These effects are termed "externalities" and standard economic practice requires that they be incorporated in any assessment of the proposed mining operations so as to ensure a comprehensive examination of probable social costs and benefits of a unique water designation, as it may affect mining operations.

8) Economic evaluation by private mining interests based on exploratory drilling in 1995 appears to have determined that the economic viability of the proposed mining operations is marginal due to the prominence of relatively low grade ore. Canada Stockwatch reported on February 7, 1996 that the copper grade does not meet the economic criteria of two companies who were partners in the drilling campaign (Canada Stockwatch report provided to Colby by L. McNulty).

To conclude, there are a number of economic benefits associated with a unique water designation for Buehman Canyon Creek. Such benefits are substantial and widespread, even based on the limited data available for preparation of this memorandum. With regard to costs associated with possible impacts of a unique water designation on proposed mining operations, available evidence suggests that the proposed operations may be unprofitable from the mining company perspective, especially given substantive uncertainties regarding the feasibility and costs of obtaining water supplies for the proposed operations. Arguably, the proposed mining operations could generate net social losses (not gains) when externalities are taken into

account. Such externalities are included in standard cost-benefit assessments and should be considered in the economic impact statement on the proposed Buehman Canyon Creek unique water designation to be submitted to the Governor's Regulatory Review Council.

Documents Referenced or of Related Interest

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Young, E. "Perceived Water Quality and The Value of Seasonal Homes", Water Res. Bull., April, 1984.

Copy: Richard Meyerhoff

FEB 1996
RECEIVED
Office of Administrative Counsel

Keystone Minerals, Incorporated

6318 East Hayne St. Tucson, Az 85710
Phone 520-747-9551 FAX 520-750-9563

Tucson, Feb.19th, 1996

Mrs. Mila H. Hill, Economist
Ariz. Dept. of Environmental Quality.
3033 North Central Ave.
Phoenix, Az 85012

Dear Mrs. Hill,

Thank you for your letter of Feb. 13th, regarding our Korn Kob mine in Buehman canyon, Pima County. I will attempt to answer your questions from present information and from Pre-Feasibility studies on the economics of our anticipated mining operation.

1: Our minable ore reserves have been calculated by a number of Engineering Companies. Any calculation of ore reserves depends on a number of variable factors as, the price of copper on the world market, the waste to ore ratio of the open pits and the average grade of ore mined.
We are presently using the following figures, which we deem conservative. Minable ore reserves in the two adjacent pits are 23,562,000 Tons with a soluble copper grade of 0.42% (8.4 Lbs. per Ton.) Below the two open pits are additional ore reserves, including ore below Buehman Canyon, which will be considered for "in situ" leaching as a last phase. Engineering studies have not been completed on the "in situ" ore reserves but we would estimate some 50,000,000 Tons of such deposits.

2: Expected time frame depends on the permitting process, approval of our mine plans, our EIS and other factors which might delay our start up date by 3 to 4 years. With present mine plans, our ore reserves will last 8.63 years from starting date. After breaking ground, we expect to be in full production in 15 months, producing 16,717,000 Lbs.of marketable Cathode copper per year. (See note on Attachment 1.)

3: A mining Contractor will be used to mine and place the ore on the leaching pads with a payroll of 64 people. The operating company will run the plant with an additional 20 to 26 people as is shown on the "Cost of Labor" attachment 2. We assume that by far the majority of professional and skilled labor will be hired fron the Arizona Labor pool.

4: Initial capital requirements for the project are $ 15 Million, including land aquisition and Heap pad construction, but mostly for the Solvent Extraction and Electrowinning plant. Annual operating cost has been summarized on the "Summary of Annual Operating Cost." Attachment 1. Royalties to be paid to the US are still an uncertain factor, while the cost of borrowing money is not yet known at this time. Gross income from the sales of Cathode copper is expected to exceed $ 20 million per year.

5: Expected rate of return is favorable at current and anticipated world market prices for Cathode copper. The demand for copper has been increasing at a high rate and is expected to continue.

6: Primary customers will be mostly manufacturers of copper wire, brass and finished products.These customers will be mostly from out of State or in other countries in Europe and Asia.

6: At this time we hesitate to estimate the Tax burdens on our fully operational mine and plant. We assume however that Federal, State and local Taxes, together with possible royalties to the United States (in the event of changes in the Federal mining law.) may approach 25% of Net proceeds.

In order to get this information to you before the requested date of Feb. 23rd,'96 we may not have fully answered all your questions. Please feel free to call us or send a Fax at our office numbers provided on Page 1 if we can be of further assistance. Finally we request that the four pages of Confidential data attached to this letter remain Confidential.

Sincerely yours,
Keystone Minerals, Inc.

Dirk Den-Baars

Dirk Den-Baars, Vice Pres.

Attachements:
1. Summary of Annual Operating Cost.
2. Cost of Labor in 6 catagories.
3. Cost of Operating Supplies
4. Cost of Utilities.

DDB/bj