HUDBAY

September 7, 2016

Colonel D. Peter Helmlinger, Division Commander
South Pacific Division
U.S. Army Corps of Engineers
1455 Market Street
San Francisco, CA 94103-1398

Dear Colonel Helmlinger:

As Vice President for Hudbay's Arizona Business Unit, I have responsibility for the Rosemont Copper Project (Rosemont/Project) located in southeastern Arizona.

As you are aware, our subsidiary, Rosemont Copper Company, applied for a permit under Section 404 of the Clean Water Act in connection with this Project in October 2011. The permit would authorize Rosemont to place tailings and waste rock into certain ephemeral drainages in a historic mining area. In July of this year, the District Engineer for the Los Angeles District referred our permit application and record to your office. As I understand it, the South Pacific Division now has the responsibility to review and evaluate our permit application, which has the support of both the current and previous Governors of Arizona.

As you begin the review and evaluation of our application, I am requesting the process include the following steps:

1. An opportunity to present our company, our Project, as well as our understanding of the Project's impacts and mitigation as your technical team begins reviewing the record.
2. A direct and clear understanding of the reason the District Engineer recommended a denial of our permit. As of this moment, we have received virtually no explanation of this action or opportunity to respond to the District's underlying concerns. The mitigation package was submitted in September 2014 and we have had no substantive communications from the District since that time.
3. A technical review of the record, including impacts to waters of the U.S. and mitigation, with the Corps technical team that will now be evaluating our proposal.
4. A formal opportunity to work with you and your staff to address any outstanding concerns that might remain, including mitigation.

Hudbay acquired Rosemont Copper Company in July 2014 after taking over its parent company, Augusta Resource Corporation. Through collaborative efforts with the other permitting agencies, we have made significant progress advancing the permitting for Rosemont. This includes:

- The U.S. Forest Service's Environmental Impact Statement, including a Section 106 consultation, was complete as of December 2013 and we are awaiting the issuance of the agency's Record of Decision (ROD).

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- The U.S Fish and Wildlife Service completed an Amended Biological Opinion for the Project in April of this year.
- The State of Arizona issued the 401 certification on February 3, 2015.
- Other required State permits for air quality protection, groundwater protection, stormwater, powerline placement, etc. have been issued in prior years.

We have successfully completed every necessary regulatory process with the other agencies. The 404 permit in question is the last remaining permit required for us to begin operations.

Since our acquisition of the Project, we have consistently stated our position that the permitting agencies should be allowed the time needed to complete their work using the best scientific and technical information available. All we have asked is for the process to be applied fairly and transparently. If an agency has had questions or concerns, or needed additional information, we have always done our best to respond quickly. To our regret, we found the L.A. District of the Corps essentially unwilling to communicate with us. We believe that we should have an opportunity to address areas of issue or concern and expressed many times our willingness to do so.

While we do not know the basis for the District's recommendation, we believe approval is justified for a number of reasons: (a) the onsite resource that we are seeking a permit to fill (ephemeral washes) are the lowest functioning type of aquatic resource regulated by the Corps; (b) no special aquatic sites or any other type of unique aquatic resource is being adversely impacted in a material way; (c) we have secured a 401 Certification, an Aquifer Protection Permit, and a stormwater permit, meaning that surface and groundwater quality will be protected; and (d) we have proposed a comprehensive mitigation plan that, as far as we know, exceeds anything the Corps' Arizona Office has previously required.

The Rosemont Project will not cause or contribute to significant degradation of waters of the U.S. Our Project will fill 40.4 acres of ephemeral washes – less than 1% of the total Project site of 5,431 acres – and indirectly impact another 28.4 acres. These washes are located at the top of the watershed and only flow in response to storm events. The larger ones serve as numbered, maintained Forest Service roads. The minimal impacts for a project of this magnitude were achieved through collaborative work with the Forest Service and 17 other cooperating agencies and through the use of modern technologies that dramatically reduce the Project's impacts to water and land.

An evaluation of significant degradation should also consider the compensatory mitigation package offered in association with the requested permit. The Rosemont Project is expected to permanently impact 68.8 acres of waters of the U.S. and to permanently retain 242 acre-feet per year (afy) of surface runoff. As compensatory mitigation, we have offered a conservation package comprising approximately 4,830 acres of land, over 200 acres of waters of the U.S., over 900 acres of riparian buffer, and an estimated 990 afy of actual "wet" water. While we do not know the results of the District's calculation of mitigation credits, multiple consultants with substantial experience in 404 permitting matters have concluded that this package should be more than adequate to achieve the Corps' goal of "no net loss". The cost per acre of mitigation in our proposal is approximately $700,000, or roughly 10 times the cost of credits available from recently established In-Lieu Fee (ILF) mitigation programs in Arizona.

Given that the discharge meets water quality requirements and will not result in significant degradation, we can identify no other basis to deny the permit as contrary to the public interest. Further, two Arizona Governors have written letters to the Corps expressing the State's official position that the public's interest will be served by the Rosemont Project and it is my understanding that the Corps generally defers to states on such determinations. The significant economic benefits of the Project clearly support a finding that granting the 404 permit is in the public's interest.

We have reviewed similar Arizona mining projects that have either been approved by the L.A. District (Dos Pobres - Safford and Carlota) or have draft EIS documents being managed by the Arizona Branch of the L.A. District (Ripsey Wash, the Asarco-Ray tailings expansion and Lonestar, an expansion of the Safford Mine). Based on this review, we are concerned that our projected impacts and mitigation package have not been evaluated consistently with these other projects. None of these projects were expected to cause or contribute to significant degradation of waters of the U.S. and all of them provided compensatory mitigation at lower ratios than proposed in our mitigation plan.

Our desire is to engage with the Corps to work toward a permit with a mitigation package that is consistent to other projects with similar impacts to similar resources. We believe Rosemont's proposed Project and mitigation accomplish this goal. However, if you determine this is not the case, there are additional mitigation opportunities available, including our Pantano Dam property and newly formed ILFs in Arizona. At Pantano Dam, located downstream of the Project and just below a County conservation area, we have senior water rights that are currently used to water a golf course. These rights provide a significant and unique conservation opportunity to enhance an aquatic resource that is exceedingly rare in Arizona.

I would also like to express our concern as to the content of the District's record for our application – both with respect to completeness and objectivity. Due to the lack of communication and multiple requests from the L.A. District to re-submit technical reports, we are concerned that there may be material missing from the record or technical materials to which we have never had the opportunity to respond. We feel strongly that we should have an opportunity to respond to any technical concerns about the Project's impacts and proposed mitigation prior to a decision on our permit application.

In closing, I cannot restate strongly enough our desire to work collaboratively with the Corps, to understand the Corps' concerns and to address those concerns. The Rosemont Project would be the third largest copper-producing facility in the U.S., employing more than 500 people for its twenty-year mine life. We have worked constructively and co-operatively with all the other agencies to permit a modern mine that minimizes environmental impacts through creative design and mitigation while creating hundreds of high paying jobs for southern Arizona. We look forward to doing the same with you.

Sincerely,

Patrick Merrin
Vice President
Hudbay - Arizona Business Unit

cc: Senator John McCain, US Senate
Senator Jeff Flake, US Senate
Representative Martha McSally, US House of Representatives
Governor Doug Ducey, State of Arizona
Stu Townsley, U.S. Army Corps of Engineers

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