CYPRUS AMAX MINERALS COMPANY

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Gina L. Bulloch
Division Landman

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Rec'd 6-24, 1997
By: R Good
BOARD OF APPEALS
STATE LAND DEPARTMENT

Arizona State Land Department
Board of Appeals
1616 West Adams
Phoenix, Arizona 85007

Attention: Peggy Brocato, Sales Administrator

RE: APPEAL OF APPRAISAL - APPLICATION TO AUCTION WATER FROM STATE LANDS FILED ON BEHALF OF CYPRUS BAGDAD COPPER CORPORATION

Dear Peggy:

Enclosed please find a Cyprus check in the amount of $6,000.00 to cover the estimated advertising expense for the subject Application to Auction Water.

In addition, this letter will serve as notification that Cyprus Bagdad Copper Corporation ("Bagdad") hereby submits an appeal of the Appraisal of the Ground Water Purchase recently conducted by the State of Arizona. The Appraisal was conducted in response to the Applications to Auction Water from State Lands Nos. 21-102152, 21-102153, 21-102154, 21-102155 and 21-102156 filed on behalf on Bagdad to renew its supplemental water source used for the town of Bagdad.

According to The Language of Real Estate, 2nd Edition, written by John W. Reilly and published by Real Estate Education Company, the definition of a comparable is:

> "Recently sold or leased properties that are similar to a particular property being evaluated and are used to indicate a reasonable fair market value for the subject property. . .To qualify as a comparable property, the property used for comparison must have the same highest and best use and should be reasonably similar to the subject with respect to size, design, type of construction, physical condition, and location. . ."

In order to establish the basis for a comparable, a description of the "particular property being evaluated" needs to be established. The Bagdad wells or "property" consists of multiple wells currently pumping from 18 gpm to 280 gpm with a proposal to possibly activate a dormant well to pump 400 gpm. The wells are within a non-adjudicated water

basin and are located in remote locations where it was necessary for Bagdad to install power lines to service the wells. The cost to Bagdad was around $2 million to install a power line 17 miles to the Francis Creek well and 4 miles to the Urie and Contreras wells. There are no other users attached to those lines so the cost was completely absorbed by Bagdad. Due to the location of the wells, it was necessary to expend $500,000.00 to install a pipe line for a delivery system and it will be necessary to install an additional pipe line to the Skunk Canyon well when Bagdad decides to activate that well. The wells are currently used to supply water to the residents and commercial businesses of the Town of Bagdad at no cost to the recipients. The total cost to Bagdad to deliver and treat the water averages $89.61 per acre foot and this cost, in addition to the cost to lease the water, is not recouped by Bagdad. Due to the proximity of the wells, the best and highest use of the water would coincide with the current use which has been consistent for the last 35 years and that is the water supply for the town of Bagdad.

The comparable chosen by the State Appraisers as the closest comparison to the above described Bagdad property consisted of one lease requesting between 150 acre feet minimum to 520 acre feet maximum issued to the Santa Rita Ranch General Partnership to transport water via an 8 inch water transmission line to the Santa Rita Country Club golf course. The proximity of the subject well is located 4.2 miles southwest of the Houghton Road interchange of I-10 in Tucson. The well is located within the service area of TRICO Electric and sits near the boundary of TRICO's service area and Tucson Electric's service area. The TRICO power line serving the Santa Rita well is the line which runs to the Benson main station and serves the surrounding residential and commercial customers. Tucson is within the boundaries of an Active Management Area for water management and since the water is to be used for irrigation of turf, the cost associated with the treatment should be relatively lower than the cost to treat potable water. Since Santa Rita Country Club is a public golf course and charges anywhere from $15.00 per person for a round of gold during the off season and $32.00 per person during the peak season, they can pass any lease and delivery charges on to the country club members.

Out of the nine comparables selected by the State Appraiser to review, the one that provides the closest comparison is Comparable 8. Comparable 8, which was also a State Land Department sale, provides for a price of $65.00 an acre foot. Similar to the Bagdad wells, there are multiple wells which provide water for a variety of uses. The Appraisal listed the uses being agricultural, domestic, livestock, commercial, state institutions, industrial, home agricultural, commercial RV parks, golf course and research installations, water utility and small commercial operation, correctional and rehabilitation, automobile proving grounds, sand & gravel extraction, concrete plant and mining operation. The water leases vary from one acre foot to 365.6 acre feet with 300 acre feet being used by the Department of Economic Security Training Center at Coolidge.

Bagdad hereby respectfully requests that the State Land Department adjusts the appraisal amount for Bagdad's Application Nos. 21-102152, 21-102153, 21-102154, 21-102155 and 21-102156 to $65.00 per acre foot. When you combine the proposed leasehold cost of $65.00 per acre foot with the delivery and treatment cost of $89.61 per acre foot, Bagdad's total cost to deliver water to the residents and commercial businesses of the town of Bagdad is actually $154.61 per acre foot.

The City of Kingman, in comparison, pays $98.50 per acre foot to provide water to their customers. Since they don't have a lease charge on top of their delivery and treatment cost, they currently operate at an 8% loss per acre foot. Even if you added a $65.00 per acre foot leasehold charge on top of their delivery and treatment cost, they would probably exceed any margin of acceptable loss.

Respectfully submitted,

Gina L. Bulloch, RLP
Division Landman

cc: M. Garfield - C. Bagdad