

IDAHO GENERAL MINES INC
Form 10KSB
April 03, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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 PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Idaho General Mines, Inc.

(Name of small business issuer in its charter)

IDAHO
(State or other jurisdiction of
incorporation or organization)

000-50539
Commission
File Number

91-0232000
(I.R.S. Employer
Identification No.)

10 North Post St., Suite 610
Spokane, WA 99201
Telephone: (509) 838-1213

(Address and telephone number of principal executive offices)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT: Common Stock, \$0.001 par value

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 at least the past 90 days. YES NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is 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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

Revenues of the registrant for its fiscal year ended December 31, 2006 were \$0.

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was \$124,021,777 as of March 23, 2007.

The number of shares outstanding of registrant's common stock as of March 23, 2007 was 43,974,878

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one): YES o NO x

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB includes forward-looking statements. All statements other than statements of historical facts contained in this Annual Report, including statements of our expectations regarding research and development, revenues, selling, general and administrative expenses, profitability, financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, expect and similar expressions, as they relate to us, to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in Risk Factors and elsewhere in this Annual Report, including, among other things: the success of the Mount Hope Project, including delays in development; raising sufficient capital to fund our operations; fluctuations in the market price of molybdenum and other metals; demand for molybdenum; obtaining regulatory approvals; inaccuracies in mineralization, reserve and/or production estimates; mining hazards; environmental liabilities; challenges to legal title of any of our properties; governmental land reclamation of our properties; non-compliance with our Mount Hope lease; loss of key personnel or inability to attract skilled personnel; increased operating costs; and shortages of critical parts, equipment or skilled labor.

New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. We assume no obligation to update any forward-looking statements after the date of this prospectus as a result of new information, future events or developments, except as required by federal securities laws.

PART I

ITEMS 1 & 2. DESCRIPTION OF BUSINESS AND PROPERTIES

References made in this Annual Report on Form 10-KSB to we, our, us, our company and IGMI refer to Idaho General Mines, Inc.

Many of the terms used in our industry are technical in nature. We have included a glossary towards the end of this Annual Report on Form 10-KSB that explains other technical terms we use in this Annual Report on Form 10-KSB.

The mineralization and economic estimates of our 53-year mining plan included in this Annual Report on Form 10-KSB are reported in summary form in our report entitled Phase 2 Mine Feasibility Study - Mount Hope Project dated December 2005, which is also referred to within this Annual Report on Form 10-KSB as the **Technical Report**, which was prepared by and under the supervision of Mr. John M. Marek, an employee of Independent Mining Consultants, Inc. (**IMC**) of Tucson, AZ. Portions of the information in this Annual Report on Form 10-KSB are based on assumptions, qualifications and procedures which are set out in summary form in the Technical Report.

References made in this Annual Report on Form 10-KSB to the **Feasibility Study** refer to both our Phase 1 Mine Feasibility Study for the Mount Hope Project prepared by IMC, the results of which were first reported in a press release on April 25, 2005, and the above-referenced Technical Report, the results of which were first reported in a press release dated October 14, 2005.

For ease of reference, the following conversion factors are provided:

Imperial Measure	Metric Unit	Imperial Measure	Metric Unit
1 acre	= 0.4047 hectare	1 mile	= 1.6093 kilometers
1 foot	= 0.3048 meter	1 troy ounce	= 31.1035 grams
1 gram per metric tonne	= 0.0292 troy ounce/ short ton	1 square mile	= 2.59 square kilometers
1 short ton (2,000 pounds)	= 0.9072 tonne	1 hectare	= 100 square kilometers
1 tonne	= 1,000 kg or 2,204.6 pounds (lbs)	1 acre	= 2.471 hectares
1 hectare	= 10,000 square meters		

Overview

We are an Idaho corporation under the Idaho Business Corporation Act (the **IBCA**) originally incorporated under the name General Mines Corporation on November 23, 1925. In 1966, we amended our articles of incorporation to change our name to Idaho General Petroleum and Mines Corporation, and amended our articles again in 1967 changing our name to Idaho General Mines, Inc. Our registered and executive office is located at 10 North Post Street, Suite 610, Spokane, Washington, United States 99201. We hold all our properties and assets directly and have no operating subsidiaries. The Hall Tonopah royalty and environmental liabilities were purchased under existing legal entities and will be retained as wholly owned subsidiaries Net Smelter, Inc., Moly Royalty, Inc. and Copper Royalty, Inc.

We are in the business of the exploration, development and, if warranted, the mining of properties containing molybdenum, as well as silver, gold, base metals and other specialty metals. We currently have a 30-year renewable lease for the lands related to, possess surface rights for, and own patented and unpatented claims to, the Mount Hope Project, a primary molybdenum property, located in Eureka County, Nevada. In 2006, we acquired a second significant molybdenum project, the Hall-Tonopah project, located in Nye County, Nevada. We also own other properties and mineral rights on which we intend to conduct mineral exploration and evaluation for determining economic viability for further development. We continue to identify, investigate, and acquire other potential properties for future development.

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Prior to 2004, we had not conducted mineral exploration for a number of years and were dormant except for occasional timber harvesting. In 2004, due to increased prices for gold, silver and other metals and a more favorable climate for financing mineral exploration companies, our board of directors decided to engage in assessing the availability of advanced-stage mineral properties.

On July 26, 2004, our Registration Statement on Form 10-SB filed with the SEC was declared effective and our common stock began being quoted on the OTC Bulletin Board under the symbol IGMI .

On November 12, 2004, we entered into an option agreement with Mount Hope Mines, Inc., or MHMI. Pursuant to the terms of this agreement, we were granted an exclusive one-year option to lease Mount Hope s previously drilled molybdenum deposit consisting of 13 patented claims and 109 unpatented claims in Eureka County, Nevada, for a lease period of 30 years. See Business Description of the Mount Hope Project Acquisition .

On April 25, 2005, we completed a Phase 1 Mine Feasibility Study with respect to Mount Hope and began the permitting process for placing into production an open pit molybdenum mine, concentrator and processing facility capable of producing 40,000 tonnes (44,093 tons) of ore per day. On October 19, 2005, we exercised the option in regard to the Mount Hope Project and our lease agreement with MHMI (the **Mount Hope Lease**) became effective. See Business Description of the Mount Hope Project The Mount Hope Lease .

On June 30, 2005, we entered into an option to purchase a ranch and associated water rights from Art and Frances Gale of Eureka, Nevada (the **Gale Ranch Option**). The Gale Ranch Option gave us the right, for two years, to purchase the Gale Ranch for \$1,800,000, which includes 1,503 acres of deeded land adjacent to the Mount Hope property, 70,000 acres of U.S. Department of the Interior Bureau of Land Management (**BLM**) grazing rights (which overlap the Mount Hope property), and certain ground water and stock water rights associated with the grazing land and the deeded land. The Gale Ranch Option independently gave us the right, for two years, to purchase for \$50,000 approximately 1,200 acre-feet of ground water per annum associated with the deeded land within the Gale Ranch. Consideration paid for the Gale Ranch Option included \$152,000 and 30,000 shares of our common stock. We completed the Gale Ranch purchase on July 19, 2006 and at the same time entered into a 1 year lease of the Gale Ranch to Art and Frances Gale.

In December 2005, we completed the Technical Report which evaluated the potential to profitably extract the deeper portion of the Mount Hope deposit and augmented the mine plan contained in the 2005 Phase I Mine Feasibility Study. The augmented mine plan currently allows for the mining and processing of 920 million tonnes (1.0 billion tons) of molybdenum over a mine production life of 50 or more years. For further details, see Business Description of the Mount Hope Project.

On March 17, 2006, we entered into a purchase agreement with High Desert Winds LLC (**High Desert**) whereby we purchased High Desert s approximately ten square mile property in Nye County, Nevada, including water rights, mineral and surface rights, buildings and certain equipment, pursuant to an option granted to us in February 2005. The property includes the former Hall molybdenum and copper deposit which was mined by open pit methods between 1982 and 1985 by the Anaconda Minerals Company and between 1988 and 1991 by Cyprus for molybdenum. Equatorial Tonopah, Inc. mined copper from 1999 to 2000 on this property. Much of the deposit was drilled but not developed or mined. At closing, we paid High Desert a cash payment of \$4.5 million for a portion of the property, and in November 2006, made an additional payment of \$989,789 for the remainder of the property.

In August 2006, our common stock began trading on the American Stock Exchange.

On January 30, 2007, we purchased 100% of the Stock in Equatorial Mining North America, Inc. and its two subsidiaries, which owned a 12% net smelter returns royalty on the Hall-Tonopah property, from

Equatorial Mining Pty. Limited. The consideration paid for the Equatorial acquisition was \$4.85 million with an additional deferred payment of \$6 million due upon commercial operation of the property. The acquisition included the royalty as well as \$1.24 million in cash accounts and the assumption of all environmental liabilities on the reclaimed site.

We are currently in the process of developing a new bankable feasibility study with respect to the Mount Hope Project, which is scheduled to be completed by July 2007. The bankable feasibility study will include optimized mine and waste rock placement plans as well as revised estimates for capital and operating costs in light of industry wide increases in input commodity, labor and construction costs over the last two years. See Description of Mount Hope Project Project Feasibility.

Corporate Strategy and Objective

Our corporate strategy is to acquire and develop highly profitable advanced stage mineral deposits. Our near-term corporate objective is to profitably develop and operate the Mount Hope and Hall Tonopah Projects.

We believe we have the following business strengths which will enable us to achieve our objectives:

- A strong, proven management team with experience in exploration, mine development and operations.
- Our Mount Hope project, currently in the permitting and bankable feasibility stage, has high grades in the early years of production and is anticipated to be one of largest and lowest cost primary molybdenum producers in the world.
- Current drilling at our second molybdenum project, Hall Tonopah, indicates the potential for significant expansion of the original 150 million tonnes (165 million tons) of mineralization estimated by former owner Cyprus Amax.
- Mount Hope and Hall-Tonopah are located in Nevada, which is geopolitically safe and has a long and ongoing history of large-scale, open pit mining operations.
- Strong molybdenum supply and demand market fundamentals.

Products

We do not currently produce any products. We are in the process of developing the Mount Hope molybdenum project. When in production, we expect Mount Hope to produce an average of approximately 30 to 35 million pounds of molybdenum per year over the first five years of production and approximately 1.2 billion pounds of molybdenum over the 50+ year life of the project. Mount Hope will primarily focus on producing Technical Grade Molybdenum Oxide (**TMO**) because generally downstream processing begins with TMO. TMO is the most widely marketed molybdenum product.

Molybdenum is a primary alloying agent in steel and stainless steel products, including construction steel, stainless steel, oil and gas pipelines and tool steel. Molybdenum enhances steel strength and corrosion resistance. Other uses include fuel desulfurization catalysts, lubricants and alloy element in gas turbine engine components. Molybdenum has few substitutes.

The steel industry is a primary consumer of molybdenum and will be the primary market target for Mount Hope TMO. We will also consider the production of higher grade products suitable for use as catalysts in petroleum and other energy products.

The supply of Molybdenum comes from both primary molybdenum mines, such as our proposed Mount Hope project and as a byproduct of porphyry copper production.

Description of the Mount Hope Project

Overview

We are proceeding with the permitting and development of the Mount Hope Project. The project will include the development of an open pit mine, construction of a concentrator plant, construction of a roaster plant, and construction of all related infrastructure to produce Technical Grade Molybdenum Oxide (TMO), the most widely marketed molybdenum product. We completed a preliminary mine feasibility study in April 2005 primarily based on Exxon data for the purpose of evaluating the value in exercising the long term option to lease the Mount Hope Project. This study provided a study of the economics and capital cost estimates for development of the project and developed a preliminary mine plan. Based on the results of the feasibility study, we exercised our option to lease in October 2005 and entered into the Mount Hope Lease with MHMI. Subsequently, we accomplished a detailed mine feasibility study in December 2005 which verified existing drill hole data and refined the block model and mine plan. In 2006, we initiated the baseline studies necessary for development of an EIS. We completed a Plan of Operations which was accepted by the Battle Mountain office of the Bureau of Land Management in September, 2006. In December 2006, the BLM selected an environmental firm to complete the EIS for the Mount Hope project. Various environmental data and study tasks are ongoing in connection with the permitting process. The current BLM and contractor schedule demonstrates a Record of Decision in November of 2008. In January 2007, we selected a contractor to accomplish a bankable feasibility study for the project. This study is contracted to be complete by mid 2007. Based on the current estimated timelines for permitting, construction and long-lead equipment, we are targeting initial production at Mount Hope in 2010.

The Mount Hope Lease

We currently have a 30-year renewable lease for the Mount Hope Project. Located in Eureka County, Nevada, the Mount Hope Project consists of 13 patented claims, one millsite claim, and 1,374 unpatented claims, of which 109 unpatented claims are owned by MHMI and 1,265 unpatented claims are owned by IGMI. Although there are no current plans to stake additional claims, it is possible that we could be required to stake additional claims as part of the permitting of Mount Hope. The Technical Report contains a current claim map of the property.

The 30-year term of the Mount Hope Lease is subject to the payment of certain royalties. See **Business Description of the Mount Hope Project Royalties, Agreement and Encumbrances** below. In addition to the royalty payments, we are obliged to maintain the property and its associated water rights, including the payment of all property taxes and claim maintenance fees. We must also indemnify MHMI against any and all losses incurred as a result of any breach or failure by us to satisfy any of the terms of the Mount Hope Lease or any activities or operations on the Mount Hope property.

We are not permitted to assign or otherwise convey our obligations under the Mount Hope Lease to a third party without the prior written consent of MHMI, which consent may be withheld in its sole discretion. However, if the assignment takes the form of a pledge of our interest in the Mount Hope property for the purpose of obtaining financing for the Mount Hope Project, MHMI's consent may not be unreasonably withheld. The Mount Hope Lease further provides that we are to keep the property free and clear of all liens, encumbrances, claims, charges and burdens on production, including if and when we obtain project financing.

With respect to project financing, the Mount Hope Lease provides that the terms of such financing must stipulate that: (i) any principal amount of debt can only be repaid after we have paid all of the periodic payments as set out in the Mount Hope Lease; (ii) the lenders may not prohibit or interfere with any advance royalty payments due to MHMI under the Mount Hope Lease; and (iii) no cash sweeps or payments of excess cash flow may be made to the lenders in priority of such advance royalty payments.

The Mount Hope Lease also contains an after acquired property clause, which provides that any property acquired by us within two miles of the boundary of the Mount Hope property must be conveyed to MHMI if requested within a certain time period following notification of such acquisition. MHMI has requested that we at this time maintain ownership of all new claims filed by IGMI. This now includes 1,374 unpatented mineral claims.

The Mount Hope Lease may be terminated upon the expiration of its 30-year term, earlier at our election, or upon our material breach and failure to cure such breach. If we terminate the lease, termination is effective 30 days after receipt by MHMI of our written notice to terminate the Mount Hope Lease. If MHMI terminates the lease, termination is effective upon our receipt of a notice of termination if we materially breach a representation, warranty, covenant or term contained in the Mount Hope Lease and then fail to cure such breach within 90 days of receipt of a notice of default. MHMI may also elect to terminate the Mount Hope Lease if we have not cured the non-payment of our obligations under such lease within 10 days of receipt by us of a notice of default. We may continue the lease beyond 30 years if we are in production or intend to resume production and have provided notice accordingly.

Property Description and Location

The Mount Hope Project is located on the eastern flank of Mount Hope approximately 35 km north of Eureka, Nevada, United States. The Mount Hope Project is located at the southern end of the northwest-trending Battle Mountain-Eureka mineral belt. Mount Hope is approximately 3.7 km due west of State Route 278, and the Mount Hope Project centers in sections 1 and 12, T22N-R51E and sections 12 and 13, T22N-R51½E.

Nature and Extent of Company's Title

The land package for the Mount Hope Project contains 13 patented lode claims, one patented mill site, and 1,374 unpatented lode claims. The total surface area covered by the Mount Hope Project land package is 7,311 hectares. MHMI owns all of the patented claims and 109 of the unpatented lode claims. These claims are the subject of the Mount Hope Lease. We own the remaining 1,265 unpatented lode claims. The patented claims and unpatented claims comprising the Mount Hope Project are listed by number and ownership in the Technical Report. Patented claims are owned real property and unpatented claims remain valid for as long as the holder pays the applicable fees.

Royalties, Agreements and Encumbrances

Under the Mount Hope Lease, we have the following royalty and other payment obligations:

Periodic Payments

1. We are required to pay MHMI a total of \$850,000 in set cash payments under the Mount Hope Lease. We paid the first installment of \$125,000 installment payments due on January 31, 2006 and a second and third installment of \$125,000 on April 19, 2006 and October 19, 2006, respectively. We are obligated to make a fourth payment of \$125,000 on April 19, 2007, and a final \$350,000 installment payment on October 19, 2007.
2. We are required to pay MHMI the greater of \$2,500,000 or 3% of the construction capital cost estimate for the Mount Hope Project calculated in accordance with the Mount Hope Lease. The timing of this payment depends on whether we will be able to secure Project Financing before October 19, 2010. Project Financing means the securing of funds dedicated to the development of the Mount Hope Project in accordance with the mechanism set out in the Mount Hope Lease to put the Mount Hope Project into commercial production. If we are able to secure Project Financing on terms that are satisfactory to us, we will be required to make this payment to MHMI on or before October 19, 2008. If we are unable to secure Project Financing on terms that are satisfactory to us by October 19, 2008, we may elect to defer this payment until we obtain Project Financing or until October 19, 2010, whichever is earlier by paying the greater of \$350,000 or 3% of the construction capital cost estimate for each year of deferral.
3. If we defer the \$2,500,000 or 3% of the construction capital payment until October 19, 2010 as described in (2) above, we must elect to either make the deferred payment of \$2,500,000 or, if 3% of the construction capital estimate is greater than \$2,500,000, then we pay 50% of the difference between 3% and \$2,500,000 on each of October 19, 2011 and October 19, 2012.

Advance Royalty

On the anniversary of the effective date after we secure Project Financing or at the very latest on October 19, 2013, we must begin paying yearly advance royalty payments of \$500,000 per year to MHMI.

Production Royalty

Following commencement of commercial production, we will be required to pay a production royalty to MHMI and Exxon Corporation (**Exxon**), as follows:

(a) **MHMI Production Royalty**

After commencement of commercial production at the Mount Hope Project, we will be required to pay to MHMI a production royalty equal to the greater of: (i) \$0.20 per pound of molybdenum metal (or the equivalent of some other product) sold or deemed to be sold from the Mount Hope Project; or (ii) 3% of net returns (the **Base Percentage**), if the average gross value of products

sold is equal or lower than \$12.00 per pound, or the Base Percentage plus 1% of net returns if the average gross value of products sold is higher than \$12.00 per pound but equal or lower than \$15.00 per pound, or the Base Percentage plus 2% of net returns if the average gross value of products sold is higher than \$15.00 per pound. As used in this paragraph, the term *products* refers to ores, concentrates, minerals or other material removed and sold (or deemed to be sold) from the Mount Hope Project; the term *gross value* refers generally to proceeds received by us or our affiliates for the products sold (or deemed to be sold); and the term *net returns* refers to the gross value of all products, less certain direct out of pocket costs, charges and expenses actually paid or incurred by us in producing the products.

(b) Exxon Production Royalty

Exxon will receive a perpetual 1% royalty interest in and to all ores, metals, minerals and metallic substances mineable or recoverable from the Mount Hope Project, equal to 1% of total amount of gross payments received by us from the purchaser of ores mined/removed/sold from property less: (i) deductions made by the purchaser for sampling, assays attributable to Exxon's 1% interest; (ii) cost of freight, transportation and haulage to and for the purchaser away from the mill, smelter, roaster or other refining facility operated by or for us attributable to Exxon's 1% interest; and (iii) any taxes attributable to Exxon's 1% interest. This royalty applies to any and all after-acquired title including mining claims staked or obtained within the bounds of the Mount Hope Project (and more particularly described in the Technical Report). The royalty must be paid within 60 days after each month of production and Exxon is permitted to enter the property to take delivery of royalty concentrates or refined products, and examine or audit the operations and books. Exxon is required to pay one-third of the reasonable direct cost of the minimum annual assessment work required to maintain the unpatented mining claims remaining subject to the royalty payment not to exceed \$13,300 and Exxon has the right to eliminate this obligation per claim by quitclaiming royalty payment to that particular claim.

There are no encumbrances to the Mount Hope property with the exception that we are obligated to provide certain minimal environmental mitigation of surface waste and old equipment which may cost an estimated total of \$50,000 to remediate. There is no time limit on accomplishing this work except as may be potentially agreed with the Nevada regulators.

Environmental Regulations and Permits

Our projects are subject to numerous state and federal environmental regulations and permitting processes. See *Applicable Mining Laws and Permitting* below for a detailed description of these requirements.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access

The Mount Hope Project has year-round access from Nevada State Route 278. The land package includes the land between the project site and State Route 278.

Climate

Climatic conditions in the site area vary significantly with cold air temperatures in the winter months (December through February), and hot and dry conditions in the summer months (June through September). During the winter months, average temperatures range from -2.3 to -0.8°C and in the summer months, from 15.1 to 20.6°C. Average monthly precipitation data recorded from the Eureka meteorological station ranges between 13 and 35 mm. Generally, the wettest month is May and the driest month is July. The average annual precipitation is 311 mm. Operations at the site are planned to continue year-round.

Local Resources and Infrastructure

The town of Eureka, Nevada, approximately 21 miles to the south, will provide the primary support for the Mount Hope Project. Local to the Mount Hope Project, the infrastructure requirements to support the mine and concentrator consist of bringing nearby power to the property, developing a water well field within the adjacent Kobeh Valley area, site access roads, and constructing maintenance shops for the mine and plant administrative offices.

Surface Rights

Surface rights on the Mount Hope property include BLM open range grazing rights and stock water rights. To date, approximately 80% of the grazing and stock water rights which overlap the Mount Hope property have been secured by way of the Gale Ranch purchase. See General Development of the Business Overview. We are currently negotiating for the remaining 20% and expect to complete those transactions in 2007.

Two power line easements cross within the property boundaries. A 345 kV transmission line operated by Sierra Pacific Power runs north-south on the western edge of the property and the other easement is a non-operating, medium-voltage power line that runs from the old mill facilities east along State Route 278 to the eastern property boundary.

Physiography

The Mount Hope area lies within an area of north-south trending mountains separated by alluvial valleys. The primary mountain ranges in the Mount Hope area include the Roberts Mountains, Sulphur Spring Range, Diamond Mountains, Simpson Park Range and the Cortez Mountains. Elevations of the mountains range from over 3,050 meters (10,000 feet) for the Roberts Mountains to approximately 2,070 meters (6,800 feet) for the crests of the Sulphur Spring range.

The major valleys in the Mount Hope region are Diamond Valley to the east of Mount Hope, Garden Valley to the north of Mount Hope, and Kobeh Valley to the west. Diamond and Garden Valleys are elongated in a north-south direction. Kobeh Valley is roughly equidimensional in form.

The upper portions of the valleys are similar in nature and are characterized by slightly incised stream channels with no significant associated floodplain. The uplands and mountains have slopes ranging from moderate to steep (over 30 percent) with shallow to deep, moderately alkaline to medium acidic soils. Bedrock is often within 0.5 meters of the surface, particularly on the steep upland slopes.

Lake sediments make up the largest areas in the valleys. The slopes range from smooth to rolling (0 to 15 percent), and the soils vary from shallow to deep and mildly to strongly alkaline. The surface textures range from silty clay loams to gravelly sandy loams and local sand. The permeability of these soils ranges from slow to rapid.

The natural vegetation of the region consists of pinion juniper and sagebrush with grass. The pinion juniper occupies the higher elevations of the mountain slopes, with the lower areas in the valley covered predominantly with sagebrush and shrubs with perennial bunchgrasses.

Mount Hope, located in the lower foothills of the southeast flank of the Roberts Mountains, stands approximately 2,440 meters (8,000 feet) in elevation. Areas to the east and south east slope gently to elevations from 1,950 to 2,410 meters (6,400 to 7,900 feet). Diamond Valley, situated to the south and east of Mount Hope, is approximately 1,660 meters (5,450 feet) in elevation.

History

Prior Ownership and Results of Exploration Work Ownership

Lead-zinc ores were discovered at Mount Hope in 1870, and small scale mining carried out sporadically until the 1970s. Zinc and adjacent copper mineralization were the focus of drilling activities by Phillips Petroleum in the early 1970s and by ASARCO and Gulf (**ASARCO**) in the mid-1970s which outlined further zinc mineralization. The last drill hole of this series encountered significant molybdenum mineralization at depth west of the zinc deposits. The significance of this mineralization was first recognized by ASARCO in 1976, but ASARCO was apparently unable to reach an agreement with MHMI to test this potential.

Exxon recognized molybdenum potential at Mount Hope in 1978 and acquired an option on the property from MHMI. By 1982, Exxon had completed 69 holes, which partially defined a major molybdenum deposit underlying the east flank of the Mount Hope property. Exxon conducted a +/-25% feasibility study of the Mount Hope prospect in 1982. The Exxon study focused on an ore production rate of 27,500 tpd starting in 1985. In December of 1983, Exxon completed an optimization study, which generally involved a reduced capital and operating cost estimate based on more aggressive project parameters. An extensive environmental database of multiple assessments by consultants formed the basis of the environmental assessment and was utilized in the Exxon permitting process for their intended BLM land exchange. The Exxon feasibility study calculated a sizable molybdenum deposit. A draft EIS was completed on the project, and public hearings were held in early 1985. Exxon drilled an additional 60 holes on the property between 1983 and 1988 but did not update their deposit block model with data from the post 1982 holes. Cyprus Metals Company (**Cyprus**) drilled four holes on the property in 1989-90 under an agreement with Exxon but apparently did not pursue the project.

Kennecott (**Kennecott**) executed an agreement in 1995, which allowed them to study the prospect and, if desired, execute a purchase by April 30, 1996. Kennecott reviewed the property and data, but did not drill any new holes. Kennecott conducted the economic evaluations but did not exercise the option on the property. The property rights remained with MHMI after the Exxon and Kennecott efforts.

We established an agreement with MHMI in 2004 as outlined in *Business Description of the Mount Hope Project Acquisition* . We obtained access to previous work completed by previous parties including drill core and drill data, which we used as the basis for developing a feasibility evaluation of the Mount Hope deposit. The feasibility study conducted by seven consulting groups acting in consortium provided the basic engineering, plant design and other aspects of analysis of the Mount Hope Project. The feasibility study outlined a positive operating process, waste disposal, mine design and plan, environmental, permitting plan, operating and capital cost estimates, and other inputs to a significant feasibility study and the corresponding estimates of mineralized material reported in the Technical Report.

Geology

Central Nevada represents a band of north-south trending mountain ranges and is made up of rock units characterized into three groups: (1) Western Assemblage rocks made up of carbonaceous shale, mudstone, chert, and volcanic rocks; (2) Eastern Assemblage rocks consisting of thick rock sequences of carbonate rocks; and (3) overlap assemblages of mixed carbonate and coarse to fine siliciclastic rocks.

The Western Assemblage were thrust faulted eastward over the Eastern Assemblage sequence. This area of thrusting is known as the Roberts Mountain Thrust Zone. Materials shed off the fore front of the thrust sheet formed the overlap assemblage. Mount Hope is located on the leading edge of this zone on the west side of the overlap group of rocks.

The Mount Hope deposit is located on the eastern edge of a mineral belt linking deposits of diverse ages along a northwest-southeast trending line. The Battle Mountain-Eureka mineral belt, 240 miles long,

has served to localize intrusive and mineralizing activity and has resulted in major deposits of gold, silver, copper, and molybdenum.

The Mount Hope deposit is centered in an elevated area of igneous rock exposure 1.6