

**FLORENCE COPPER INC.
FLORENCE COPPER PROJECT
FOURTH QUARTER 2006 MONITORING REPORT
U.L.C. PERMIT AZ396000001
AND
A.P.F. PERMIT 101704**

January 26, 2007

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HUGH NOWELL
CORPORATE COUNSEL

January 26, 2007

Ms. Nancy Rummill
U.S. Environmental Protection Agency
Region 9, Ground Water Office, WTR-9
75 Hawthorne Street
San Francisco, California 94105-3901

RE: MONITORING REPORT FOR UIC PERMIT NUMBER AZ396000001
FOURTH QUARTER 2006 REPORT

Dear Ms. Rummill,

This report is submitted in accordance with the reporting requirements of Parts II.G.2.(a) through (j) of the referenced permit. It pertains to monitoring activities conducted at the Florence In-Situ Mine Site from October 1 through December 31, 2006. Copies of records required by Part II.G.1 are maintained at the Mine Site along with other information that is summarized below.

Florence Copper is subject to the requirements of UIC Permit No. AZ396000001 issued by the United States Environmental Protection Agency (USEPA) on May 1, 1997, and APP No. 101704 issued by the Arizona Department of Environmental Quality (ADEQ) on June 9, 1997, and last amended on July 16, 2004.

As you are aware, Florence Copper discontinued hydraulic control on September 1, 2004 in order to conduct groundwater quality tests in accordance with Part II.H.2 of the APP and Part II.I.2 of the UIC Permit. A report of the results has been provided to the ADEQ and USEPA for review. The pumping wells remain off during the evaluation process. As a result, no extraction flows are reported under Section (b) below and the water level measurements that are reported in Section (b) reflect natural conditions, not hydraulic control.

(a) A map showing the current status of the mine.

Figure 1 shows the current monitoring area including the Point of Compliance (POC) wells and the wellfield. Figure 2 shows the approximate layout of the wellfield and denotes the four well pairs. There are four injection/recovery wells and nine pumping wells. Five observation wells were installed to demonstrate net inward hydraulic gradient for the 90 days required by the permit. Solution injection began on October 31, 1997, and ceased on February 8, 1998.

- (b) A table and graph showing daily cumulative injection flows and extraction flows in each active mine block over the reporting period.**

Hydraulic control was discontinued on September 1, 2004 for purposes of collecting groundwater samples following a 90-day period of no hydraulic control, and remains discontinued for evaluation of results. Accordingly there are no injection or extraction flows to report.

- (c) A table and graph comparing average daily head in the four observation wells.**

Although hydraulic control was not maintained during this reporting period, water level measurements were continued by manual measurements in the four observation wells and their nearest inward neighbors. Figure 1 of Attachment 1 and the supporting data show the groundwater elevations in the four well pairs.

- (d) A table showing POC monitoring wells analytical results and alert levels.**

The attached report *Florence Project Quarterly Compliance Monitoring Report – Fourth Quarter 2006* by Brown and Caldwell and sealed by Ms. Barbara Sylvester, Professional Engineer (Attachment 2), contains the POC monitoring records and results. Brown and Caldwell, along with Project personnel, conducted compliance sampling on October 2 through October 5, 2006.

Quarterly parameters were conducted for 29 of the 31 POC monitoring wells. POC monitoring wells M32-UBF and M33-UBF were dry and could not be sampled. All results were below the Alert Levels (ALs) or Aquifer Quality Limits (AQLs). The results are discussed in the report.

- (e) Results of the monthly analyses of organic in the injectate**

Organic analyses are not required because no solution was injected during the reporting period.

- (f) Results of monitoring required by 40 CFR 146.33 (b)(1)**

No solution was injected.

- (g) Results of the mechanical integrity tests**

No mechanical integrity test was required.

Ms. Nancy Runrill

January 21, 2006

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(b) Results of the annular conductivity monitoring

Although injection ceased in early 1998, annular conductivity measurements have continued to the present time. A graph showing measurement results for this reporting period is presented in Attachment 1, Figure 2. During the last quarter a historically high value was calculated for CH-1. This value returned to a normal range suggesting that the previous value was an outlier and not indicative of a physical condition of the well).

(i) Well and core hole plugging and abandonment.

None of the existing wells and core holes were abandoned during the report period.

(j) A summary of closure operations during the reporting period.

There were no closure operations during the reporting period.

Florence Copper, Inc., believes that you will find this report complete and in compliance with all permit conditions. Please contact me at (404) 495-9577 should you have any questions regarding this report.

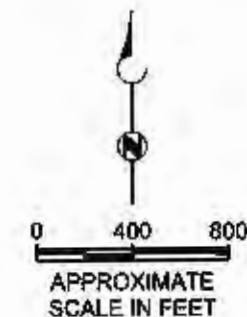
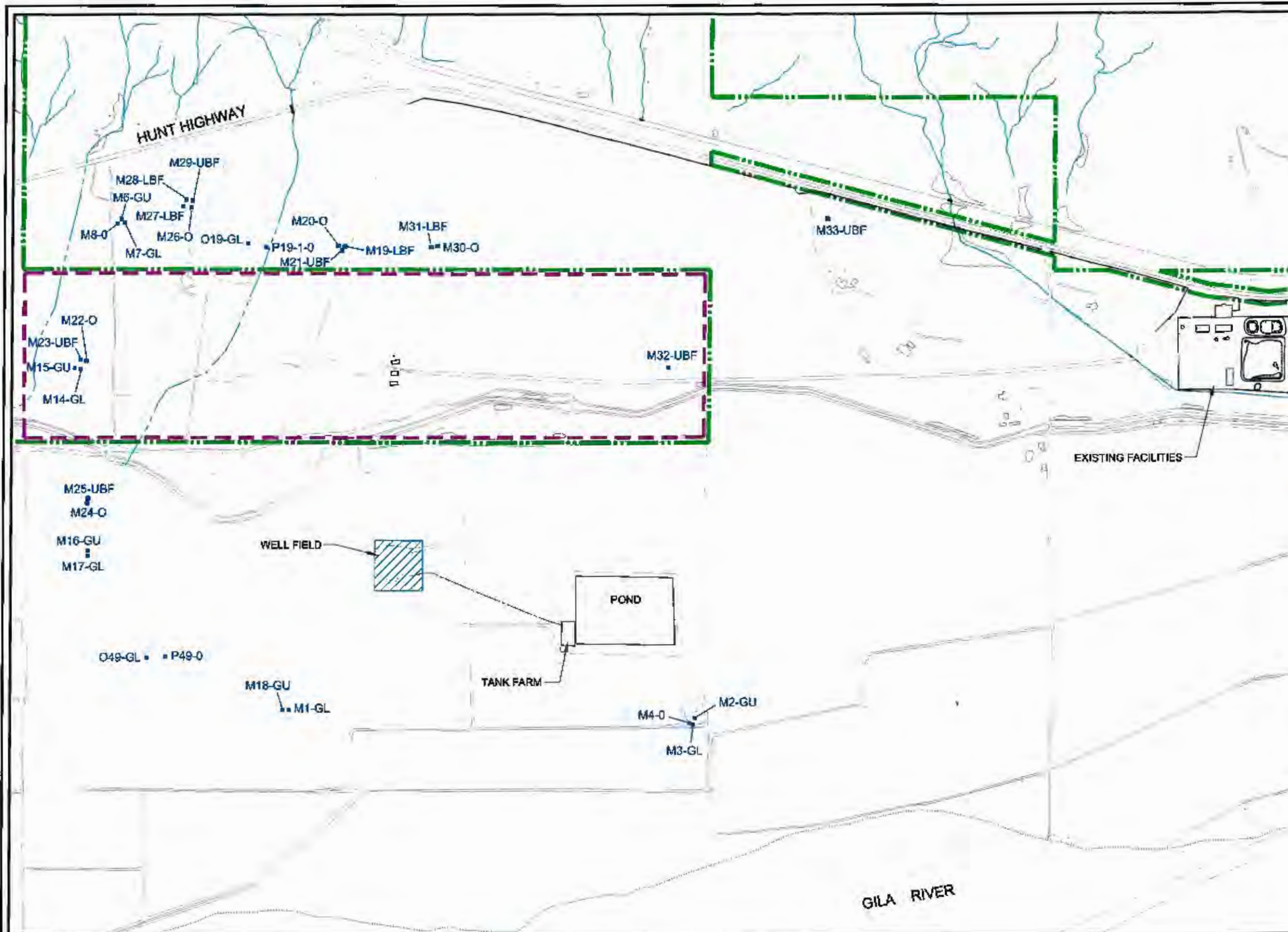
Sincerely,



Hugh Nowell
Corporate Counsel

BAS:lld
Attachments

cc: Florence Copper File

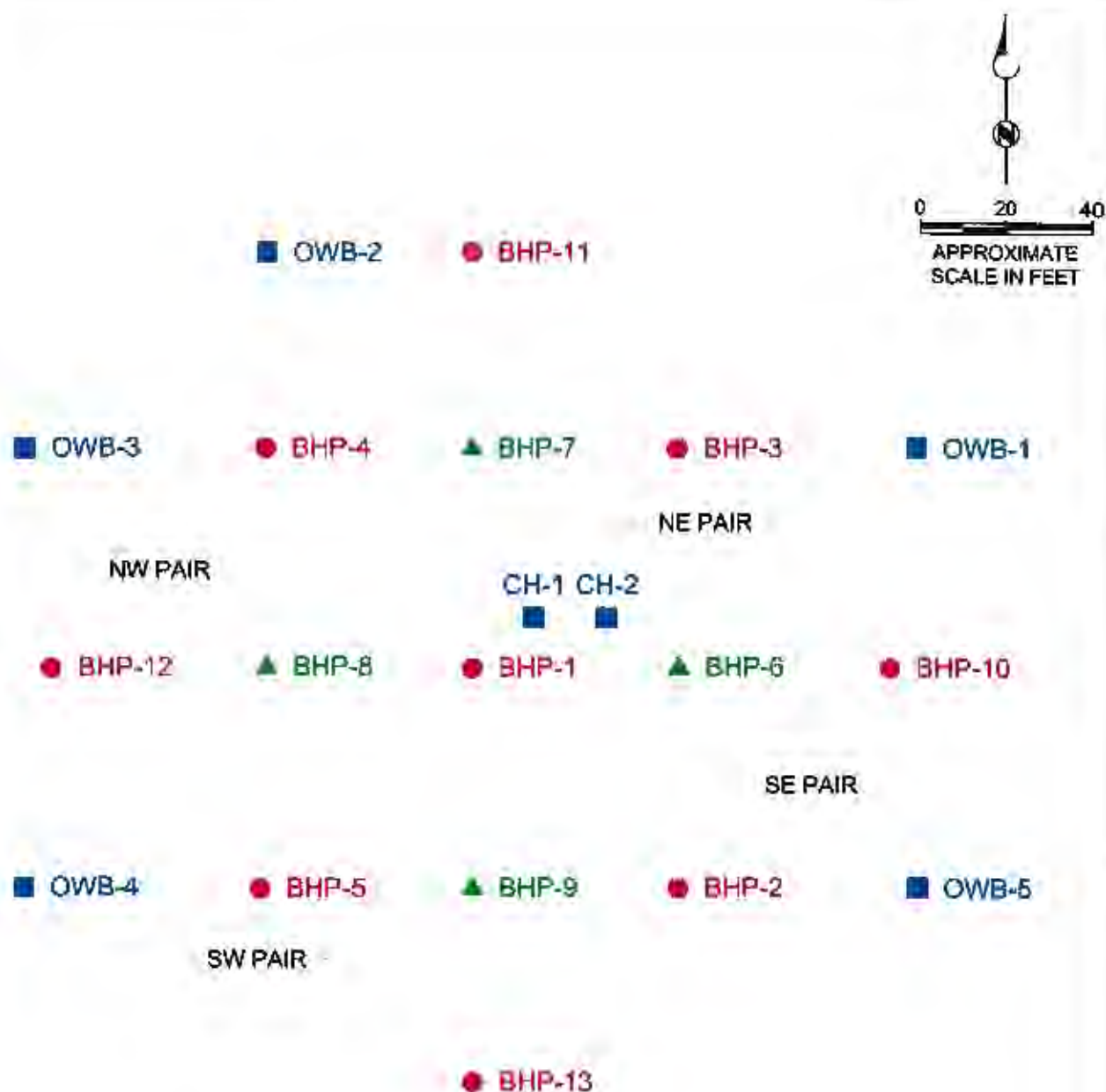


EXPLANATION

- APPROXIMATE PROPERTY BOUNDARY
- STATE LEASE LAND BOUNDARY
- O19-GL POC MONITORING WELL
- ENLARGED AREA ON FIGURE 2

BROWN AND
CALDWELL

Figure 1
MONITORING AREA
MERRILL MINING, L.L.C.
FLORENCE, ARIZONA



EXPLANATION

- BHP-10 PUMPING WELL (CURRENTLY INACTIVE)
- OWB-2 OBSERVATION WELL
- ▲ BHP-8 (INJECTION / RECOVERY WELL
(RECOVERY MODE SINCE 1998))

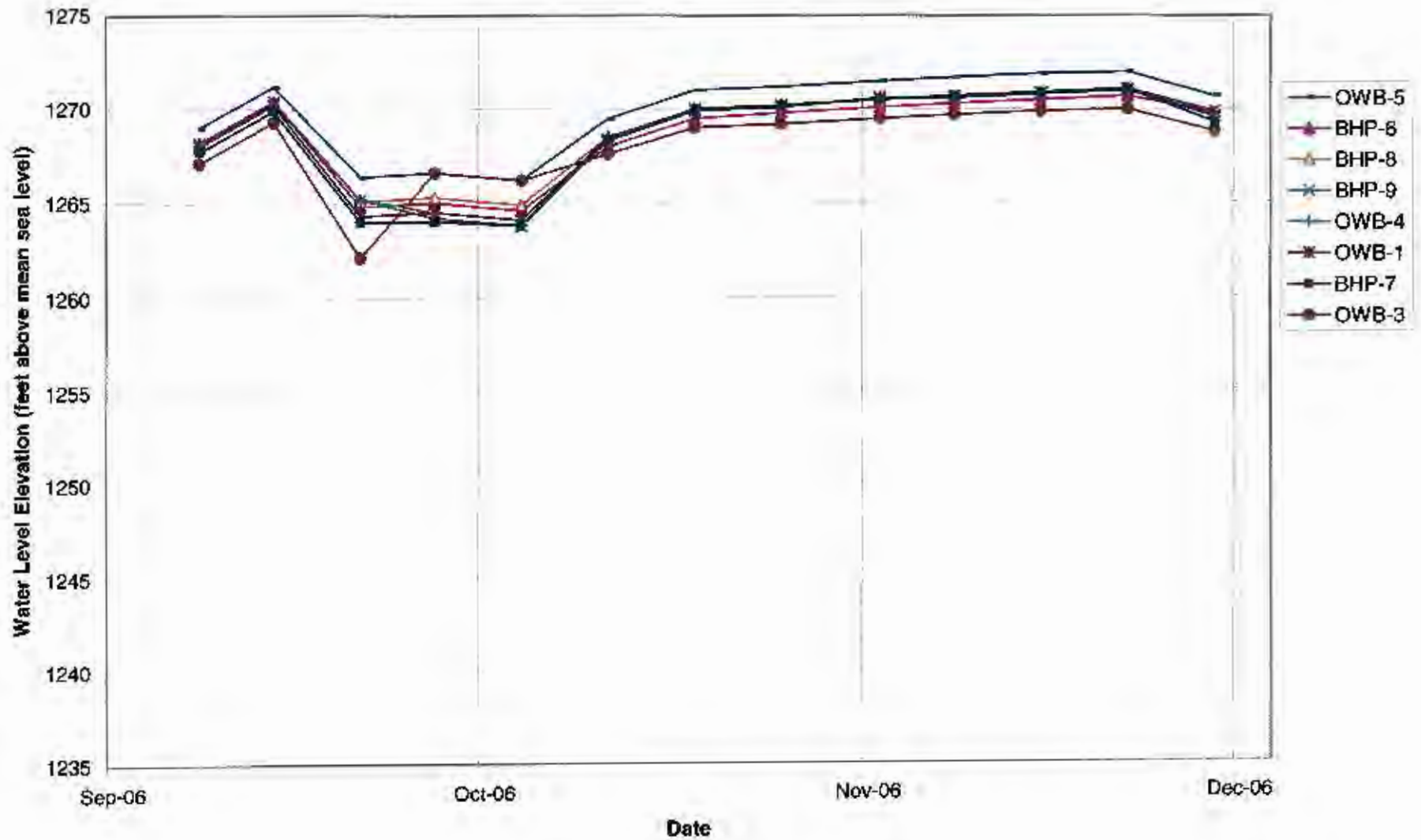
BROWN AND
CALDWELL

Figure 2
WELLFIELD LAYOUT
MERRILL MINING, L.L.C.
FLORENCE, ARIZONA

ATTACHMENT 1

MINE OPERATIONS MONITORING

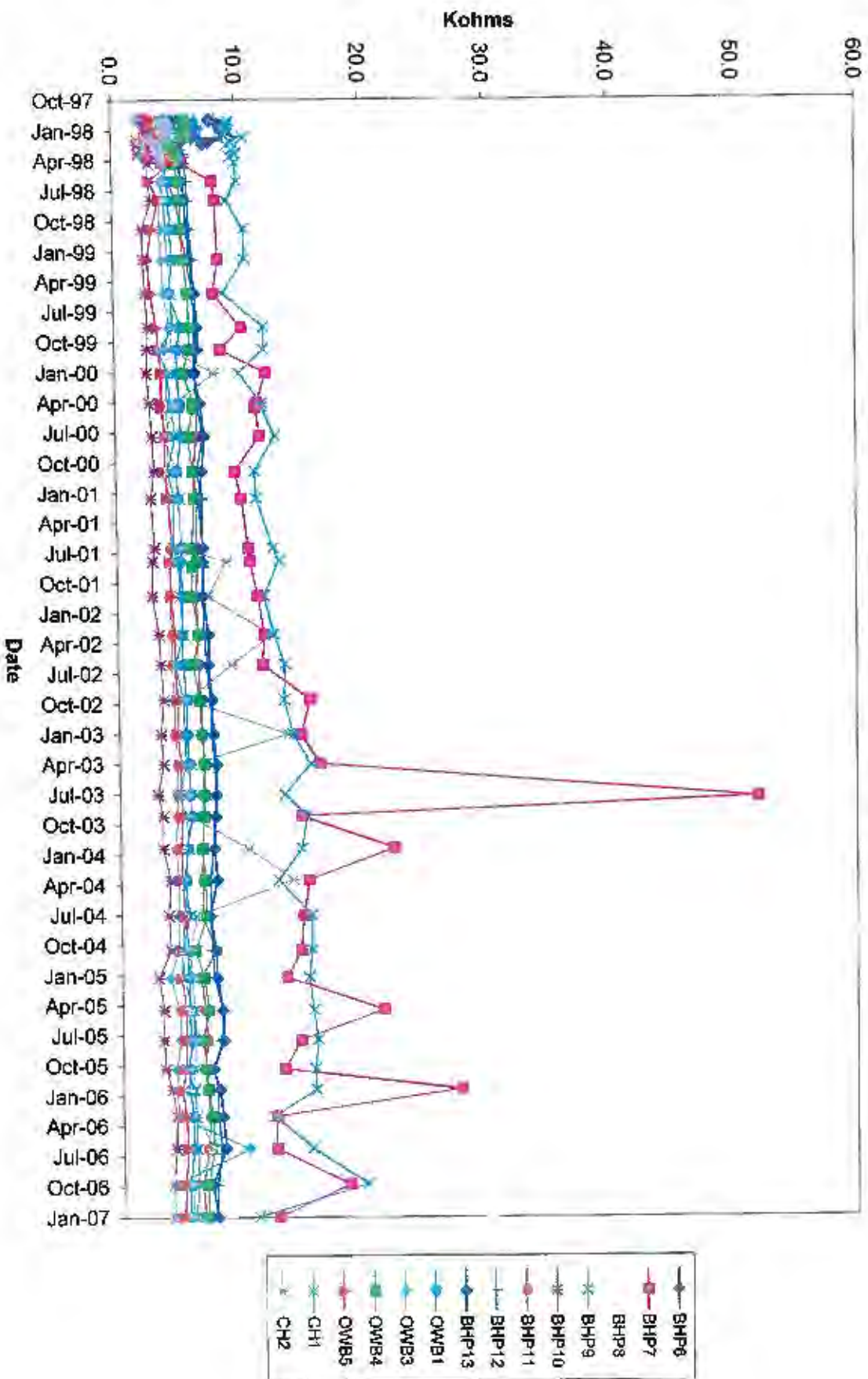
**Figure 1 - Well Field Water Elevations
Fourth Quarter 2006**



**Well Field Water Elevations
Fourth Quarter 2006**

| Date | BHP-6 | BHP-7 | BHP-8 | BHP-9 | OWB-1 | OWB-3 | OWB-4 | OWB-5 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| 10/7/2006 | 1268.2 | 1267.7 | 1268.2 | 1268.2 | 1268.0 | 1267.1 | 1268.1 | 1269.0 |
| 10/13/2006 | 1270.4 | 1269.9 | 1270.4 | 1270.4 | 1270.2 | 1269.3 | 1270.3 | 1271.2 |
| 10/20/2006 | 1264.8 | 1264.0 | 1265.1 | 1265.2 | 1264.3 | 1262.1 | 1265.2 | 1266.4 |
| 10/26/2006 | 1265.0 | 1264.0 | 1265.3 | 1264.2 | 1264.5 | 1266.6 | 1264.5 | 1266.6 |
| 11/2/2006 | 1264.6 | 1263.8 | 1264.9 | 1263.8 | 1264.1 | 1266.2 | 1264.1 | 1266.2 |
| 11/9/2006 | 1268.0 | 1268.4 | 1268.5 | 1268.4 | 1268.3 | 1267.6 | 1268.5 | 1269.5 |
| 11/16/2006 | 1269.5 | 1270.0 | 1270.0 | 1270.0 | 1269.9 | 1269.0 | 1270.0 | 1271.0 |
| 11/23/2006 | 1269.8 | 1270.2 | 1270.2 | 1270.2 | 1270.1 | 1269.2 | 1270.2 | 1271.2 |
| 12/1/2006 | 1270.1 | 1270.5 | 1270.5 | 1270.5 | 1270.6 | 1269.5 | 1270.5 | 1271.5 |
| 12/7/2006 | 1270.3 | 1270.7 | 1270.7 | 1270.7 | 1270.6 | 1269.7 | 1270.7 | 1271.7 |
| 12/14/2006 | 1270.5 | 1270.9 | 1270.9 | 1270.9 | 1270.8 | 1269.9 | 1270.9 | 1271.9 |
| 12/21/2006 | 1270.7 | 1271.1 | 1271.1 | 1271.1 | 1271.0 | 1270.0 | 1271.1 | 1272.0 |
| 12/28/2006 | 1269.8 | 1269.3 | 1269.8 | 1269.9 | 1269.6 | 1268.8 | 1269.8 | 1270.7 |
| Water Level Elevations (feet AMSL) | | | | | | | | |

Figure 2 - Annular Resistivity in Kohms



ATTACHMENT 2

POC QUARTERLY COMPLIANCE MONITORING REPORT

**FLORENCE COPPER PROJECT
QUARTERLY COMPLIANCE MONITORING REPORT
FOURTH QUARTER 2006**

Primary Sampling Activities

Quarterly compliance monitoring was conducted for the Florence Copper project on October 2 through 5, 2006 (Fourth Quarter 2006). Groundwater sampling and analysis was conducted in accordance with the requirements of Aquifer Protection Permit (APP) Permit Number 101704, Part II.E.3.d (Compliance Monitoring). Quarterly parameters, as listed in Part IV Table III.B of the APP were analyzed from the designated Point of Compliance (POC) wells. The quarterly parameters are magnesium, sulfate, fluoride, and total dissolved solids (TDS).

During the Fourth Quarter 2006 sampling event, 29 POC wells were sampled and a total of 116 constituents were analyzed. Two POC wells, M32-UBF and M33-UBF, were dry and could not be sampled. Of the 116 constituents analyzed, none had reported concentrations exceeding the approved alert levels (ALs).

Analyses of the samples were conducted by Aerotech Environmental Laboratories (Aerotech). Analytical results for the POC wells for the quarterly parameters are provided in Table 1 and field parameters measured during sampling are indicated in Table 2.

AL Exceedances and Verification Sampling

Part II.F.4 of the APP (AL, Aquifer Quality Limit [AQL], and Discharge Limit [DL] Contingencies) requires verification sampling for an AL exceedance. There were no AL exceedances during this quarterly sampling. No verification sampling was required.

Contingency Sampling Plan to be Implemented During First Quarter 2007

There were no AL exceedances verified during this quarterly sampling. No contingency sampling plan is required during the First Quarter of 2007.

Results of Contingency Sampling Plan Implemented from Third Quarter 2006

There were no AL exceedances during the Third Quarter 2006. Therefore, no contingency sampling plan was implemented.

Issues

There were no other issues to report during the Fourth Quarter 2006.



TABLE 1. SUMMARY OF ANALYTICAL RESULTS, QUARTERLY PARAMETERS

| Well ID | Sample Date | Magnesium | | Sulfate | | Fluoride | | Total Dissolved Solids | |
|---|-------------|---------------|-------------|---------------|-------------|---------------|-------------|------------------------|-------------|
| | | Concentration | Alert Level | Concentration | Alert Level | Concentration | Alert Level | Concentration | Alert Level |
| M1-GL | Oct 05 2006 | 23.0 | 31 | 99 | 109 | 0.82 | 1.3 | 640 | 1028 |
| M2-GU | Oct 05 2006 | 28.0 | 39 | 140 | 275 | 0.91 | 1.4 | 850 | 1496 |
| M3-GL | Oct 05 2006 | 20.0 | 36 | 120 | 187 | 0.81 | 1.3 | 640 | 1157 |
| M4-O | Oct 05 2006 | 5.6 | 15 | 61 | 405 | 2.4 | 5.1 | 540 | 1072 |
| M6-GU | Oct 04 2006 | 3.1 | 5.1 | 48 | 86 | 0.76 | 1.3 | 350 | 620 |
| M7-GL | Oct 04 2006 | <0.25 | 1 | 34 | 82 | 0.95 | 1.7 | 260 | 464 |
| M7-GL (Dup) | Oct 04 2006 | <0.25 | 1 | 34 | 82 | 0.96 | 1.7 | 260 | 464 |
| M8-O | Oct 04 2006 | <0.25 | 1 | 70 | 122 | 2.0 | 3.6 | 360 | 609 |
| M14-GL | Oct 04 2006 | 2.4 | 23 | 54 | 144 | 0.71 | 1.4 | 260 | 874 |
| M15-GU | Oct 04 2006 | 26.0 | 44 | 74 | 126 | 0.61 | 1.2 | 720 | 1359 |
| M16-GU | Oct 05 2006 | 34.0 | 52 | 170 | 248 | 0.68 | 1.1 | 940 | 1635 |
| M17-GL | Oct 05 2006 | 6.2 | 9.3 | 110 | 209 | 0.85 | 1.6 | 450 | 831 |
| M18-GU | Oct 05 2006 | 21.0 | 36 | 160 | 288 | 1.0 | 1.6 | 790 | 1323 |
| M19-LBF | Oct 03 2006 | 13.0 | 21 | 52 | 89 | 0.63 | 1 | 430 | 794 |
| M19-LBF (Dup) | Oct 03 2006 | 12.0 | 21 | 52 | 89 | 0.62 | 1 | 440 | 794 |
| M20-O | Oct 03 2006 | 8.9 | 14 | 64 | 112 | 0.91 | 1.7 | 460 | 809 |
| M21-UBF | Oct 03 2006 | 20.0 | 87 | 160 | 487 | 0.93 | 1.1 | 680 | 2867 |
| M22-O | Oct 04 2006 | 6.4 | 8.6 | 49 | 86 | 0.79 | 1.3 | 380 | 1094 |
| M23-UBF | Oct 04 2006 | 41.0 | 69 | 260 | 411 | 0.81 | 1.3 | 1300 | 2392 |
| M24-O | Oct 05 2006 | 11.0 | 19 | 710 | 1364 | 1.2 | 2.5 | 1300 | 2363 |
| M24-O (Dup) | Oct 05 2006 | 12.0 | 19 | 700 | 1364 | 1.2 | 2.5 | 1300 | 2363 |
| M25-UBF | Oct 05 2006 | 25.0 | 76 | 170 | 387 | 0.94 | 1.6 | 840 | 2683 |
| M26-O | Oct 03 2006 | <0.25 | 1 | 60 | 105 | 1.6 | 3.4 | 310 | 556 |
| M27-LBF | Oct 03 2006 | 34.0 | 51 | 140 | 179 | 0.53 | 1 | 1100 | 1745 |
| M28-LBF | Oct 03 2006 | 1.7 | 2.6 | 46 | 81 | 0.86 | 1.6 | 340 | 610 |
| M29-UBF | Oct 03 2006 | 40.0 | 84 | 260 | 465 | 0.77 | 1.1 | 1200 | 2751 |
| M30-O | Oct 03 2006 | 12.0 | 18 | 56 | 102 | 0.87 | 1.6 | 460 | 824 |
| M31-LBF | Oct 03 2006 | 17.0 | 46 | 160 | 330 | 0.98 | 1.3 | 640 | 1665 |
| O19-GL | Oct 04 2006 | 11.0 | 17 | 54 | 99 | 0.68 | 1.4 | 440 | 770 |
| O49-GL | Oct 03 2006 | 10.0 | 18 | 68 | 159 | 0.69 | 1 | 510 | 849 |
| P19-1-O | Oct 04 2006 | 6.5 | 12 | 61 | 107 | 1.5 | 2.8 | 440 | 767 |
| P49-O | Oct 03 2006 | 3.8 | 6.2 | 100 | 181 | 1.0 | 2 | 450 | 801 |
| Arizona Aquifer Water Quality Standard | | | | | | 4 | | | |
| All results in milligrams per liter (mg/l) < = less than the laboratory practical quantitation limit | | | | | | | | | |

TABLE 2. SUMMARY OF QUARTERLY FIELD PARAMETERS

| Well ID | Sample Date | Temperature (°C) | Temperature (°F) | pH | Conductivity (µmhos/cm) |
|---------|-------------|---------------------|---------------------|------|----------------------------|
| M1-GL | Oct 05 2006 | 22.6 | 72.7 | 7.59 | 1073 |
| M2-GU | Oct 05 2006 | 20.5 | 68.9 | 7.39 | 1338 |
| M3-GL | Oct 05 2006 | 22.4 | 72.3 | 7.62 | 1007 |
| M4-O | Oct 05 2006 | 24.0 | 75.2 | 7.49 | 697 |
| M6-GU | Oct 04 2006 | 24.8 | 76.6 | 8.54 | 679 |
| M7-GL | Oct 04 2006 | 24.7 | 76.5 | 9.41 | 490 |
| M8-O | Oct 04 2006 | 29.2 | 84.6 | 8.89 | 665 |
| M14-GL | Oct 04 2006 | 27.5 | 81.5 | 8.55 | 808 |
| M15-GU | Oct 04 2006 | 25.2 | 77.4 | 7.50 | 1294 |
| M16-GU | Oct 05 2006 | 24.0 | 75.2 | 7.50 | 1562 |
| M17-GL | Oct 05 2006 | 28.4 | 83.1 | 8.39 | 835 |
| M18-GU | Oct 05 2006 | 20.8 | 69.4 | 7.53 | 1181 |
| M19-LBF | Oct 03 2006 | 23.2 | 73.8 | 7.75 | 770 |
| M20-O | Oct 03 2006 | 23.9 | 75.0 | 7.57 | 751 |
| M21-UBF | Oct 03 2006 | 22.4 | 72.3 | 7.45 | 1074 |
| M22-O | Oct 04 2006 | 28.8 | 83.8 | 8.04 | 783 |
| M23-UBF | Oct 04 2006 | 22.4 | 72.3 | 7.19 | 1979 |
| M24-O | Oct 05 2006 | 30.9 | 87.6 | 7.85 | 1949 |
| M25-UBF | Oct 05 2006 | 21.6 | 70.9 | 7.43 | 1282 |
| M26-O | Oct 03 2006 | 29.1 | 84.4 | 8.62 | 590 |
| M27-LBF | Oct 03 2006 | 23.4 | 74.1 | 7.50 | 1585 |
| M28-LBF | Oct 03 2006 | 26.4 | 79.5 | 8.39 | 673 |
| M29-UBF | Oct 03 2006 | 22.5 | 72.5 | 7.19 | 1811 |
| M30-O | Oct 03 2006 | 24.4 | 75.9 | 7.49 | 780 |
| M31-LBF | Oct 03 2006 | 22.8 | 73.0 | 7.49 | 1609 |
| O19-GL | Oct 04 2006 | 23.9 | 75.0 | 7.77 | 755 |
| O49-GL | Oct 02 2006 | 25.9 | 78.6 | 7.56 | 893 |
| P19-I-O | Oct 04 2006 | 24.6 | 76.3 | 7.64 | 737 |
| P49-O | Oct 02 2006 | 28.3 | 82.8 | 7.53 | 796 |
| | | | | | |