

A review of the Diamond Valley Hydrographic Basin shows that there are more committed groundwater rights in the form of permits and certificates than the estimated perennial yield of the basin, while the Kobeh Valley Hydrographic Basin has excess groundwater available for this project. Unless additional restrictions are put in place through permit terms, a situation could exist where water from an over-allocated basin could be exported to a basin that is under-allocated and the State Engineer finds that this would be contrary to the proper management of the Diamond Valley Hydrographic Basin's groundwater resource at this time. The State Engineer finds that any permit issued for the mining project with a point of diversion within the Diamond Valley Hydrographic Basin must contain permit terms restricting the use of water to within the Diamond Valley Hydrographic Basin and any excess water produced that is not consumed within the basin must be returned to the groundwater aquifer in Diamond Valley. The State Engineer finds that any approval of Applications 76005-76009, 76802-76805, and 78424 will restrict the use of any groundwater developed to within the Diamond Valley Hydrographic Basin; therefore, there will be no interbasin transfer of water allowed and NRS § 533.370(6) will not be applicable to these applications.

**X.**

**NEED TO IMPORT WATER**

The interbasin transfer criteria were adopted in 1999. The impetus for the legislation was the proposed transfer of groundwater from rural hydrographic basins in eastern Nevada to the greater Las Vegas area to meet anticipated municipal growth; however, there is no exclusionary language for other manners of use. The requirements of NRS § 533.370(6) along with other statutory criteria are addressed in the following sections.

The groundwater developed for the project will come primarily from a well field located within Kobeh Valley. The mine project area straddles the basin boundary between Diamond Valley and Kobeh Valley and the proposed place of use also encompasses a small portion of Pine Valley. The Applicant presented evidence of its water requirements necessary to operate the project. Water use estimates were made for the operation of the mill and other ancillary uses such as dust control and potable water

supply.<sup>68</sup> The maximum water demand for the project is estimated at 7,000 gpm or about 11,300 afa, which is the amount of water requested by the Applicant.<sup>69</sup>

The Mt. Hope mine straddles the Diamond Valley - Kobeh Valley basin boundaries. The amount of water needed to dewater the pit is less than ten percent of the amount needed for the entire mining operation. Most of the groundwater will be used in the mine's milling circuit. The mill is to be located within Diamond Valley and the tailings storage facility is to be located within Kobeh Valley. Water in the tailings facility will then evaporate from the tailings, be recycled back to the mill, or permanently stored in the tailings facility. A review of the Kobeh Valley Hydrographic Basin shows that there is sufficient unappropriated groundwater to satisfy the demands of the mining project without exceeding the perennial yield of Kobeh Valley. The State Engineer finds that the Applicant has justified the need to import water to Diamond Valley from points of diversion located within the Kobeh Valley Hydrographic Basin.

#### **XI. PLAN FOR CONSERVATION OF WATER**

If the State Engineer determines a plan for conservation is advisable for the basin into which the water is imported, the State Engineer shall consider whether the applicant has demonstrated that such a plan has been adopted and is being effectively carried out. Since July 1, 1992, water conservation plans are required for any supplier of municipal and industrial water uses based on the climate and living conditions of its service area.<sup>70</sup> The provisions of the plan must apply only to the supplier's property and its customers. The Applicant is not a municipal supplier of water, there are no municipal and industrial purveyors in Kobeh Valley or Pine Valley and the Applicant does not own or control the municipal water supply to the Town of Eureka in Diamond Valley or any other municipal or quasi-municipal water supply. Eureka County has a water conservation plan on file in the Office of the State Engineer for the Town of Eureka Water System, Devil's Gate GID District #1 and District #2, and Crescent Valley Town Water System.<sup>71</sup> The Applicant

<sup>68</sup> Transcript, pp. 564-571, October 2008; Exhibit Nos. 105, 108 and 112, October 2008.

<sup>69</sup> Transcript, p. 106, December 2010.

<sup>70</sup> NRS § 540.131.

<sup>71</sup> Eureka County - Joint Water Conservation Plan for Town of Eureka Water System, Devil's Gate GID District #1 and District #2, and Crescent Valley Town Water System, official records in the Office of the State Engineer.

will use proven molybdenum mining and milling technologies that will conserve water through reuse and recycling methods.<sup>72</sup>

The State Engineer has considered this statutory provision and hereby determines that requiring additional plans for water conservation is not necessary.

## **XII. ENVIRONMENTALLY SOUND**

The interbasin transfer statute requires a determination of whether the use of water as proposed under the applications is environmentally sound as it relates to the basin from which the water is exported. The words environmentally sound have intuitive appeal, but the public record and discussion leading up to the enactment of NRS § 533.370(6)(c) do not specify any operational or measureable criteria for use as the basis for a quantitative definition. This provision of the water law provides the State Engineer with no guidance as to what constitutes the parameters of "environmentally sound;" therefore, it has been left to the State Engineer's discretion to interpret the meaning of environmentally sound.

The legislative history of NRS § 533.370(6)(c) shows that there was minimal discussion regarding the term environmentally sound. However, the State Engineer at that time indicated to the Subcommittee on Natural Resources that he did not consider the State Engineer to be the guardian of the environment, but rather the guardian of the groundwater and surface water. The State Engineer noted that he was not a range manager or environmental scientist. Senator Mark A. James pointed out that by the language 'environmentally sound' it was not his intention to create an environmental impact statement process for every interbasin water transfer application and that the State Engineer's responsibility should be for the hydrologic environmental impact in the basin of export.<sup>73</sup>

The State Engineer finds that the meaning of 'environmentally sound' for basin of origin must be found within the parameters of Nevada water law and this means that whether the use of the water is sustainable over the long-term without unreasonable impacts to the water resources and the hydrologic-related natural resources that are dependent on those water resources. The State Engineer finds that in consideration of

<sup>72</sup> Transcript, p. 118, December 2010.

<sup>73</sup> Nevada Legislature Seventieth Session, *Summary of Legislation*, Carson City, Nevada: 1999, Web, Mar. 2, 2011. <http://www.leg.state.nv.us/Division/Research/Library/LegHistory/LHs/1999/SB108,1999.pdf>.

whether a proposed project is environmentally sound there can be a reasonable impact on the hydrologic related natural resources in the basin of origin.

Existing water rights in Kobeh Valley, not owned or controlled by the Applicant, total around 1,100 afa, and if the water for the project is approved the committed groundwater resource from the basin would be about 12,400 afa, which is far less than the perennial yield of the Kobeh Valley Hydrographic Basin. A review of records in the Office of the State Engineer show that there are 71 water-righted springs within the Kobeh Valley Hydrographic Basin. Of these 71 water rights, 29 are un-adjudicated claims of reserved water right filed by the United States Bureau of Land Management (BLM). The BLM was a protestant to the initial applications in this matter, but withdrew its protests after reaching a stipulation on monitoring, management and mitigation with the Applicant. The State Engineer finds that none of the remaining water rights are owned by any of the Protestants in this matter. Most of the remaining springs are either located far away from the proposed well sites or will not be affected due to topography and geology. However, the Applicant's groundwater model does indicate that there may be an impact to several small springs located on the valley floor of Kobeh Valley near the proposed well locations. These small springs are estimated to flow less than 1 gallon per minute.<sup>74</sup> Because these springs exist in the valley floor and produce minimal amounts of water, any affect caused by the proposed pumping can be easily mitigated such that there will be no impairment to the hydrologic related natural resources in the basin of origin. The monitoring, management and mitigation plan will allow access for wildlife that customarily uses the source and will ensure that any existing water rights are satisfied to the extent of the water right permit.

The State Engineer finds that the Applicant is only requesting 11,300 afa for its mining project, which when combined with other existing water rights is less than the perennial yield of the Kobeh Valley Hydrographic Basin. The State Engineer finds that prior to the October 2008 hearing, the Applicant had acquired about 16,000 afa of previously permitted or certificated groundwater rights within the Kobeh Valley Hydrographic Basin. The State Engineer finds that the required monitoring, management and mitigation plan, that must be approved prior to the pumping of water for the project,

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<sup>74</sup> Exhibit No. 116, Appendix B, October 2008.



will ensure that the proposed interbasin transfer of groundwater from the Kobeh Valley Hydrographic Basin remains environmentally sound throughout the life of the project.

**XIII.  
LONG-TERM USE OF THE WATER AND FUTURE GROWTH AND  
DEVELOPMENT IN THE BASIN OF ORIGIN**

Nevada has been known for containing vast deposits of minerals located throughout the state and mining has been a predominant economic force in Nevada since before statehood. Due to the availability of those mineral deposits, mining is one of the larger industries in Nevada and has traditionally provided many high-paying jobs for local communities and has contributed to the communities in other ways such as investing in infrastructure and services for those communities. It has had such an impact that the Nevada legislature declared mining and related activities to be recognized as a paramount interest of the state.<sup>75</sup> Mining operations are highly regulated by numerous governmental entities at the state and federal levels, including but not limited to regulation by Congress, the Secretary of Agriculture, the Secretary of the Interior, the United States Bureau of Land Management, the United States Forest Service, and the Nevada Department of Conservation and Natural Resources, which includes the Nevada Division of Environmental Protection, the Nevada Division of Minerals and the Nevada Division of Water Resources.

The proposed mining project is located within Eureka County. Eureka County's protest states in part:

Eureka County recognizes that the custom and culture of mining is part of its history and appreciates the role mining plays in its local and regional economy. Eureka County welcomes new opportunity for mining in its communities as long as mine development is not detrimental to existing economic or cultural activity. This protest is aimed at ensuring that any development of water resources in Kobeh Valley is conducted in full accordance with Nevada law, the Eureka County Master Plan and related ordinances, and does not unduly threaten the health and welfare of Eureka County citizens.<sup>76</sup>

Protestant Eureka County presented testimony that there could potentially be mining-related projects and other activities in Kobeh Valley as an example of future growth that may occur in Kobeh Valley; however, no water right applications have been

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<sup>75</sup> NRS § 37.010 (f)(1).

<sup>76</sup> Exhibit No. 509, December 2010.

filed on these potential projects.<sup>77</sup> Protestant Eureka County also argues that the population of southern Eureka County may increase from 940 to over 2,000, although that includes an estimated 700 people from the mine assuming the Mount Hope project proceeds as planned.<sup>78</sup> A review of pumpage records submitted to the Office of the State Engineer shows that the Town of Eureka currently reports a usage of about 175 afa out of about 1,226 afa of available water rights.<sup>79</sup> It should be noted that there are no permitted municipal or quasi-municipal water users in the basin of origin, Kobeh Valley. The only existing groundwater uses permitted at this time in Kobeh Valley are mining and milling, irrigation, and stock watering.

The State Engineer finds that the water sought for appropriation in Kobeh Valley is less than the estimated perennial yield of the basin; therefore, substantial water remains within the basin for future growth and development. The State Engineer finds that the project will not unduly limit the future growth and development in the Kobeh Valley Hydrographic Basin. The State Engineer finds that the proposed mining project is the type of future growth and development that would be anticipated in this area of Nevada. The State Engineer finds that mining provides an economic base for Eureka County.

#### XIV. FORFEITURE

The Applicant has filed applications to change existing water rights. Once a certificate of appropriation for groundwater is issued, the owner is subject to the provisions of NRS § 534.090, which provides in part that the water right may be subject to forfeiture after five consecutive years of nonuse.<sup>80</sup>

Protestant Eureka County provided testimony and evidence regarding the alleged forfeiture of the following water right certificates; note, the associated change application(s) is in parentheses: Certificates 2780 (App. 76989, 79223), 2880 (App. 76990, 79935), 2782 (App. 76483), 6457 (App. 76484, 77174), 8002 (App. 76485, 77175), 8003 (App. 76486) and 4922 (App. 76744). The certificates are associated with three separate areas:

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<sup>77</sup> Transcript, pp. 749 and 750 and Exhibit No. 531, December 2010.

<sup>78</sup> Transcript, pp. 703 and 704, December 2010.

<sup>79</sup> See, Permit No. 76526, total combined duty of water not to exceed 1,226.22 afa, official records in the Office of the State Engineer.

<sup>80</sup> NRS § 534.090.

1. Bartine a.k.a. Fish Creek Ranch
  - a. Certificate 2780 (Permit 9682)
  - b. Certificate 2880 (Permit 11072)
2. Willow a.k.a. 3F Ranch
  - a. Certificate 2782 (Permit 10426)
  - b. Certificate 6457 (Permit 18544)
  - c. Certificate 8002 (Permit 23951)
  - d. Certificate 8003 (Permit 23952)
3. Bean Flat a.k.a. Damele Ranch
  - a. Certificate 4922 (Permit 13849)

All certificates were issued for irrigation and/or domestic purposes and the testimony and evidence indicates extensive periods of non-use. The Division has conducted crop inventories in Kobeh Valley and records from those pumpage inventories from 1983 to 2007 were introduced at the hearing.<sup>81</sup> The following is a summary of the crop inventories that are available. There is no inventory data for any omitted years in the following Table 1.

Ranch & Cert./Year	1984	1985	1986	1993	1995	1998	2002	2003	2004	2005	2006	2007	2008	2010
Bartine Cert. 2780											65.54	65.54	15	59.5
Bartine Cert. 2880							20	20	20	20	0	0	45	45
Willow Cert. 2782											0	0	0	0
Willow Cert. 6457	0	0	0	0	0						0	0	0	0
Willow Cert. 8002	0	0	0	0	0	0					0	0	0	0
Willow Cert. 8003											0	0	0	
Bean Flat Cert. 4922											0	0	0	0

**Table 1. Crop inventory summary (acres).**

For the Bartine a.k.a. Fish Creek Ranch, the crop inventories indicate some usage of water in recent years. The Protestant has argued that the water is not used for active irrigation, rather the water flows uncontrolled from artesian wells on an area of pasture land and no crop has been planted and/or harvested; therefore, this use should not be counted as beneficial use as noted on the crop inventories. There was substantial

<sup>81</sup> Exhibit No. 29, October 2008.

testimony stating that there was no irrigation of a crop on the property,<sup>82</sup> but most of the witnesses appeared to agree that there was some artesian flow of water on the property. Certificate 2780 indicates that the proposed works include an artesian well, supporting structures and a small ditch. Certificate 2880 indicates that the proposed works consists of a groundwater well providing water to ditches. Both certificates irrigate the same acreage being 65.54 acres of land and are supplemental to each other by place of use. The crop inventories credit the entire acreage as irrigated pasture grass from an artesian well in 2006 and 2007, as seen in Table 1. The Protestant makes an argument that the artesian flow does not comply with the intent of the Certificates, does not constitute a beneficial use of water, and does not meet the definition of irrigate or irrigation water. However, because the Protestant's evidence of non-use conflicts with the 2006 and 2007 crop inventories, which show use on the entire place of use of 65.54 acres, and substantial use in 2008 and 2010, the State Engineer finds that there is not clear and convincing evidence of forfeiture for Certificates 2780 and 2880.

For the Willow Ranch, a.k.a. 3F Ranch, four witnesses testified that there has been no water use or irrigated land under the certificates, since the early 1980s, or at least 1989.<sup>83</sup> The witnesses consist of a resident who has hauled hay in the general area for 32 years and had assisted in harvesting crops on the ranch in 1980, a long-time resident that drove the area at least once a month between 1994-2003, the current Chairman of the Eureka County Board of Commissioners who was also the County Assessor for thirty years and visited the properties every five years as Assessor, and the Public Works Director for Eureka County who is a long-time resident and for a seven-year period was road superintendent. The available crop inventories corroborate the testimony of the witnesses as illustrated in Table 1. A review of the record shows no evidence was provided at the administrative hearing as to water use on the ranch from at least 1989 to 2010.

The evidence demonstrates that the water represented by Certificates 2782, 6457, 8002, and 8003 has not been placed to beneficial use for a period of time in excess of more than the statutory five-year period necessary to work a forfeiture. The State

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<sup>82</sup> Transcript, pp. 117, 118, 401, 423 and 484, October 2008.

<sup>83</sup> Transcript, pp. 113-114, 402, 422, 423 and 485, October 2008.

Engineer finds that the water under Certificates 2782, 6457, 8002 and 8003 is subject to forfeiture.

For Bean Flat, a.k.a. Damele Ranch, the crop inventories show no water use in 2006, 2007, 2008 and 2010.<sup>84</sup> Aerial photos from 1954, 1975 and 1981 compared to Google Earth today show no differences in the area and it appears the area has not changed significantly since at least 1954.<sup>85</sup> The Protestant's witness concluded that his review of the crop inventories and aerial photos show no beneficial use of water on this property.<sup>86</sup> The former Eureka County Assessor also testified that during his assessment duties he had never seen any water used for irrigation purposes at the ranch.<sup>87</sup> The evidence demonstrates that the water represented by Certificate 4922 (Permit 13849) has not been placed to beneficial use for more than the statutory five-year period necessary to work a forfeiture. The State Engineer finds that the water under Certificate 4922 is subject to forfeiture.

#### XV. CROP CONSUMPTIVE USE

The State Engineer defines the consumptive use of a crop as that portion of the annual volume of water diverted under a water right that is transpired by growing vegetation, evaporated from soils, converted to non-recoverable water vapor, or otherwise does not return to the waters of the state. Consumptive use does not include irrigation inefficiencies or waste. The net irrigation water requirement of a crop is equal to the consumptive use of the crop less the amount of effective precipitation that falls on the crop. Therefore, the net irrigation water requirement is the amount of the crop's consumptively used water that is provided by the water right, and is the quantity considered under NRS § 533.3703 in allowing for the consideration of a crop's consumptive use in a water right transfer.

The State Engineer's consumptive use estimate for the Kobeh Valley and Diamond Valley Hydrographic Basins is based on the Penman-Monteith short reference evapotranspiration and dual-crop coefficient approach for estimating crop evapotranspiration, similar to methods described by the American Society of Civil

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<sup>84</sup> Crop/pumpage/well measurement data for Kobeh Valley (139), official records in the Office of the State Engineer.

<sup>85</sup> Transcript, pp. 169-170 and Exhibit No. 29, October 2008.

<sup>86</sup> Transcript, p. 171, October 2008.

<sup>87</sup> Transcript, p. 424, October 2008.

Engineers,<sup>88</sup> Food and Agriculture Organization of the United Nations,<sup>89</sup> and Allen et al., (2005).<sup>90</sup> Net irrigation water requirement estimates for each of Nevada's Hydrographic Basins are listed in the Evapotranspiration and Net Irrigation water Requirements for Nevada.<sup>91</sup> For Kobeh Valley, the State Engineer finds that the net irrigation water requirement of both alfalfa and highly-managed pasture grass is estimated to be 2.7 feet per year. For Diamond Valley, the State Engineer finds that the net irrigation water requirement of both alfalfa and highly-managed pasture grass is estimated to be 2.5 feet per year.

#### XVI. GEOLOGIC ARGUMENT OF CHAMBERLAIN

Dr. Chamberlain is Protestant Cedar Ranches, LLC (Cedar), and testified on his own behalf and as the expert witness for Lloyd Morrison at the October 2008 hearing. Dr. Chamberlain was qualified as an expert in geology and as a petroleum geologist for the purposes of the 2008 hearing. Cedar Ranches is a Protestant to change Applications 76744, 76745, and 76746 in Kobeh Valley. The crux of this Protestant's argument was that the existing published geologic data is not adequate and without an accurate geologic model it is impossible for the Applicant to develop a hydrologic model of the area.<sup>92</sup> A computer slide presentation was submitted in support of the Protestant's geologic theory and a shortened version of the presentation was given at the hearing.<sup>93</sup> The Protestant provided an exhibit for the December 2010 hearing, but as the Protestant did not appear at that hearing, the exhibit was not offered or admitted.

A review of the prior hearing testimony shows that the Protestant did a substantial amount of work as a petroleum geologist for the Placid Oil Company.<sup>94</sup> The Protestant also formed the Cedar Stratigraphic Corporation to generate geologic data for oil companies to use in their exploration programs.<sup>95</sup>

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<sup>88</sup> State Engineer's Office, *The ASCE Standardized Reference Evapotranspiration Equation*, 2005.

<sup>89</sup> State Engineer's Office, *Crop Evapotranspiration: Guidelines for Computing Crop Water Requirements*, FAO Irrigation and Drainage Paper No. 56, 1998.

<sup>90</sup> State Engineer's Office, Allen, R.G., Pereira, L.S., Smith, M., Raes, D., and Wright, J.L., *FAO-56 Dual Crop Coefficient Method for Estimating Evaporation from Soil and Application Extensions*, Journal of Irrigation and Drainage Engineering, 2005, pp. 131(1), 2-13.

<sup>91</sup> *Evapotranspiration and Net Irrigation water Requirements for Nevada*, Huntington and Allen, 2010, available online at [http://water.nv.gov/mapping/et/et\\_general.cfm](http://water.nv.gov/mapping/et/et_general.cfm)

<sup>92</sup> Transcript, p. 54, October 2008.

<sup>93</sup> Exhibit Nos. 75 and 84, October 2008; Transcript, pp. 49-93, October 2008.

<sup>94</sup> Transcript, p. 57, October 2008.

<sup>95</sup> Transcript, p. 53, October 2008.

The Protestant presented the results of some of the geological studies he has completed over the years; however, most of the studies were outside of the project area at issue in this case and their relevance appears tenuous at best.<sup>96</sup> One of his major points is that there is a hydrologic connection between Diamond Valley and Kobeh Valley, and that pumping in Kobeh Valley could impact water levels in Diamond Valley. The Protestant concluded by stating, "...this presentation establishes that an accurate geologic model is critical for the applicants to create an accurate hydrologic model..." and "[a]n accurate hydrologic model is necessary because the geology demonstrates there are huge horizontal and vertical conduits for the transfer of water from Diamond Valley to Kobeh Valley."<sup>97</sup> The existence of a hydrologic connection between Kobeh and Diamond Valleys, or between numerous other basins in the Diamond Valley Flow System, is generally accepted by hydrologists and the State Engineer. The Protestant provided documents stating, "Neither the State Engineer nor the BLM have the knowledge or necessary data to make major responsible resource or land use decisions concerning the eastern Great Basin Aquifer."<sup>98</sup> "The State of Nevada has yet to conduct a detailed and accurate State Geological Survey for proper land and resource decisions can be made."<sup>99</sup> "Meanwhile, Cedar Strat has already initiated a proprietary Great Basin Geological Survey that can be used for land and resource decisions and natural resource exploration."<sup>100</sup> "Cedar Strat's Great Basin Geological Survey has been recently valued at more than \$850 MM but it has only begun the work that needs to be done."<sup>101</sup>

The State Engineer finds the Protestant did not appear at the hearing on remand to support his protest. The State Engineer finds the basin and range extensional tectonics in the Great Basin is widely accepted by the scientific community in every peer-reviewed publication analyzed by the Office of the State Engineer and cannot be discounted based on this lone Protestant's contrary interpretation. The State Engineer finds that the Protestant is not an expert in hydrology or hydrogeology and any testimony or evidence provided by the Protestant in those areas of study carry no weight. The State Engineer

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<sup>96</sup> Exhibit Nos. 75 and 84, October 2008; Transcript, pp. 49-93, October 2008.

<sup>97</sup> Transcript, p. 92, October 2008.

<sup>98</sup> Exhibit No. 75, October 2008.

<sup>99</sup> Exhibit No. 75, October 2008.

<sup>100</sup> Exhibit No. 75, October 2008.

<sup>101</sup> Exhibit No. 75, October 2008.

finds that the Protestant failed to provide substantial evidence and testimony in support of his protests.

#### **XVII OTHER PROTEST ISSUES**

Nevada Revised Statute § 533.370(5) provides that the State Engineer shall reject an application where the proposed use conflicts with existing water rights. Witnesses testified to their various concerns primarily related to their respective water rights, business, farming, ranching and county interests.

The Eureka Producers Cooperative withdrew all protests prior to the remand hearing after reaching an agreement with the Applicant in August 2010. Lander County did not present a case at the December 2010 hearing. Tim Halpin, Lloyd Morrison and Cedar Ranches were represented by one attorney and presented a joint case at the 2008 hearing. Tim Halpin reached an agreement with the Applicant and withdrew his protests prior to the December 2010 hearing. Cedar Ranches did not attend the December 2010 hearing and did not present a case on remand.

Protestant Tackett attended the December 2010 hearing and indicated in testimony that he owns Klobe Hot Springs in the Northern part of Antelope Valley, south of Kobreh Valley, and expressed concern that the entire Diamond Valley flow system was not studied in its entirety. He asked that the Klobe Hot Springs be part of any monitoring efforts to protect his existing rights.<sup>102</sup> The State Engineer finds that the entire flow system has been considered, specifically in 'Findings Section V.' of this ruling, and a monitoring, management and mitigation plan will be required. The State Engineer finds that the predicted groundwater drawdowns in the area of Klobe Hot Springs to be minimal to non-existent and no affects on the Hot Springs area are predicted.<sup>103</sup>

Lloyd Morrison testified on his own behalf and raised concerns over impacts to his existing water rights. His property is located on the west side of Diamond Valley and is one of the closest properties to the proposed mine pit. He believes that a concise monitoring, management and mitigation plan must be in place before the permits are granted.<sup>104</sup> The State Engineer finds that an approved monitoring, management and mitigation plan will be required prior to diversion of water for the project. The State

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<sup>102</sup> Transcript, pp. 814-830, December 2010.

<sup>103</sup> Exhibit No. 39, Figures 4.4-12 to 4.4-16, December 2010.

<sup>104</sup> Transcript, pp. 428-430, December 2010.



Engineer has previously found, based on the scientific evidence, that there will be an impact of less than 2 feet on the water table at Mr. Morrison's wells in Diamond Valley due to the mine's proposed pumping. The State Engineer finds that this amount of drawdown over the 44-year life of the mine is not unreasonable and will not conflict with the Protestant's existing water rights.

Protestant Benson, through witness and son Craig Benson, offered testimony that the water level has been falling at a fairly steady rate of decline in Diamond Valley at the Benson agricultural properties.<sup>105</sup> He asked that the State Engineer consider impacts to the entire flow system and to existing rights in Diamond Valley.<sup>106</sup> The State Engineer finds that the entire flow system and impacts to existing rights are addressed throughout this ruling. Protestant Benson personally testified at the hearing of October 13-17, 2008, and again at the December 2010 hearing. Protestant Benson indicated that the water level in one of his wells has dropped 69 feet over a period of 49 years or about 1.4 feet per year.<sup>107</sup> The State Engineer finds that water level decline at Mr. Benson's well is due to agricultural pumping within Diamond Valley, and has found earlier in this ruling that there will not be unreasonable impacts to his water rights due to proposed mine pumping.

Protestant Conley testified that he acquired his property in Diamond Valley in 2007 and the water level has declined about two feet per year since that time.<sup>108</sup> Protestant Conley also believes pumping under these applications will have an adverse impact on his existing water rights. This claim is based on his belief in a hydrologic connection between Kobeh Valley and Diamond Valley. Protestant Conley stated that he believed the mine project should have acquired water from active water permits in Diamond Valley.<sup>109</sup> The Applicant has acquired 16,000 afa of existing water rights in Kobeh Valley and is seeking to develop 11,300 afa of water from the Kobeh Valley aquifer. The Applicant has also acquired substantial amounts of existing groundwater rights within Diamond Valley. A review of the record shows that the Applicant has justified the need for 11,300 afa of water from Kobeh Valley. The committed resources of the Kobeh Valley Hydrographic Basin are well below the estimated perennial yield, including the changes and appropriations sought by the Applicant in this ruling. The

<sup>105</sup> Transcript, pp. 771-772, December 2010.

<sup>106</sup> Transcript, p. 778, December 2010.

<sup>107</sup> Transcript, p. 796, December 2010.

<sup>108</sup> Transcript, p. 432, December 2010.

<sup>109</sup> Transcript, p. 437, December 2010.

scientific evidence, including hydrologic studies and groundwater modeling, estimated future effects and this evidence shows that no unreasonable impacts will occur. The State Engineer finds that the applications will not conflict with the Protestant's existing water rights.

#### XVIII.

Protestant Eureka County, through its closing brief, requests that the applications filed by the Applicant be denied because the proposed use or change conflicts with existing rights, a mitigation plan to prevent impacts to existing users has not been provided, the applications propose an interbasin transfer but the applicant has failed to provide evidence to satisfy the statutory requirements for the State Engineer to grant an interbasin transfer, there is a lack of water available to appropriate, and there is a lack of specificity in the applications. However, Protestant Eureka County also spoke in favor of mining.

In its protest, Eureka County states,

Eureka County recognizes that the custom and culture of mining is part of its history and appreciates the role mining plays in its local and regional economy. Eureka County welcomes new opportunity for mining in its communities as long as mine development is not detrimental to existing economic or cultural activity. This protest is aimed at ensuring that any development of water resources in Koebe Valley is conducted in full accordance with Nevada law, the Eureka County Master Plan and related ordinances, and does not unduly threaten the health and welfare of Eureka County citizens.<sup>110</sup>

In testimony, the Eureka County Natural Resource Manager indicated that Eureka County did not want to kill the project but wanted it done right.<sup>111</sup> He indicated that the monitoring, management and mitigation plan was very important and that Eureka County wants full participation in developing the plan.<sup>112</sup> In testimony, the Chairman of the Eureka County Board of Commissioners confirmed that to his knowledge no one representing Eureka County has ever directed its consultants, employees or attorneys to try and kill the mine project.<sup>113</sup> The Chairman indicated that it was his understanding that Eureka County had to protest to maintain standing with the State Engineer and if there is

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<sup>110</sup> Exhibit No. 509, December 2010.

<sup>111</sup> Transcript, p. 755, December 2010.

<sup>112</sup> Transcript, p. 756, December 2010.

<sup>113</sup> Transcript, p. 714, December 2010.

not a settlement with the Applicant that the County would be denied the right to participate in a monitoring, management and mitigation plan.<sup>114</sup> The Chairman testified that mining is a life blood of Eureka County<sup>115</sup> and that Eureka County has and always will be a mining and agricultural county.<sup>116</sup> In addition, the mine will provide an economic benefit in the form of increased employment and tax revenue for the county.<sup>117</sup>

While substantial evidence exists that pumping 11,300 afa of water from Kobreh Valley, which is considerably less than the revised and more conservative perennial yield of 15,000 afa, can be safely carried out, the only way to fully ensure that existing water rights are protected is by closely monitoring hydrologic conditions while groundwater pumping occurs. The State Engineer has wide latitude and broad authority in terms of imposing permit terms and conditions. This includes the authority to require a comprehensive monitoring, management and mitigation plan prepared with assistance from Eureka County.

The State Engineer finds that a monitoring, management and mitigation plan prepared with input from Eureka County must be approved by the State Engineer prior to pumping groundwater for the project.

### CONCLUSIONS

#### I.

The State Engineer has jurisdiction over the parties and the subject matter of this action and determination.<sup>118</sup>

#### II.

The State Engineer is prohibited by law from granting an application to appropriate or change the public waters where:<sup>119</sup>

- A. there is no unappropriated water at the proposed source;
- B. the change conflicts with existing rights;
- C. the proposed change conflicts with protectable interests in existing domestic wells as set forth in NRS § 533.024; or
- D. the proposed use or change threatens to prove detrimental to the public interest.

<sup>114</sup> Transcript, p. 714 and pp. 716-717, December 2010.

<sup>115</sup> Transcript, p. 715, December 2010.

<sup>116</sup> Transcript, p. 438, October 2008.

<sup>117</sup> Transcript, pp. 438-439, October 2008.

<sup>118</sup> NRS Chapters 533 and 534.

<sup>119</sup> NRS § 533.370(5).

### III.

The evidence and testimony show that select springs on the floor of Kobeh Valley and one domestic well near Roberts Creek may be impacted by the proposed pumping in Kobeh Valley; however, any impacts can be detected and mitigated through a comprehensive monitoring, management and mitigation plan. The State Engineer has found that the domestic well and spring flow reduction can be adequately and fully mitigated by the Applicant should impacts to existing rights or the domestic well occur. To ensure funding exists for any required future mitigation, including mitigation after the cessation of active mining activities, the Applicant must demonstrate the financial capability to complete any mitigation work necessary in a monitoring, management, and mitigation plan prior to pumping groundwater for the project.

Based on substantial evidence and testimony, and the monitoring, management and mitigation plan requirement, the State Engineer concludes that the approval of the applications will not conflict with existing water rights, will not conflict with protectable interests in existing domestic wells as set forth in NRS § 533.024, and will not threaten to prove detrimental to the public interest.

### IV.

The State Engineer concludes the Applicant provided proof satisfactory of its intention in good faith to construct any work necessary to apply the water to the intended beneficial use with reasonable diligence, and its financial ability and reasonable expectation actually to construct the work and apply the water to the intended beneficial use with reasonable diligence.

### V.

The State Engineer concludes that based on the findings the Applicant meets the additional statutory criteria required for an interbasin transfer of water from Kobeh Valley under NRS § 533.370(6); therefore, the applications filed within Kobeh Valley can be considered for approval. The State Engineer concludes any groundwater developed in Diamond Valley will be limited to use within Diamond Valley; therefore, the interbasin transfer statute is not applicable to these applications.

VI.

Concerns were raised at the administrative hearing that the State Engineer had not provided notice under NRS § 534.090 that the water right might be subject to forfeiture.

Nevada Revised Statute § 534.090 provides:

For water rights in basins for which the State Engineer keeps pumping records, if the records of the State Engineer indicate at least 4 consecutive years, but less than 5 consecutive years, of nonuse of all or any part of such a water right which is governed by this chapter, the State Engineer shall notify the owner of the water right, as determined in the records of the Office of the State Engineer, by registered or certified mail that he has 1 year after the date of the notice in which to use the water rights beneficially and to provide proof of such use to the State Engineer or apply for relief pursuant to subsection 2 to avoid forfeiting the water right.

The argument was raised that the State Engineer was required to notify the holders of the possible forfeiture one year before commencing the forfeiture proceeding. The statutory language quoted above was added to NRS § 534.090 in 1995 as Assembly Bill 435, which became effective on July 1, 1995. Accordingly, any water right for which there was more than five consecutive years of complete or partial non-use on the effective date of the notice provision, July 1, 1995, is not entitled to notice by the express terms of the statute. As to Certificates 2782, 4922, 6457, 8002, and 8003, the water rights had not been used for more than five consecutive years before the notice provision was enacted in 1995. Therefore, the holders of the water right were not entitled to notice of possible forfeiture. Such an interpretation is clear from the express provisions of the statute. The plain language of the statute lends itself to only one possible interpretation: any certificated underground water right or portion of water right that had not been put to beneficial use for five years or more when the notice provision became effective is not entitled to notice. The Applicant's argument can only be accepted if the phrase "but less than 5 consecutive years" is ignored.

Such an interpretation would not only be inconsistent with the express language of NRS § 534.090, but would give retroactive effect to the statute when the legislative history clearly intended the notice provision not apply retroactively. According to Assemblyman Neighbors, one of the sponsors of Assembly Bill 435, "there are not retroactive provisions in [A.B. 435]."<sup>120</sup> In testimony regarding A.B. 435, the State Engineer stated, "this office has

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<sup>120</sup> *Hearing on A.B. 435 before the Senate Committee on Natural Resources, 1995 Leg., 68<sup>th</sup> Sess. 2 (June 7, 1995).*

taken the position that if 5 years have already past [sic], those non-users of water rights are not to be notified. Under the measure, it is only the ones where 4 years of non-use of water rights have occurred, but not yet 5."<sup>121</sup> The reason A.B. 435 was not applied to existing rights that had not been used for five years or more was that such a requirement would have placed a tremendous burden on the Office of the State Engineer. The State Engineer commented that "probably 4,000 water rights in the state . . . are subject to forfeiture."<sup>122</sup>

Accordingly, the Legislature understood from one of the drafters of A.B. 435 that the notice provision was not intended to be applied in situations where five years of non-use had already occurred prior to the enactment of the law and thereby resurrect rights that were already subject to forfeiture. Generally, a statute will only be interpreted to have prospective effect unless there is a clear expression of legislative intent that it applies retroactively.<sup>123</sup> Here not only has the Legislature not stated an intention that the notice provision of NRS § 534.090(1) apply retroactively, they specifically indicated in both the language of the statute and the legislative history that the notice provision was not intended to be retroactive.

The State Engineer concludes that since more than five consecutive years of non-use of water under Certificates 2782, 4922, 6457, 8002, and 8003, had passed prior to the enactment of the notice provision of NRS § 534.090, he was not required to provide one-year notice as set forth in NRS § 534.090.

#### VII.

The State Engineer concludes, based on the revised perennial yield of Koebe Valley compared to committed resource, that the actual withdrawal of groundwater within the basin is well below the perennial yield and water is available for appropriation for the temporary manner of use contemplated under these applications.

#### VIII.

The protests of Eureka County and Benson cite that further applications for the mining project should not be considered until a United States Geological Survey (USGS) study is completed. There is nothing in Nevada water law that requires or compels applications to be held for an indefinite period of time while a third party not associated with the project completes a study of the area. The State Engineer concludes there is

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<sup>121</sup> *Id.* at Sess. 4.

<sup>122</sup> *Ibid.*

<sup>123</sup> *See, Nevada Power Co. v. Metropolitan Development Co.*, 104 Nev. 684, 686, 765 P.2d 1162 (1988).

sufficient existing hydrologic information to proceed with these applications and this protest issue does not provide valid grounds for denial of the applications.

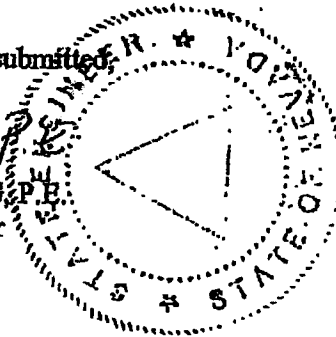
**RULING**

Certificates 2782, 4922, 6457, 8002 and 8003 are hereby declared forfeit; therefore, Applications 76483, 76484, 76485, 76486, 76744, 77174 and 77175 are denied. The remaining protests are overruled and Applications 72695, 72696, 72697, 72698, 73545, 73546, 73547, 73548, 73549, 73550, 73551, 73552, 74587, 75988, 75989, 75990, 75991, 75992, 75993, 75994, 75995, 75996, 75997, 75998, 75999, 76000, 76001, 76002, 76003, 76004, 76005, 76006, 76007, 76008, 76009, 76745, 76746, 76802, 76803, 76804, 76805, 76989, 76990, 77171, 77525, 77526, 77527, 77553, 78424, 79911, 79912, 79913, 79914, 79915, 79916, 79917, 79918, 79919, 79920, 79921, 79922, 79923, 79924, 79925, 79926, 79927, 79928, 79929, 79930, 79931, 79932, 79933, 79934, 79935, 79936, 79937, 79938, 79939, 79940, 79941 and 79942 are hereby granted subject to:

1. Existing rights;
2. Payment of the statutory permit fees;
3. A monitoring, management, and mitigation plan prepared in cooperation with Eureka County and approved by the State Engineer before any water is developed for mining;
4. All changes of irrigation rights will be limited to their respective consumptive uses;
5. No export of water from the Diamond Valley Hydrographic Basin;
6. A total combined duty of 11,300 afa.

Respectfully submitted,

JASON KING, P.E.  
State Engineer



Dated this 15th day of  
July, 2011.

## CERTIFICATE OF SERVICE

Pursuant to NRAP Rule 25(1)(c), I hereby certify that I am an employee of ALLISON, MacKENZIE, PAVLAKIS, WRIGHT & FAGAN, LTD., Attorneys at Law, and that on this date, I caused a CD-ROM version of same to be served to all parties to this action by:

_____	Placing a true copy thereof in a sealed postage prepaid envelope in the United States Mail in Carson City, Nevada
_____	Hand-delivery - via Reno/Carson Messenger Service
_____	Facsimile
_____	Federal Express, UPS, or other overnight delivery
<u>  X  </u>	E-filing pursuant to Section IV of District of Nevada Electronic Filing Procedures

fully addressed as follows:

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X         Placing a true copy of a CD-ROM version thereof in a sealed postage  
prepaid envelope in the United States Mail in Carson City, Nevada

fully addressed as follows:

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Salt Lake City, UT 84111

DATED this 21<sup>st</sup> day of December, 2012.

/s/ Nancy Fontenot\_\_\_\_\_

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of stock-based awards under authoritative guidance for *Stock-Based Compensation*. For stock-based compensation that is earned upon the satisfaction of a service condition, the cost is recognized on a straight-line basis (net of estimated forfeitures) over the requisite vesting period (up to three years). Awards expire five years from the date of vesting. Further information regarding stock-based compensation can be found in Note 7 — “Equity Incentives.”

## Comprehensive Loss

For the three and nine months ended September 30, 2010, and 2009, the Company’s comprehensive loss was equal to the respective consolidated net losses for the periods presented.

## Recently Issued Accounting Pronouncements

### Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary — a Scope Clarification

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-02, *Consolidation (ASC 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary*. This amendment to ASC 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of ASC 810-10 and removes the potential conflict between guidance in that ASC and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in ASC 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The Company adopted FAS 160 effective January 1, 2010. The adoption of FAS 160 and ASU 2010-02 had no material effect on the Company’s financial condition, results of operation, or cash flows.

### Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued Update No. 2010-06. Reporting entities will have to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by SFAS No. 157, *Fair Value Measurements* (FASB ASC 820). Also, a reconciliation of purchases, sales, issuance, and settlements of anything valued with a Level 3 method is required. Disclosure regarding fair value measurements for each class of assets and liabilities will be required. The guidance is effective for our first annual reporting period beginning after December 15, 2009, and for interim periods within that annual period. The adoption of ASU 2010-06 did not have a material impact on our consolidated financial statements.

### Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements

In February 2010, the FASB issued Update No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. These amendments eliminate contradictions between the requirements of U.S. GAAP and the SEC’s filing rules. The amendments also eliminate the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. The adoption of ASU 2010-09 did not have a material impact on our consolidated financial statements.

### Regulation S-X Rule 3-04, Changes in Other Stockholders’ Equity

In August 2010, the SEC issued Update No. 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules*. The Update amended Regulation S-X Rule 3-04, *Changes in Other Stockholders’ Equity*, paragraph 505-10-S99-1 to require that an analysis of the changes in each caption of other stockholders’ equity and noncontrolling interests presented in the balance sheets shall be given in a note or separate statement. The update indicates that the analysis shall be presented in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed with all significant reconciling items described by appropriate captions with contributions from and distributions to owners shown separately. The adoption of ASU 2010-21 did not have a material impact on our consolidated financial statements.

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**NOTE 4 — MINING PROPERTIES, LAND AND WATER RIGHTS**

We currently have interests in two mining properties that are the primary focus of our operations. The Mt. Hope Project is currently in the development stage and the Liberty Property is in the exploration and evaluation stage. The following is a summary of mining properties, land and water rights at September 30, 2010, and December 31, 2009 (dollars in thousands):

<u>(Dollars in thousands)</u>	<u>At September 30, 2010</u>	<u>At December 31, 2009</u>
Mt. Hope Project:		
Development costs	\$ 83,085	\$ 76,985
Mineral, land and water rights	10,253	10,253
Advance Royalties	3,300	3,300
Total Mt. Hope Project	<u>96,638</u>	<u>90,538</u>
Total Liberty Property	<u>9,752</u>	<u>9,763</u>
Other Properties	889	889
Total	<u>\$ 107,279</u>	<u>\$ 101,190</u>

On June 26, 2009, the Company and Josephine Mining Corp. ("JMC"), a privately-owned Canadian company whose president is a related party to one of the Company's Board members, entered into an Option to Purchase Agreement for the Company's Turner Gold property, a multi-metallic property located in Josephine County, Oregon. The Company acquired the property in 2004. JMC paid \$0.1 million upon entering into the agreement, which allows JMC certain exploratory rights through the option period. Each option is non-refundable. The \$0.1 million has been recorded as a deferred gain pending completion of the purchase. An additional \$0.3 million installment payment is due December 26, 2010, and the final installment payment of \$1.6 million is due on or before December 26, 2011. Each installment payment under the Option to Purchase Agreement is optional, but is non-refundable once made. If JMC makes all three of the installment payments, ownership of the Turner Gold property will transfer to JMC upon the final payment. The Company has also retained a Production Royalty of 1.5% of all net smelter returns on future production from the property.

On March 8, 2010, the Company and Ascot USA, Inc. ("Ascot"), a Washington corporation, entered into an Option to Purchase Agreement for the Company's Margaret property, an undivided 50% interest in the reserved mineral rights and all of the Company's interest in the 105 unpatented mining claims comprising the Red Bonanza Property, situated in the St. Helens Mining District, Skamania County, Washington. The Company acquired the property in 2004. Ascot paid \$0.1 million upon entering into the agreement, which allows Ascot certain exploratory rights through the option period. Each option is non-refundable. The \$0.1 million has been recorded as a deferred gain pending completion of the purchase. An additional \$0.3 million installment payment is due June 8, 2011, and the final installment payment of \$1.6 million is due on or before June 8, 2012. Each installment payment under the Option to Purchase Agreement is optional, but is non-refundable once made. If Ascot makes all three of the installment payments, ownership of the Margaret property will transfer to Ascot upon the final payment. The Company has also retained a Production Royalty of 1.5% of all net smelter returns on future production from the property.

**Costs Associated with Relinquished Land Lease**

At an open public meeting on July 6, 2010, the Eureka County Board of Commissioners ("the Commissioners") signed documents to relinquish a land lease held by the LLC in Eureka County, Nevada (the "County"). The LLC thus terminated the land lease held in the County. The termination was predicated on a vote of the Commissioners, which was other than perfunctory and could not be considered final until the Commissioners voted in a public meeting. The Nevada Open Meetings Law requires that all decisions be made in public meetings which are properly noticed and convened.

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The LLC had planned to develop housing on the lease after receipt of the ROD in mid-2011. The relinquishment will make the land available for more rapid housing development by the Nevada Rural Housing Authority and the County. The LLC had invested approximately \$5.0 million in preliminary development costs for the property covered by the relinquished lease. As a result of the relinquishment, the Company incurred a charge of \$5.0 million in the third quarter of 2010, of which \$1.0 million is attributable to our noncontrolling interest. In addition, the County returned a \$0.1 million deposit to the Company.

## NOTE 5 — COMMON STOCK UNITS, COMMON STOCK AND COMMON STOCK WARRANTS

During the three and nine months ended September 30, 2010, we issued 58,126 and 221,774 shares of common stock, respectively, pursuant to stock awards under the 2006 Equity Incentive Plan.

At September 30, 2010, we had warrants outstanding totaling 7,455,434, of which 6,455,434 are exercisable at \$3.75 per warrant and expire in February 2011 and 1,000,000 are exercisable at \$5.00 per share once General Moly has received financing necessary for the commencement of commercial production at the Mt. Hope Project and will expire one year afterwards.

Coghill Capital Management and its affiliates ("Coghill"), a significant stockholder in the Company, provided substantial assistance to the Company with the signing of the Consent and Waiver Agreement and the Extension Agreement with ArcelorMittal. In recognition of that support, on April 16, 2010, the Company amended and restated warrants issued to Coghill to purchase one million shares of the Company's common stock issued in connection with the November 2007 private placement and original molybdenum supply agreement with ArcelorMittal to reduce the price of the warrants from \$10.00 per share to \$5.00 per share. The incremental cost of the reissued warrants is \$0.6 million, which was recorded as expense in the second quarter of 2010. The warrants remain exercisable once the Company has received financing necessary for the commencement of commercial production at the Mt. Hope project and will expire one year thereafter. It will also become exercisable in the event of certain corporate reorganizations.

Pursuant to our Certificate of Incorporation, we are authorized to issue 200,000,000 shares of \$0.001 par value common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and therefore, the holders of more than 50% of the common stock represented at the meeting of the stockholders could, if they choose to do so, elect all of the directors of the Company.

## NOTE 6 — PREFERRED STOCK

Pursuant to our Certificate of Incorporation we are authorized to issue 10,000,000 shares of \$0.001 per share par value preferred stock. The authorized but unissued shares of preferred stock may be issued in designated series from time to time by one or more resolutions adopted by the Board. The directors have the power to determine the preferences, limitations and relative rights of each series of preferred stock. At September 30, 2010, and 2009, no shares of preferred stock were issued or outstanding. On March 5, 2010, the Board adopted a stockholder rights plan. Under the plan, each common stockholder of the Company at the close of business on March 5, 2010 received a dividend of one right for each share of the Company's common stock held of record on that date. Each right entitles the holder to purchase from the Company, in certain circumstances, one one-thousandth of a share of newly-created Series A junior participating preferred stock of the Company for an initial purchase price of \$15.00 per share.

Subject to certain exceptions, if any person becomes the beneficial owner of 20% or more of the Company's common stock, each right will entitle the holder, other than the acquiring person, to purchase Company common stock or common stock of the acquiring person having a value of twice the exercise price. In addition, if there is a business combination between the Company and the acquiring person, or in certain other circumstances, each right that is not previously exercised will entitle the holder (other than the acquiring person) to purchase shares of common stock (or an equivalent equity interest) of the acquiring person at one-half the market price of those shares.

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**NOTE 7 — EQUITY INCENTIVES**

In 2006, the Board and shareholders of the Company approved the 2006 Equity Incentive Plan ("2006 Plan") that replaced the 2003 Equity Incentive Plan ("2003 Plan"). In May 2010, our shareholders approved an amendment to the 2006 Plan increasing the amount of shares that may be issued under the plan by 4,500,000 shares to 9,600,000 shares. The 2006 Plan, as amended and restated, authorizes the Board, or a committee of the Board, to issue or transfer up to an aggregate of 10,030,000 shares of common stock (9,600,000 shares plus 430,000 shares carried over from the 2003 Plan, of which 5,084,515 remain available for issuance). Awards under the 2006 Plan, as amended and restated, may include incentive stock options, non-statutory stock options, restricted stock units, restricted stock awards, and SARs. At the option of the Board, SARs may be settled with cash, shares, or a combination of cash and shares. The Company settles the exercise of other stock-based compensation with common shares.

Stock-based compensation cost is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option pricing model and is recognized as compensation ratably on a straight-line basis over the requisite vesting/service period. As of September 30, 2010, there was \$1.0 million of total unrecognized compensation cost related to outstanding share-based compensation awards, which is expected to be recognized over a weighted-average period of 0.9 years.

**Stock Options and SARs**

All stock options and SARs are approved prior to or on the date of grant. Stock options and SARs are granted at an exercise price equal to or greater than the Company's stock price on the date of grant. Both award types vest over a period of zero to three years with a contractual term of five years after vesting. The Company estimates the fair value of stock options and SARs using the Black-Scholes valuation model. Key inputs and assumptions used to estimate the fair value of stock options and SARs include the grant price of the award, expected option term, volatility of the Company's stock, the risk-free interest rate and the Company's dividend yield. The following table presents the weighted-average assumptions used in the valuation and the resulting weighted-average fair value per option or SAR granted:

**Stock Option and SAR Valuation Assumptions**

Expected Life *	3.5 to 5.5 years
Interest Rate	1.13 – 4.96%***
Volatility **	85 - 96%***
Dividend Yields	—
Weighted Average Fair Value of Stock Options Granted During the Nine Months Ending September 30, 2010	None
Weighted Average Fair Value of SARs Granted During the Nine Months ended September 30, 2010	\$ 2.36

\* The expected life is the number of years that the Company estimates, based upon history, that options or SARs will be outstanding prior to exercise or forfeiture.

\*\* The Company's estimates of expected volatility are principally based on the historic volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options or SARs and other relevant factors.

\*\*\* The interest rate and volatility used by the Company in calculating stock compensation expense represent the values in effect at the date of grant for all awards. These values are periodically updated for stock appreciation rights which may be settled in cash to reflect the current market conditions.

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At September 30, 2010, the aggregate intrinsic value of outstanding and exercisable (fully vested) options and SARs was \$1.5 million and had a weighted-average remaining contractual term of 1.9 years. The total intrinsic value of options exercised during the nine months ended September 30, 2010 was nil.

**Restricted Stock Units and Stock Awards**

Grants of restricted stock units and stock awards ("Stock Awards") have been made to Board members, officers, and employees. Stock Awards have been granted as performance based, earned over a required service period or to Board members and the Company Secretary without any service requirement. Incentive based grants for officers and employees generally vest and stock is received without restriction to the extent of one-third of the grant for each year following the date of grant. Also, incentive based grants were offered to certain employees in connection with the cash conservation plan and are scheduled to vest January 1, 2011. Performance based grants are recognized as compensation based on the probable outcome of achieving the performance condition. Past compensation for Stock Awards issued to members of the Board that vested over time were recognized over the vesting period of one to two years. Stock Awards issued to Board members and the Company Secretary that are fully vested at the time of issue are recognized as compensation upon grant of the award.

The compensation expense recognized by the Company for Stock Awards is based on the closing market price of the Company's common stock on the date of grant. For the nine months ended September 30, 2010, the weighted-average grant-date fair value for Stock Awards was \$2.69.

**Summary of Equity Incentive Awards**

The following table summarizes activity under the Plans during the nine months ended September 30, 2010:

	Stock Options		SARs		Stock Awards	
	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Strike Price	Number of Shares Under Option	Weighted Average Grant Price	Number of Shares
Balance at January 1, 2010	\$ 5.53	3,071,656	\$ 1.55	528,006	\$ 4.36	678,135
Awards Granted	—	—	4.22	93,830	2.69	200,217
Awards Exercised or Earned	2.78	(20,000)	—	—	4.23	(212,331)
Awards Forfeited	11.45	(26,667)	4.35	(7,117)	2.44	(2,910)
Awards Expired	6.98	(306,666)	—	—	2.31	(5,000)
Balance at September 30, 2010	\$ 5.33	2,718,323	\$ 1.92	614,719	\$ 3.54	658,111
Exercisable at September 30, 2010	\$ 5.11	2,433,321	\$ 1.55	176,347		

**Summary of compensation cost recognized and capitalized related to equity incentives**

**Summary of Compensation Cost Recognized and Capitalized related to Equity Incentives for the Nine Months Ended September 30 (Dollars in thousands):**

	2010	2009
Stock Options	\$ 91	\$ 1,167
SARs	591	568
Forfeitures related to the restructuring	—	(567)
Stock Awards:		
Vesting over time	582	302
Board of Directors	390	574
Total	<u>\$ 1,654</u>	<u>\$ 2,044</u>
Included in:		
Capitalized as Development	714	714
Expensed	940	1,330
	<u>\$ 1,654</u>	<u>\$ 2,044</u>

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## Taxes

A portion of the Company's granted options are intended to qualify as incentive stock options ("ISO") for income tax purposes. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Stock option grants of non-qualified options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised.

## NOTE 8 — CHANGES IN CONTINGENTLY REDEEMABLE NONCONTROLLING INTEREST AND EQUITY

Changes in Contingently Redeemable Noncontrolling Interest (Dollars in thousands)	Activity for Nine Months Ended	
	September 30, 2010	September 30, 2009
Total Contingently Redeemable Noncontrolling Interest December 31, 2009, & 2008, respectively	\$ 99,761	\$ 100,000
Less: Net Loss Attributable to Contingently Redeemable Noncontrolling Interest	(1,007)	(239)
Total Contingently Redeemable Noncontrolling Interest September 30, 2010, & 2009, respectively	<u>\$ 98,754</u>	<u>\$ 99,761</u>

Changes in Equity (Dollars in thousands)	Activity for Nine Months Ended	
	September 30, 2010	September 30, 2009
Total Equity December 31, 2009, & 2008, respectively	\$ 104,920	\$ 113,048
Common stock:		
At beginning of period	72	72
Stock Awards	1	—
At end of period	<u>73</u>	<u>72</u>
Additional paid-in capital:		
At beginning of period	187,290	185,179
Awards exercised	55	99
Warrant Repricing	585	—
Stock based compensation	1,402	1,534
At end of period	<u>189,332</u>	<u>186,812</u>
Accumulated deficit:		
At beginning of period	(82,442)	(72,203)
Net loss	(12,366)	(8,103)
At end of period	<u>(94,808)</u>	<u>(80,306)</u>
Total Equity September 30, 2010, & 2009, respectively	<u>\$ 94,597</u>	<u>\$ 106,578</u>

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**NOTE 9 — INCOME TAXES**

At September 30, 2010, and December 31, 2009, we had deferred tax assets principally arising from the net operating loss carry forwards for income tax purposes multiplied by an expected rate of 35%. As management of the Company cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established at September 30, 2010, and December 31, 2009. The significant components of the deferred tax asset at September 30, 2010, and December 31, 2009, were as follows (in thousands):

**Deferred Tax Asset Valuation**

<u>(Dollars in thousands)</u>	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Operating loss carry forward	\$ 109,672	\$ 92,086
Unamortized exploration expense	12,649	10,899
Fixed asset depreciation	171	(105)
Deductible stock based compensation	1,874	902
Deductible temporary difference	\$ 124,366	\$ 103,782
Taxable temporary difference - development costs	(40,721)	(32,502)
Net deductible temporary difference	\$ 83,645	\$ 71,280
Deferred tax asset	\$ 29,276	\$ 24,948
Deferred tax asset valuation allowance	\$ (29,276)	\$ (24,948)
Net deferred tax asset	\$ —	\$ —

At September 30, 2010, and December 31, 2009, we had net operating loss carry forwards of approximately \$109.7 million and \$92.1 million, respectively, which expire in the years 2023 through 2030. The change in the allowance account from December 31, 2009, to September 30, 2010, was \$4.3 million.

**NOTE 10 — COMMITMENTS AND CONTINGENCIES****Mt. Hope Project**

The Mt. Hope Lease may be terminated upon the expiration of its 30-year term, earlier at the election of the LLC, or upon a material breach of the agreement and failure to cure such breach. If the LLC terminates the lease, termination is effective 30 days after receipt by Mount Hope Mines, Inc. ("MHMI") of written notice to terminate the Mt. Hope Lease and no further payments would be due to MHMI. In order to maintain the lease, the LLC must pay certain deferral fees and advance royalties as discussed below.

The Mt. Hope Lease Agreement requires a royalty advance ("Construction Royalty Advance") of 3% of certain construction capital costs, as defined in the Mt. Hope Lease. The LLC is obligated to pay a portion of the Construction Royalty Advance each time capital is raised for the Mt. Hope Project based on 3% of the expected capital to be used for those certain construction capital costs defined in the lease. Through September 30, 2010, we have paid \$3.3 million of the total Construction Royalty Advance. Based on our Project Capital Estimate we estimate that \$22.2 million remains unpaid related to the Construction Royalty Advance. Based on the current estimate of raising capital and developing and operating the mine, we believe that \$1.2 million of the LLC's remaining Construction Royalty Advance will be paid in 2010, and the remaining \$21 million will be paid in 2011, however, as discussed above, this would only be paid if Hanlong financing becomes available. In the event there are any remaining unpaid Construction Royalty Advance amounts on October 19, 2011, due to a delay in achieving expected project financing, the remainder must be paid 50% on October 19, 2011, and 50% on October 19, 2012.

Once the Construction Royalty Advance has been paid in full, the LLC is obligated to pay an advance royalty ("Annual Advance Royalty") each October 19 thereafter in the amount of \$0.5 million per year. The Construction Royalty Advance and the Annual Advance Royalty are collectively referred to as the "Advance Royalties." All



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Advance Royalties are credited against the MHMI Production Royalties (as hereinafter defined) once the mine has achieved commercial production. After the mine begins production, the LLC estimates that the Production Royalties will be in excess of the Annual Advance Royalties for the life of the project and, further, the Construction Royalty Advance will be fully recovered (credited against MHMI Production Royalties) by the end of 2014.

### Deposits on project property, plant and equipment

At September 30, 2010, we have contracts to purchase mining equipment comprised of two electric shovels and have cancelled orders for mine drills and loaders. We have a non-binding letter of agreement on 24 haul trucks that establishes our priority for delivery and provides for the then current pricing using market indices upon initiation of an order. We have active orders with varying stages of fabrication on milling process equipment comprised of two 230kV primary transformers and substation, a primary crusher, a semi-autogenous mill, two ball mills, and various motors for the mills. The Company has taken receipt of certain of these assets that are fully fabricated in storage facilities at its Liberty Property, including the mill motors. We have suspended fabrication on 16 flotation cells, lime slaking equipment, hydrocyclones, and other smaller milling process equipment with the ability to re-initiate fabrication at any time. We have completed negotiations with the manufacturer of two multi-hearth molybdenum roasters to terminate its fabrication of this equipment and receive fully-fabricated components of the order. We plan to re-establish a new purchase order with this manufacturer as additional financing is finalized and equipment procurement is restarted under the current market terms and conditions.

The following table sets forth cash commitments under mining and milling equipment contracts (collectively, "Purchase Contracts") for the LLC at September 30, 2010 (in millions):

Year (Dollars in millions)	As of September 30, 2010
2010 – Remainder	\$ 0.2
2011	21.7
2012	21.1
2013	2.4
2014	—
Total	<u>\$ 45.4</u>

### Obligations under capital and operating leases

We have contractual obligations under capital and operating leases that will require a total of \$0.9 million in payments over the next four years. Our expected payments are \$0.2 million, \$0.4 million, \$0.2 million and \$0.1 million for the years ended December 31, 2010, 2011, 2012 and 2013, respectively.

### Creation of Agricultural Sustainability Trust

On August 19, 2010, Eureka Moly LLC, the Company's 80% owned subsidiary, entered into an agreement with the Eureka Producers' Cooperative (the EPC) whereby Eureka Moly will fund a Sustainability Trust (the "Trust") in exchange for the cooperation of the EPC with respect to Eureka Moly's water rights and permitting of the Mt. Hope Project. The Trust will be tasked with developing and implementing programs that will serve to enhance the sustainability and well-being of the agricultural economy in the Diamond Valley Hydrographic Basin through reduced water consumption, which may include the Trust purchasing and relinquishing water rights in Diamond Valley to help bring the Diamond Valley basin into a more sustainable water balance. The Trust's activities will be governed by a five member Board including one Eureka Moly representative.

The Trust may be funded by Eureka Moly and could range between \$8.0 million and \$12.0 million, contributed to the Trust over several years, contingent on the achievement of certain milestones. The amount of the Trust will depend on the timing of the publication of the Company's DEIS and receipt of the Record of Decision (ROD), with higher payment amounts corresponding with faster permit receipt. These base total amounts can be reduced by 25%

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or 50% if Eureka Moly obtains its water rights and other permits, but delays are caused by certain other protestants or a current appellant continuing to protest or appeal the water applications or oppose the permits for the Mt. Hope Project. In all cases, at least 50% of the contributions would be provided upon receipt of full financing and the Company's Board of Directors' decision to proceed with construction. The remaining payments would be split evenly with one payment due not later than 150 days from the commencement of production at the Mt. Hope Project and the remaining payment due one year thereafter.

## Environmental Considerations

Our mineral property holdings in Shoshone County, Idaho include lands contained in mining districts that have been designated as "Superfund" sites pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act. This "Superfund Site" was established to investigate and remediate primarily the Bunker Hill properties of Smelterville, Idaho, a small portion of Shoshone County where a large smelter was located. However, because of the extent of environmental impact caused by the historical mining in the mining district, the Superfund Site covers the majority of Shoshone County including our Chicago-London and Little Pine Creek properties (which are distant from the original smelter location) as well as many small towns located in Northern Idaho. We have conducted a property environmental investigation of these properties which revealed no evidence of material adverse environmental effects at either property. We are unaware of any pending action or proceeding relating to any regulatory matters that would affect our financial position due to these inactive mining claims in Shoshone County.

## NOTE 11 — SUBSEQUENT EVENTS

On October 26, 2010, the Company and Hanlong executed an amendment to the Hanlong agreement setting the closing of Hanlong's purchase of the first tranche of equity in the Company on December 20, 2010. The parties have agreed that the publication of the Mt. Hope Project's DEIS is no longer a condition precedent to Hanlong's first tranche equity investment. Timely publication of the DEIS does, however, remain a requirement of the entire agreement, and, in conjunction with this amendment, the required date for DEIS publication has been extended to May 31, 2011 from February 28, 2011, although the Company does not currently estimate the additional time to be required.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References made in this Quarterly Report on Form 10-Q to "we," "our," "us," or the "Company," refer to General Moly, Inc.

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the nine months ended September 30, 2010, and 2009. This discussion should be read in conjunction with the consolidated financial statements and notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2009, which was filed on March 5, 2010.

We routinely post important information about us on our Company website. Our website address is [www.generalmoly.com](http://www.generalmoly.com).

## Overview

We are a development stage company and began the development of the Mt. Hope Project on October 4, 2007. During the year ended December 31, 2008, we also completed work on a pre-feasibility study of our Liberty Property. The Liberty Property continues in a care and maintenance mode, and we do not expect to spend appreciable amounts of capital there until market conditions warrant its development.

The development of the Mt. Hope Project has a Project Capital Estimate of \$1,154.0 million including development costs of \$1,039.0 million (in 2008 dollars) and \$115.0 million in cash financial assurance requirements

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and pre-payments. These amounts do not include financing costs or amounts necessary to fund operating working capital. Through the nine months ended September 30, 2010, we have spent approximately \$168.6 million and have \$17.3 million remaining cash on hand for use in the development of the Mt. Hope Project and other cash requirements.

The Company remains in a cash conservation plan implemented in March 2009 designed to reduce expenditures and conserve cash in order to maximize financial flexibility. In addition to conserving cash, the plan seeks to retain critical employees and the ability to start construction at the Mt. Hope Project pending the availability of the Hanlong financing.

Once we have received the major operating permits and the Record of Decision ("ROD") from the United States Bureau of Land Management ("BLM") and loan procurement efforts are complete, it is expected that Mt. Hope can be constructed and in production within 20 months. In the interim, our permitting efforts are continuing full-time. The Company has maintained its orders for grinding, milling, and other specialty long lead equipment, although other engineering, administrative and third-party work has been slowed or suspended.

The worldwide molybdenum price has fluctuated between \$5.33 per pound in 2003 to over \$40.00 per pound in 2005. In 2009, molybdenum prices averaged \$11.12 per pound. Molybdenum prices fell substantially between October 2008 and April 2009 from approximately \$33.50 per pound to \$7.70 per pound. Following April 2009, prices generally rose and finished 2009 at approximately \$12.00 per pound. In the first quarter of 2010 molybdenum prices trended upward, and by the end of March 2010 prices were at \$17.10. During the second quarter prices peaked at \$17.92 in mid-April 2010, and then retreated to \$14.75 by the end of June 2010. The third quarter prices ranged from a high of \$16.03 at the beginning of September 2010 to a low of \$13.88 in mid July 2010. The market ended the third quarter of 2010 with a price of \$15.35.

## Restructuring and Suspension of Project Development

As discussed above, in March 2009, we implemented a cash conservation plan to reduce expenditures and conserve cash in order to maximize financial flexibility. Engineering efforts, approximately 60% complete, were largely suspended pending the finalization of financing. Some engineering that is critical for permitting or project restart readiness has continued at a slower pace.

The Company has purchase orders for two types of equipment; milling process equipment and mining equipment. Most equipment orders for the custom-built grinding and other milling process equipment will be completed by the manufacturers and stored. The grinding and milling process equipment require the longest lead times and maintaining these orders is critical to the Company's ability to re-start the development of Mt. Hope rapidly. Fabrication of less critical equipment has been suspended with some manufacturers. With respect to the remaining milling process equipment, where schedule is not critical, the manufacturers have agreed to suspend fabrication of the equipment. The Company has completed negotiation with other equipment manufacturers to suspend or terminate fabrication of other milling equipment and to determine the equipment fabrication costs incurred to date, storage costs, and the expected timing of restarting fabrication. As financing becomes available and equipment procurement is restarted, agreements that were suspended or terminated will be renegotiated under the then current market terms and conditions, as necessary.

The drills and loaders for the mine operation have been cancelled, and discussions for the purchase of the electric shovels are complete and this order was amended and remains in effect. An agreement has been reached with a truck manufacturer to hold production slots for timely delivery. Once financing becomes available, the Company anticipates placing orders for the cancelled mining equipment again. The Company will continue to evaluate all options to facilitate a timely restart of the Mt. Hope Project development.

## Permitting Update

The Mt. Hope Project will require both Federal and State permits before it can commence construction and operations. Major permits required for the Mt. Hope Project include the ROD, a BLM issued permit, the water pollution control permit and reclamation permit from the Nevada Division of Environmental Protection—Bureau of

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Mining Regulation and Reclamation ("BMRR"), and an air quality permit from the Nevada Division of Environmental Protection— Bureau of Air Pollution Control ("BAPC").

The BLM is preparing an environmental impact statement ("EIS") analyzing the environmental impacts of the Mt. Hope Project and alternatives in accordance with the National Environmental Policy Act. Upon completion and approval of the EIS, the BLM will issue the ROD for the Mt. Hope Project. The ROD will be effective on the date the BLM has recorded its decision to approve the EIS and plan of operations for the Mt. Hope Project. In September 2006, the BLM determined that the plan of operations met the regulatory requirements with respect to completeness and comprehensiveness. Since that time, baseline technical reports have been submitted and plan of operations updates have been submitted to accommodate additional detail based on progression of project design.

The Preliminary Draft Environmental Impact Statement ("PDEIS") was completed and provided to Cooperating Agencies on August 18. These Agencies provided comments on the PDEIS to the BLM on September 23. The BLM and its independent EIS contractor are currently in the process of reviewing and incorporating the comments into a Draft EIS ("DEIS"). Once the DEIS is complete, the BLM will advance the DEIS through the Notice of Availability ("NOA") process, which is the procedural step to publishing the document. The Company continues to expect the DEIS to be published later this year, but delays to the BLM's review process, which the Company does not control, could push publication into early 2011. Following publication of the DEIS, the public will be allowed to review and comment on the DEIS and a Final EIS will be drafted prior to the issuance of the ROD, which the Company continues to anticipate receiving by mid-2011.

The other time-critical State permits have also been submitted for agency review and approval at the time of this filing. We believe these other major operating permits will be received on or prior to the effective date of the ROD.

Although we currently are targeting the effectiveness of the ROD and the receipt of all major operating permits to occur by mid-2011, circumstances beyond our control, including reviewing agency delays or requests for additional information or studies, and appeals of the BLM decision, could cause the effectiveness of the ROD to be delayed. The occurrence of any or a combination of these adverse circumstances may increase the estimated costs of development, require us to obtain additional interim financing, and / or delay our ability to consummate project financing or other significant financing. A delay in the ROD or the receipt of major operating permits also affects the satisfaction of the ROD Contribution Conditions, extends the time for the receipt of POS-Minerals third contribution, if any, and may affect the contingent obligation of Eureka Moly to refund capital contributions to POS-Minerals and the amount of any such refund. See "The Mt. Hope Project" below.

## Water Rights Update

On March 26, 2009, the Nevada State Engineer approved the Company's previously filed water applications that requested mining and milling use of 11,300 acre feet annually of water to be drawn from a well field near the Mt. Hope project in Kobeh Valley. All filings with the Nevada State Engineer have been made by a wholly owned subsidiary of the Company. On April 24, 2009, two appeals of the ruling were filed by Eureka County, Tim Halpin, Eureka Producers' Cooperative and Cedar Ranches, LLC ("Petitioners") with the Seventh Judicial District Court of the State of Nevada challenging the State Engineer's decision. On April 21, 2010, the District Court entered an order remanding the matter for another hearing by the State Engineer. The Court ruled that the Petitioners' due process rights to a full and fair hearing were violated when the State Engineer considered and relied upon a version of the Company's hydrology model that had not been presented to the Petitioners before the hearing. The District Court's decision is separate from and does not affect the Federal permitting process and the work associated with the Company's EIS.

In June 2010, the Company filed change applications with the State Engineer's office requesting permits to withdraw water at well locations matching those incorporated in the Company's final hydrology models now approved by the BLM. The applications previously granted by the State Engineer's office contained proposed well locations that the Company no longer intends to utilize based on additional groundwater modeling and exploration. Filing new change applications to match those incorporated in the Company's final hydrology reports submitted to the BLM eliminates one issue raised by the County of Eureka in their appeal of the Company's water rights. The Nevada State Engineer's office has set a hearing for December 6<sup>th</sup> to the 10<sup>th</sup> to consider the Company's water

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applications. The Company anticipates the State Engineer's office to issue its ruling approximately three months following the conclusion of the hearing. The Company is also continuing work with the Commissioners of Eureka County to find a solution to their opposition of the Company's water applications. The Company's scientific studies continue to indicate that Mt. Hope's water pumping in Kobeh Valley will have virtually no impact to water in Diamond Valley.

On August 19, 2010, Eureka Moly LLC, the Company's 80% owned subsidiary, entered into an agreement with the Eureka Producers' Cooperative (the EPC) whereby Eureka Moly will fund a Sustainability Trust (the Trust) in exchange for the cooperation of the EPC with respect to Eureka Moly's water rights and permitting of the Mt. Hope Project.

Based on the agreement, the EPC dismissed its judicial appeal and has withdrawn its protests to Eureka Moly's water applications and will not file any further protests to any change applications Eureka Moly files prior to production from the Mt. Hope Project. Additionally, the EPC has agreed not to oppose, delay, or protest any of Eureka Moly's mining and milling plans set forth in the Plan of Operations filed with the BLM, including efforts to obtain permits for the Mt Hope Project from federal, state and local authorities and agencies. The EPC will support Eureka Moly in its efforts to cause other Protestants or Appellants to end their protests or appeals to any permits or approvals required for the Mt. Hope Project.

The Trust will be tasked with developing and implementing programs that will serve to enhance the sustainability and well-being of the agricultural economy in the Diamond Valley Hydrographic Basin through reduced water consumption, which may include the Trust purchasing and relinquishing water rights in Diamond Valley to help bring the Diamond Valley basin into a more sustainable water balance. The Trust's activities will be governed by a five member Board including one Eureka Moly representative.

The Trust may be funded by Eureka Moly and could range between \$8.0 million and \$12.0 million, contributed to the Trust over several years, contingent on the achievement of certain milestones. The amount of the Trust will depend on the timing of the publication of the Company's Draft Environmental Impact Statement (DEIS) and receipt of the Record of Decision (ROD), with higher payment amounts corresponding with faster permit receipt. These base total amounts can be reduced by 25% or 50% if Eureka Moly obtains its water rights and other permits, but delays are caused by certain other protestants or a current appellant continuing to protest or appeal the water applications or oppose the permits for the Mt. Hope Project. In all cases, at least 50% of the contributions would be provided upon receipt of full financing and the Company's Board of Directors' decision to proceed with construction. The remaining payments would be split evenly with one payment due not later than 150 days from the commencement of production at the Mt. Hope Project and the remaining payment due one year thereafter.

### The Mt. Hope Project

Effective as of January 1, 2008, we contributed all of our interest in the assets related to the Mt. Hope Project, including our lease of the Mt. Hope Project into a newly formed entity, Eureka Moly, LLC, a Delaware limited liability company ("LLC"), and in February 2008 ("Closing Date") entered into an agreement ("LLC Agreement") for the development and operation of the Mt. Hope Project ("Project") with POS-Minerals Corporation ("POS-Minerals") an affiliate of POSCO, a large Korean steel company. Under the LLC Agreement, POS-Minerals owns a 20% interest in the LLC and General Moly, through a wholly-owned subsidiary, owns an 80% interest. These ownership interests and/or required contributions under the LLC Agreement can change as discussed below.

Pursuant to the terms of the LLC Agreement, POS-Minerals made its first and second cash contributions to the LLC totaling \$100.0 million during the year ended December 31, 2008 ("Initial Contributions"). Additional amounts will be due from POS-Minerals within 15 days after the date ("ROD Contribution Date") that specified conditions ("ROD Contribution Conditions") have been satisfied. The ROD Contribution Conditions are the receipt of major operating permits for the Mt. Hope Project, that the ROD from the BLM for the Mt. Hope Project has become effective, and any administrative or judicial appeals with respect thereto are final. We are currently targeting the effectiveness of the ROD and the satisfaction of the ROD Contribution Conditions to occur by mid-2011, but circumstances beyond our control, including reviewing agency delays or requests for additional

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information or studies, and requests for review or appeals of the BLM decision, could cause the effectiveness of the ROD and/or satisfaction of the ROD Contribution Conditions to be delayed.

To maintain its 20% interest in the LLC, POS-Minerals will be required to make an additional \$56.0 million contribution plus its 20% share of all Mt. Hope Project costs incurred from the Closing Date to the ROD Contribution Date within 15 days after the ROD Contribution Date. If POS-Minerals does not make its additional \$56.0 million contribution when due after the ROD Contribution Date, its interest will be reduced to 10% and the return of contributions (as defined below) will be zero.

In addition, if commercial production at the Mt. Hope Project is not achieved by December 31, 2011, for reasons other than a force majeure event, the LLC may be required to return to POS-Minerals a portion of its contributions to the LLC, with no corresponding reduction in POS-Minerals' ownership percentage. Based on our current plan and expected timetable, Mt. Hope Project will not achieve commercial production by December 31, 2011. As POS-Minerals has elected to retain its 20% interest and make its additional \$56.0 million contribution, the return of contributions will be \$36.0 million on or prior to January 27, 2012. Our wholly-owned subsidiary and 80% owner of the LLC, Nevada Moly, is obligated under the terms of the LLC Agreement to make capital contributions to fund the return of contributions to POS-Minerals, if required. If Nevada Moly does not make these capital contributions, POS-Minerals has an election to either make a secured loan to the LLC to fund the return of contributions or receive an additional interest in the LLC of approximately 5%. In the latter case, our interest in the LLC is subject to dilution by a percentage equal to the ratio of 1.5 times the amount of the unpaid contributions over the aggregate amount of deemed capital contributions (as determined under the LLC Agreement) of both parties to the LLC ("Dilution Formula"). At December 31, 2009, the aggregate amount of deemed capital contributions of both parties was \$880.0 million.

Furthermore, a provision in the LLC Agreement permits POS-Minerals the option to put its interest in the LLC to Nevada Moly after a change of control of the Company, as defined in the LLC agreement, followed by (i) failure to begin full construction at the LLC by the Company or the surviving entity before December 31, 2010, or (ii) failure to use standard mining industry practice in connection with development and operation of the project as contemplated by the parties for a period of twelve months after December 31, 2010. If POS-Minerals puts its interest, Nevada Moly would be required to purchase the interest for 120% of POS-Minerals contributions to the LLC plus 10% interest per annum.

The Initial Contributions of \$100.0 million that were made by POS-Minerals during 2008 were expended by the second quarter of 2009 in accordance with the program and budget requirements of the Mt. Hope Project. Nevada Moly is required, pursuant to the terms of the LLC Agreement, to advance funds required to pay costs for the development of the Mt. Hope Project that exceed the Initial Contributions until the ROD Contribution Date, at which point the contributions described above to be made by POS-Minerals will be applied to reimburse us for POS-Minerals' share of such development costs. All costs incurred after the ROD Contribution Date will be allocated and funded pro rata based on each party's ownership interest. The interest of a party in the LLC that does not make its pro rata capital contributions to fund costs incurred after the ROD Contribution Date is subject to dilution based on the Dilution Formula.

## Liquidity, Capital Resources and Capital Requirements

*For the period from December 31, 2009 to September 30, 2010*

Our total consolidated cash balance at September 30, 2010, was \$17.3 million compared to \$48.6 million at December 31, 2009. The decrease in our consolidated cash balances for the nine months ended September 30, 2010, was due primarily to development costs incurred of \$10.5 million, deposits on property, plant and equipment totaling \$24.9 million, and general and administrative costs of \$5.9 million offset by bridge loan funding of \$10.0 million. Deposits on property, plant and equipment relate primarily to scheduled payments for long lead time equipment for the Mt. Hope Project. See "Contractual Obligations" below.

With our cash conservation plan, our non-equipment related cash requirements have declined to approximately \$1 million per month, inclusive of maintenance costs at the Liberty Property. Based on our current plan and expected timetable, we expect to make additional payments of approximately \$0.2 million under milling process

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equipment orders through the end of 2010, and \$13.4 million in 2011. As the Hanlong financing becomes available and equipment procurement is restarted, agreements that were suspended or terminated will be renegotiated under current market terms and conditions, as necessary. The anticipated sources of financing described below, combined with funds anticipated to be received from POS-Minerals in order to retain its 20% share, provide substantially all of our currently planned funding required to construct and place the Mt. Hope Project into commercial operation.

### Securities Purchase Agreement with Hanlong (USA) Mining Investment Inc. and Chinese Bank Loan

On March 4, 2010, the Company signed a Securities Purchase Agreement (“Purchase Agreement”) with Hanlong (USA) Mining Investment, Inc. (“Hanlong”), an affiliate of Sichuan Hanlong Group, a large privately held Chinese company. The Purchase Agreement and the related agreements described below form the basis of a significant investment by Hanlong in the Company that is intended to provide the Company with adequate capital to develop the Mt. Hope Project. The Purchase Agreement provides for the sale to Hanlong of shares of our common stock in two tranches that will aggregate 25% of our outstanding stock on a fully diluted basis. The average price per share, based on the anticipated number of shares to be issued, is \$2.88 for an aggregate price of \$80.0 million, and constitutes a small premium as compared to the \$2.60 closing share price of the Company on March 4, 2010. The share issuance is part of a larger transaction that includes the commitment by Hanlong to use its commercially reasonable efforts to procure a \$665.0 million bank loan for the Company (“Term Loan”) from a prime Chinese bank that will be guaranteed by an affiliate of Hanlong, a \$20.0 million bridge loan from Hanlong to the Company, and a long-term molybdenum supply off-take agreement pursuant to which a Hanlong affiliate will agree to purchase a substantial part of the molybdenum production from the Mt. Hope Project at specified prices.

**Stock Purchase.** The Purchase Agreement provides, subject to terms and conditions of the Purchase Agreement, for the purchase by Hanlong for an aggregate price of \$80.0 million, of approximately 27.8 million shares of our common stock which will equal 25% of our outstanding common stock on a fully-diluted basis following the purchase, or approximately 38.3% of our outstanding common stock on March 4, 2010. Fully diluted means all of our outstanding common stock plus all outstanding options and warrants, whether or not currently exercisable. Hanlong is obligated to purchase the first 12.5% of our fully-diluted shares, or approximately 11.9 million (“Tranche 1”) for \$40.0 million, or approximately \$3.36 per share, following satisfaction of certain conditions, including receipt of stockholder approval of the equity issuances in connection with the transaction (received at the Annual Meeting of Stockholders held on May 13, 2010), publication of the notice of availability of the DEIS concerning the Mt. Hope Project by the BLM, receipt of necessary Chinese government approvals for certain portions of the transaction, assurances from Hanlong as to the availability of the Term Loan, approval of the shares for listing on the New York Stock Exchange Amex (“NYSE Amex”) and absence of certain defaults. The actual number of shares and price per share will be adjusted for any change in the number of fully diluted shares before the closing of Tranche 1. The parties may waive the conditions to their respective obligations.

On October 26, 2010, the Company and Hanlong executed an amendment to the Hanlong agreement setting the closing of Hanlong’s purchase of the first tranche of equity in the Company on December 20, 2010. The parties have agreed that the publication of the Mt. Hope Project’s DEIS is no longer a condition precedent to Hanlong’s first tranche equity investment. Timely publication of the DEIS does, however, remain a requirement of the entire agreement, and, in conjunction with this amendment, the required date for DEIS publication has been extended to May 31, 2011 from February 28, 2011, although the Company does not currently estimate the additional time to be required.

Hanlong and the Company continue to work toward achievement of Tranche 1 Conditions. The Company received overwhelming support from stockholders at the Company’s Annual General Meeting and is continuing to progress toward publication of the DEIS. Hanlong received Chinese Government approvals for the equity investment from the National Development and Reform Commission (NDRC) and the Ministry of Commerce (“MOFCOM”) on October 8 and October 12, 2010, respectively. Hanlong filed the MOFCOM approval with the State Administration of Foreign Exchange (SAFE) on October 12, 2010, fulfilling Hanlong’s Chinese Government approval obligations.

On July 30, the Company and Hanlong executed an amendment to the Hanlong agreement extending the deadline for obtaining Chinese Government approvals by two months to October 13, 2010, which approvals have now been received, as well as extending the Company’s deadlines for publishing its DEIS and receiving its ROD to

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February 28, 2011 and November 30, 2011, respectively, although the Company currently does not anticipate utilizing the additional time permitted for the publication of the DEIS or receipt of the ROD.

The second tranche ("Tranche 2") will involve the purchase of an additional 12.5% of our fully diluted shares, or approximately 15.9 million additional shares, for an additional \$40.0 million, or approximately \$2.52 per share. The actual number of shares and price per share will be adjusted for any change in the number of fully diluted shares before the closing of Tranche 2. Significant conditions to the closing of Tranche 2 include issuance of the ROD for the Mt. Hope Project by the BLM, approval of the plan of operation for the Mt. Hope Project by the BLM, and the completion of documentation for and satisfaction of conditions precedent to lending under the Term Loan. The Purchase Agreement may be terminated by either party (provided the terminating party is not in default) if the closings of Tranche 1 and Tranche 2 have not occurred by March 31, 2011 (subject to extension until June 30, 2011 under certain circumstances), and December 31, 2011, respectively, subject to extension under some circumstances to March 31, 2012.

Hanlong will have the right to purchase a portion of any additional shares of common stock that we issue so that it can maintain its percentage ownership unless its ownership is at the time below 5%. It may also acquire additional shares so that it maintains a 20% indirect interest in the Mt. Hope Project if our interest in the LLC is reduced below 80%. If we issue shares to fund our obligation to fund the Mt. Hope Project under certain circumstances and Hanlong exercises its rights to maintain its percentage interest, we will be obligated to refund to Hanlong the cost of such shares over a three-year period up to an aggregate of \$9.0 million.

**Break Fees.** A break fee is payable by both the Company and Hanlong if the Purchase Agreement terminates because of the failure of certain conditions to the closing of Tranche 1 or Tranche 2. A break fee of \$10.0 million is payable to the Company if the Purchase Agreement is terminated because Hanlong fails to obtain necessary Chinese government approvals or to give its assurances about the availability of the Term Loan. The Company has agreed to pay \$5.0 million to Hanlong if the conditions concerning our stockholder approval, the publication of the DEIS or the ROD are not timely satisfied or waived and the Purchase Agreement is terminated. The Company break fee may be increased by \$5.0 million if the Purchase Agreement is terminated and the Company has violated the "no-shop" provisions of the Purchase Agreement and may be increased in other circumstances not to exceed an additional \$3.0 million if the Company requests and Hanlong grants certain extensions of deadlines concerning the DEIS and up to an additional \$2.0 million if the Company requests and Hanlong grants certain extensions concerning the ROD. In addition, the Company must pay a \$2.0 million fee to Hanlong if it grants the extension concerning the ROD, which fee can be credited against the arrangement fee described above. The break fee payable by the Company to Hanlong may be paid in cash, or, in certain circumstances, in shares of our common stock at our option. If paid in shares, the price would be the volume weighted average of our common stock on the NYSE Amex for the five days ending six days after the announcement of the termination.

**Chinese Bank Loan.** Pursuant to the Purchase Agreement, Hanlong is obligated to use its commercially reasonable efforts to procure the Term Loan in an amount of at least \$665.0 million with a term of at least 14 years after commercial production begins at the Mt. Hope Project. The Term Loan is expected to bear interest at a rate of LIBOR plus a spread of between 2% and 4% per annum. The Purchase Agreement provides that the Term Loan will have customary covenants and conditions; however, the terms of the Term Loan have not been negotiated with the lender and we have no assurance as to the final terms of the Term Loan. Hanlong or an affiliate is obligated to guarantee the Bank Loan. When funds can be drawn by the Company under the Term Loan, the Company will pay a \$15.0 million arrangement fee to Hanlong who will pay all fees and expenses associated with the Term Loan before the Term Loan Closing, including those charged by the Chinese bank.

## Bridge Loan

Hanlong has also agreed to provide a \$20.0 million bridge loan ("Bridge Loan") to the Company in two equal \$10.0 million tranches. On April 28, 2010, we drew down tranche 1 in the amount of \$10.0 million. The second loan tranche became available five business days after receipt of stockholder approval and is subject to the satisfaction of customary conditions. The first tranche of the Bridge Loan bears interest at LIBOR plus 2% per annum. The second tranche of the Bridge Loan will bear interest at 10% per annum. The Bridge Loan will be repaid from the proceeds of the Term Loan. If Hanlong agrees, the second tranche may also be repaid, at the Company's election, in shares of the Company's common stock. If paid in shares, the price would be the volume



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weighted average of the Company's shares on the NYSE Amex for a five-day period after public announcement of the event that required repayment. The Company may offset its right to receive the break fee against its obligations to repay borrowings under the Bridge Loan. If not sooner repaid, the Bridge Loan will mature on the earliest of 120 days after the issuance of the ROD, the date on which the Purchase Agreement terminates, and March 31, 2012. The Bridge Loan and our obligation to pay a break fee to Hanlong under the Purchase Agreement are secured by a pledge by us of a 10% interest in the LLC.

## Results of Operations

### *Three months ended September 30, 2010, compared to three months ended September 30, 2009*

For the three months ended September 30, 2010, we had a consolidated net loss of \$7.3 million compared with a consolidated net loss of \$2.4 million in the same period for 2009, due to the factors noted below in the disclosure associated with exploration and evaluation expenses, and general and administrative expenses.

For the three months ended September 30, 2010, and 2009, exploration and evaluation expenses were \$0.2 million and \$0.3 million, respectively, as costs associated with the Liberty Property continued to decline as a result of reduced activity.

For the three months ended September 30, 2010, and 2009, writedowns of development and deposits were \$5.0 million and \$0.4 million, respectively, due to the relinquishment of the annex lease to Eureka County during the third quarter of 2010 and the forfeiture of deposits paid on long-lead equipment during the third quarter of 2009.

For the three months ended September 30, 2010, and 2009, general and administrative expenses were \$2.0 million and \$1.7 million, respectively, as the cash conservation efforts initiated by the Company in the second quarter of 2009 remained in effect during the third quarter of 2010.

Interest income was nil for the three months ended September 30, 2010 and 2009, as a result of substantially lower interest rates and lower consolidated cash balances in 2010 and 2009. Interest expense was \$0.1 million and nil for the three months ended September 30, 2010 and 2009, as a result of the bridge loan taken out in the second quarter of 2010.

### *Nine months ended September 30, 2010, compared to nine months ended September 30, 2009*

For the nine months ended September 30, 2010, we had a consolidated net loss of \$13.4 million compared with a consolidated net loss of \$8.3 million in the same period for 2009, due to the factors noted below in the disclosure associated with exploration and evaluation expenses, and general and administrative expenses.

For the nine months ended September 30, 2010, and 2009, exploration and evaluation expenses were \$0.5 million and \$0.6 million, respectively, as costs associated with the Liberty Property continued to decline as a result of reduced activity.

For the nine months ended September 30, 2010, and 2009, writedowns of development and deposits were \$5.0 million and \$0.4 million, respectively, due to the relinquishment of the annex lease to Eureka County during the third quarter of 2010 and the forfeiture of deposits paid on long-lead equipment during the third quarter of 2009.

For the nine months ended September 30, 2010, and 2009, general and administrative expenses were \$7.7 million and \$7.3 million, respectively, as the cash conservation efforts initiated by the Company in the first half of 2009 were offset in the first half of 2010 by costs associated with the Hanlong financing transaction, inclusive of bridge loan interest expense, and the incremental cost of the reissued warrants to Coghill.

Interest income was nil for the nine months ended September 30, 2010 and 2009, as a result of substantially lower interest rates and lower consolidated cash balances in 2010 and 2009. Interest expense for the nine months ended September 30, 2010 and 2009 was \$0.1 million and nil, respectively, as a result of the bridge loan taken out in the second quarter of 2010.

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## Contractual Obligations

Our contractual obligations as of September 30, 2010, were as follows:

Contractual obligations	Payments due by period (Dollars in millions)				
	Total	2010	2011	2012 - 2015	2016 & Beyond
Long-Term Debt (Capital Lease) Obligations	\$ 0.3	\$ 0.1	\$ 0.1	\$ 0.1	\$ —
Operating Lease Obligations	0.6	0.1	0.3	0.2	—
Purchase Contracts	45.4	0.2	21.7	23.5	—
Advance Royalties and Deferral Fees (1)	23.2	1.2	22.0	—	—
Provision for post closure reclamation and remediation	0.6	—	—	—	0.6
<b>Total</b>	<b>\$ 70.1</b>	<b>\$ 1.6</b>	<b>\$ 44.1</b>	<b>\$ 23.8</b>	<b>\$ 0.6</b>

(1) Assumes that full project financing is obtained during 2011

At September 30, 2010, we have contracts to purchase mining equipment comprised of two electric shovels and have cancelled orders for mine drills and loaders. We have a non-binding letter of agreement on 24 haul trucks that establishes our priority for delivery and provides for the then current pricing using market indices upon initiation of an order. We have active orders with varying stages of fabrication on milling process equipment comprised of two 230kV primary transformers and substation, a primary crusher, a semi-autogenous mill, two ball mills, and various motors for the mills. The Company has taken receipt of certain of these assets that are fully fabricated in storage facilities at its Liberty Property, including the mill motors. We have suspended fabrication on 16 flotation cells, lime slaking equipment, hydrocyclones, and other smaller milling process equipment with the ability to re-initiate fabrication at any time. We have completed negotiations with the manufacturer of two multi-hearth molybdenum roasters to terminate its fabrication of this equipment and receive finished goods of the partially completed order. We plan to re-establish a new purchase order with this manufacturer as additional financing is secured and equipment procurement is restarted under the current market terms and conditions.

The following table sets forth the LLC's remaining cash commitments under purchase contracts at September 30, 2010, resulting from the re-negotiation and cancelation of Purchase Contracts as discussed above:

Period	(Dollars in millions)
2010	\$ 0.2
2011	21.7
2012	21.1
2013	2.4
2014	—
<b>Total</b>	<b>\$ 45.4</b>

Cash commitments under purchase contracts are inclusive of \$13.6 million under milling process equipment orders, and \$31.8 million in mining equipment orders. Based on our current plan, we expect to make additional payments of approximately \$0.2 million under these milling process equipment orders through the end of 2010, and \$13.4 million in 2011. As our additional financing becomes available and equipment procurement is restarted, agreements that were suspended or terminated will be renegotiated under the then current market terms and conditions, as necessary.

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If the Company does not make payments required under the purchase contracts, it could be subject to claims for breach of contract or to cancellation of the purchase contract. In addition, we may proceed to selectively suspend, cancel or attempt to renegotiate additional purchase contracts if we are forced to further conserve cash. See "Liquidity and Capital Resources" above. If we cancel or breach any contracts, we will take all appropriate action to minimize any losses, but could be subject to claims or penalties under the contracts or applicable law. The cancellation of certain key contracts would cause a delay in the commencement of operations, have ramifications under the LLC Agreement with POS-Minerals and would add to the cost to develop our interest in the Mt. Hope Project.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Commodity Price Risk

We are a development stage company in the business of the exploration, development and mining of properties primarily containing molybdenum. As a result, upon commencement of production, our financial performance could be materially affected by fluctuations in the market price of molybdenum and other metals we may mine. The market prices of metals can fluctuate widely due to a number of factors. These factors include fluctuations with respect to the rate of inflation, the exchange rates of the U.S. dollar and other currencies, interest rates, global or regional political and economic conditions, banking environment, global and regional demand, production costs, and investor sentiment.

In order to better manage commodity price risk and to seek to reduce the negative impact of fluctuations in prices, we have entered into long term supply contracts. On December 28, 2007, we entered into a molybdenum supply agreement with ArcelorMittal that provides for ArcelorMittal to purchase 6.5 million pounds of molybdenum per year, plus or minus 10%, once the Mt. Hope Project commences commercial operations at minimum specified levels. The supply agreement provides for a floor price along with a discount for spot prices above the floor price and expires five years after the commencement of commercial production at the Mt. Hope Project. Both the floor and threshold levels at which the percentage discounts change are indexed to a producer price index. On April 16, 2010, we and ArcelorMittal entered into an Extension Molybdenum Supply Agreement ("Extension Agreement"), providing ArcelorMittal with a five-year option to make effective an agreement to purchase from us three million pounds of molybdenum per year for ten years following the expiration of the original molybdenum supply agreement. The additional optional off-take will be priced in alignment with our existing supply agreements. In order for ArcelorMittal to exercise this option and make the Extension Agreement effective, ArcelorMittal must have beneficial ownership of more than 11.1 million shares of our common stock on or prior to April 15, 2015. ArcelorMittal currently owns approximately 8.3 million shares of our common stock.

On May 14, 2008, we entered into a molybdenum supply agreement with SeAH Besteel Corporation ("SeAH Besteel"), Korea's largest manufacturer of specialty steels, which provides for SeAH Besteel to purchase 4.0 million pounds of molybdenum per year, plus or minus 10%, once the Mt. Hope Project commences commercial operations at minimum specified levels. Like the ArcelorMittal supply agreement, the supply agreement with SeAH Besteel provides for a floor price along with staged discounts for spot prices above the floor price and expires five years from the date of first supply under the agreement. Both the floor and threshold levels at which the percentage discounts change are indexed to a producer price index.

On August 8, 2008, the Company entered into a molybdenum supply agreement ("Sojitz Agreement") with Sojitz Corporation. The Sojitz Agreement provides for the supply of 5.0 million pounds per year of molybdenum for five years, beginning once the Mt. Hope Project reaches certain minimum commercial production levels. One million annual pounds sold under the Sojitz Agreement will be subject to a per-pound molybdenum floor price and is offset by a flat discount to spot moly prices above the floor. The remaining 4.0 million annual pounds sold under the Sojitz Agreement will be sold with reference to spot moly prices without regard to a floor price. The Sojitz Agreement includes an option for cancellation in the event that supply from the Mt. Hope Project has not begun by January 1, 2013.

On March 4, 2010, the Company signed a molybdenum supply agreement ("Supply Agreement") with a Hanlong affiliate (referred to in this subsequent discussion as "Hanlong"), which will be effective upon the later of the Tranche 2 closing, the Term Loan closing, or the Company's election not to enter into the Term Loan. Until the

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expiration of certain existing molybdenum supply agreements by which the Company is currently bound ("Existing Supply Agreements"), Hanlong will be required to purchase all the Company's share of the Mt. Hope molybdenum production above that necessary for the Company to meet its existing supply commitments. After the expiration of the Existing Supply Agreements, until original scheduled maturity date of the Term Loan, or if the Company elects not to enter into the Term Loan, 14 years after commencement of commercial production from the Mt. Hope Mine, Hanlong must annually purchase the greater of 16.0 million pounds and 70% of the Company's share of Mt. Hope production. Following the original scheduled maturity date of the Term Loan, or if the Company elects not to enter into the Term Loan, 14 years after commencement of commercial production from the Mt. Hope Mine, Hanlong must purchase a percentage of the Company's share of Mt. Hope production equal to 2.5 times Hanlong's fully-diluted percentage ownership of our common stock. Subject to certain exceptions, the Supply Agreement will terminate once Hanlong's fully-diluted percentage ownership of the Company falls below 5%. As long as Hanlong continues to guarantee the Term Loan, the Supply Agreement will not terminate even if Hanlong's ownership falls below 5%. If Hanlong ceases to guarantee the Term Loan, if the cause of Hanlong's ownership falling below 5% is a change of control of the Company or a dilutive transaction in which Hanlong does not have the right to participate, the Supply Agreement will not terminate and Hanlong will be obligated to continue to purchase a percentage of the Company's share of Mt. Hope production equal to 2.5 times Hanlong's fully-diluted percentage ownership of the Company as it existed immediately prior to such change of control or dilutive transaction. If the Company elects not to enter into the Term Loan, and Tranche 2 does not close, Hanlong's obligation to purchase the Company's share of Mt. Hope production in each of the periods described above will be half of the obligations described above.

Prices under the Supply Agreement are at two levels. Twenty-five percent of the production Hanlong receives will be sold at a fixed-floor price per pound subject to adjustment, which pricing is similar to floor-price protected contracts that the Company has in place with other large steel producers and metal traders. Those contracts have fixed-floor prices ranging from \$13.00 to \$13.75 per pound and incremental discounts above the floor price. For the remaining 75% of the production Hanlong receives, it will pay spot prices for molybdenum, less a small discount.

The result of the transaction will be that if the Company elects to enter into the Term Loan, or if the Tranche 2 closing occurs, all of Mt. Hope's production will be committed for the first five years of operation, approximately half of which will contain floor price protection to help support the Company's ability to service its debt in periods of low metal prices.

Existing supply agreements cover the sales of 100% of the production of Mt. Hope for the first 5 years of operation with 50% of those sales being covered by floor price protection. Over the following 9 years of operation Hanlong is committed to purchase a minimum of 70% of production with 25% of that covered under floor price protection. ArcelorMittal has an option to commit to 3.0 million pounds of production from year 6 through year 15 of operation. Hanlong has committed to take a percentage of production which is 2.5 times their percentage ownership share of the Company for the life of the mine.

All four long term supply agreements provide for supply only after commercial production levels are achieved, and no provisions require the Company to deliver product or make any payments if commercial production is never achieved, or declines in later periods. The agreements require that monthly shortfalls be made up only if the Company's portion of Mt. Hope production is available for delivery, after POS-Minerals has taken its share. In no event do these requirements to make up monthly shortfalls become obligations of the Company if production does not meet targeted levels.

Furthermore, each of the agreements have take-or-pay provisions that require the buyers to either take delivery of product made available by the Company, or to pay as though they had taken delivery pursuant to the term of the agreements. The Company has no obligation to supply product if it is not produced in sufficient quantity from the Mt. Hope mining and milling operation.

While we have not used derivative financial instruments in the past, we may elect to enter into derivative financial instruments to manage commodity price risk. We have not entered into any market risk sensitive instruments for trading or speculative purposes and do not expect to enter into derivative or other financial instruments for trading or speculative purposes.

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### Interest Rate Risk

As of September 30, 2010, we had a balance of cash and cash equivalents of \$17.3 million. Interest rates on short term, highly liquid investments have not changed materially since December 31, 2009 and continue to be 1% or less on an annualized basis. If and to the extent that these funds were invested in interest bearing instruments during the entire nine month period ended September 30, 2010, a hypothetical 1% point decrease in the rate of interest earned on these funds would reduce interest income to nil for the nine month period ended September 30, 2010.

### ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our management concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Mt. Hope Project is primarily centered between two water basins: the Kobeh Valley Basin and the Diamond Valley Basin. Operation of the Mt. Hope Project is expected to require 7,000 gpm of fresh water that will be sourced from wells located in Kobeh Valley, west of the Mt. Hope Project. The Company has purchased from existing water rights holders essentially all available water rights in the Kobeh Valley Basin, totaling more than 16,000 acre feet annually. The Company believes it has sufficient water rights for its planned mining and milling operations.

On March 26, 2009, the Nevada State Engineer approved the Company's previously filed water applications that requested mining and milling use of 11,300 acre feet annually of water to be drawn from a well field near the Mt. Hope project in Kobeh Valley. All filings with the Nevada State Engineer have been made by a wholly owned subsidiary of the Company. On April 24, 2009, two appeals of the ruling were filed by Eureka County, Tim Halpin, Eureka Producers' Cooperative and Cedar Ranches, LLC ("Petitioners") with the Seventh Judicial District Court of the State of Nevada challenging the State Engineer's decision. On April 21, 2010, the District Court entered an order remanding the matter for another hearing by the State Engineer. The Court ruled that the Petitioners' due process rights to a full and fair hearing were violated when the State Engineer considered and relied upon a version of the Company's hydrology model that had not been presented to the Petitioners before the hearing. The District Court's decision is separate from and does not affect the Federal permitting process and the work associated with the Company's EIS.

In June 2010, the Company filed change applications with the State Engineer's office requesting permits to withdraw water at well locations matching those incorporated in the Company's final hydrology models now approved by the BLM. The applications previously granted by the State Engineer's office contained proposed well locations that the Company no longer intends to utilize based on additional groundwater modeling and exploration. Filing new change applications to match those incorporated in the Company's final hydrology reports submitted to the BLM eliminates one issue raised by the County of Eureka in their appeal of the Company's water rights. The Nevada State Engineer's office has set a hearing for December 6<sup>th</sup> to the 10<sup>th</sup> to consider the Company's water

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applications. The Company anticipates the State Engineer's office to issue its ruling approximately three months following the conclusion of the hearing. The Company is also continuing work with the Commissioners of Eureka County to find a solution to their opposition of the Company's water applications. The Company's scientific studies continue to indicate that Mt. Hope's water pumping in Kobeh Valley will have virtually no impact to water in Diamond Valley.

On August 19, 2010, Eureka Moly LLC, the Company's 80% owned subsidiary, entered into an agreement with the Eureka Producers' Cooperative (the EPC) whereby Eureka Moly will fund a Sustainability Trust ("the Trust") in exchange for the cooperation of the EPC with respect to Eureka Moly's water rights and permitting of the Mt. Hope Project.

Based on the agreement, the EPC dismissed its judicial appeal and has withdrawn its protests to Eureka Moly's water applications and will not file any further protests to any change applications Eureka Moly files prior to production from the Mt. Hope Project. Additionally, the EPC has agreed not to oppose, delay, or protest any of Eureka Moly's mining and milling plans set forth in the Plan of Operations filed with the BLM, including efforts to obtain permits for the Mt Hope Project from federal, state and local authorities and agencies. The EPC will support Eureka Moly in its efforts to cause other Protestants or Appellants to end their protests or appeals to any permits or approvals required for the Mt. Hope Project.

The Trust will be tasked with developing and implementing programs that will serve to enhance the sustainability and well-being of the agricultural economy in the Diamond Valley Hydrographic Basin through reduced water consumption, which may include the Trust purchasing and relinquishing water rights in Diamond Valley to help bring the Diamond Valley basin into a more sustainable water balance. The Trust's activities will be governed by a five member Board including one Eureka Moly representative.

The Trust may be funded by Eureka Moly and could range between \$8.0 million and \$12.0 million, contributed to the Trust over several years, contingent on the achievement of certain milestones. The amount of the Trust will depend on the timing of the publication of the Company's Draft Environmental Impact Statement (DEIS) and receipt of the Record of Decision (ROD), with higher payment amounts corresponding with faster permit receipt. These base total amounts can be reduced by 25% or 50% if Eureka Moly obtains its water rights and other permits, but delays are caused by certain other protestants or a current appellant continuing to protest or appeal the water applications or oppose the permits for the Mt. Hope Project. In all cases, at least 50% of the contributions would be provided upon receipt of full financing and the Company's Board of Directors' decision to proceed with construction. The remaining payments would be split evenly with one payment due not later than 150 days from the commencement of production at the Mt. Hope Project and the remaining payment due one year thereafter.

## ITEM 1A. RISK FACTORS.

Our Annual Report on Form 10-K for the year ended December 31, 2009, including the discussion under the heading "Risk Factors" therein, and this report describe risks that may materially and adversely affect our business, results of operations or financial condition. The risks described in our Annual Report on Form 10-K and this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operations.

## Special Note Regarding Forward-Looking Statements

Certain statements in this report may constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements of our Company, the Mt. Hope Project, Liberty Property and our other projects, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We use the words "may," "will," "believe," "expect," "anticipate," "intend," "future," "plan," "estimate," "potential" and other similar expressions to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those in the forward looking statements. Such risks, uncertainties and assumptions are described in the "Risk Factors" section

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included in our Annual Report on Form 10-K for the year ended December 31, 2009, and this report, and include, among other things:

- our dependence on the success of the Mt. Hope Project;
- the ability to obtain all required permits and approvals for the Mt. Hope Project and the Liberty Property;
- issues related to the management of the Mt. Hope Project pursuant to the LLC Agreement;
- investments by Hanlong and a loan from a Chinese bank are subject to significant consents, approvals and conditions precedent which may not be obtained or met;
- negotiation of acceptable loan terms with a Chinese bank in connection with the Hanlong transaction;
- risks related to the failure of POS-Minerals to make contributions pursuant to the LLC Agreement;
- fluctuations in the market price of, and demand for, molybdenum and other metals;
- the estimation and realization of mineral reserves and production estimates, if any;
- the timing of exploration, development and production activities and estimated future production, if any;
- estimates related to costs of production, capital, operating and exploration expenditures;
- requirements for additional capital and the possible sources of such capital;
- government regulation of mining operations, environmental conditions and risks, reclamation and rehabilitation expenses;
- title disputes or claims; and
- limitations of insurance coverage;
- our investors may lose their entire investment in our securities;
- the disruptions of 2008 and 2009 in the overall economy and financial markets may continue to adversely impact our business;
- counter party risks;
- inherent operating hazards of mining;
- climate change and climate change legislation for planned future operations;
- compliance/non-compliance with the Mt. Hope lease;
- losing key personnel or the inability to attract and retain additional personnel;
- reliance on independent contractors, experts, technical and operational service providers over whom we have limited control;
- increased costs can affect our profitability;
- shortages of critical parts, equipment, and skilled labor may adversely affect our development costs;
- legislation may make it difficult to retain or attract officers and directors and can increase costs of doing business;
- adverse results of internal control evaluations could result in a loss of investor confidence and have an adverse effect on the price of the common stock;
- our common stock has a limited public market which may adversely affect the market price of our shares and may make it difficult for our shareholders to sell their shares;
- we do not anticipate paying cash dividends in the foreseeable future; and
- provisions of Delaware law and our charter and bylaws may delay or prevent transactions that would benefit shareholders.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. These forward-looking statements are based on our current expectations and are subject to a number of risks and uncertainties, including those set forth above. Although we believe that the expectations reflected in these forward-looking statements are reasonable, our actual results could differ materially from those expressed in these forward-looking statements, and any events anticipated in the forward-looking statements may not actually occur. Except as required by law, we undertake no duty to update any forward-looking statements after the date of this report to conform those statements to actual results or to reflect the occurrence of unanticipated events. We qualify all forward-looking statements contained in this report by the foregoing cautionary statements.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED****ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1	Amendment No. 1 to Securities Purchase Agreement, dated July 30, 2010, between the Company and Hanlong (USA) Mining Investment, Inc.
10.2	Amendment No. 1 to Bridge Loan Agreement, dated July 30, 2010 between the Company and Hanlong (USA) Mining Investment, Inc.
10.3†	Cooperation Agreement, dated August 10, 2010, by and between Eureka Moly, LLC and the Eureka Producers Cooperative (Filed as Exhibit 10.1 to our Current Report of Form 8-K/A, filed on August 26, 2010.)
10.4†	Form of Restricted Stock Unit Agreement under 2006 Equity Incentive Plan of the Company.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

† Previously filed as indicated and incorporated herein by reference.

+ Management contract.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 29, 2010

GENERAL MOLY, INC.

By: /s/ David A. Chaput

David A. Chaput  
Chief Financial Officer and  
Duly Authorized Officer



IN THE SEVENTH JUDICIAL DISTRICT COURT OF THE STATE OF NEVADA  
IN AND FOR THE COUNTY OF EUREKA

EUREKA COUNTY, a political  
subdivision of the State of Nevada,

Petitioner,

vs.

STATE OF NEVADA, EX. REL.,  
STATE ENGINEER, DIVISION OF  
WATER RESOURCES,

Respondent.

Case No.: CV 1108-155

Dept. No.: 2

CONLEY LAND & LIVESTOCK, LLC  
a Nevada limited liability company  
LLOYD MORRISON, an individual

Petitioners,

vs.

OFFICE OF THE STATE ENGINEER  
OF THE STATE OF NEVADA,  
DIVISION OF WATER RESOURCES,  
DEPARTMENT OF CONSERVATION  
AND NATURAL RESOURCES,  
JASON KING, State Engineer, KOBEH  
VALLEY RANCH, LLC, Real Party in  
Interest,

Respondents.

Case No.: CV 1108-156

Dept. No.: 2

KENNETH F. BENSON, an individual,  
DIAMOND CATTLE COMPANY, LLC,  
A Nevada Limited Liability Company,  
and MICHEL AND MARGARET ANN  
ETCHEVERRY FAMILY, LP, a Nevada  
Registered Foreign Limited Partnership,

Petitioners,

Vs.

STATE ENGINEER OF NEVADA,  
OFFICE OF THE State Engineer,  
DIVISION OF WATER RESOURCES,  
DEPARTMENT OF CONSERVATION  
AND NATURAL RESOURCES,

Respondent,

Case No.: CV 1108-157

Dept. No.: 2

**VOLUME XVIII**

**BATES STAMPED**

003572 - 003613

**IN THE OFFICE OF THE STATE ENGINEER  
OF THE STATE OF NEVADA**

IN THE MATTER OF APPLICATIONS 72695, 72696, )  
72697, 72698, 73545, 73546, 73547, 73548, 73549, )  
73550, 73551, 73552, 74587, 75988, 75989, 75990, )  
75991, 75992, 75993, 75994, 75995, 75996, 75997, )  
75998, 75999, 76000, 76001, 76002, 76003, 76004, )  
76005, 76006, 76007, 76008, 76009, 76483, 76484, )  
76485, 76486, 76744, 76745, 76746, 76802, 76803, )  
76804, 76805, 76989, 76990, 77171, 77174, 77175, )  
77525, 77526, 77527, 77553, 78424, 79911, 79912, )  
79913, 79914, 79915, 79916, 79917, 79918, 79919, )  
79920, 79921, 79922, 79923, 79924, 79925, 79926, )  
79927, 79928, 79929, 79930, 79931, 79932, 79933, )  
79934, 79935, 79936, 79937, 79938, 79939, 79940, )  
79941, AND 79942 FILED TO APPROPRIATE OR TO )  
CHANGE THE POINT OF DIVERSION, PLACE OF )  
USE AND MANNER OF USE OF THE PUBLIC )  
WATERS OF UNDERGROUND SOURCES WITHIN )  
THE KOBEH VALLEY (139) AND DIAMOND )  
VALLEY (153) HYDROGRAPHIC BASINS, LANDER )  
COUNTY AND EUREKA COUNTY, NEVADA. )

**RULING**

**#6127**

**GENERAL**

**I.**

Applications 72695 thru 72698 were filed on May 3, 2005, by Idaho General Mines, Inc., later assigned to Kobeh Valley Ranch, LLC, to appropriate 22.28 cubic feet per second (cfs) each of underground water for mining and milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by David A. Stine (Conley Land and Livestock, LLC), Eureka County and Lloyd Morrison.<sup>1</sup>

Applications 73545 thru 73552 were filed on December 5, 2005, by Idaho General Mines, Inc., later assigned to Kobeh Valley Ranch, LLC, to appropriate 22.28 cfs each of underground water for mining, milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed

<sup>1</sup> File Nos. 72695 thru 72698, official records in the Office of the State Engineer.

Mount Hope Mine. The applications were protested by David A. Stine (Conley Land and Livestock, LLC), Eureka County and Lloyd Morrison.<sup>2</sup>

Application 74587 was filed on August 2, 2006, by Idaho General Mines, Inc., later assigned to Kobeh Valley Ranch, LLC, to appropriate 22.28 cfs of underground water for mining, milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. This application was not protested.<sup>3</sup>

Applications 75988 thru 76004 were filed on June 29, 2007, by Kobeh Valley Ranch, LLC, to change the point of diversion, place of use and manner of use of Permit 54093, Permit 54094, Permit 60281, Permit 60282, Permit 60283, Permit 60284, Permit 60285, Permit 60286, Permit 72580, Permit 72581, Permit 72582, Permit 72583, Permit 72584, Permit 72585, Permit 72586, Permit 72587, and Permit 72588. The proposed manner of use is mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>4</sup>

Applications 76005 thru 76009 were filed on June 29, 2007, by Kobeh Valley Ranch, LLC, to change the point of diversion, place of use and manner of use of Permit 57835, Permit 57836, Permit 57839, Permit 57840 and Permit 66062, respectively. The proposed manner of use is for mining, milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>5</sup>

Applications 76483 thru 76486 were filed on November 14, 2007, by Kobeh Valley Ranch, LLC, to change the point of diversion, place of use and manner of use of Permit 10426 Certificate 2782, Permit 18544 Certificate 6457, Permit 23951 Certificate 8002 and Permit 23952 Certificate 8003, respectively. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>6</sup>

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<sup>2</sup> File Nos. 73545 thru 73552, official records in the Office of the State Engineer.

<sup>3</sup> File No. 74587, official records in the Office of the State Engineer.

<sup>4</sup> File Nos. 75988 thru 76004, official records in the Office of the State Engineer.

<sup>5</sup> File Nos. 76005 thru 76009, official records in the Office of the State Engineer.

<sup>6</sup> File Nos. 76483 thru 76486, official records in the Office of the State Engineer.

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Applications 76744, 76745, and 76746 were filed on February 13, 2008, by Kobeh Valley Ranch, LLC, to change the point of diversion, place of use and manner of use of portions of Permit 13849 Certificate 4922, Permit 35866, and Permit 64616, respectively. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. Application 76744 was protested by Cedar Ranches, LLC, and Eureka County and Applications 76745 and 76746 were protested by Cedar Ranches, LLC, Eureka County and Lander County.<sup>7</sup>

Applications 76802, 76803, 76804 and 76805 were filed on March 11, 2008, by Kobeh Valley Ranch, LLC, to change the point of diversion of Applications 76005, 76006, 76007, and 76009. The proposed manner of use is for mining, milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>8</sup>

Applications 76989 and 76990 were filed on April 23, 2008, by Kobeh Valley Ranch, LLC, to change the point of diversion, place of use and manner of use of Permit 9682 Certificate 2780 and Permit 11072 Certificate 2880, respectively. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>9</sup>

Applications 77171, 77174 and 77175 were filed on June 20, 2008, by Kobeh Valley Ranch, LLC, to change the point of diversion of Applications 76003, 76485 and 76484, respectively. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>10</sup>

Applications 77525, 77526 and 77527 were filed on October 23, 2008, by Kobeh Valley Ranch, LLC, to change the point of diversion of Applications 75990, 75996 and 75997 (portion), respectively. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum

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<sup>7</sup> File Nos. 76744, 76745, and 76746, official records in the Office of the State Engineer.

<sup>8</sup> File Nos. 76802, 76803, 76804 and 76805, official records in the Office of the State Engineer.

<sup>9</sup> File Nos. 76989 and 76990, official records in the Office of the State Engineer.

<sup>10</sup> File Nos. 77171, 77174 and 77175, official records in the Office of the State Engineer.

ore at the proposed Mount Hope Mine. The applications were protested by Eureka County.<sup>11</sup>

Application 77553 was filed on November 3, 2008, by Kobreh Valley Ranch, LLC, to change the point of diversion of a portion of Application 75997. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The application was protested by Eureka County.<sup>12</sup>

Application 78424 was filed on April 30, 2009, by Kobreh Valley Ranch, LLC, to change the point of diversion of Application 76803. The proposed manner of use is for mining, milling and dewatering purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The application was protested by Eureka County.<sup>13</sup>

Applications 79911 thru 79942 were filed on June 15, 2010, by Kobreh Valley Ranch, LLC, to change the point of diversion, place of use and/or manner of use of Applications 73551, 73552, 76004, 72695, 76003, 72696, 75997, 72697, 75988, 75996, 75999, 75989, 76989, 75995, 72698, 76000, 76002, 73545, 75992, 75993, 75994, 75998, 73546, 76745, 76990, 75990, 75991, 74587, 73547, 74587, 76746, 76001. The proposed manner of use is for mining and milling purposes. The project is further described as the mining and processing of molybdenum ore at the proposed Mount Hope Mine. The applications were protested by Eureka County, Lloyd Morrison, Baxter Glenn Tackett (79914, 79918, 79925), and Kenneth Benson (79934, 79935, 79936, 79937, 79938, 79939).<sup>14</sup>

## **II.**

Applications 72695 thru 72698 and Applications 73545 thru 73552 were timely protested by the following Protestants and on the following summarized grounds:

David Stine (Conley Land and Livestock, LLC, as Successor)<sup>1,2</sup>

- The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Kobreh Valley provides recharge to Diamond Valley and therefore, Diamond Valley water levels will decrease at an accelerated rate.

<sup>11</sup> File Nos. 77525, 77526 and 77527, official records in the Office of the State Engineer.

<sup>12</sup> File No. 77553, official records in the Office of the State Engineer.

<sup>13</sup> File No. 78424, official records in the Office of the State Engineer.

<sup>14</sup> File Nos. 79911 thru 79942, official records in the Office of the State Engineer.

- The applications list dewatering as a manner of use, but the points of diversion are at least 7 miles from the pit location. Applicant should specify actual points of diversion for dewatering.
- The mine site straddles Kobeh Valley and Diamond Valley and dewatering may involve an interbasin transfer of groundwater.
- Any application approved should be assigned a temporary status.

**Eureka County**

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- Place of use is listed as 90,000 acres and is inconsistent with stated purpose.
- The points of diversion are within Basin 139 and the place of use includes Basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6) (Interbasin transfers).
- There is no unappropriated water at the proposed source of supply, the proposed use conflicts with or will impair existing rights and protectable interests in domestic wells and threatens to prove detrimental to the public interest.
- Applicant has failed to provide the State Engineer with all relevant information required by statute.

**Lloyd Morrison**

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Over-pumping in Kobeh could stop underground recharge of Diamond Valley.

**III.**

Applications 75988 thru 76009 were timely protested by Eureka County on the following summarized grounds:<sup>4,5</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- There is no unappropriated water at the proposed source of supply, the proposed use conflicts with or will impair existing rights and protectable interests in domestic wells and threatens to prove detrimental to the public interest.
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County and others.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.

**IV.**

Applications 76483 thru 76486 were timely protested by Eureka County on the following summarized grounds:<sup>6</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.

**V.**

Applications 76744, 76745, and 76746 were timely protested by the following Protestants and on the following summarized grounds:<sup>7</sup>

**Eureka County**

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.

**Cedar Ranches, LLC**

- There is no geologic and/or hydrologic evidence that the quantity of water exists in the mine region.

- New geologic data shows that eastern great basin carbonate aquifer ground-water system of Kobeh, Diamond, and Pine Valleys and other valleys of the region are interconnected.
- Water mining in Kobeh Valley will aggravate the over allocation of water permits in Diamond Valley.

**Lander County (76745 and 76746 only)**

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.
- Inter-basin and Inter-County transfer as proposed should be carefully examined.

**VI.**

Applications 76802, 76803, 76804 and 76805 were timely protested by Eureka County on the following summarized grounds:<sup>8</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.



#### **VII.**

Applications 76989 and 76990 were timely protested by Eureka County on the following summarized grounds:<sup>9</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-appropriate the basin.
- Direct conflict with forfeiture provisions of Nevada water law.
- Impact to existing rights in Kobeh Valley, Pine Valley and Diamond Valley.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Applicant has not shown compliance with NRS § 533.370(6).
- Applicant has failed to provide the State Engineer with all relevant information required by statute.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh will likely reduce that amount and affect prior existing water rights held by Eureka County.
- All applications filed for this project cannot be approved as the aggregate is greater than 16,000 afa.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.

#### **VIII.**

Applications 77171, 77174, 77175, 77525, 77526, 77527, 77553 and 78424 were timely protested by Eureka County on the following summarized grounds:<sup>10,11,12,13</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-pump the basin.
- Existing USGS reports suggests that Kobeh Valley may provide underground flow to Diamond Valley and affect existing municipal rights.
- Impact to existing stockwater and irrigation rights in Kobeh Valley and domestic wells in Diamond Valley.
- Effective monitoring and mitigation plan is necessary prior to development of any water and Eureka County should be involved in additional study, modeling and plan.
- Impacts associated with sustained pumping at the proposed points of diversion are unknown.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Compliance with the requirements of NRS § 533.370(6) must be met.
- All applications filed for this project cannot be approved as the aggregate is greater than 11,300 afa the Applicant is seeking.
- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.

- Only consumptive portion of base rights should be subject to change.
- Any protest hearings to be held should be in Eureka.
- The Applicant's groundwater model is not technically adequate and cannot be used as a basis to approve the applications.
- The point of diversion for Application 77553 is 1,500 feet west of the boundary between Kobeh Valley and Diamond Valley. The proposed location may suggest significant secondary permeability exists in the rocks at this locale; the well may intercept flow from Kobeh Valley to Diamond Valley.
- Hydraulic properties of the proposed point of diversion are not known.
- Further applications for the mines project should not be considered until the USGS study is complete and additional data and analysis is complete.

### **IX.**

Applications 79911 thru 79942 were timely protested by Eureka County and Lloyd Morrison on the following summarized grounds:<sup>14</sup>

- Perennial Yield - The basin is fully appropriated and the applications would substantially over-pump the basin.
- Existing USGS reports suggests that Kobeh Valley may provide underground flow to Diamond Valley and effect existing municipal rights.
- Impact to existing stockwater and irrigation rights in Kobeh Valley and domestic wells in Diamond Valley.
- Effective monitoring and mitigation plan is necessary prior to development of any water and Eureka County should be involved in additional study, modeling and plan.
- There are other pending applications to appropriate water and the applicant must withdraw these applications or a decision rendered on these applications prior to ruling.
- Not all of the proposed points of diversion have been explored. Impacts associated with sustained pumping at the proposed points of diversion are unknown.
- The applicant must prove that pumping will not impact any of the sources contributing to Pete Hanson Creek and Henderson Creek.
- The proposed place of use is larger than the mine's Plan of Operations project boundary.
- Further applications for the mines project should not be considered until the USGS study is complete and additional data and analysis is complete.
- Propagation of the cones of depression from pit dewatering in Diamond Valley must be determined.
- The points of diversion are within basin 139 and the place of use includes basins 153 and 53; Compliance with the requirements of NRS § 533.370(6) must be met.
- Kobeh Valley may provide underflow to Diamond Valley and sustained pumping in Kobeh Valley will likely reduce that amount and affect prior existing water rights held by Eureka County.
- All applications filed for this project cannot be approved as the aggregate is greater than 11,300 afa the Applicant is seeking.

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- Applicant lacks ability to finance the proposed works.
- Any application approved should be assigned a temporary status.
- Only consumptive portion of base rights should be subject to change.
- Any protest hearings to be held should be in Eureka.
- The applicant holds notices filed with the BLM associated with water supply exploration activities within Diamond Valley.
- Monitoring, Management and Mitigation Plan must be developed prior to approval.
- The State Engineer should conduct a full and fair hearing.
- Forfeiture of existing rights.

**X.**

Applications 79934 thru 79939 were timely protested by Kenneth F. Benson on the following summarized grounds:<sup>15</sup>

- Forthcoming USGS studies could indicate a greater contribution from Kobeh Valley to Diamond Valley. Possible flow of 10,000 to 12,000 acre-feet annually, if substantiated, would diminish the water balance and the mining project applications could not be supported.

**XI.**

Applications 79914, 79918 and 79925 were timely protested by Baxter Glenn Tackett on the following summarized grounds:<sup>16</sup>

- In summary, I protest the Application based on an ill conceived interbasin transfer of water, an erroneous definition of beneficial use of those waters and consumption for beneficial use in Kobeh Valley, and the very real potential that artesian flows in both Kobeh Valley and Antelope Valleys will be adversely affected.
- Protestant is owner and operator of Hot Springs Ranch in Antelope Valley and is concerned that artesian flows will be affected.

**XII.**

The applications at issue represent an attempt by the Applicant to procure sufficient water for a proposed molybdenum mine to be located near Mount Hope, approximately 25 miles northwest of the Town of Eureka, Eureka County, Nevada. The applications are a combination of new appropriations of water and change applications for existing water rights. The Applicant has amended its original request of 16,000 afa and is now requesting a total combined duty of 11,300 acre-feet annually (afa). The

<sup>15</sup> File Nos. 79934 thru 79939, official records in the Office of the State Engineer.

<sup>16</sup> File Nos. 79914, 79918 and 79925, official records in the Office of the State Engineer.

Applicant is Kobeh Valley Ranch, LLC; a company formed by General Moly, Inc. to handle, hold and control the water rights for the project.

On October 13-17, 2008, the State Engineer held an administrative hearing in the matter of applications filed to appropriate or change underground water to support the Mount Hope mining project. Some of the applications were approved and others were denied by State Engineer's Ruling No. 5966, issued March 26, 2009. The ruling was appealed to district court in accordance with NRS § 533.450. The Seventh Judicial District Court vacated Ruling No. 5966 in its Order entered April 21, 2010. Subsequently, change Applications 79911 thru 79942 were filed on applications subject to State Engineer's Ruling No. 5966. The State Engineer held a new administrative hearing on December 6, 7, 9 and 10, 2010, that included the additional Applications.

After all parties were duly noticed by certified mail, a public administrative hearing was held in Carson City, Nevada starting on December 6, 2010, in the matter of the above-referenced applications before representatives of the Office of the State Engineer.<sup>17</sup> Protestant Benson filed a Motion to adopt the previous record from the hearing of October 13-17, 2008, and the motion was unopposed.<sup>18,19</sup>

On May 10, 2011, an additional day of hearing was held to consider additional information regarding specific water usage at the proposed mining project. All parties were notified and additional testimony and exhibits were admitted as part of the record.<sup>20</sup>

### **FINDINGS OF FACT**

#### **I.**

#### **STATUTORY STANDARD TO GRANT**

The State Engineer finds that NRS § 533.370(1) provides that the State Engineer shall approve an application submitted in the proper form, which contemplates the application of water to beneficial use if the applicant provides proof satisfactory of his intention in good faith to construct any work necessary to apply the water to the intended beneficial use with reasonable diligence, and his financial ability and reasonable

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<sup>17</sup> Exhibits and Transcript, public administrative hearing before the State Engineer, December 6, 7, 9, 10, 2010, official records in the Office of the State Engineer (Hereafter, Transcript, December 2010 and Exhibits, December 2010).

<sup>18</sup> Exhibit No. 13, December 2010.

<sup>19</sup> Exhibits and Transcript, public administrative hearing before the State Engineer, October 13-17, 2008, official records in the Office of the State Engineer (Hereafter, Transcript, October 2008 and Exhibits, October 2008).

<sup>20</sup> Transcript, May 10, 2011, and Exhibit Nos. 2, 3, 4 and 5.

expectation actually to construct the work and apply the water to the intended beneficial use with reasonable diligence.

## **II. APPLICATIONS SUBMITTED IN PROPER FORM**

The protests allege that the applications should be denied because they fail to adequately describe the proposed points of diversion and place of use. The application form used by the Division of Water Resources (Division) requires a description of the proposed point of diversion by survey description and the description must match the illustrated point of diversion on the supporting map. If and when a well is drilled, it must be within 300 feet and within the same quarter-quarter section as described or an additional change application is required. Prior to an application being published, the Division reviews incoming applications and maps to ensure statutory compliance. Any application or map that does not meet the requirements for acceptance and that cannot be corrected during the review process is rejected and returned for correction with time limits for the applicant to re-submit. The State Engineer finds that the Applicant has met the requirements for describing the points of diversion and place of use on the application forms and supporting maps. The State Engineer finds that all applications subject to this ruling have been submitted in the proper form.

## **III. FINANCIAL ABILITY, BENEFICIAL USE AND REASONABLE DILIGENCE**

Nevada water law requires the State Engineer to consider whether the Applicant has an intention in good faith to construct the work necessary to place any approved water to beneficial use. The Applicant also must show that it has the financial ability and reasonable expectation to construct the work necessary to apply the water to its beneficial use.<sup>21</sup>

The chief financial officer of General Moly, Inc. stated that the total expenditure of funds required for the project is \$1,154,000,000. The Applicant has expended about \$163,000,000 on such things as buying equipment, hydrology, drilling, engineering, permitting, land and water rights. General Moly, Inc. will provide 80% of the funding and partner POSCO, a Korean steel producer, will provide the remaining 20%. General Moly Inc. has arranged much of its financing through its Hanlong transaction. The

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<sup>21</sup> NRS § 533.370(1)(c).

Hanlong transaction includes a \$665,000,000 bank loan from a Chinese bank sourced and fully guaranteed by Hanlong Group. It also includes an \$80,000,000 purchase of 25% of General Moly's fully diluted shares, a \$20,000,000 bridging loan from Hanlong Group, and a molybdenum supply agreement. Hanlong is a private Chinese company headquartered in Sichuan Province in China with experience in mining projects. The financial ability of the Applicant is further detailed in the Applicant's financial exhibit and testimony.<sup>22</sup>

The State Engineer finds the evidence presented demonstrates that the Applicant has a reasonable expectation of financial ability to construct the work and apply the water to the intended beneficial use with reasonable diligence.

#### **IV. STATUTORY STANDARD TO REJECT**

The State Engineer finds that NRS § 533.370(5) provides that the State Engineer shall reject an application and refuse to issue the permit where there is no unappropriated water in the proposed source of supply, or where the proposed use conflicts with existing rights or with protectable interests in existing domestic wells as set forth in NRS § 533.024, or where the proposed use threatens to prove detrimental to the public interest.

#### **V. UNAPPROPRIATED WATER - PERENNIAL YIELD**

Nevada Revised Statute § 533.370(5) provides that the State Engineer must reject an application where there is no unappropriated water in the proposed source of supply. In determining the amount of groundwater available for appropriation in a given hydrographic basin, the State Engineer relies on available hydrologic studies to provide relevant data to determine the perennial yield of a basin. The perennial yield of a groundwater reservoir may be defined as the maximum amount of groundwater that can be salvaged each year over the long term without depleting the groundwater reservoir. Perennial yield is ultimately limited to the maximum amount of natural discharge that can be salvaged for beneficial use. The perennial yield cannot be more than the natural recharge to a groundwater basin and in some cases is less. If the perennial yield is exceeded, groundwater levels will decline and steady-state conditions will not be achieved, a situation commonly referred to as groundwater mining. Additionally, withdrawals of groundwater in excess of the perennial yield may contribute to adverse

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<sup>22</sup> Exhibit No. 37 and Transcript, pp. 27-36, December 2010.

conditions such as water quality degradation, storage depletion, diminishing yield of wells, increase in cost due to increased pumping lifts, and land subsidence.<sup>23</sup>

The perennial yields of hydrographic basins that are part of interbasin flow systems are often difficult to establish, and in the past, groundwater has sometimes been double counted, so that the sum of the perennial yields of the basins in the flow system is more than the sum of either the evapotranspiration (ET) discharge or natural recharge of the basins in the flow system. Such is the case with the Diamond Valley groundwater flow system. The Diamond Valley flow system is comprised of seven hydrographic basins: Monitor Valley South, Monitor Valley North, Kobeh Valley, Antelope Valley, Stevens Basin, Pine Valley, and Diamond Valley.<sup>24</sup> Diamond Valley is the terminus of the groundwater flow system. Groundwater flows from South Monitor Valley to North Monitor Valley, then to Kobeh Valley, and finally to Diamond Valley. Groundwater from Antelope Valley may flow to Kobeh Valley and then to Diamond Valley. Groundwater from Stevens Basin flows to Diamond Valley and/or Antelope Valley. Groundwater from the Garden Valley area, a part of the Pine Valley Hydrographic Basin, flows to Diamond Valley.<sup>25</sup> Monitor Valley, Antelope Valley, Kobeh Valley and Diamond Valley lose much of their annually recharged groundwater to ET, and the actual amount of subsurface flow between basins is uncertain. Previous publications have estimated the amount of subsurface flow,<sup>26,27,28</sup> and the Applicant has also provided estimates of subsurface interbasin flow between selected basins.<sup>29</sup> While the estimated amount of subsurface interbasin flow may be uncertain or disputed, there is general agreement on the direction of flow. Figure 1, shown on page 16, shows basin water budgets and interbasin flows as estimated in the Reconnaissance Series reports, and for reference, also shows interbasin flow as computed by the Applicant's groundwater flow model. Monitor Valley South provides an estimated 2,000 afa of subsurface inflow to Monitor Valley North, which in turn supplies 6,000 afa of subsurface inflow to Kobeh Valley. The Applicant estimated 1,370 to 1,680 afa of subsurface flow

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<sup>23</sup> State Engineer's Office, *Water for Nevada, State of Nevada Water Planning Report No. 3*, p. 13, October 1971.

<sup>24</sup> Exhibit No. 10, October 2008.

<sup>25</sup> Exhibit No. 13, October 2008.

<sup>26</sup> Exhibit No. 17, October 2008.

<sup>27</sup> Exhibit No. 16, October 2008.

<sup>28</sup> Exhibit No. 134, December 2010.

<sup>29</sup> Exhibit No. 39, Tables 3.5-2 and 4.1-13, December 2010.

from Northern Monitor Valley to Kobeh Valley.<sup>30</sup> Subsurface flow from Kobeh Valley to Diamond Valley was estimated by Harrill to be less than approximately 40 afa.<sup>31</sup> The Applicant estimated 1,100 to 1,600 afa of subsurface flow from Kobeh to Diamond Valley.<sup>32</sup> As can be seen from Figure 1, the established perennial yields of Monitor Valley North and South, and Kobeh Valley exceed both the recharge and the ET. In Reconnaissance Report 30,<sup>33</sup> Rush and Everett recognize that substantial development in one of the basins could affect the yields of adjacent basins. The Applicant's groundwater flow model simulates ET, and ET for each basin has been tabulated in its exhibit.<sup>34</sup> However, those tabulations do not represent the result of a specific study whose goal was to re-estimate groundwater ET, and will not be used in place of the existing published water budgets from the reconnaissance reports.

To resolve these issues with interbasin flow and to establish safe and conservative perennial yields in these basins, the perennial yield of each of the basins will be equal to the basin's groundwater ET. In this way, subsurface flow into or out of a basin will not be included in its perennial yield and there will be no double counting. Water that flows in the subsurface from Kobeh Valley to Diamond Valley, however much that may be, will not be part of Kobeh Valley's perennial yield. The State Engineer hereby establishes the perennial yield of the following six basins in the Diamond Valley Flow System as follows:

<u>Basin</u>	<u>Perennial Yield (acre-feet)</u>	
	<u>Previous</u>	<u>Revised</u>
Monitor Valley, Southern Part - Basin 140B:	10,000	9,000
Monitor Valley, Northern Part - Basin 140A:	8,000	2,000
Kobeh Valley, Basin 139:	16,000	15,000
Antelope Valley, Basin 151:	4,000	4,000
Stevens Basin, Basin 152:	100	100
Diamond Valley, Basin 153:	30,000	30,000

<sup>30</sup> Exhibit No. 39, Table 4.1-13, December 2010.

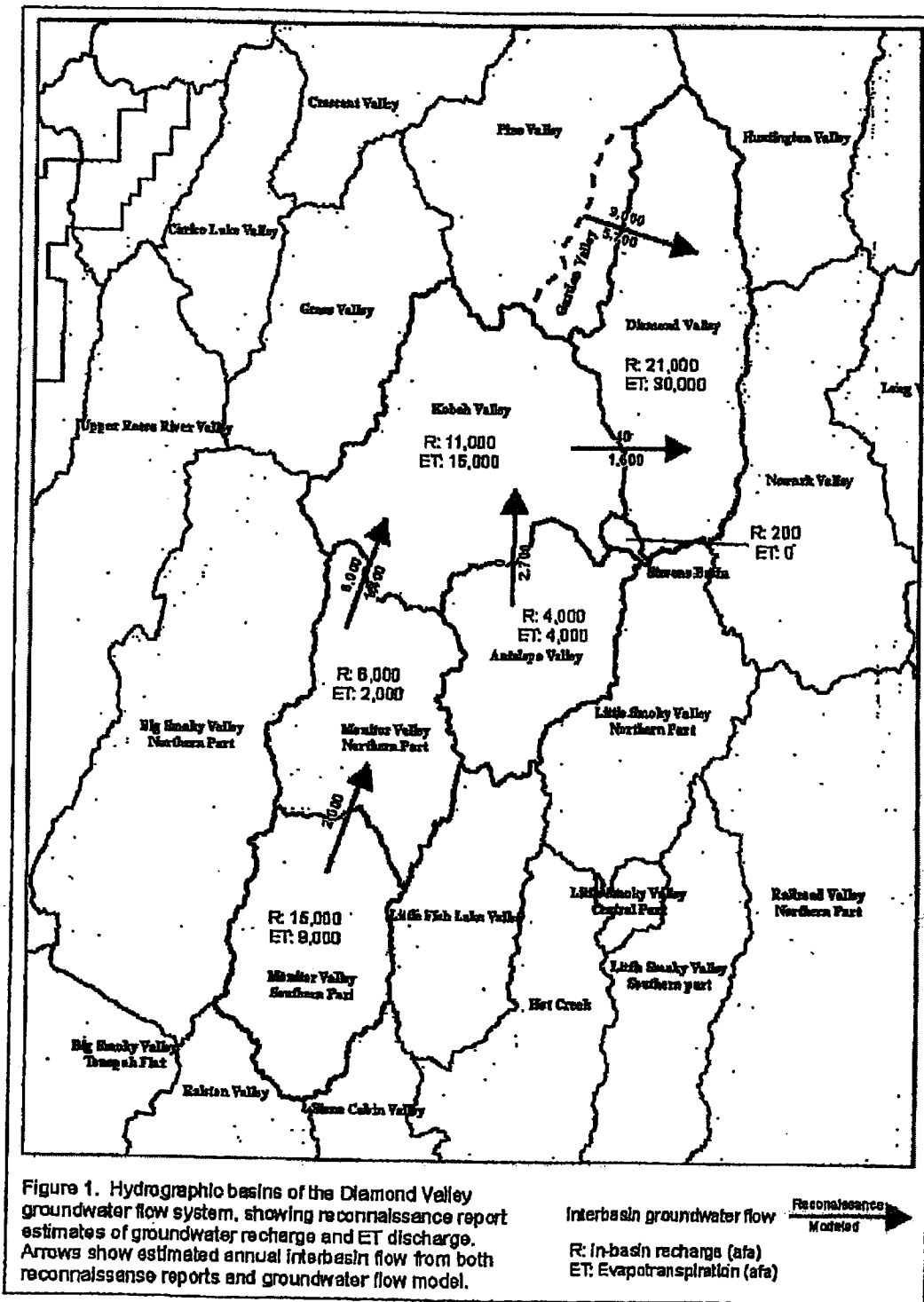
<sup>31</sup> Exhibit No. 13, October 2008.

<sup>32</sup> Exhibit No. 39, Table 4.1-13, December 2010.

<sup>33</sup> Exhibit No. 17, p. 26, October 2008.

<sup>34</sup> Exhibit No. 39, Table 4.1-12, December 2010.





Prior to the administrative hearing, the Applicant acquired nearly all of the existing groundwater rights within the Kobeh Valley Hydrographic Basin, excepting approximately 1,100 afa. The Applicant has filed new applications and change applications seeking a total combined duty of 11,300 afa from Kobeh Valley. If the subject applications were to be approved, the total committed groundwater resources in Kobeh Valley would be approximately 12,400 afa, which is less than the revised perennial yield of 15,000 afa. The State Engineer finds that there is sufficient water within the perennial yield of Kobeh Valley to satisfy the water appropriation requirements of the project. The State Engineer finds that no new appropriation of underground water is sought within Diamond Valley.

## VI.

### CONFLICT WITH EXISTING RIGHTS OR DOMESTIC WELLS

All of the Protestants raised the issue of potential conflicts with existing rights or domestic wells. They allege there could be potential impacts to water rights in Diamond Valley due to a reduction of subsurface flow from Kobeh Valley to Diamond Valley or due to drawdown from pumping. These potential impacts were evaluated by the Applicant in both its testimony and the groundwater flow model.<sup>35</sup> In Reconnaissance Series Report No. 6,<sup>36</sup> Bakin suggests minimal subsurface flow from Kobeh to Diamond Valley through the narrow alluvium-filled gap at Devil's Gate. Harrill suggests 40 afa through the same gap.<sup>37</sup> Rush and Everett concur on the minimal flow through Devil's Gate, and go on to state that flow from Kobeh to Diamond Valley through the carbonate bedrock is possible, but found no evidence to suggest such flow occurs.<sup>38</sup> Tumbusch and Plume did not provide a revised estimate of subsurface flow from Kobeh to Diamond Valley, but did pointedly recognize the potential for flow in the carbonate bedrock as evidenced by fault structures with solution cavities in carbonate outcrops at Devil's Gate.<sup>39</sup>

The Applicant used Darcy's Law to develop a conceptual estimate of interbasin flow, and estimated 50 to 290 afa of subsurface flow from Kobeh Valley to Diamond Valley at Devil's Gate through alluvium and carbonate bedrock.<sup>40</sup> Its witnesses further estimated 810 to 1,050 afa of deep flow in bedrock from Kobeh Valley to Diamond

<sup>35</sup> Exhibit No. 39, December 2010.

<sup>36</sup> Exhibit No. 16, p. 18, October 2008.

<sup>37</sup> Exhibit No. 13, pp. 21-23, October 2008.

<sup>38</sup> Exhibit No. 17, p. 16, October 2008.

<sup>39</sup> Exhibit No. 10, p. 13, October 2008.

<sup>40</sup> Exhibit No. 39, Table 4.1-13, December 2010.

Valley in the area north of Whistler Peak.<sup>41</sup> Next, they developed a numerical groundwater flow model to simulate both pre-development steady state conditions as well as the effects of pumping on groundwater levels and interbasin flow. With the groundwater flow model, it was estimated that pre-development flow was 1,583 afa from Kobeh to Diamond Valley.<sup>42</sup> For the present-day conditions, the model indicates water table drawdown due to agricultural pumping in Diamond Valley has increased inflow from Kobeh Valley to 2,001 afa,<sup>43</sup> which is estimated to further increase to 2,365 afa in year 2055 without any mine pumpage. For its predictive analyses, the Applicant completed multiple model simulations. A 'no action' alternative simulated continued agricultural pumping through year 2105. The Applicant's 'cumulative action' alternative simulated continued agricultural pumping as in the 'no action' alternative, but also simulated the pumping of 11,300 afa in Kobeh and Diamond Valley for the 44-year mine life ending in 2055. The net effect of the mine's pumping on groundwater levels and interbasin flow is then computed as the difference between the two model simulations.<sup>44,45</sup> The analyses of the future effects of pumping, by the Office of the State Engineer, used both the Exhibit No. 39 report as well as the computer model. The model results show a 15 afa increase in subsurface flow from Kobeh to Diamond Valley as a result of the mining project and its associated pumping.<sup>46</sup> The small increase in interbasin flow was explained as the net of a 40 afa increase in Kobeh to Diamond Valley flow at the site of the open pit due to dewatering, partially offset by a 25 afa decrease in Kobeh to Diamond Valley flow along the basin boundary at Whistler Mountain.<sup>47</sup>

Water level drawdown due to simulated mine pumping is thoroughly documented.<sup>48</sup> Predicted drawdown due to mine pumping at the nearest agricultural well in Diamond Valley is estimated to be less than two feet at the end of mine life. However,

<sup>41</sup> Exhibit No. 39, Table 4.1-13, December 2010.

<sup>42</sup> Exhibit No. 39, Table 4.1-13, December 2010.

<sup>43</sup> Exhibit No. 39, Table 4.4-4, December 2010.

<sup>44</sup> Exhibit No. 39, pp. 177-178, December, 2010.

<sup>45</sup> There is a discrepancy in the naming of the alternatives. In Exhibit No. 39, pp. 177-178, the scenario that includes mine pumping is called 'cumulative action', however, the model files that simulate mine pumping are named 'base case'.

<sup>46</sup> Exhibit No. 39, Table 4.4-5 and 4.4-6, December 2010.

<sup>47</sup> Transcript, pp. 308-309, December 2010.

<sup>48</sup> Exhibit No. 39, Figures 4.4-12 to 4.4-17, and groundwater flow model data files, December 2010.

additional drawdown at that same location due solely to continuing agricultural pumping in Diamond Valley is predicted to be about 90 feet.<sup>49</sup>

The model structure and simulation results were addressed by Protestant Eureka County's expert witnesses. Witness Bugenig testified that the model's predictive estimates of proposed mine pumping on Kobeh to Diamond Valley subsurface flow was at least approximately accurate.<sup>50</sup> Witness Oberholtzer authored a May 2010 report in which the model was described as not having fatal flaws,<sup>51</sup> but in a November 2010 report she expressed concern that the model may not be accurate enough to be used as a predictive tool.<sup>52</sup> Ms. Oberholtzer testified that calibration issues in Diamond Valley raised concern and the model had limited abilities as a predictive tool.<sup>53</sup> In general, the expert witnesses brought forward by Protestant Eureka County testified that the model has shortcomings, but failed to present convincing evidence that the model predictions are not substantially valid.

Because the groundwater flow model is only an approximation of a complex and partially understood flow system, the estimates of interbasin flow and drawdown cannot be considered as absolute values. However, the modeling evidence does strongly suggest that the proposed mine pumping under these applications will not measurably decrease subsurface groundwater flow from Kobeh to Diamond Valley and will not cause significant water level decline (less than 2 feet over entire mine life) at the points of diversion under existing water rights in Diamond Valley. The State Engineer finds the Applications will not conflict with existing rights in Diamond Valley by reducing the subsurface interbasin flow into the Diamond Valley hydrographic basin. Groundwater drawdown in Diamond Valley is not unreasonable at the locations of existing water rights and domestic wells, and meets the statutory requirements of NRS § 534.110. The State Engineer finds the applications will not conflict with existing rights or the protectable interest in domestic wells in Diamond Valley.

The Applicant's groundwater flow model indicates water level decline attributable to these applications is significant in the well field area in Kobeh Valley and at the open pit mine. The Applicant's water level drawdown maps only show drawdown of ten feet

<sup>49</sup> Exhibit 39, Groundwater flow model output data, December 2010.

<sup>50</sup> Transcript, p. 686, December 2010.

<sup>51</sup> Exhibit No. 402, December 2010.

<sup>52</sup> Exhibit No. 503, December 2010.

<sup>53</sup> Transcript, pp. 619-621, December 2010.

or more,<sup>54</sup> although the data files contain detailed information on drawdown to the fractions of a foot.<sup>55</sup> Many of the Protestants argued that water level declines of less than ten feet can cause impacts to surface waters in springs and streams, both in the mountains and on the valley floors. They point out that the model predicts drawdown of the water table below Henderson and Vinini Creeks and along the lower reaches of Roberts Creek. Since Henderson Creek is included in the Pete Hanson Creek Decree, they argue that these applications should be denied because they would conflict with existing rights. The Applicant's expert witnesses argue that these mountain springs and streams are not hydrologically connected to the saturated aquifer.<sup>56</sup> They argue that an unsaturated zone lies between these springs and streams and the aquifer; therefore, the relative level of the water table, so long as it is disconnected from the surface water feature, is immaterial, and no amount of decline in the water table could affect surface flows. This argument of the Applicant's expert witnesses is technically sound and is accepted by the State Engineer. In the testimony of Katzer, he refers to water levels in wells adjacent to Robert's Creek that demonstrate a disconnection between Robert's Creek and the groundwater aquifer that would prevent any decrease in stream flow due to the proposed pumping.<sup>57</sup> However, similar data is not available for Henderson and Vinini Creeks. Nevertheless, in the Henderson Creek area, Mr. Katzer argues that springs and streamflow are simply runoff from precipitation and draining of saturated soil, and are not directly connected to the groundwater aquifer. He argues that they are perched waters and similar to the Robert's Creek argument, could not be affected by a lowered water table. Mr. Katzer was asked about the depth to the water table relative to Henderson Creek and he stated that lower parts of Henderson Creek are probably close to the water table, but it would require drilling of monitor wells to know for certain.<sup>58</sup> As discussed above, the only way groundwater pumping could affect streamflow would be if the water table was in direct contact with the stream bed. It is important to note here that predicted groundwater level decline along Henderson Creek due to future agricultural pumping in Diamond Valley is greater than the predicted water level decline due to

<sup>54</sup> Exhibit No. 39, Figures 4.4-12 to 4.4-16, December 2010.

<sup>55</sup> Exhibit No. 30, groundwater flow model digital data, December 2010.

<sup>56</sup> Testimony of Katzer and Smith, Transcripts, December 2010.

<sup>57</sup> Exhibit No. 38, pp. 3-4, December 2010.

<sup>58</sup> Transcript, pp. 213-214, December 2010.

proposed mine pumping.<sup>59</sup> The State Engineer accepts the expert opinions of the Applicant that mine pumping is unlikely to affect streamflow in Roberts, Henderson or Vinini Creek and finds that the applications will not conflict with existing rights on those streams. However, because there are uncertainties with respect to the complex hydrogeology of the area and the ability of a model to accurately simulate future effects of pumping, the State Engineer will require a substantial surface and groundwater monitoring program to establish baseline groundwater and stream flow conditions to improve the predictive capability of the model and to increase the ability to detect future changes in the hydrologic regime.

Protestant Eureka County presented a comprehensive case with numerous witnesses and accompanying exhibits. In the 2008 hearing, Eureka County focused much of its argument on potential conflicts with Diamond Valley water rights. In the 2010 hearing, Eureka County stressed conflicts with existing rights in Kobeh and Pine Valleys. As discussed above, the State Engineer has found the applications will not conflict with existing rights in either Diamond or Pine Valley. Eureka County witnesses included the owners of the three largest ranches in the well field area in Kobeh Valley. Witnesses included Martin Etcheverry, owner of the Roberts Creek Ranch, Jim Etcheverry, owner of the 3-Bar Ranch, and John Colby, owner of the MW Cattle Company and the Santa Fe/Ferguson grazing allotment. Those three ranchers utilize available surface waters across the grazing allotments and own a variety of surface and groundwater rights in Kobeh Valley. The groundwater flow model predicts water table drawdown at the end of mine life of three feet or more in the general area of Kobeh Valley north of U.S. Highway 50 and east of 3-Bars Road. This includes the well field area, where drawdown is extensive. Drawdown of ten feet or less extends westerly to the Bobcat Ranch and southerly to the Antelope Valley boundary. Water rights that could potentially be impacted are those rights on springs and streams in hydrologic connection with the water table. That would include valley floor springs. Testimony from the Applicant's expert witnesses Katzer and Childress argue that faults at the base of the Robert's Mountains act as barriers to hydrologic flow and that surface water rights in the Roberts Mountains will not be impacted by proposed mine pumpage.<sup>60</sup> There was no expert testimony or

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<sup>59</sup> Exhibit No. 39, Groundwater flow model output data, December 2010.

<sup>60</sup> Transcript, pp. 169-177 and 227-260.

evidence submitted that indicates surface water rights in the Simpson Park Mountains would be impacted by the proposed applications. In Eureka County's Exhibit Nos. 526, 527, 529 and 530, numerous spring and stream water rights are shown. Water rights that could potentially be impacted are those rights on the valley floor where there is predicted drawdown of the water table due to mine pumping. The Applicant recognizes that certain water rights on springs in Kobeh Valley are likely to be impacted by the proposed pumping.<sup>61,62</sup> These springs produce less than one gallon per minute and provide water for livestock purposes.<sup>63</sup> The State Engineer finds that this flow loss can be adequately and fully mitigated by the Applicant should predicted impacts occur. To ensure funding exists for any required future mitigation, including mitigation after the cessation of active mining activities, the Applicant must demonstrate the financial capability to complete any mitigation work necessary in a monitoring, management, and mitigation plan. This monitoring, management, and mitigation plan must be approved by the State Engineer prior to diverting any water under these applications.

#### **VII. PUBLIC INTEREST**

Nevada Revised Statute § 533.370(5) provides that the State Engineer must reject an application if the proposed use of the water threatens to prove detrimental to the public interest. The State Engineer has found that the Applicant has demonstrated a need for the water and a beneficial use for the water and it does not threaten to prove detrimental to the public interest to allow the use of the water for reasonable and economic mining and milling purposes as proposed. The Applicant has acquired about 16,000 afa of existing water rights within Kobeh Valley and requires 11,300 afa for its project. The Applicant has confirmed its commitment to developing this project, has demonstrated the ability to finance the project, and will be required to monitor any groundwater development. Water level drawdown due to simulated mine pumping is thoroughly documented.<sup>64</sup> Predicted drawdown due to mine pumping at the nearest agricultural well in Diamond Valley is estimated to be less than two feet at the end of mine life. In regards to the importance of mining, Protestant Eureka County testified that mining is a life blood of

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<sup>61</sup> Transcript, pp. 163 and 187, December 2010.

<sup>62</sup> Exhibit No. 39, pp. 189-190, December 2010.

<sup>63</sup> Exhibit No. 116, Appendix B, October 2008.

<sup>64</sup> Exhibit No. 39, Figures 4.4-12 to 4.4-17, and groundwater flow model data files, December 2010.

Eureka County<sup>65</sup> and that Eureka County has and always will be a mining and agricultural county.<sup>66</sup> In addition, Protestant Eureka County indicated that the mine will provide an economic benefit in the form of increased employment and tax revenue for the county.<sup>67</sup> The State Engineer finds under these facts and circumstances the proposed use of the water does not threaten to prove detrimental to the public interest.

#### **VIII.**

#### **STATUTORY STANDARD FOR INTERBASIN TRANSFERS**

Nevada Revised Statute provides that in determining whether an application for an interbasin transfer of groundwater must be rejected, the State Engineer shall consider: (a) whether the applicant has justified the need to import the water from another basin; (b) if the State Engineer determines a plan for conservation is advisable for the basin into which the water is imported, whether the applicant has demonstrated that such a plan has been adopted and is being effectively carried out; (c) whether the proposed action is environmentally sound as it relates to the basin from which the water is exported; (d) whether the proposed action is an appropriate long-term use, which will not unduly limit the future growth and development in the basin from which the water is exported; and (e) any other factor the State Engineer determines to be relevant. NRS § 533.370(6).

The Applicant is requesting an interbasin transfer of groundwater from both Koberh Valley and Diamond Valley to a place of use that includes portions of the Koberh Valley, Diamond Valley and Pine Valley Hydrographic Basins.

#### **IX.**

#### **OTHER RELEVANT FACTORS**

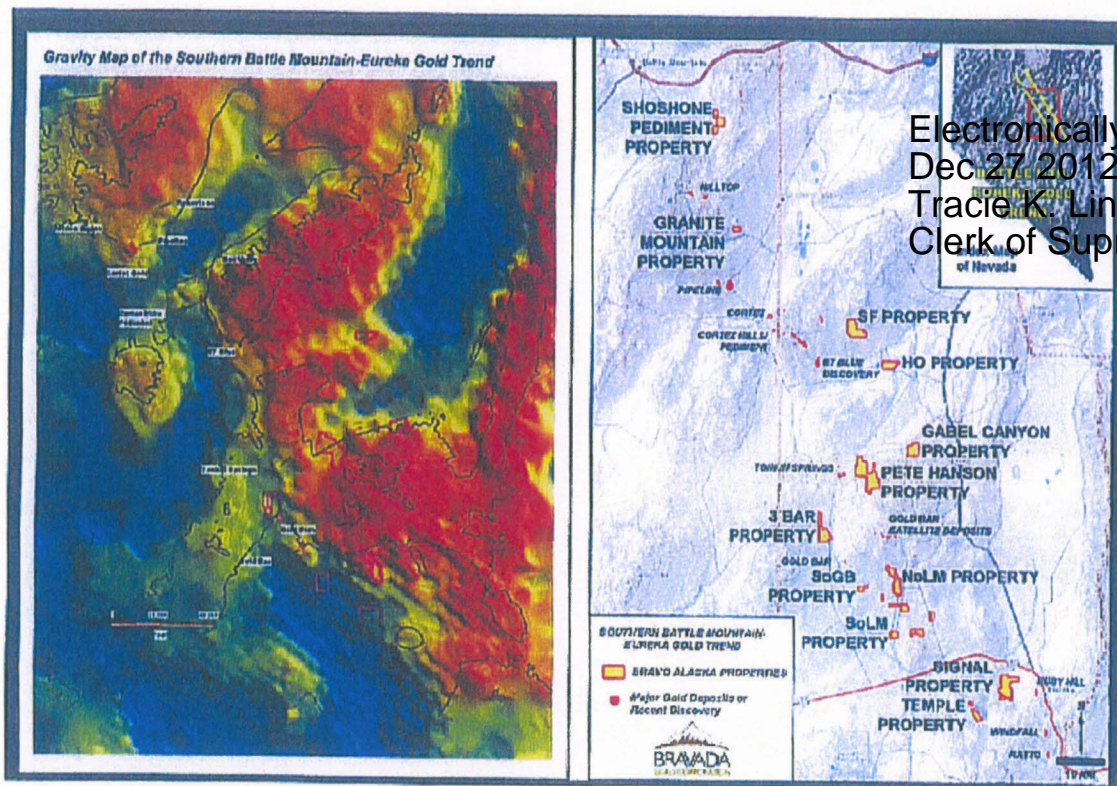
In Diamond Valley, the Applicant has acquired existing water rights and the water sought for transfer in this ruling totals about 616 afa (about 385 afa when adjusted for consumptive use reduction). This water is primarily needed to account for inflow of water into the mine pit. All applications in Diamond Valley (Applications 76005-76009, 76802-76805, and 78424) seek to change existing water rights acquired by the Applicant; no new water appropriations are being sought within the Diamond Valley Hydrographic Basin. Whether the groundwater is fully developed under the existing water rights or under the proposed changes to point of diversion, place of use and manner of use, there would be no increase in demand on the groundwater resource in Diamond Valley.

<sup>65</sup> Transcript, p. 715, December 2010.

<sup>66</sup> Transcript, p. 438, October 2008.

<sup>67</sup> Transcript, pp. 438-439, October 2008.



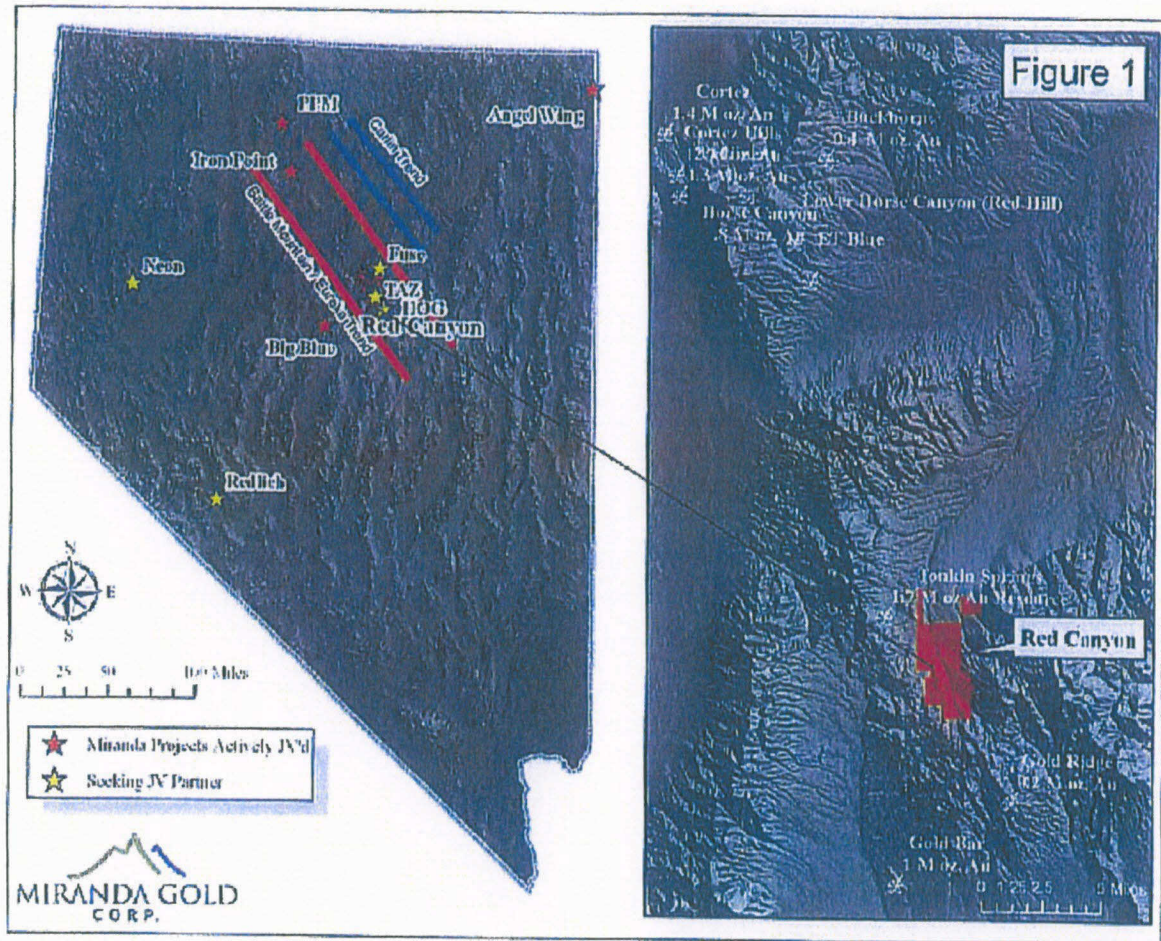


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Clerk of Supreme Court

Miranda Gold Corp:

Website for more information- <http://www.mirandagold.com/s/Projects.asp?ReportID=130160>





NV GOLD CORPORATION- <http://www.nvgoldcorp.com/>  
 NEWS RELEASE

October 6, 2010 Trading Symbol: NVX

### NV Gold to Lease Property Contiguous to Afgan-Kobeh Project in Nevada

**Vancouver, BC** – NV Gold Corporation ("NV Gold") (TSX.V - NVX) – is pleased to announce that it has entered into a mining lease agreement for the Roberts Gold property, which comprises an aggregate of 104 unpatented claims covering approximately 2,080 acres. The property is contiguous to and north of NV Gold's Afgan-Kobeh property located on the Cortez Trend, approximately 28 miles northwest of Eureka, Nevada. The Afgan-Kobeh property hosts a NI 43-101 reported resource, estimated as of March, 2004, of 1,851,000 tons at 0.027 oz/ton (50,000 oz.) gold indicated and 1,286,000 tons at 0.026 oz/ton (34,000 oz) gold inferred at a 0.010 oz/ton cutoff grade.

The Roberts Gold property is geologically similar to the Afgan-Kobeh project, which hosts Carlin-style, sediment-hosted gold mineralization that is common to northeastern Nevada. Potential also exists on this property for significant mineralization related to regional scale faulting associated with the Northern Nevada Rift. More information regarding the Afgan-Kobeh project, including the details of the resource estimate, can be reviewed in the Technical Report, Afgan-Kobeh Project, Eureka County, Nevada dated May 24, 2010 and prepared by Mine Development Associates at [www.sedar.com](http://www.sedar.com).

"We are excited to have the opportunity to double our land position in an area with this type of potential" stated John E. Watson, President and C.E.O. NV Gold. "When combined into a single exploration play, the property exhibits the risk profile of a known resource and the added upside of a much larger target."

Under the mining lease agreement, NV Gold has leased the Roberts Gold property, subject to making advance royalty payments of US\$10,000 upon the lease agreement becoming effective, a further US\$10,000 six months thereafter, US\$20,000 on the first five anniversary dates of the effective date of the lease agreement thereafter, and US\$30,000 on each such anniversary date thereafter. NV Gold is responsible for all property maintenance obligations and has granted the lessor a 3% NSR. NV Gold has the right to purchase 25% of the royalty at any time for US\$1,000,000 and a further 25% for US\$2,000,000 at any time.

In connection with this acquisition, NV Gold has agreed, subject to acceptance of the TSX Venture Exchange, to issue to a third party 250,000 common shares and warrants to purchase an additional 250,000 common shares (the "Warrants") at a price of CDN\$0.40 per share for a period of two years. These securities are being issued in respect of certain area of interest obligations of NV Gold that apply to the Roberts Gold property. The expiry date of the Warrants is subject to acceleration such that, should the volume weighted average price of the common shares exceed CDN\$0.60 for twenty consecutive trading days, NV Gold may notify the holder in writing that the Warrants will expire 15 trading days from receipt of such notice unless exercised by the holder before such date.

The mining lease agreement is not effective until NV Gold has issued the 250,000 common shares and the Warrants to address its area of interest obligations and, accordingly, the lease agreement is subject to the TSX Venture Exchange acceptance of the issue of these securities.

NV Gold is a newly listed TSX Venture company with a focus on developing gold-copper resources in politically stable, mining friendly jurisdictions. The Company has a proven management team and extensive connections to projects and financing.

## **NV Gold Commences Drilling Nevada Gold Property**

**October 15, 2010 Trading Symbol: NVX**

NV Gold Corporation ("NV Gold") (TSX.V - NVX) is pleased to announce that a 2,500 metre 20-25 hole RC drill program has commenced on its 100% owned Afgan-Kobeh gold project located in Eureka county, Nevada.

The current drill program will focus on expansion of the NI 43-101 compliant gold resource of 50,000 ounces Indicated (1.85 million tons @ 0.027 oz Au/ton (0.926 g Au/ton)) and 34,000 ounces Inferred (1.29 million tons @ 0.026 oz Au /ton (0.891 g Au/ton)). Work to date indicates that the Afgan-Kobeh is a Carlin-type gold deposit that remains open to expansion in several areas.

The Afgan-Kobeh property, located in NE Nevada 28 miles NW of the town of Eureka, covers 2,180 acres and consists of 109 unpatented claims. The project's potential is enhanced by its location at the intersection of the Northern Nevada Rift and the Cortez trends between the previously mined Gold Bar deposit (Atlas, U.S. Gold) and the producing Archimedes (Ruby Hill) mine (Barrick Gold).

NV Gold is a newly listed company committed to developing gold-copper resources. The Company has a proven management team and extensive connections to projects and financing.

Redstar Gold Corp Larus Project- <http://www.redstargold.com/s/Larus.asp>

The Larus Project consists of 100% Redstar-owned unpatented mining claims along the prolific Cortez gold belt in central Nevada. The project covers a sediment-hosted (Carlin-type) gold system about 23 miles northwest of Eureka, Nevada, site of Barrick Gold Corp's Ruby Hill gold mining operations, and 31 miles southeast of Barrick's Cortez Hills gold mining operations.

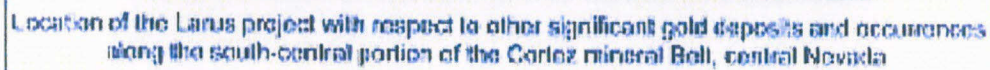
Gold mineralization at Larus occurs in silicified zones (jasperoids) and quartz veins in "lower-plate" limestone that locally contain stibnite (antimony sulphide), a common accessory mineral in productive Carlin-type gold deposits. Mineralization is also locally present in "upper plate" shale. Preliminary sampling completed by Redstar has returned significant gold in several widely-spaced areas, with values reaching 3.23 ppm (g/t); historic assays from previous exploration programs reach 7.6 ppm. Mineralization is known over a strike length of at least 4,000 feet (1,200 m).

The gold-bearing silicified zones at Larus, as well as the distribution of the host limestone, are controlled by a series of property-scale and regional-scale north-northwest trending fault zones. This is the same structural control in the majority of productive Carlin-type gold deposits along the Cortez gold belt, including Pipeline (+20 million ounces) and Cortez Hills (+10 million ounces). The Larus project also lies along a north-northwest trending regional magnetic linear which passes through the Chert Cliff gold deposit about 6 miles to the northwest.

The host carbonate rocks, part of the lower-plate sequence below the regional Roberts Mountains thrust fault, are underlain by upper-plate siliciclastic rocks. Normally, the lower-plate carbonates, which are more receptive to mineralization, would underlie the upper plate. Previous workers considered that the limestone was emplaced into its present position as a geologically young "gravity slide" after mineralization occurred, such that the mineralization is detached from its original location and no longer rooted. However, Redstar's detailed geologic analysis indicates that gold mineralization is locally rooted and occurred after the limestone was emplaced.

There has been no significant work at the project since 1990, and historic drilling was limited in scope.



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32986

**General Moly, Inc.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction  
of incorporation or organization)

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

**1726 Cole Blvd., Suite 115  
Lakewood, CO 80401  
Telephone: (303) 928-8599**  
(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 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 the past 90 days. **YES** ☒ **NO** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES** ☐ **NO** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if smaller reporting company)

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

The number of shares outstanding of registrant's common stock as of October 27, 2010, was 72,592,538.

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http://www.sec.gov/Archives/edgar/data/1275220/000110465010054615/a10-17529\_110 11/20/2010

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**GENERAL MOLY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited - In thousands, except par value amounts)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 17,275	\$ 48,614
Deposits, prepaid expenses and other current assets	72	179
Total Current Assets	<u>17,347</u>	<u>48,793</u>
Mining properties, land and water rights — Note 4	107,279	101,190
Deposits on project property, plant and equipment	67,553	42,648
Restricted cash held for electricity transmission	12,286	12,286
Restricted cash held for reclamation bonds	1,133	1,133
Non-mining property and equipment, net	401	553
Other assets	2,994	2,994
<b>TOTAL ASSETS</b>	<u>\$ 208,993</u>	<u>\$ 209,597</u>
<b>LIABILITIES, CONTINGENTLY REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 4,475	\$ 3,799
Current portion of long term debt	139	163
Total Current Liabilities	<u>4,614</u>	<u>3,962</u>
Provision for post closure reclamation and remediation costs	561	586
Deferred gain	200	100
Long term debt, net of current portion	10,267	268
Total Liabilities	<u>15,642</u>	<u>4,916</u>
<b>COMMITMENTS AND CONTINGENCIES – Note 10</b>		
<b>CONTINGENTLY REDEEMABLE NONCONTROLLING INTEREST</b>	<u>98,754</u>	<u>99,761</u>
<b>EQUITY</b>		
Common stock, \$0.001 par value; 200,000,000 shares authorized, 72,592,538 and 72,437,538 shares issued and outstanding, respectively	73	72
Additional paid-in capital	189,332	187,290
Accumulated deficit before exploration stage	(213)	(213)
Accumulated deficit during exploration and development stage	(94,595)	(82,229)
Total Equity	<u>94,597</u>	<u>104,920</u>
<b>TOTAL LIABILITIES, CONTINGENTLY REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>	<u>\$ 208,993</u>	<u>\$ 209,597</u>

The accompanying notes are an integral part of these consolidated financial statements.

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**GENERAL MOLY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited - In thousands, except per share amounts)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>January 1, 2002 (Inception of Exploration Stage) to September 30, 2010</b>
	<b>September 30, 2010</b>	<b>September 30, 2009</b>	<b>September 30, 2010</b>	<b>September 30, 2009</b>	
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ —
OPERATING EXPENSES:					
Exploration and evaluation	191	273	499	638	38,009
Writedowns of development and deposits	5,038	378	5,038	378	5,416
General and administrative expense	2,037	1,705	7,741	7,341	56,349
<b>TOTAL OPERATING EXPENSES</b>	<b>7,266</b>	<b>2,356</b>	<b>13,278</b>	<b>8,357</b>	<b>99,774</b>
LOSS FROM OPERATIONS	(7,266)	(2,356)	(13,278)	(8,357)	(99,774)
OTHER INCOME AND EXPENSE					
Interest and dividend income	3	6	9	15	3,972
Interest expense	(63)	—	(104)	—	(104)
Other income	—	—	—	—	65
<b>TOTAL OTHER INCOME AND EXPENSE</b>	<b>(60)</b>	<b>6</b>	<b>(95)</b>	<b>15</b>	<b>3,933</b>
LOSS BEFORE TAXES	(7,326)	(2,350)	(13,373)	(8,342)	(95,841)
Income Taxes	—	—	—	—	—
<b>NET LOSS</b>	<b>\$ (7,326)</b>	<b>\$ (2,350)</b>	<b>\$ (13,373)</b>	<b>\$ (8,342)</b>	<b>\$ (95,841)</b>
Less: Net loss attributable to contingently redeemable noncontrolling interest	1,007	—	1,007	239	1,246
<b>NET LOSS ATTRIBUTABLE TO GENERAL MOLY, INC.</b>	<b>\$ (6,319)</b>	<b>\$ (2,350)</b>	<b>\$ (12,366)</b>	<b>\$ (8,103)</b>	<b>\$ (94,595)</b>
Basic and diluted net loss attributable to General Moly per share of common stock	\$ (0.09)	\$ (0.03)	\$ (0.17)	\$ (0.11)	
Weighted average number of shares outstanding – basic and diluted	72,571	72,393	72,562	72,154	

The accompanying notes are an integral part of these consolidated financial statements.

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**GENERAL MOLY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited – In thousands)**

	Nine Months Ended		January 1, 2002 (Inception of Exploration Stage) to September 30, 2010
	September 30, 2010	September 30, 2009	September 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Loss	\$ (13,373)	\$ (8,342)	\$ (95,841)
Adjustments to reconcile net loss to net cash used by operating activities:			
Services and expenses paid with common stock	—	—	1,990
Repricing of warrants	585	—	585
Writedowns of development and deposits	5,038	378	5,416
Depreciation and amortization	273	259	1,170
Interest expense	104	—	104
Equity compensation for employees and directors	940	1,330	14,398
Decrease in deposits, prepaid expenses and other	107	112	20
Decrease in restricted cash held for electricity transmission	—	259	(12,286)
Increase (decrease) in accounts payable and accrued liabilities	424	(1,027)	3,789
(Decrease) increase in post closure reclamation and remediation costs	(25)	(145)	352
Net cash used by operating activities	(5,927)	(7,176)	(80,303)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for the purchase of equipment	—	(7)	(1,424)
Purchase of securities	—	—	(137)
Purchase and development of mining properties, land and water rights	(10,534)	(17,520)	(105,167)
Deposits on property, plant and equipment	(24,905)	(9,093)	(67,931)
Proceeds from option to purchase agreement	100	100	200
Increase in restricted cash held for reclamation bonds	—	—	(642)
Cash provided by sale of marketable securities	—	—	246
Net cash used by investing activities	(35,339)	(26,520)	(174,855)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of stock, net of issuance costs	56	99	165,260
Proceeds from debt	10,000	—	10,000
Cash proceeds from POS-Minerals Corporation	—	—	100,000
Cash paid to POS-Minerals Corporation for purchase price adjustment	—	—	(2,994)
Decrease in restricted cash – Eureka Moly, LLC	—	13,878	—
Net (decrease) increase in leased assets	(129)	(97)	121
Net cash provided by financing activities	9,927	13,880	272,387
Net (decrease) increase in cash and cash equivalents	(31,339)	(19,816)	17,229
Cash and cash equivalents, beginning of period	48,614	78,462	46
Cash and cash equivalents, end of period	\$ 17,275	\$ 58,646	\$ 17,275
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Equity compensation capitalized as development	\$ 714	\$ 714	\$ 5,793
Restricted cash held for reclamation bond acquired in an acquisition	—	—	491
Post closure reclamation and remediation costs and accounts payable assumed in an acquisition	—	—	263
Common stock and warrants issued for property and equipment	—	—	1,586

The accompanying notes are an integral part of these consolidated financial statements.

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**GENERAL MOLY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — DESCRIPTION OF BUSINESS**

General Moly, Inc. (“we,” “us,” “our,” “the Company,” or “General Moly”) is a Delaware corporation originally incorporated as General Mines Corporation on November 23, 1925. In 1966, the Company amended its articles of incorporation to change its name to Idaho General Petroleum and Mines Corporation, and amended its articles again in 1967 changing its name to Idaho General Mines, Inc. On October 5, 2007, we reincorporated in the State of Delaware (“Reincorporation”) through a merger involving Idaho General Mines, Inc. and General Moly, Inc., a Delaware corporation that was a wholly owned subsidiary of Idaho General Mines, Inc. The Reincorporation was effected by merging Idaho General Mines, Inc. with and into General Moly, with General Moly being the surviving entity. For purposes of the Company’s reporting status with the Securities and Exchange Commission (“SEC”), General Moly is deemed a successor to Idaho General Mines, Inc.

We were in the exploration stage until October 4, 2007, when our Board of Directors (“Board”) approved the development of the Mt. Hope molybdenum property (“Mt. Hope Project”) in Eureka County, Nevada. The Company is now in the development stage and is currently proceeding with the development of the Mt. Hope Project. We are also conducting evaluation activities on our Liberty molybdenum property (“Liberty Property” formerly referred to as the Hall-Tonopah Property) in Nye County, Nevada.

**The Mt. Hope Project.** From October 2005 to January 2008, we owned the rights to 100% of the Mt. Hope Project. Effective as of January 1, 2008, we contributed all of our interest in the assets related to the Mt. Hope Project, including our lease of the Mt. Hope Project into a newly formed entity, Eureka Moly, LLC, a Delaware limited liability company (“LLC”), and in February 2008 (“Closing Date”) entered into an agreement (“LLC Agreement”) for the development and operation of the Mt. Hope Project with POS-Minerals Corporation (“POS-Minerals”) an affiliate of POSCO, a large Korean steel company. Under the LLC Agreement, POS-Minerals owns a 20% interest in the LLC and General Moly, through a wholly-owned subsidiary, owns an 80% interest. These ownership interests and required contributions under the LLC Agreement are discussed below.

Pursuant to the terms of the LLC Agreement, POS-Minerals made its first and second cash contributions to the LLC totaling \$100.0 million during the year ended December 31, 2008 (“Initial Contributions”). Additional amounts will be due from POS-Minerals within 15 days after the date (“ROD Contribution Date”) that specified conditions (“ROD Contribution Conditions”) have been satisfied. The ROD Contribution Conditions are the receipt of major operating permits for the Mt. Hope Project, that the Record of Decision (“ROD”) from the United States Bureau of Land Management (“BLM”) for the Mt. Hope Project has become effective, and any administrative or judicial appeals with respect thereto are final. We are currently targeting the effectiveness of the ROD and the satisfaction of the ROD Contribution Conditions to occur by mid-2011, but circumstances beyond our control, including reviewing agency delays or requests for additional information or studies, and requests for review or appeals of the BLM decision, could cause the effectiveness of the ROD and/or the satisfaction of the ROD Contribution Conditions to be delayed.

To maintain its 20% interest in the LLC, POS-Minerals will be required to make an additional \$56.0 million contribution plus its 20% share of all Mt. Hope Project costs incurred from the Closing Date to the ROD Contribution Date within 15 days after the ROD Contribution Date. If POS-Minerals does not make its additional \$56.0 million contribution when due after the ROD Contribution Date, its interest will be reduced to 10% and the return of contributions (as defined below) will be zero.

In addition, if commercial production at the Mt. Hope Project is not achieved by December 31, 2011, for reasons other than a force majeure event, the LLC may be required to return to POS-Minerals \$36.0 million of its contributions to the LLC, with no corresponding reduction in POS-Minerals’ ownership percentage. Based on our current plan and expected timetable, Mt. Hope Project will not achieve commercial production by December 31, 2011, and our payment to POS-Minerals will be due January 27, 2012. Our wholly-owned subsidiary and 80% owner of the LLC, Nevada Moly (“Nevada Moly”), is obligated under the terms of the LLC Agreement to make

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capital contributions to fund the return of contributions to POS-Minerals, if required. If Nevada Moly does not make these capital contributions, POS-Minerals has an election to either make a secured loan to the LLC to fund the return of contributions, or receive an additional interest in the LLC of approximately 5%. In the latter case, our interest in the LLC is subject to dilution by a percentage equal to the ratio of 1.5 times the amount of the unpaid contributions over the aggregate amount of deemed capital contributions (as determined under the LLC Agreement) of both parties to the LLC ("Dilution Formula"). At December 31, 2009, the aggregate amount of deemed capital contributions of both parties was \$880.0 million.

Furthermore, a provision in the LLC Agreement permits POS-Minerals the option to put its interest in the LLC to Nevada Moly after a change of control of the Company, as defined in the LLC agreement, followed by (i) failure to begin full construction at the LLC by the Company or the surviving entity before December 31, 2010, or (ii) failure to use standard mining industry practice in connection with development and operation of the project as contemplated by the parties for a period of twelve months after December 31, 2010. If POS-Minerals puts its interest, Nevada Moly would be required to purchase the interest for 120% of POS-Minerals contributions to the LLC plus 10% interest per annum.

The Initial Contributions of \$100.0 million that were made by POS-Minerals during 2008 were expended by the second quarter of 2009 in accordance with the program and budget requirements of the Mt. Hope Project. Nevada Moly is required, pursuant to the terms of the LLC Agreement, to advance funds required to pay costs for the development of the Mt. Hope Project that exceed the Initial Contributions until the ROD Contribution Date, at which point the contributions described above to be made by POS-Minerals will be applied to reimburse us for POS-Minerals' share of such development costs. All costs incurred after the ROD Contribution Date will be allocated and funded pro rata based on each party's ownership interest. The interest of a party in the LLC that does not make its pro rata capital contributions to fund costs incurred after the ROD Contribution Date is subject to dilution based on the Dilution Formula.

## NOTE 2 — LIQUIDITY, CAPITAL REQUIREMENTS AND RESTRUCTURING

Our consolidated cash balance at September 30, 2010, was \$17.3 million compared to \$48.6 million at December 31, 2009. The cash needs for the development of the Mt. Hope Project require that we or the LLC finalize significant financing in addition to the capital contributions to be received from POS-Minerals.

The anticipated sources of financing described below, combined with funds anticipated to be received from POS-Minerals in order to retain its 20% share, provide substantially all of our currently planned funding required to construct and place the Mt. Hope Project into commercial operation.

### Securities Purchase Agreement with Hanlong (USA) Mining Investment Inc. and Chinese Bank Loan

On March 4, 2010, we signed a Securities Purchase Agreement ("Purchase Agreement") with Hanlong (USA) Mining Investment, Inc. ("Hanlong"), an affiliate of Sichuan Hanlong Group, a large privately held Chinese company. The Purchase Agreement and the related agreements described below form the basis of a significant investment by Hanlong in the Company that is intended to provide the Company with adequate capital to develop the Mt. Hope Project. The Purchase Agreement provides for the sale to Hanlong of shares of our common stock in two tranches that will aggregate 25% of our outstanding stock on a fully diluted basis. The average price per share, based on the anticipated number of shares to be issued, is \$2.88 for an aggregate price of \$80.0 million, and constitutes a small premium as compared to the \$2.60 closing share price of the Company on March 4, 2010. The share issuance is part of a larger transaction that includes the commitment by Hanlong to use its commercially reasonable efforts to procure a \$665.0 million bank loan for the Company ("Term Loan") from a prime Chinese bank that will be guaranteed by an affiliate of Hanlong, a \$20.0 million bridge loan from Hanlong to the Company, and a long-term molybdenum supply off-take agreement pursuant to which a Hanlong affiliate will agree to purchase a substantial part of the molybdenum production from the Mt. Hope Project at specified prices.

**Stock Purchase.** The Purchase Agreement provides, subject to terms and conditions of the Purchase Agreement, for the purchase by Hanlong for an aggregate price of \$80.0 million, of approximately 27.8 million shares of our common stock which will equal 25% of our outstanding common stock on a fully-diluted basis following the purchase, or approximately 38.3% of our outstanding common stock on March 4, 2010. Fully diluted

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is defined as all of our outstanding common stock plus all outstanding options and warrants, whether or not currently exercisable. Hanlong is obligated to purchase the first 12.5% of our fully-diluted shares, or approximately 11.9 million ("Tranche 1") for \$40.0 million, or approximately \$3.36 per share, following satisfaction of certain conditions, including receipt of stockholder approval of the equity issuances in connection with the transaction (received at the Annual Meeting of Stockholders held on May 13, 2010), publication of the notice of availability of the Draft Environmental Impact Statement ("DEIS") concerning the Mt. Hope Project by the BLM, receipt of necessary Chinese government approvals for certain portions of the transaction, assurances from Hanlong as to the availability of the Term Loan, approval of the shares for listing on the New York Stock Exchange Amex ("NYSE Amex") and absence of certain defaults. The actual number of shares and price per share will be adjusted for any change in the number of fully diluted shares before the closing of Tranche 1. The parties may waive the conditions to their respective obligations.

On October 26, 2010, the Company and Hanlong executed an amendment to the Hanlong agreement setting the closing of Hanlong's purchase of the first tranche of equity in the Company on December 20, 2010. The parties have agreed that the publication of the Mt. Hope Project's DEIS is no longer a condition precedent to Hanlong's first tranche equity investment. Timely publication of the DEIS does, however, remain a requirement of the entire agreement, and, in conjunction with this amendment, the required date for DEIS publication has been extended to May 31, 2011 from February 28, 2011, although the Company does not currently estimate the additional time to be required.

Hanlong and the Company continue to work toward achievement of Tranche 1 Conditions. The Company received overwhelming support from stockholders at the Company's Annual General Meeting and is continuing to progress toward publication of the DEIS. Hanlong received Chinese Government approvals for the equity investment from the National Development and Reform Commission ("NDRC") and the Ministry of Commerce ("MOFCOM") on October 8 and October 12, 2010, respectively. Hanlong filed the MOFCOM approval with the State Administration of Foreign Exchange ("SAFE") on October 12, 2010, fulfilling Hanlong's Chinese Government approval obligations.

On July 30, the Company and Hanlong executed an amendment to the Hanlong agreement extending the deadline for obtaining Chinese Government approvals by two months to October 13, 2010, which approvals have now been received, as well as extending the Company's deadlines for publishing its DEIS and receiving its ROD to February 28, 2011 and November 30, 2011, respectively, although the Company currently does not anticipate utilizing the additional time permitted for the publication of the DEIS or receipt of the ROD.

The second tranche ("Tranche 2"), will involve the purchase of an additional 12.5% of our fully diluted shares or approximately 15.9 million additional shares, for an additional \$40.0 million, or approximately \$2.52 per share. The actual number of shares and price per share will be adjusted for any change in the number of fully diluted shares before the closing of Tranche 2. Significant conditions to the closing of Tranche 2 include issuance of the ROD for the Mt. Hope Project by the BLM, approval of the plan of operation for the Mt. Hope Project by the BLM, and the completion of documentation for and satisfaction of conditions precedent to lending under the Term Loan. The Purchase Agreement may be terminated by either party (provided the terminating party is not in default) if the closings of Tranche 1 and Tranche 2 have not occurred by March 31, 2011 (subject to extension until June 30, 2011 under certain circumstances), and December 31, 2011, respectively, subject to extension under some circumstances to March 31, 2012.

Hanlong will have the right to purchase a portion of any additional shares of common stock that we issue so that it can maintain its percentage ownership unless its ownership at the time is below 5%. It may also acquire additional shares so that it maintains a 20% indirect interest in the Mt. Hope Project if our interest in the LLC is reduced below 80%. If we issue shares to fund our obligation to fund the Mt. Hope Project under certain circumstances and Hanlong exercises its rights to maintain its percentage interest, we will be obligated to refund to Hanlong the cost of such shares over a three-year period up to an aggregate of \$9.0 million.

**Break Fees.** A break fee is payable by both the Company and Hanlong if the Purchase Agreement terminates because of the failure of certain conditions to the closing of Tranche 1 or Tranche 2. A break fee of \$10.0 million is payable to the Company if the Purchase Agreement is terminated because Hanlong fails to obtain necessary Chinese government approvals or to give its assurances about the availability of the Term Loan. The Company has agreed to

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pay \$5.0 million to Hanlong if the conditions concerning our stockholder approval, the publication of the DEIS or the ROD are not timely satisfied or waived and the Purchase Agreement is terminated. The Company break fee may be increased by \$5.0 million if the Purchase Agreement is terminated and the Company has violated the “no-shop” provisions of the Purchase Agreement and may be increased in other circumstances not to exceed an additional \$3.0 million if the Company requests and Hanlong grants certain extensions of deadlines concerning the DEIS and up to an additional \$2.0 million if the Company requests and Hanlong grants certain extensions concerning the ROD. In addition, the Company must pay a \$2.0 million fee to Hanlong if it grants the extension concerning the ROD, which fee can be credited against the arrangement fee described below. The break fee payable by the Company to Hanlong may be paid in cash, or, in certain circumstances, in shares of our common stock at our option. If paid in shares, the price would be the volume weighted average of our common stock on the NYSE Amex for the five days ending six days after the announcement of the termination.

**Chinese Bank Loan.** Pursuant to the Purchase Agreement, Hanlong is obligated to use its commercially reasonable efforts to procure the Term Loan in an amount of at least \$665.0 million with a term of at least 14 years after commercial production begins at the Mt. Hope Project. The Term Loan is expected to bear interest at a rate of LIBOR plus a spread of between 2% and 4% per annum. The Purchase Agreement provides that the Term Loan will have customary covenants and conditions; however, the terms of the Term Loan have not been negotiated with the lender and we have no assurance as to the final terms of the Term Loan. Hanlong or an affiliate is obligated to guarantee the Bank Loan. When funds can be drawn by the Company under the Term Loan, the Company will pay a \$15.0 million arrangement fee to Hanlong who will pay all fees and expenses associated with the Term Loan before the Term Loan Closing, including those charged by the Chinese bank.

## Bridge Loan

Hanlong has also agreed to provide a \$20.0 million bridge loan (“Bridge Loan”) to the Company in two equal \$10.0 million tranches. On April 28, 2010, we drew down the first tranche in the amount of \$10.0 million. The second tranche became available five business days after receipt of stockholder approval and is subject to the satisfaction of customary conditions. The first tranche of the Bridge Loan bears interest at LIBOR plus 2% per annum. The second tranche of the Bridge Loan will bear interest at 10% per annum. The Bridge Loan will be repaid from the proceeds of the Term Loan. If Hanlong agrees, the second tranche may also be repaid, at the Company’s election, in shares of the Company’s common stock. If paid in shares, the price would be the volume weighted average of the Company’s shares on the NYSE Amex for a five-day period after public announcement of the event that required repayment. The Company may offset its right to receive the break fee against its obligations to repay borrowings under the Bridge Loan. If not sooner repaid, the Bridge Loan will mature on the earliest of 120 days after the issuance of the ROD, the date on which the Purchase Agreement terminates, and March 31, 2012. The Bridge Loan and our obligation to pay a break fee to Hanlong under the Purchase Agreement are secured by a pledge by us of a 10% interest in the LLC.

## Cash Conservation Plan

The Company continues to operate under a cash conservation plan implemented in March 2009 designed to reduce expenditures and conserve cash in order to maximize financial flexibility.

The Company has purchase orders for two types of equipment; milling process equipment and mining equipment. Most equipment orders for the custom-built grinding and other milling process equipment will be completed by the manufacturers and stored. The grinding and milling process equipment require the longest lead times and maintaining these orders is critical to the Company’s ability to rapidly restart the Mt. Hope Project development. Fabrication of less critical equipment has been suspended with some manufacturers. The Company has completed final negotiations with other equipment manufacturers to suspend or terminate fabrication of other milling equipment and to determine the equipment fabrication costs incurred to date, storage costs, and the expected timing of restarting fabrication.

Based on our current plan, we expect to make additional payments of approximately \$0.2 million under milling process equipment orders throughout the remaining quarter of 2010, and \$13.4 million in 2011. As additional financing becomes available and equipment procurement is restarted, agreements that were suspended or terminated will be renegotiated under new market terms and conditions, as necessary. For the gyratory crusher, semi-

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Autogenous Grinding ("SAG") and ball mills and related electric mill drives, and some other long-lead equipment, we will own the equipment upon final payments that have occurred throughout 2009, during 2010, and into early 2011. This strategy should allow for a rapid restart of the Mt. Hope Project development upon BLM approval for publication of the DEIS, which will initiate the restart of engineering.

Some orders for mining equipment have been cancelled, and discussions with the remaining suppliers to either cancel or suspend existing agreements are complete. Once financing becomes available, the Company anticipates placing orders for this mining equipment. The Company will continue to evaluate all options to facilitate a rapid restart of the Mt. Hope Project development.

The cash conservation plan has reduced our total cash utilization for general administration and overhead to approximately \$1 million per month, inclusive of maintenance costs at the Liberty Property. Engineering efforts, approximately 60% complete, were largely suspended in the second quarter of 2009, and will resume pending the BLM approval of the DEIS and the receipt of Tranche 1 funds from Hanlong. Some engineering that is critical for permitting or project restart readiness has continued at a slower pace.

## NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Company are unaudited. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. All such adjustments are, in the opinion of management, of a normal recurring nature except for the adoption of the new accounting standards discussed below. The results reported in these interim consolidated financial statements are not necessarily indicative of the results that may be reported for the entire year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 5, 2010.

This summary of significant accounting policies is presented to assist in understanding the consolidated financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and have been consistently applied in the preparation of the consolidated financial statements.

### Accounting Method

Our interim consolidated financial statements are prepared using the accrual basis of accounting in accordance with GAAP. With the exception of the LLC, all of our subsidiaries are wholly owned. In February 2008, we entered into the agreement which established our ownership interest in the LLC at 80%. At September 30, 2010, the interim consolidated financial statements include the results of our wholly owned subsidiaries and the LLC. The POS-Minerals contributions attributable to their 20% interest are shown as Contingently Redeemable Noncontrolling Interest on the Consolidated Balance Sheet. For the quarter ended September 30, 2010, the LLC had \$5.0 million net operating expenses and therefore the Consolidated Statements of Operations reflects \$1.0 million net loss attributable to contingently redeemable noncontrolling interest for that period.

### Reclassification of Prior Period Amounts

Certain prior period amounts have been reclassified to conform to the current period presentation.

### Contingently Redeemable Noncontrolling Interest

On January 1, 2009, we adopted Financial Accounting Standards Board ("FASB") issued authoritative guidance related to Noncontrolling Interests in Consolidated Financial Statements, the provisions of which, among others, require the recognition of a noncontrolling interest (previously referred to as minority interest), as a component of equity in the consolidated financial statements and separate from the parent's equity for all periods presented. In



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addition, the amount of consolidated net income or loss attributable to the noncontrolling interest is included in net income or loss on the face of the consolidated statement of operations. Under GAAP, certain noncontrolling interests in consolidated entities meet the definition of mandatorily redeemable financial instruments if the ability to redeem the interest is outside of the control of the consolidating entity. As described in the 'Description of Business' and in Note 1, the LLC Agreement permits POS-Minerals the option to put its interest in the LLC to Nevada Moly upon a change of control, as defined in the LLC Agreement, followed by (i) failure to begin full construction at the LLC by the Company or the surviving entity before December 31, 2010, or (ii) failure to use standard mining industry practice in connection with development and operation of the project as contemplated by the parties for a period of twelve months after December 31, 2010. As such, the contingently redeemable noncontrolling interest has continued to be shown as a separate caption between liabilities and equity (mezzanine section). The carrying value of the contingently redeemable noncontrolling interest reflects the investment of the noncontrolling interest, less losses attributable to the interest.

## Estimates

The process of preparing consolidated financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company's cash equivalent instruments are classified within Level 1 of the fair value hierarchy established by FASB guidance for Fair Value Measurements because they are valued based on quoted market prices in active markets. These cash instruments included \$13.0 million in U.S. Government securities at September 30, 2010.

## Exploration and Development Stage Activities

We were in the exploration stage from January 2002 until October 4, 2007. On October 4, 2007, our Board approved the development of the Mt. Hope Project as contemplated in the Bankable Feasibility Study and we then entered into the Development Stage. We have not realized any revenue from operations. We will be primarily engaged in development of the Mt. Hope Project and exploration and evaluation of the Liberty Property until we enter the production stage of the Mt. Hope Project.

## Basic and Diluted Consolidated Net Loss Per Share

Net loss per share was computed by dividing the net loss attributable to General Moly, Inc. by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Outstanding warrants to purchase 7,455,434 and 7,455,434 shares of common stock, options to purchase 2,718,323 and 3,121,656 shares of common stock, and unvested stock awards totaling 275,001 and 175,000 at September 30, 2010 and 2009, respectively, and 614,719 and 529,080 shares under Stock Appreciation Rights ("SARs") at September 30, 2010 and 2009, were not included in the computation of diluted loss per share for the three and nine months ended September 30, 2010 and 2009, respectively, because to do so would have been antidilutive. Therefore, basic loss per share is the same as diluted loss per share.

## Mineral Exploration and Development Costs

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no economic ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and amortized on a units-of-production basis over proven and probable reserves.

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Should a property be abandoned, its capitalized costs are charged to operations. The Company charges to the consolidated statement of operations the allocable portion of capitalized costs attributable to properties sold. Capitalized costs are allocated to properties sold based on the proportion of claims sold to the claims remaining within the project area.

### Mining Properties, Land and Water Rights

Costs of acquiring and developing mining properties, land and water rights are capitalized as appropriate by project area. Exploration and related costs and costs to maintain mining properties, land and water rights are expensed as incurred while the property is in the exploration and evaluation stage. Development and related costs and costs to maintain mining properties, land and water rights are capitalized as incurred while the property is in the development stage. When a property reaches the production stage, the related capitalized costs are amortized using the units-of-production basis over proven and probable reserves. Mining properties, land and water rights are periodically assessed for impairment of value, and any subsequent losses are charged to operations at the time of impairment. If a property is abandoned or sold, a gain or loss is recognized and included in the consolidated statement of operations.

### Depreciation and Amortization

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment are depreciated using the following estimated useful lives: field equipment — five to seven years; office furniture, fixtures, and equipment — five to seven years; vehicles — three to five years; leasehold improvements — three years; residential trailers — ten to twenty years; and buildings and improvements — ten years. At September 30, 2010, and 2009, accumulated depreciation and amortization was \$0.9 million and \$0.5 million, respectively, of which \$0.7 million and \$0.4 million, respectively, was capitalized.

### Provision for Taxes

Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. In accordance with authoritative guidance for *Income Taxes*, a valuation allowance is recorded against the deferred tax asset if management does not believe the Company has met the “more likely than not” standard to allow recognition of such an asset.

### Reclamation and Remediation

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated.

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies’ clean-up experience and data released by The Environmental Protection Agency or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. Recoveries are evaluated separately from the liability. When recovery is assured, the Company records and reports an asset separately from the associated liability.

### Stock-based Compensation

Stock-based compensation represents the fair value related to stock-based awards granted to members of the Board, consultants, officers and employees. The Company uses the Black-Scholes model to determine the fair value