

General Moly, Inc
Form 10-K
February 27, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

**o 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.)

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1726 Cole Blvd., Suite 115

Lakewood, CO
(Address of principal executive offices)

80401
(Zip Code)

Registrant's telephone number, including area code: (303) 928-8599

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.001 per share
(Title of Each Class)

NYSE Alternext US and Toronto Stock Exchange
(Name of each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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

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Based on the closing sales price on June 30, 2008, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$283,184,376.

As of February 20, 2009, 71,981,208 shares of the registrant's common stock, par value of \$0.001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be used in connection with its Annual Meeting of Stockholders and to be filed within 120 days of December 31, 2008 are incorporated by reference into Part III, Items 10-14, of this report on Form 10-K.

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PART I

ITEMS 1 & 2. BUSINESS AND PROPERTIES

The Company

References made in this Annual Report on Form 10-K to we, our, us, GMI and the Company refer to General Moly, Inc. and its consolidated subsidiary Eureka Moly, LLC.

We are a development stage company in the business of the exploration, development and mining of properties primarily containing molybdenum. Our primary asset is an 80% interest in the Mt. Hope Project (Mt. Hope Project), a primary molybdenum property, located in Eureka County, Nevada. The Mt. Hope Project has contained Proven and Probable molybdenum reserves totaling 1.3 billion pounds (1.1 billion pounds owned by GMI) of which 1.1 billion pounds (0.9 billion pounds owned by GMI) are estimated to be recoverable. In 2006, we acquired a second significant molybdenum project, the Liberty Property (the Liberty Property), located in Nye County, Nevada which we own 100%. The Liberty Property is anticipated to become our second molybdenum operation, after completion of the Mt. Hope Project, with initial production dependent on market conditions. In addition, we own other non-core properties and mineral rights on which we may conduct mineral exploration and evaluation.

Mt. Hope Project. In August, 2007, we completed a Bankable Feasibility Study (the Bankable Feasibility Study or BFS) that provided data on the viability, expected economics, and production and cost estimates of the project. On October 4, 2007, our Board of Directors approved the development of the Mt. Hope Project as contemplated in our BFS. During the year ended December 31, 2008 we completed basic engineering of the Mt. Hope Project and developed more optimized mine plans. In September 2008, we updated (the Control Update or Update) the Bankable Feasibility Study cost estimates based upon having completed 30% of the detailed engineering.

The Control Update included a higher estimated capital requirement of \$1,039.3 million, as compared to the August 2007 BFS of \$852.0 million. Additionally, approximately \$65.3 million in cash bonding, \$25.8 million in Advance Royalty Payments, \$23.5 million in pre-payments and insurance are expected to result in a total project cost of \$1.15 billion. These amounts do not include financing costs or amounts necessary to fund operating working capital. Through December 31, 2008 we have made deposits of \$31.5 million on \$219.5 million in equipment orders, have spent approximately \$54.8 million for the development of the Mt. Hope Project and have pre-paid \$12.6 million into an escrow arrangement for electricity transmission services.

The BFS originally had estimated total capital requirement of approximately \$1.0 billion, comprised of initial development costs in excess of \$850 million (in 2007 dollars); \$53 million in cash bonding requirements and; \$22 million in Advance Royalty Payments. The total increase in the estimated initial development costs compared with the Control Update amount was primarily a result of increases to construction labor rates, commodity prices (primarily fuel costs), indirect construction costs, and increases in quantity of construction materials and salaries and wages.

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The Control Update, with further optimized mine plans, projects (on a 100% basis) molybdenum production of approximately 40 million pounds per year for the first five years of operations at projected average direct operating costs of \$5.23 per pound, based on \$80 per barrel oil equivalent energy prices. We currently estimate that, for each \$10 per barrel change in oil-equivalent energy costs, the Mt. Hope Project's direct operating costs will change by approximately \$0.10 per pound.

Royalties, based on expected molybdenum prices, are anticipated to average \$1.18 per pound over the first five years in addition to the direct operating costs. Processed ore grades are expected to average 0.103% over the first five years. The mine is anticipated to have a 44-year life with 32 years of open pit mining and processing operations followed by 12 years of processing lower grade stockpiled ore.

We anticipate receiving the permits required to construct and operate the Mt. Hope Project in the fourth quarter of 2009. We do not expect to generate revenues from operations before production of molybdenum begins at the Mt. Hope Project. Based on the foregoing assumptions and expected higher prices for molybdenum in 2011 and beyond, we estimate that mine production at the Mt. Hope Project will commence in the first half of 2011.

In November 2007, we entered into a Securities Purchase Agreement with ArcelorMittal S.A. (ArcelorMittal) whereby an affiliate of ArcelorMittal, the world's largest steel producer, agreed to purchase 8.257 million shares of General Moly's common stock at \$8.50 per share, generating approximately \$70 million in proceeds. In connection with the Securities Purchase Agreement, we also entered into a Molybdenum Supply Agreement with an affiliate of ArcelorMittal to

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supply an aggregate of 6.5 million pounds (plus or minus 10% at ArcelorMittal's option) of molybdenum annually for five years, beginning once the Mt. Hope Project reaches certain production levels. The agreement provides for a floor price significantly higher than estimated cash costs of production and includes a variable discount to spot molybdenum prices above the floor.

In February 2008 (the Closing Date) we formed a joint venture (the Joint Venture) with POS-Minerals Corporation (POS-Minerals), an affiliate of POSCO, a Korean company and one of the world's largest producers of steel, for the development of the Mt. Hope Project. Under the terms of the Joint Venture, effective as of January 1, 2008, we contributed all of our assets related to the Mt. Hope Project, including the Mt. Hope Lease, into a newly formed entity Eureka Moly, LLC (Eureka Moly). Under the terms of the Joint Venture, POS-Minerals owns a 20% interest in Eureka Moly, and General Moly, through a subsidiary, owns an 80% interest. These ownership interests and/or the required contributions under the Joint Venture can change if certain specified conditions (the ROD Contribution Conditions), including the receipt of major operating permits, and that the Record of Decision (ROD) from the United States Bureau of Land Management (BLM) for the project has become effective, and any administrative or judicial appeals with respect thereto are final, are not satisfied by December 31, 2009. The ownership interests and/or the required contributions can also change if the Joint Venture does not achieve commercial production by December 31, 2011 for reasons other than force majeure, or if either party fails to pay amounts due under the Joint Venture.

Pursuant to the terms of the Joint Venture, POS-Minerals has made its first and second cash contributions to the Joint Venture totaling \$100.0 million during the year ended December 31, 2008 (the Initial Contributions). Additional amounts will be due from POS-Minerals within 15 days after the date that the ROD Contribution Conditions are satisfied (the ROD Contribution Date). We are currently targeting the effectiveness of the ROD and the satisfaction of the ROD Contribution Conditions to occur in the fourth quarter of 2009, but circumstances beyond our control could cause the satisfaction of the ROD Contribution Conditions to be delayed, giving POS-Minerals the right to reduce its contributions and/or its interest in the Joint Venture as described below.

If the ROD Contribution Date occurs on or before December 31, 2009, POS-Minerals is required to make an additional capital contribution (ROD Contribution Installment) to the Joint Venture of an additional \$70.0 million plus its 20% share of all Joint Venture costs incurred from the Closing Date through the ROD Contribution Date, which is currently estimated to be \$42.5 million, to retain its 20% interest. If the ROD Contribution Conditions have been satisfied by December 31, 2009 and POS-Minerals fails to make the additional \$70.0 million ROD Contribution Installment, its ownership interest will be reduced to 10% and it will be obligated to fund its 10% share of all Joint Venture costs incurred from the Closing Date through the ROD Contribution Date to retain its 10% interest.

If the ROD Contribution Date occurs after December 31, 2009, POS-Minerals may either elect to retain its 20% interest and reduce its ROD Contribution Installment from an additional \$70 million to an additional \$56.0 million plus its 20% share of all Joint Venture costs incurred from the Closing Date through the ROD Contribution Date, or reduce its interest to 13% and contribute its remaining 13% share of all Joint Venture costs incurred from the Closing Date through the ROD Contribution Date.

The Initial Contributions are available to fund the Mt. Hope Project Joint Venture costs incurred after the Closing Date. Additionally, in the third quarter of 2008, we paid to POS-Minerals \$3.0 million as a final purchase price adjustment based on the terms of the Joint Venture related to the difference in the budgeted versus actual expenditures of the Mt. Hope Project prior to the Closing Date.

We are required, pursuant to the terms of the Joint Venture, to advance funds required for the development of the Mt. Hope Project that exceed the Initial Contributions until the ROD Contribution Date, at which point we are entitled to be reimbursed for the advances from the POS-Minerals contributions described above. All costs incurred after the ROD Contribution Date will be allocated and funded pro rata based on each party's ownership interest and each party will be entitled to their proportionate share of production.

Also, if production at the Mt. Hope Project is delayed beyond December 31, 2011 for reasons other than an event of force majeure, the Joint Venture provides for return to POS-Minerals of up to \$50 million of its contributions with no corresponding reduction in ownership.

Liberty Property. In March 2006, we purchased the Liberty Property, an approximately ten square mile property in Nye County, Nevada, including water rights, mineral and surface rights, buildings and certain equipment, from High Desert Winds LLC. The Liberty Property includes the former Hall molybdenum and copper deposit that was mined for molybdenum by open pit methods between 1982 and 1985 by the Anaconda Minerals Company (Anaconda) and, between

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1988 and 1991, by Cyprus Metals Company (Cyprus). In addition, Equatorial Tonopah, Inc. mined copper from 1999 to 2000 on this property, although their operations were in a separate open pit. Much of the molybdenum deposit was drilled but not developed or mined by these previous owners.

In January 2007, we purchased the corporation that owned a 12% net smelter royalty on the Liberty Property, effectively eliminating all third party royalties on the property. Additionally in 2007, we purchased all outstanding mineral claims associated with this property that were not previously owned by us, thus giving us control over all mineral rights within the boundary of the Liberty Property.

Since purchasing the Liberty Property, we completed two drilling programs that, combined with previous evaluation work performed by former owners, identified mineralization totaling 433 million tons averaging 0.071% molybdenum and 0.07% copper. In April 2008 we completed a pre-feasibility study outlining project viability, expected economics, and production and cost estimates.

Other Properties. We currently own several other small non-core properties located in the western United States. These properties include additional molybdenum deposits as well as copper, silver and gold deposits.

Corporate Information

The Company was initially incorporated in Idaho under the name General Mines Corporation on November 23, 1925. In 1966, we amended our articles of incorporation to change our name to Idaho General Petroleum and Mines Corporation, and amended our articles again in 1967 changing our name to Idaho General Mines, Inc. On October 5, 2007, we reincorporated the Company in the State of Delaware (the

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. In connection with the Reincorporation, all of the outstanding securities of Idaho General Mines, Inc. were converted into securities of General Moly on a one-for-one basis. For purposes of the Company's reporting status with the SEC, General Moly is deemed a successor to Idaho General Mines, Inc. Our common stock is traded on the NYSE Altermex (successor to the American Stock Exchange) under the symbol GMO and, in February 2008, the Company began trading on the Toronto Stock Exchange (TSX) under the same symbol. Our registered and principal executive office is located at 1726 Cole Blvd., Suite 115, Lakewood, Colorado 80401 and the phone number for that office is (303) 928-8599.

We maintain a website at www.generalmoly.com, on which we will post free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports under the heading Investors as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also routinely post important information about the Company on our website under the heading Investors. We do not incorporate the information on our website into this document and you should not consider any information on, or that can be accessed through, our website as part of this document. You may read and copy any materials we file with the SEC at the Securities and Exchange Commission Public Reference Room at 450 Fifth Street, NE, Washington, DC 20549. The SEC also maintains a website that contains our reports and other information at www.sec.gov.

Corporate Strategy and Objective

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Our corporate strategy is to acquire and develop highly profitable advanced stage mineral deposits. Our near-term corporate objective is to profitably develop and operate the Mt. Hope Project and to continue our evaluation of the Liberty Property. In the short-term, we are focused on raising additional capital sufficient to complete the development of the Mt. Hope Project based on our current schedule, while at the same time conserving our cash resources until such additional capital can be raised.

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

- A strong, proven management team with experience in mine development, project financing, and operations.
- The Mt. Hope Project, of which we own 80%, currently in the permitting and development stage, is anticipated to be one of largest and lowest cost primary molybdenum projects in the world, driven, in part, by high ore grades that are processed early in the mine life.

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- Our Liberty Property has the potential to become a second, significant, molybdenum operation and is wholly-owned by the Company and royalty-free.
- Mt. Hope and Liberty are located in Nevada, which is geopolitically stable and has a long and ongoing history of large-scale, open pit mining operations.
- Near-by infrastructure for power, access roads, and water with solid environmental design.
- Strong support from the steel industry.
- Favorable long-term market fundamentals for molybdenum.

Products

We do not currently produce any products. We are in the process of developing the Mt. Hope Project of which we own 80%. When in production, we expect the Mt. Hope Project to produce (on a 100% basis) an average of 40 million pounds of molybdenum per year over the first five years of production and approximately 1.1 billion pounds of molybdenum over the expected 44-year life of the project. The Mt. Hope Project will primarily focus on producing Technical Grade Molybdenum Oxide (TMO), which is widely utilized by the steel industry. In the future we may also consider producing FerroMolybdenum (FeMo), which is also used by the steel industry and would make the company a more complete supplier to the steelmaking industry. We may also ultimately produce Diammonium Molybdate (ADM), which is a chemical used in the manufacture of desulfurizing catalysts for use in petroleum refining.

Molybdenum is a refractory metal with very unique properties. Approximately 70% to 80% of molybdenum applications are in steel making. Molybdenum, when added to plain carbon and low alloy steels, increases strength, corrosion resistance and high temperature properties of the alloy. The major applications of molybdenum containing plain and low alloy steels are automotive body panels, construction steel and oil and gas pipelines. When added to stainless steels, molybdenum imparts specialized corrosion resistance in severe corrosive environments while improving strength. The major applications of stainless steels are in industrial chemical process plants, desalinization plants, nuclear reactor cooling systems and environmental pollution abatement. When added to super alloy steels, molybdenum dramatically improves high temperature strength, creep resistance and resistance to oxidation in such applications as advanced aerospace engine components. The effects of molybdenum additions to steels are not readily duplicated by other elements and as such are not significantly impacted by substitution of other materials.

Other significant molybdenum applications include lubrication, catalytic sulfur reduction in petrochemicals, lighting, LCD activation screens, x-ray generation, high temperature heat dissipation and high temperature conductivity. These areas represent the highest technical and value-added applications of molybdenum but are also the most readily replaceable in times of technical or economic downturns.

The steel industry is the primary consumer of molybdenum and will be the primary market target for Mt. Hope TMO. We will also consider the production of value-added molybdenum products suitable for use as catalysts in petroleum refining and other energy markets.

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

Description of the Mt. Hope Project

Overview

Effective as of January 1, 2008 we contributed all of the assets related to the Mt. Hope Project, including the Company's lease of the Mt. Hope property, into a newly formed entity, Eureka Moly and entered into a joint venture for the development and operation of the Mt. Hope Project with POS-Minerals. Under the joint venture, POS-Minerals owns a 20% interest and General Moly owns, through a wholly-owned subsidiary, an 80% interest in Eureka Moly. The discussion in this section "Description of the Mt. Hope Project" is based on the entire project, of which we own an 80% interest.

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Eureka Moly is proceeding with the permitting and development of the Mt. Hope Project. The project will include the development of an open pit mine, construction of a concentrator and a roaster, and construction of all related infrastructure to produce TMO, the most widely marketed molybdenum product.

From November 2004 through August 2007 we conducted numerous exploration, drilling and evaluation studies, culminating in the Bankable Feasibility Study for the Mt. Hope Project. In 2005, we initiated the baseline studies necessary for development of an Environmental Impact Statement (EIS). We completed an initial Plan of Operations which the Bureau of Land Management (BLM) accepted in September 2006. In December 2006, the BLM selected an environmental firm to complete the EIS for the Mt. Hope Project. All environmental baseline and impact studies required to support the permitting process have been completed as of January 2009.

Work is progressing to complete the EIS, transfer water rights to mining use and obtain necessary permits. In October of 2007, we completed a water rights hearing in Reno Nevada and anticipate the State Engineer will grant our water rights applications in the first half of 2009. In January 2009 we completed and submitted the final technical reports to the Bureau of Land Management (BLM) related to the EIS. The Draft EIS is currently being prepared for publishing and public comment. We anticipate that the Draft EIS will be published in the second quarter of 2009. The current schedule for the development of the Mt. Hope Project indicates a ROD that will be effective in the fourth quarter of 2009 and commencement of production in the first half of 2011. Based on these schedules, we are in an advanced stage of procurement and design for long-lead items including two 230kV primary transformers, grinding mills and motors, a primary crusher, two electric shovels and a fleet of mobile mine equipment. Design and engineering is progressing at a pace to meet the project schedule. In 2008 we substantially completed the rough grading for construction of employee housing located near Eureka, Nevada and have started to install utilities to support the future townsite. Delays in permitting, construction or delivery of long-lead equipment may delay this production schedule.

The Mt. Hope Project Eureka Moly

The Mt. Hope Project is owned and will be operated by Eureka Moly, which is a joint venture between the Company and POS-Minerals. Eureka Moly currently has a 30-year renewable lease with Mount Hope Mines, Inc. (MHMI) for the Mt. Hope Project (the Mt. Hope Lease). Located in Eureka County, Nevada, the Mt. Hope Project consists of 13 patented lode claims and one millsite claim, which are owned by MHMI and leased to Eureka Moly, and 1,577 unpatented lode claims, of which 109 unpatented lode claims are owned by MHMI and leased to Eureka Moly and 1,468 unpatented lode claims which are owned by Eureka Moly.

The Mt. Hope Lease is subject to the payment of certain royalties. *See* Business Description of the Mt. Hope Project Royalties, Agreement and Encumbrances below. In addition to the royalty payments, Eureka Moly is obligated to maintain the property and its associated water rights, including the payment of all property taxes and claim maintenance fees. Eureka Moly must also indemnify MHMI against any and all losses incurred as a result of any breach or failure to satisfy any of the terms of the Mt. Hope Lease or any activities or operations on the Mt. Hope property.

Eureka Moly is not permitted to assign or otherwise convey its obligations under the Mt. Hope Lease to a third party without the prior written consent of MHMI, which consent may be withheld in its sole discretion. If, however, the assignment takes the form of a pledge of our interest in the Mt. Hope Project for the purpose of obtaining financing, MHMI's consent may not be unreasonably withheld. The Mt. Hope Lease further requires Eureka Moly to keep the property free and clear of all liens, encumbrances, claims, charges and burdens on production except as allowed for a project financing.

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The Mt. Hope Lease requires that the terms of any project financing must provide that: (i) any principal amount of debt can only be repaid after payment of the periodic payments as set out in the Mt. Hope Lease; (ii) the lenders may not prohibit or interfere with any advance royalty payments due to MHMI under the Mt. Hope Lease; and (iii) no cash sweeps or payments of excess cash flow may be made to the lenders in priority of such advance royalty payments.

The Mt. Hope Lease also contains an after acquired property clause, which requires that any property acquired by Eureka Moly within two miles of the boundary of the Mt. Hope Project be conveyed to MHMI if requested within a certain time period following notification of such acquisition. MHMI has requested that we maintain ownership of all new claims filed by Eureka Moly, which now includes 1,468 unpatented lode claims.

The Mt. Hope Lease may be terminated upon the expiration of its 30-year term, earlier at the election of Eureka Moly, or upon a material breach and failure to cure such breach. If Eureka Moly terminates the lease, the termination is effective 30 days after receipt by MHMI of written notice to terminate the Mt. Hope Lease. If MHMI terminates the lease, termination is effective upon receipt of a notice of termination of a material breach, representation, warranty, covenant or

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term contained in the Mt. Hope Lease and followed by failure to cure such breach within 90 days of receipt of a notice of default. MHMI may also elect to terminate the Mt. Hope Lease if Eureka Moly has not cured the non-payment of obligations under the lease within 10 days of receipt of a notice of default. The term of the lease can be extended beyond 30 years if the Mt. Hope Project is in production or intends to resume production (and has provided notice accordingly).

Property Description and Location

The Mt. Hope Project is located on the eastern flank of Mt. Hope approximately 21 miles north of Eureka, Nevada. The Mt. Hope Project is located at the southern end of the northwest-trending Battle Mountain-Eureka mineral belt. Mt. Hope is approximately 2.6 miles due west of State Route 278, and the Mt. Hope Project centers in sections 1 and 12, T22N-R51E and sections 12 and 13, T22N-R51½E.

Nature and Extent of the Eureka Moly's Title

The land package for the Mt. Hope Project contains 13 patented lode claims, one patented mill site, and 1,577 unpatented lode claims. The total surface area covered by the Mt. Hope Project land package is 7,311 hectares. MHMI owns all of the patented claims and 109 of the unpatented lode claims. These claims are the subject of the Mt. Hope Lease. Eureka Moly owns the remaining 1,468 unpatented lode claims. The patented claims and unpatented claims comprising the Mt. Hope Project are listed by number and ownership in the Bankable Feasibility Study. Patented claims are owned real property and unpatented claims are held subject to the paramount title of the United States and remain valid for as long as the claim contains a discovery of valuable minerals as defined by law and the holder pays the applicable fees.

Royalties, Agreements and Encumbrances

Advance Royalty

The Mt. Hope Lease may be terminated upon the expiration of its 30-year term, earlier at the election of Eureka Moly, or upon a material breach of the agreement and failure to cure such breach. If Eureka Moly terminates the lease, termination is effective 30 days after receipt by 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, Eureka Moly must pay certain deferral fees and advance royalties as discussed below.

The Mt. Hope Lease Agreement requires a royalty advance (the Construction Royalty Advance) of 3% of certain construction capital costs, as defined in the Mt. Hope Lease, upon the earliest of the Company's securing project financing in

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sufficient amounts to develop and put into operation the Mt. Hope property at an annual production level of at least 10 million pounds or October 19, 2008.

Eureka Moly has the right to defer the Construction Royalty Advance for one or two years by payment of a deferral fee (the Deferral Fee) in the amount of \$350,000 on or before October 19, 2008 and October 19, 2009 in the event project financing for the project has not been secured by each of the dates. On October 17, 2008 Eureka Moly paid the \$350,000 Deferral Fee discussed above to MHMI thereby deferring the Construction Royalty Advance. Through December 31, 2008, we have paid \$3.3 million of the total Construction Royalty Advance. Any remaining unpaid Construction Royalty Advance amounts on October 19, 2011 must be paid 50% on October 19, 2011 and the other 50% is due on October 19, 2012.

Once the Construction Royalty Advance has been paid in full, Eureka Moly is obligated to pay an advance royalty (the Annual Advance Royalty) each October 19 thereafter in the amount of \$500,000 per year. The Construction Royalty Advance and the Annual Advance Royalty are collectively referred to as the Advance Royalties. All Advance Royalties are credited against the MHMI Production Royalties (as hereinafter defined) once the mine has achieved commercial production. The Deferral Fees are not recoverable against Production Royalties.

Eureka Moly 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. Based on the current estimate of raising capital and developing and operating the mine, we believe Eureka Moly's future contractual obligations under the Mt. Hope Lease will be as shown in the following table. This estimate is based on current estimates of the timing of securing project financing and the construction capital costs estimated in the Bankable Feasibility Study (in thousands).

Mt. Hope Lease Obligations

Year	Deferral Fees	Advance Royalties	Total
2009	\$ 350	\$ 2,500	\$