

# Regulators should be coming round the Copper Mountain

✘ It wouldn't be surprising if the British Columbia Securities Commission (BCSC), wanted a word or two with Copper Mountain Mining Corp. ("Copper Mountain", TSX: CUM). For context, click here for my original piece Copper Mountain's Q&A: The Shareholders Deserve Better Answers on April 28th or my quick follow-up on the 30th, click here.

Copper Mountain owns 75% of the Copper Mountain Mine in southern British Columbia. Mitsubishi Materials Corp., a core member of the Mitsubishi Group, owns the other 25%, and is a large creditor of Copper Mountain.

A simplified explanation of the problem is that over the past decade Copper Mountain has made inconsistent disclosure about the net smelter royalty's (NSR's), on the Copper Mountain Mine. Hornby Bay Mineral Exploration Ltd. (TSXV: HBE), issued a press release on Sept 17, 2013 that directly contradicted Copper Mountain's core and non-core disclosure on those NSR's. Teck Resources Ltd. (NYSE: TCK | TSX: TCK.A & TCK.B) also has an NSR on some of those claims. They can't all be right. To date, I'm aware of no regulatory action being taken.

During Copper Mountain's quarterly conference call in April, 2015, an IIROC (Investment Industry Regulatory Organization of Canada), member asked Copper Mountain's CEO Mr. O'Rourke about this very public contradiction and specifically about Hornby Bay's press release. The answer was, "We can't speak for Hornby Bay and we haven't seen that press release."

The facts are material to the shareholders of both companies. To Copper Mountain, a higher NSR decreases cash flow, increases cost of sales, reduces the gross margin, reduces the internal rate of return, alters debt/service ratios,

influences the mine plan and informs many other important decisions. It also detracts from management's credibility if Mr. O'Rourke's statement was wrong. It may also trigger a default under the \$300 Million lending arrangements out of Japan.

From Hornby Bay's perspective, a higher NSR over a larger area results in a higher net present value – this gives Hornby Bay a better asset to sell. While Copper Mountain's inconsistent disclosure exists, Hornby Bay will have trouble selling the NSR for any price, and that impacts the Hornby Bay shareholders.

By way of James Brady and as reported earlier, Hornby Bay quite aggressively stands by its version of the facts, and it also advises that no securities regulator has investigated it for that press release.

Copper Mountain has had a fair chance to address this issue. I've emailed Peter Holbeck, Copper Mountain's VP of Exploration (also one of the authors of the company's 2007 Preliminary Assessment Report) as well as Galina Meleger, Corporate Communications Officer. They know this article is being written and they know its publishing deadline.

Here is what was sent to them:

1. Is Hornby Bay's Sept 17, 2013 press release correct in its description of its NSR's covering part of the Copper Mountain Mine? If it is incorrect, please provide the correct description.
2. O'Rourke took the position during last week's conference call that as of that date, no one at Copper Mountain had ever seen Hornby Bay's Sept 17, 2013 press release. There is evidence that Mr. Holbeck personally saw that press release 19 months ago. Could you please advise when Mr. Holbeck first become aware of Hornby Bay's Sept/13 press release, and how.

3. I understand Teck Resources now owns the historic Cominco NSR. Could you please provide details of that NSR, including how many claims it covers, the total acreage subject to the Teck NSR, and the rates at which the NSR is paid.
4. In your roadshow this week, Mr. O'Rourke stated that in 2016 ore will be taken from higher grade areas. Does that include any of the claims subject to a NSR in favour of Hornby Bay and/or Teck? If so, which claims?

These are simple questions that should have simple answers; however, here we sit without a response of any kind from Copper Mountain. Draw whatever inference you like from Copper Mountain's behaviour.

(I note that this morning Copper Mountain appointed Betty Joy LeBlanc as manager, investor relations, effective immediately. Perhaps she will respond to my questions?)

Copper Mountain was on a road show in Toronto and Montreal last week, meeting with institutional investors. The resulting rumour mill says Copper Mountain is currently drafting a NI 43-101 report. I don't know if this meant to be a feasibility study, a reserve / resource update, or a work report. Regardless, the Technical Report form (NI43-101F1) requires Copper Mountain to disclose, "...the terms of any royalties, back-in rights, payments or other agreements and encumbrances to which the property is subject".

In other words, Copper Mountain has a duty to make accurate disclosure of the NSR's on the Copper Mountain Mine.

I'm fairly sure Hornby Bay will make a huge public stink if Copper Mountain's disclosure still ignores Hornby Bay's claims. And they can't both be right. It will be up to class action plaintiff lawyers or a securities regulator to sort this out to maintain the integrity of our capital markets.

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(Copper Mountain's conference call is available for replay at 1-888-390-0541, code 898630, until May 11, 2015.)