

# The anatomy of a mining property deal

By JANE GAFFIN

**Keno, the venerable old gentleman mine, refuses to die a natural death as long as a probable hundred million ounces of silver keep its heart beating. Yet, the federal government is bent on subjecting the mine to euthanasia.**

**I believe the mine deserves a dignified burial.**

**In a series of articles being published in the *Star* each Friday, I'm saying last rites and farewell to a great mine that served as the Yukon's lifeblood off and on for more than 80 years.**

**Here's part 19.**

Lutz Klingmann started building a data base for the DEF/Minto copper deposit, located 80 kilometres northwest of Carmacks in the Yukon's Dawson Range.

Over the years, some changes had altered the ownership anatomy. Silver Standard Resources was connected to Teck Corp.; Teck Corp. was connected to ASARCO; ASARCO was connected to United Keno Hill Exploration; United Keno Hill Exploration was connected to Falconbridge Ltd.

Amazingly, with all these players and lapse in time, the property ownership and mineral claim package were straightforward rather than the usual tangled muddle and mess one might expect.

Ownership changes meant Falconbridge was the sole proprietor of the DEF side of the deposit; ASARCO/Teck now owned the adjoining Minto.

The handsome property package consisted of Minto and DEF one-year claims and those surveyed and recorded as 21-year mining leases.

"It was a clean, neat, precise property package and a clearly-defined mineral deposit," noted Klingmann, who raided a number of offices across North America to build his data base.

He chased material scattered from ASARCO's Spokane, Wash., office, to other offices in Vancouver to Winnipeg.

Around the mid-1980s, Silver Standard was in need of a cash infusion and sold its Minto rights to the Vancouver-based Teck Corp. It was a tidy transfer and of no further significance.

The Toronto-based Falconbridge Nickel Mines Ltd. had adopted its new handle, Falconbridge Ltd., at an annual general meeting on April 20, 1982. It had bought out the DEF interest held by Canadian Superior Explorations, a subsidiary of American-based Superior Oil.

About 1988, shortly before suspending production at United Keno Hill Mines' operation at Elsa, Falconbridge had been taken over by Noranda, an historic Canadian-rooted mining major.

In June 1990, Falconbridge was unloading its Elsa silver properties and other mineral claims and prospects around the Yukon, probably at Noranda's urging.

The DEF treasure was the exception.

Falconbridge officials had asked the United Keno Hill Exploration division in Whitehorse to ship the DEF data to Toronto. Somehow, the material — or a duplicate thereof — ended up in the Winnipeg exploration office.



Photo by JANE GAFFIN

**BIRD'S EYE VIEW – United Keno Hill Explorations' DEF copper camp is seen in 1974.**

Falconbridge's exploration outpost had been moved from Vancouver to the prairie city due to politics. Its 1992 annual report reflected a Noranda flavour that spoke volumes of why the companies were leaving the Yukon specifically and Canada generally.

Canadian companies prefer working at home but could not tolerate the anti-industry regulatory regime.

Under the caption "Lack of Stability", the document said that despite the potential for new mines in Canada, mining companies were investing their mobile exploration abroad.

Places like Chile were fostering business climates "relatively stable and predictable". Latin American countries had adopted North America's environmental and health and safety standards but designed speed and certainty into the permitting processes.

While investing south of the Rio Grande was a high-risk zone, mining companies felt more secure going where rules were "consistently applied", which was not the case in Canada.

Multinationals could accept the most illogical, rigorous environmental regulations of the highest benchmark. But, economically, they could not deal with the "inconsistency of application".

When mining companies met the standards and followed the necessary steps to obtain permits, there were no guarantees those permits would ever be granted, the report said.

Hundreds of thousands of dollars were wasted "because other pressures preclude our governments from allowing our projects to proceed."

Accepting invitations, Noranda sent Toronto spokesmen to address enviro regulatory-manufacturing workshops in Whitehorse. The message was simple: If you don't want us here, we don't want to be here. Adios.

The big boys don't stand around on one foot, then the other, arguing with the government regulators and

green groups.

For similar reasons, Falconbridge had packed up its Vancouver exploration office about 1992-93. British Columbia had a resurgence of a bad business climate. It was brought on by another New Democratic Party government under premier Michael Harcourt.

It was *déjà-vu*. Twenty years earlier, NDP premier David Barrett's anti-industry policies had sent mining and exploration companies scampering north to the Yukon and south to Latin America.

Harcourt had vowed not to make the same mistakes his predecessor did. He didn't. He had a bag of his own humdingers and was forced to resign as party leader in disgrace.

By then, Falconbridge had bowed out of exploration in B.C. as well as most of western Canada. Employees who weren't laid off were dispatched to Chile.

Klingmann caught up with Falconbridge in its Winnipeg office.

He then met with Silver Standard's president in Vancouver.

"Bob Quartermain had a big cardboard box about two feet by two feet. In it was piled files and data of the Minto project, just setting on a shelf," said Klingmann, who carried that box out of the office.

More information was stashed in ASARCO's Delta, B.C., storage vault; Teck had data.

Klingmann latched onto Bill Pearson's university master's thesis. Some circles viewed the Toronto consultant's earlier study as the epitome of a geological description of the low-grade eight-million-ton deposit.

"In many ways, it's a unique ore body," advised Klingmann. "The genesis — or origin — has never been defined. There's disagreements about what style of mineralization or what type ore body it is. It's not a classic porphyry."

Simplistically, a porphyry denotes low grade and high tonnage.

Although Klingmann was a civil

engineer and not a geologist, he recognized the fault that cuts off the ore body.

"A possible extension of the ore body beyond the DEF hasn't been defined and may not exist," he conceded.

"(But) there's lots of potential and a variety of other discoveries were made in the early days that haven't been defined. But I would say the ore body has been quite nicely designed."

The decision to mine about two-thirds of the known ore body containing 2.13-per-cent copper with additional gold and silver values was based on an in-house feasibility study he commissioned.

Then Klingmann made a helicopter fly-over inspection of the Yukon property in the fall of 1989. The short trip emanated into 3 1/2 years of negotiations with Falconbridge, Teck and ASARCO.

Simultaneously, Falconbridge was off-loading its assets at Elsa, where milling operation was suspended in January 1989; closure extended to later in the year.

Neither the seller nor the buyer wanted Yukoners getting excited about the mine starting up again, for good reason. The buyer was a small, unknown, two-year-old firm based in the Falconbridge mining turf of Sudbury, Ont.

Bharti Laamanen was formed to provide engineering, contracting and project management services.

How could the young company get the Elsa mines operational, given it never owned a mine before and Falconbridge was losing money on higher silver prices than when Bharti Laamanen took over (\$5.95 US/ounce and dropping)?

Another fly fell into the ointment. The water licence would expire in September 1990. The Yukon Conservation Society wanted action while the opportunity existed.

The society pressured the federal Yukon Territory Water Board to file a court injunction against United

Keno Hill for failure to submit an abandonment plan, a condition attached to the water licence, which Bharti Laamanen expected to renew.

It would have behooved everybody greatly, including the labour board and the labour unions, to have shown bigger concerns about issuing workers their regular pay, holiday pay, pensions and severance packages, instead of fretting foremost about a court action, water licences and abandonment plans.

Meanwhile, Falconbridge inked an agreement to provide up to \$2.4 million in financing to BLM Mines, the Toronto-based subsidiary of Bharti Laamanen Mining Inc., over 30 months in exchange for a royalty interest in the United Keno Hill properties and minority ownership in the DEF deposit.

The agreement extended from September 1990, to March 1993. The expiry date probably accounts for why Klingmann couldn't finalize a deal with Falconbridge until April 1993.

"I was persistent in my efforts," said Klingmann. "It all fell into place — well, it's too long a story — but in April, 1993, I formed Minto Explorations."

Long-term negotiations with three companies who didn't know or like each other had to be an exasperation of the highest order. In the early days, the ASARCO side and the Falconbridge side sparred bitterly, mainly because ASARCO never was notorious for being easy to deal with.

It didn't matter who owned how much ground but rather who owned the most value in the ground that counted. The two sides couldn't reach an agreement, basically because nobody had the corporate will to call a meeting of the minds to seriously hammer out the point.

When the jointly-funded ASARCO/United Keno Hill Exploration feasibility study was finished in 1976, copper prices were sluggish. More exploration and drilling were carried out. Copper rallied. The principals still weren't inspired to negotiate a position.

The DEF/Minto prospect was shelved as mineral inventory. Then the whole mining industry crashed in 1982, and the copper deposit was the least of anybody's thoughts.

Klingmann guessed the project didn't have a sponsor and the group did not have a cheerleader with the ambition and know-how to take the project off the shelf and carry it forth into an operating mine.

Nevertheless, the companies knew the property's potential and were smart enough to hold onto their respective plots of real estate.

Klingmann made acquaintance with the three key people in the three key companies and pulled together an agreement on his own volition.

It took 42 months to conclude the marathon feat. The heart of the Vancouver-based Minto Explorations he formed was the deal he finally struck with Teck, ASARCO and Falconbridge in April 1993.

The new public-listed mineral resource company was trading on the Vancouver Stock Exchange.

Klingmann was president; Sal Anzalone, who brought the project to Klingmann's attention in Arizona in

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# The whole mining industry crashed in 1982

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1989, was a director, along with a fellow named Richard Clark.

James Proc, an engineer, was secretary and the project manager.

Minto Explorations purchased the Minto mineral claims and mining leases from ASARCO and Teck for shares in the company and did a buy-out agreement with Falconbridge on the DEF claims for \$1 million.

A net smelter return of 1.5 per cent

on production would be payable to and divided equally between ASARCO/Teck and Falconbridge.

To do the project, Minto Explorations had to own the rights.

"In all the history since 1981 of mine development, I've never done work on a property I didn't own; or we didn't own; or the company I was managing didn't own," Klingmann explained. "I'm not prepared to farm into other people's property."

Additionally, Klingmann offered

the three companies minor royalty incentives should other mineral discoveries be made and, on the remote chance, the DEF/Minto turn into a world-class deposit.

However, the three companies would only receive payments when Minto Explorations was earning money.

In the Falconbridge agreement was an expiry stipulation that the mine had to be in commercial production by (about August) 2004, oth-

erwise the deal was dead and Falconbridge could exercise the right to repurchase the DEF property.

The date was more than 10 years away! No worries. The Minto project was scheduled for production by 1998.

Even if copper stayed at a respectable low value of about 90 cents US per pound, the Minto engineers had found better, cheaper, innovative solutions and were confident they could turn a profit should copper dip as low as 65 cents US a pound.

If Klingmann couldn't make the project work, nobody could.

Copper prices weaken when the

commodity is in oversupply. Inevitably, the world supply would be depleted when consumed by construction and communication industries around the world.

At some point, the price would be driven up by market demands.

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Next week: regulators and permitting delays frustrate the whole Minto construction phase.

## Cruisers were up; ferries were down

By JEFF BRADY  
The Skagway News

SKAGWAY – The 2004 summer season arrival statistics have been tallied, showing Skagway recorded its highest visitor count ever: 857,405.

That's a 9.72-per-cent increase over last year, according to figures compiled by the Skagway Convention and Visitors Bureau.

The largest boost came in the number of cruise ship passengers, a nearly 13-per-cent jump from 639,742 in 2003 to 722,095 this year.

"We were very pleased with the numbers this year, and if you throw in crew, we are well over one million visitors," said Buckwheat Donahue, the city's tourism director.

Modest increases were posted on the South Klondike Highway and White Pass and Yukon Route rail-

way, but ferry and air passenger arrivals were down slightly.

The border station counted 77,837 arriving passengers, up from 74,750 in 2003. However, that was nowhere near the 90,000 to 100,000 numbers of the late 1990s.

The railway recorded 13,187 arriving passengers from its Fraser, B.C. trains, up 122 over the previous year.

The railway overall carried a record 404,722, but most of those were tour passengers already counted in the cruise ship arrival total.

Ferry traffic on the Alaska Marine Highway was down 2.7 per cent, from 23,814 to 23,171.

Donahue said that while the introduction of the fast vehicle ferry *Fairweather* resulted in more arrivals, there were two days a week when there was no direct ferry connection

between Skagway and Haines, and that affected the numbers.

In addition, numbers on the Haines-Skagway shuttle passenger vessels operated by Chilkat Cruises and Tours were down significantly, from 23,724 to 15,069. Air arrivals to Skagway were down from 6,340 in 2003 to 6,046 this past summer.

The Skagway Visitor Center at A.B. Hall had a record year, passing the 100,000-mark for the first time.

Donahue thanked assistant Karen Ward and his staff, which he noted has remained at the same level as when it handled 20,000 visitors at previous confines on Fifth Avenue.

Donahue said he expects a slight increase next year, based on a look at a preliminary cruise schedule which shows the only new ship, the *Universe Explorer*, returning on Saturdays after a two-year hiatus.

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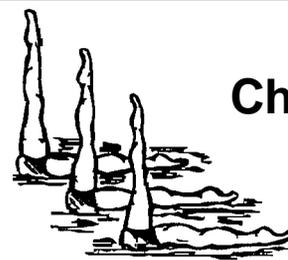
POLI 221 — Intro to Land Claims and Self-Government of First Nations

Mondays/Wednesdays 4:00 – 5:30 p.m.

For a complete schedule visit [www.yukoncollege.yk.ca/arts/Schedule.htm](http://www.yukoncollege.yk.ca/arts/Schedule.htm), or for more information on these and other courses, phone 867-668-8870 or email: [arts-science@yukoncollege.ca](mailto:arts-science@yukoncollege.ca)



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