

# DEF/Minto Copper goes on the auction block

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 that has published in the *Star* each Friday, I have been 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 23, the finale to the series.**

Lutz Klingmann addressed government, first nations, preservationists and industry delegates at a 1999 Yukon mining advisory meeting.

The Minto Explorations president tried to instill an appreciation for the extensive mining and exploration business in 20 minutes.

He discussed the common ground where industry and first nations could come together, and had a stern message to government about timelines and regulations.

Most delegates in the room could not relate to mining, yet government permittees had the authority to order geologists to move an exciting drill-hole target someplace else.

A person had to be baptized into the industry to gain a full understanding and passion for the multifaceted business. It has to be absorbed into the mind, bones and soul by working closely with industry.

Sadly, the Yukon mining people seemed apologetic about their occupations.

"Industry has to value its own credibility," said the independent mine developer who formed the Vancouver-based Minto Explorations in April 1993, based on a property deal he struck with ASARCO, Teck Corp. and Falconbridge Ltd."

The government's role is to support mining; not fight it.

"Everybody needs incentives. A healthy mining industry needs incentives, too."

He agreed with the need for regulations, but felt mining development was fraught with over-regulation in government's attempt to regulate perfection.

He thought the people who work on permits and approvals, of which he had to obtain 50 for the Minto project, should move their offices out into the elements where all the action takes place that is regulated.

Discharge levels were a particularly sore topic with Klingmann, who would have relished some flexibility in day-to-day action.

"There may be a tendency to set discharge levels higher than they have to be. Once a project is in production, it leads to a lot of trouble and a lot of bad press."

The Minto copper-gold project, 80 kilometres northwest of Carmacks in the Dawson Range, had been blindsided by permitting delays and other unforeseen circumstances that thwarted efforts to get into production on Nov. 1, 1998 and again on Oct. 1, 1999.

Klingmann went through the history of the Minto deposit, environmental disturbances healed, road-building, the bridge washout that cul-



Photo by JANE GAFFIN

**HISTORY LESSON – An appreciative worker pauses to read a brief history of the Elsa-Keno City area. The Keno Hill sign says: 'Ten years before the Klondike Gold Rush, prospectors searched for gold in this area, and finally in 1919 Louis Beauvette discovered rich silver-lead ore on Keno Hill. After 1945, when United Keno Hill Mines was organized, the Mayo district became known as one of the largest silver-lead producing centers in the world. After more than 50 years of operation, these mines are among the oldest in Canada.'**

minated into criminal charges and explained that the Mexican mining group that bought the senior partner, ASARCO, would have to be "re-sold" on the concept of the Minto project.

There was still a shred of hope the project could be recovered. If Minto didn't proceed, it would be the first of Klingmann's six mine developments to fail, thanks to a goofy regulatory regime that only a bureaucrat could love.

The Minto project wouldn't have been caught in this precarious dilemma had the company had the flexibility to manage its own affairs from the outset.

While the majority of mineral deposits never advance to production stage, the Minto had a chance.

More than 30 years of work and about \$40 million had been invested from initial exploration stage up to production stage. Additionally, extra cash settlements were negotiated through co-operation agreements to satisfy the Selkirk First Nation's Impact Benefit Agreements (IBAs).

"I suggest it is very important to attract industry with the right incentives," he emphasized.

"The Yukon is competing on a world stage. You can't sit back and expect industry will come with big investments in exploration, development and production. Everybody has to encourage the explorer."

The whole concept of mineral exploration should be seen in terms of development and production as the end result, he continued.

The purpose of carrying out mineral exploration programs is to find a deposit worthy of a mine. Exploration is the priority but it is very high risk.

"One has to go out of one's way to be supportive of the explorer in every possible way," he said.

The early stage of exploration translates into forward benefits. That is the stage where employment and training-maybe small contracts – can come into play. If the project is in advanced exploration, industry might

give consideration to making property payments to the first nations.

He recommended that first nations groups establish databases for their own land and ensure every piece of information generated is properly recorded.

It is at the advanced stage of exploration when the mining company has made a definite production decision where the comprehensive co-operation agreements should be negotiated between parties, he instructed.

"From my perspective and based on my experience, I think this agreement is equally important for the first nation and the company to properly protect their interests. Then it comes as no surprise that the company is going to develop a mine and is going to production."

Each project has a certain economic prediction. One of the most important benefits that can be written into an agreement involves royalty. First nation involvement or not, these contracts have to be honest and competitive, he said.

It is critical that first nations fully understand and appreciate the economics of the project, for only a profitable project will have long-term benefits.

From mineral exploration comes the producing mine, which generates a positive cash flow as the consequent benefit, he said.

"But before we talk about realizing any long-term benefits, we have to recognize that the mine is a project that has to be developed and put into production properly."

He was referring to the cumbersome screening and permit signing delays that ruined the project.

A mine has to be feasible; it has to be developed; it has to be operated profitably.

As a way for first nations to prepare for a long-term future without reliance on outside advisors, he suggested they get educated so they can make good decisions and sound judgments on their own.

But if first nations are going to lock up their Yukon land in protected areas, it's not necessary to encourage exploration and the explorer. While some areas are necessary to set aside as parks, he advised keeping a maximum portion of the Yukon's land base accessible for on-going research, responsible exploration and development.

Klingmann encouraged the first nations to open all their land as a mining resource and then control it.

"Keep an open mind to new technologies. Be flexible."

Individual mining and exploration companies and government departments have accumulated mounds of geological material in their information data bases. Due to advanced technology and new ways of interpreting the rocks, mineralized provinces can be recycled.

"Twenty years from now, a geologist may go back into an old area and say, 'We just didn't recognize this was the mineral resource we had in our hands before,'" Klingmann noted.

A petulant Indian's interjection sounded like a proposal for extortion fees.

"You're trying to sell mining to first nations. We're not buying. We see only bad examples of mining from past. First nations don't trust mining. What mining is offering is not enough."

Klingmann didn't take bait. After three or four years, progressive reclamation could start, he said. If the project doesn't show signs of being able to support an adequate reclamation fund, then the project shouldn't proceed.

Instead of being forced by regulators, Klingmann thought, ideally, the company should accept the responsibility.

"We have regulations. We have a water licence. Best of all, we have experience and expertise and can best determine the closing cost and make sure funds are set aside."

In response to another Indian fel-

low's question, Klingmann encouraged the first nations to become interested in the financial structure.

"There is a huge risk for the companies that fund projects like the Minto. As soon as there is a downturn in the metal prices, projections can vary for a number of reasons."

Debt is a big problem, he confirmed. "Our financing proposal at Minto is an agreement negotiated with ASARCO. No debt. It's equity financing."

Regardless of the recent corporate change that saw ASARCO taken over by Grupo Mexico, it was still believed the Minto would be an equity financed project.

Equity financing is basically the difference in value between the debts and the value of the property on which the debts are secured.

"If you are a Cominco with mines operating around the world, all generating cash flows that can support a new project, then debt is permissible."

Debt financing was probably not advisable for a mining project like Minto without other mines generating cash flows to pay for it, advised Klingmann, concluding his remarks on Nov. 19, 1999.

Three and a half years slipped by. The calendar pages flipped to May 13, 2003.

Remigio Martinez Muller, a Grupo Mexico employee since 1967 and who held the position as the company's corporate director of exploration, was appointed president and director of Minto Explorations to replace Lutz Klingmann, who remained on the board as a director.

All the familiar names were gone or on the leaving list.

Xavier Garcia de Quevedo had been named a director. Then businessmen Norman Anderson and James Robertson were appointed to the board as independent directors in August 2004.

ASARCO, owned by Grupo Mexico and parent to Minto Explorations, had been required to provide 100 per cent of the funds needed for property development of the Minto project under an agreement finalized around 1996.

Minto Explorations held a 100-per cent interest in 65 mineral leases and 99 mineral claims.

If Minto Explorations didn't put the mine into commercial production by a date extended to Jan. 1, 2005, Falconbridge had the right to repurchase the DEF property of 29 mining leases and 59 mineral claims for approximately half a million dollars Cdn.

In October 2004, Minto Explorations filed reports of material change with the Toronto Stock Exchange.

Under Minto Explorations' agreement with ASARCO, Roman Friedrich and Company was hired to arrange a sale transaction prior to April 1, 2005.

It could be a takeover, merger or any other form of business combination involving the disposition, directly or indirectly, of a material portion of the Minto project.

The process timetable anticipated receipt of binding offers in November 2004. Two qualified mining industry bidders signed confidentiality agreements and were participating seriously in the bidding process.

Any proposed sale transaction

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# Successful bidder wasn't announced

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would have to be arm's length, recommended by a committee of independent directors of Minto Explorations.

Included was to be the debt owed to Falconbridge, which values the Minto project at no less than \$20 million Cdn, unless convinced to accept a lesser amount.

Falconbridge was the former parent of United Keno Hill Mines until the bail out in 1990, and a main contributor to the three-party consortium that funded United Keno Hill Exploration that discovered the DEF copper property in 1971.

Minto Explorations had purchased the DEF portion from Falconbridge for \$1 million, plus agreements for net smelter returns and royalties on any additional ore reserves. The original agreement expired (about August) of 2004 should the mine not go to production.

In exchange for Falconbridge agreeing not to exercise its right to repurchase the DEF property during the term of the agreement and granting Minto Explorations the right to extinguish such rights under a sale transaction, Minto Explorations agreed upon closing a sale transaction to pay Falconbridge cash of 42.5 per cent of the total transaction, subject to adjustments.

If an acceptable sale transaction did not occur by March 31, 2005, Minto Explorations' agreement with Falconbridge and ASARCO would terminate. Falconbridge would have the right, but not the obligation, to exercise its DEF-claims/leases repurchase right.

Minto Explorations is well-papered

with licences, permits and approvals. But any adjustments in operating plans could trigger an amendment to a water licence which could stretch from 18 months to three years, if ever, to obtain.

A new operator may have to be re-screened by the new Yukon Environmental Socio-economic Assessment Act, which is supposed to be ready with appended regulations for implementation in April 2005.

After a production decision is made, 15 months of construction must be anticipated before the Minto project is ready for production.

For industry and politicians to promote the Minto as "ready to go" depends on one's definition of the term.

The successful bidder, if there is one, was expected to be announced in November 2004. It didn't happen.

It would be good to see Lutz Klingmann invited to take another crack at developing the Minto. He would be a valuable resource to the Yukon and the mining industry once again.

But I personally don't think the Minto project or the United Keno Hill Mines will ever be "allowed" to go to production. The properties will be relegated to the mineral-inventory morgue and designated "environmental playgrounds with mining potential".

From hereon, readers can keep tuned to this soap opera through the *Star* as new events unfold.

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*Jane Gaffin is author of Cashing In, a definitive history of the Yukon's hardrock mining industry, 1898 to 1977. You can e-mail her at janegaffin@canada.com or visit her at www.diArmani.com.*



Star photo by VINCE FEDOROFF

**HIGH MARKS REWARDED - Nicole Ruest receives a Governor General's Academic Award at the Commissioner's Levee on New Year's Day. Commissioner Jack Cable (above) and Education Minister John Edzerza handed out the award.**

## KENNETH EARL DERBYSHIRE "DERB"

June 11th, 1948, Belleville, Ontario - December 30th, 2004, Whitehorse, Yukon



*"...And seven Spanish angels took another angel home..."*

Derb passed away at their home with Linda by his side. Derb will always be loved and missed by his wife Linda, son Ken Jr. and wife Kendra, and Grandson, Landon. Predeceased by their daughter Cher Lynn, also missed by his many friends.

CELEBRATION OF LIFE WILL BE ANNOUNCED AT A LATER DATE

*The family respectfully decline flowers for their home, in lieu, a donation to the cancer society or flowers at the celebration would truly be appreciated.*

Thank you.

## Did You Know?

In seven years one female cat and her offspring can produce 420,000 cats

SPAYING OR NEUTERING REDUCES THE NUMBER OF UNWANTED PETS IN THE YUKON

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**Tuesdays 7:00 - 10:00 p.m.**

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**NEW!**

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An introduction to the knowledge that underlies language use and the mechanisms involved.

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Software applications: Word • Excel • Access and Internet issues.

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This course develops an understanding of sexual attitudes, beliefs and behaviours within and across cultures and related social issues.

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