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BusinessNorth Exclusives Precious metals exploration stung by economic slump

Despite slower pace of drilling in 2009, industry remains bullish over potential for large scale non-ferrous mining in Northeastern Minnesota.

4/29/2009
by Wayne Nelson



(Photo: Kennecott/Rio Tinto Exploration is scaling back its 2009 summer drilling schedule as a result of the drop in value of copper, nickel and other non-ferrous metals. Above, principal geologist Robert Peter at a company drill site in western Carlton County.)

On April 20, Kennecott Rio Tinto Exploration geologist Robert Peter was supervising the setup of the first borehole the company will drill in its 2009 summer program in an ongoing search for nickel and copper in southeastern Aitkin and western Carlton counties.

The company plans to deploy two drill rigs in Automba Township in western Carlton County with each drilling up to three holes, Peter said.

That program is dramatically scaled back from 2008 when the company commissioned four rigs that drilled around the clock last summer and fall in Aitkin County, with most of that exploration activity near Tamarack in Clark Township.

It's a reflection of the severe world recession and decline in demand and prices for both ferrous (iron) and non-ferrous minerals, including copper and nickel. "Exploration is (the industry's) R&D," Peter said. "We create wealth down the line, but we don't produce cash flow."

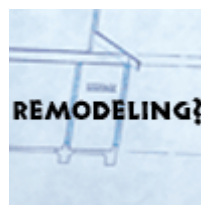
Peter is principal geologist with nine employees at the company's field office in Tamarack, (pop. 97), about 50 miles west of Duluth on state Highway 210. Kennecott Exploration is based in Salt Lake City, UT, and part of Rio Tinto Exploration. Parent Rio Tinto Group, based in London and Melbourne, Australia, is one of the world's largest metals and minerals developers. In fiscal 2008, it generated \$3.7 billion in net earnings on \$58 billion in consolidated revenues.

Kennecott Exploration holds mineral leases on 16,000 acres in Aitkin and Carlton counties and has been exploring there since 2001. In the first seven years it drilled 47 bore holes, capped by its first discovery of high-grade nickel-copper mineralization during the winter of 2007-08. The high-grade rock strata was discovered about 1,000 feet down at Hole 42 in Aitkin County's Clark Township.

Last year the company drilled more than 50 holes in Aitkin County, concentrated in a 120-acre area in Clark Township near Tamarack.

"Those were encouraging results," Peter said. "It was the rock type we're looking for. But one drill hole doesn't make a

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mine.”

With the economic downturn, the company’s 2009 exploration strategy has shifted, as well as slowed. “We’re stepping back for a broader view of our 16,000-acre footprint,” Peter said.

Mid-continent Rift

Kennecott/Rio Tinto was drawn to Aitkin and Carlton counties after the U.S. Geologic Survey published a 1997 paper outlining copper-nickel mineralization in the Northeastern Minnesota portion of the “Mid-continent Rift.”

USGS mapped the region using aerial magnetic measurements and identified geologic formations in the 16,000-acre area Kennecott has leased that holds promise for nickel-rich deposits.

These deposits of both ferrous and non-ferrous minerals are the result of geological events more than 1.1 billion years ago when a deep crack appeared in the Earth’s crust as two tectonic plates overrode each other. That created the conditions for iron, nickel and copper-rich magma to erupt to the surface from deep within the earth.

Other players

Presently, three other companies want to develop non-ferrous minerals ore bodies in another part of the Rift stretching from Virginia to Babbitt-Ely called the Duluth Complex. Furthest along is Vancouver, BC-based Polymet Mining, ((NYSE:PLM)), which has proposed a copper-nickel mining and processing operation at the NorthMet ore body it controls near Hoyt Lakes. Polymet would process the ore at the nearby Erie Plant it already owns.

The company has stated it will release its long-delayed draft Environmental Impact Statement by June 30. The Minnesota Department of Natural Resources and U.S. Army Corps of Engineers are co-leading that environmental review process. With their approval and needed permits, Polymet could begin actual mining later this year. The mine and processing operations would employ 400 workers for up to 25 years, according to the company.

Meanwhile, Toronto-based Duluth Metals, Ltd. (TSX:DM) and Franconia Minerals Corp. (TSX:FRA) are exploring the Nokomis and Birch Lake ore formations in the Duluth Complex, respectively.

Reflecting industry conditions, the stocks of all three firms are trading near their 52-week lows (stocks table, page 18). For instance, Duluth Metals common stock that traded at \$2.95 on April 30, 2008, plummeted to a low of \$0.14 on March 4.

Those dismal stock prices provided the only gallows humor in a generally upbeat session devoted to non-ferrous mining at the 70th annual University of Minnesota Mining Symposium in Duluth on April 14. Industry and academic scientists said copper, nickel and platinum group precious metals deposits in the Duluth Complex represent the largest untapped non-ferrous metals resource in the world. Those USGS estimates indicate the Duluth Complex also stacks up nearly as well against the world’s premiere non-ferrous ore bodies already under development.

Dean Peterson, senior vice president-exploration at Duluth Metals, and a former UMD Natural Resources Research Institute geologist, places Duluth Complex copper sulphide deposits at No. 2 in the world, behind Russia; nickel as No. 3, behind Russia and the Sudbury District in Ontario, respectively; and No. 4 in platinum group element reserves.

He said Duluth Metals also has cut its 2009 exploration schedule and will concentrate on environmental studies as it waits for mineral prices to recover. “We’ve already identified enough to mine for 100 years,” he said.

Donald Fosnacht, director of the Research Institute’s Center for Applied Research and Technology, predicts non-ferrous mining in Northeastern Minnesota will grow to rival its established iron ore industry. In an interview that aired April

21 on Minnesota Public Radio, Fosnacht said “. . .this deposit is so massive, you have many, many potential years of mining.”

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