

BY JAMES STEVENSON
Canadian Press

KEMESS MINE

HUGE TRUCKS roar through the February half-light with purpose as Canada's newest gold mine revels in an optimism rarely seen in its first troubled years in British Columbia's northern wilderness.

Like the price of gold itself, the huge Kemess Mine is enjoying a long-awaited revival.

It has been exactly two years since the mine rose out of bankruptcy at the hands of tiny, Vancouver-based Northgate Exploration, a company controlled by the Brascan Corp. conglomerate.

This followed the financial flameout of Royal Oak Mines, a company led by Canada's most famous and controversial female miner, Peggy Witte.

Royal Oak's demise left a trail of unpaid bills, hundreds of employees facing an unknown future and a pack of creditors — including Brascan's Trilon Financial subsidiary — picking over the remains.

Under Trilon's ownership, the gold and copper mine has gone through a staggering number of improvements that were denied during its first cash-starved years. And Northgate officials eagerly speculate about the prospects for an even richer new mine nearby.

Kemess (pronounced *ki-MESS*) now employs more than 400 people in B.C.'s depressed northern Interior and is hoping for record production of gold, silver and copper this year. More exploration this summer might also reveal the potential for decades of additional production.

But bitter memories of the last days of Royal Oak and nearly a year of control by a court-appointed receiver remain like snowdrifts piled around the fly-in, fly-out mining camp.

"It's the only place I've worked where the engineers had to buy their own pencils and bring them to work," says Patricia Maloney, the mine superintendent.

Maloney started at Kemess six weeks before insolvency and remembers trying to run the entire compound with just three pickup trucks. "Not only did the creditors come in and repossess the pickup trucks, but a lot of equipment used for the construction of the tailings dam was leased, so it was also taken away," she says.

The tailings pond was one of the biggest messes left for Northgate to clean up — spiralling from an estimated \$40 million to somewhere around \$150 million as the original dam width proved grossly inadequate.

During the last days of Royal Oak, the provincial government threatened to close the mine if work was not immediately done on the tailings pond. And without a feasibility study, Kemess had some strange features.

When Northgate took over, the mine was still shipping concentrate out in bags that cost \$30 each, only to be ripped open and dumped onto trains farther south. By eliminating the bags and using bulk truck shipments, the company is saving about \$2 million a year.

A new arrangement, starting later this month, will see Kemess concentrate shipped east to Quebec, to the Horne smelter in Rouyn-Noranda owned by Noranda, another Brascan company.

There were only seven large mining trucks to shuttle rock from the open-pit mine to the 24-hour grinder and mill — a fleet that Northgate has nearly doubled to 13 in an effort to boost production.

And the tailings pond is a seven-kilometre uphill climb from the mill, which is a long, expensive way to pump heavy sand and a true "head-shaker" in not making much sense, says mining analyst Graeme Currie of Canaccord Capital in Vancouver. "The Kemess operation was



Giant trucks operate at the once-bankrupt Kemess Mine, which now employs 400 people and expects record gold production this year.

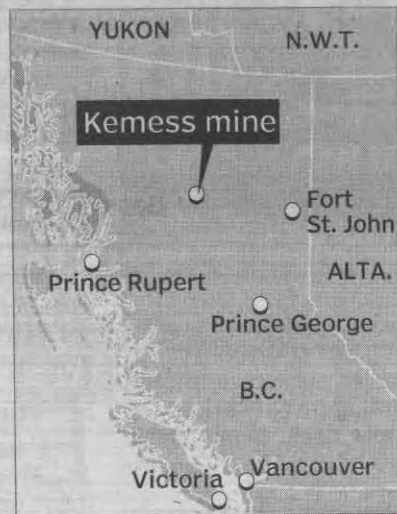
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GOLDEN PHOENIX

Conglomerate turns the mess
of Kemess into a glittering
B.C. success

Kemess mine

Facts about the Kemess gold and copper mine in British Columbia's northern interior:



■ Built by Royal Oak Mines in the late 1990s for an estimated \$470 million, went up for grabs when the company went bankrupt in 1999.

■ Royal Oak debt holder Trilon Financial Corp., a Brascan subsidiary, took control of the mine and passed it to Northgate Exploration, of which Trilon owns one-third.

■ Northgate has run Kemess for two years, has more than 400 employees and is planning a possible new mine that would extend production for decades.

■ Last year, Northgate produced 277,000 ounces of gold and 67 million pounds of copper at Kemess.

■ Quote: "This project really didn't have a feasibility study done, and you should always have one done so you know what you're up against." — Northgate president Ken Stowe.

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a tough project for (Northgate) to take on in that, operationally, it certainly had its difficulties," says Currie, who credits Northgate with turning the mine around.

"They took on an operation that, as best I can see, clearly wasn't operating at peak efficiency for various reasons."

Kemess, which cost at least \$470 million to build, represented the lion's share of the \$600 million that Royal Oak owed creditors when it was forced into bankruptcy in April 1999.

Witte, who now uses her maiden name, Kent, recently admitted that Royal

Oak should have probably shut down Kemess and put the project on hold to wait out the global gold price decline rather than taking a back-breaking \$180 million in financing from Trilon, the Toronto-based merchant banker.

After gaining control, Trilon opted not to sell the mine at a fire-sale price and chose Northgate to run it.

The notion that tiny Northgate, just a shell company a few years ago, could breathe life into this overbuilt and inefficient mine is hard to figure, at first glance.

But Northgate is one-third owned by Trilon, the financial services arm of Brascan Corp.

Connect the dots and you have the financial acumen and strength to bridge the tough times of the metal industry, combined with access to some of the best hard-rock mining expertise in the world.

In charge of turning Kemess around was Ken Stowe, Northgate's chief executive. Stowe has an impressive resumé, which includes 21 years with Noranda and nearly two years with global mining giant Boliden as a senior vice-president. He was also VP of tiny Vancouver-based Diamond Fields, where he oversaw the feasibility study on the famous nickel-copper deposit in Labrador known as Voisey's Bay, before it was sold to nickel giant Inco.

"It's a huge project, a lot of money's been put in," Stowe says of Kemess.

For the first half-year of ownership, Stowe lived at the mine. Now, with financing deals to sort out and analyst road shows to attend, he spends more time at his Bay Street office in Toronto than in the B.C. wilderness.

Stowe has plenty of admiration for the people who etched Kemess out of the rocks and pine forests, and says they got it pretty much right.

"But they didn't have the time or money to do the job and that's where you get caught," he said.

"In an operation of this size, it doesn't cost you a few dollars to fix a problem, it costs you millions."

Strapped for cash, Royal Oak needed the mine to begin producing immediately with no glitches. But new projects of the size and magnitude of Kemess always take at least six to seven months to work the bugs out, says Stowe.

Kemess was seen as the jewel in Royal

Oak's tarnished crown, compared with the company's other aging gold mines.

One of those was the Giant Mine near Yellowknife, which will go down in history for a violent strike in 1992 that culminated in the murder of nine men in an underground explosion.

Kemess is a long way from Yellowknife, or from any town for that matter, so it's a high-cost operation.

Workers and supplies come in by plane, and the concentrate goes out by truck and then rail.

The camp is powered by the largest single-line transmission wire in North America stretching some 380 kilometres north from Mackenzie.

But the mine has some solid geology behind it, and there's more gold in the open-pit Kemess South mine than originally thought.

There are vast mineral deposits scattered throughout the entire area. And while the grey and red rocks don't sparkle with gold and silver, the precious metals are there as long as you crush enough of it.

Kemess produced 277,000 ounces of gold last year but was hurt financially by the low price for copper and a 10-day shutdown to fix machinery in the mill.

In the third quarter, cash flow from operations was \$4.6 million, compared with a deficit of \$7.2 million for the same period in 2000. And that's in line with Stowe's initial belief it would take at least two years to get the mine running properly.

Northgate has seen its share price more than double in the last year, to around \$1.45 on the Toronto stock market.

If copper prices rebound this year, the cost of producing gold from the ore drops significantly and cash flow rises exponentially, says Stowe.

Richard Neufeld, B.C.'s energy and mines minister, says Kemess's turnaround is "hugely important" for the fortunes of this province.

And he hopes that recent reductions to corporate and personal taxes, along with a vow to slash red tape for industry, will promote expansion.

"Just the idea of having a government there that doesn't want to take everything away from you once you find it is hugely different than what they've experienced over the last 10 years," says the minister.