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MINING IN BRITISH COLUMBIA: ELIMINATING UNCERTAINTY & ENCOURAGING INVESTMENT

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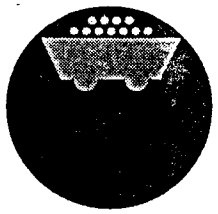

CONFERENCE

CONFERENCE PAPER

THE HUCKLEBERRY CASE

by

J.C. O'ROURKE,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
PRINCETON MINING CORPORATION

Session III -
The Importance of a Stable Investment Climate

For conference information contact:
The Fraser Institute,
Second Floor, 626 Bute Street,
Vancouver, B.C., Canada V6E 3M1

Fax: (416) 601-7322; Phone: (416) 363-6575
or
Fax: (604) 688-8539; Phone: (604) 688-0221

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Chairman and Chief Executive Office
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The Importance of a Stable Investment Climate

Introduction

The Huckleberry Case has involved successfully overcoming numerous obstacles with the project now financed and in full construction for a scheduled production start in September 1997. This $137 million new open pit copper project will create about 200 well paid jobs in the Houston area of British Columbia.

In the case of Huckleberry, the approval process was the barometer of the investment climate. Timing of government approvals governed the finalization of the foreign investment agreements and drastically affected our ability to raise capital in the equity markets. An application for government approvals was submitted in May 1995 and approvals to proceed were received in May 1996.

In March 1995, Princeton and Mitsubishi Materials Corporation formed a strategic alliance to acquire and develop the Huckleberry project. Pre conditions for a production decision that were set in our financing agreements with our Japanese partners included government approvals and government participation in the infrastructure. The issues not addressed as pre conditions but that have been very damaging to our shareholders and our ability to raise equity funds included:

a) Uncertainty about the provinces political agenda in the wake of the Windy Craggy and Kemano decisions;

b) Uncertainty created by Native land claim issues;

c) Uncertainty created by special interest groups that have captured the ear of the media with controversially misleading information.

These more subjective issues have generated the controversy and interest that the media thrive on. Partly because of the wide and intense media coverage of controversy and the open speculation regarding the approval process, this Provinces' reputation as having a negative and unstable investment climate for mining is exaggerated. Hopefully the ultimate success of the Huckleberry Case will help to demonstrate the importance for a stable investment climate and will help improve the perception of today's investment climate in British Columbia.

I would like to set the record straight. I am not here to bash governments and the process. I have strong praise for the key civil servants and the responsible Ministers for our treatment on the Huckleberry project. Before Princeton's involvement with the project, the then Minister Clark committed his support to the project provided it could be developed in an environmentally acceptable manner. This support has been honored by government in spite of some difficult opposition.

Before addressing the hurdles related to the Huckleberry Case, I would like to provide a thumbnail sketch of Princeton Mining Corporation and the project.

Princeton has operated mines in B.C. for more than 40 years. We are based in Vancouver and operate the Similco open pit copper mine at Princeton, British Columbia. Additionally, we work in Chile where we are exploring for copper and precious metal deposits that are amenable to open pit mining with on-site recovery of metals through heap leaching. Unlike many other companies, however, we have not forsaken B.C. and have recently undertaken to develop and operate the Huckleberry Mine.

The Huckleberry Project

Over the past one and a half years, we have faced most of the obstacles being discussed at this conference. Fortunately, good judgment and a will for development has prevailed making the final go ahead a reality. Before discussing the problems and negative factors that created delays and uncertainty, it is important to understand the positive aspects.

The Huckleberry project is economically attractive and is amenable to development in an environmentally attractive manner. Our partners have been patient, remaining committed to the project and understanding of the delays. Local communities have been very supportive. Most importantly, the government of British Columbia has stood solid behind its commitments and its support for the project. A summary of the typical risks considered throughout the production decision making process are appended.

Financing arrangements for the Huckleberry project include: sale of 40 percent of the project to our Japanese partners, a $83 million loan from our Japanese partners, a $15 million infrastructure loan from the B.C. Government and pro rata equity contributions by the partners for the balance of the $137 million.

Because of the uncertainty created by the approval delays, the Huckleberry project clearly tested the investment climate for new open pit mines in British Columbia.

Location

The Huckleberry deposits are accessible via the Morice Forestry access road 122 kms south of Houston B.C. Houston previously housed the employees of the Equity Silver mine which ceased operations in late 1992. Logging and agriculture now support the economy in the region. With the closure of the Bell Copper, Granisle Copper and Cheni mines over the past years, a new employer is strongly supported by the local population.

History

Discovery of the Main zone at Huckleberry dates back to 1962 when it was staked by Kennco Exploration. It wasn't until 1993, after 30 years of work by numerous companies that the East zone was discovered by New

Canamin Resources, tripling the reserve and making the project large enough to be economically viable.

Princeton became interested in the property in early 1995 after preliminary discussion with our long time Japanese business associate - Mitsubishi Materials Corporation. A due diligence review of an October 1994 feasibility report by Kilborn Engineering was completed by Princeton in February, 1995.

Based on our due diligence review we concluded that:

- an optimization of the design would produce an economically attractive project;
- a bankable feasibility study was required;
- the project could be developed in a manner to meet all environmental regulatory requirements;
- Princeton did not have the financial capabilities to proceed with the project on its own.

Based on these conclusions, Mitsubishi and Princeton entered a strategic alliance to acquire and advance the project.

Princeton announced its plans to acquire the Huckleberry project in January 1995, and the acquisition was completed in July of that year. A strategic alliance for the development of the project was reached with Mitsubishi Materials Corporation in March and the application for a development permit was filed with Government authorities in May 1995. All parties anticipated completion of permitting in the third quarter followed shortly with a production decision. Plans included clearing and earthwork to be initiated in the late fall of 1995 to provide for an early construction start at the minesite in the spring of 1996. Unforeseen hurdles delayed the final development approvals and the production decision was not made until May 28, 1996, about 8 months later than initially anticipated based on the legislated timelines set out under the B.C. Environmental Assessment Act.

The Project

The Huckleberry project involves the development of an open pit copper mine to process 16,500 tonnes per day of ore at the site. Copper minerals are recovered with a conventional flotation facility very similar to our Similco plant at Princeton, B.C.. Copper concentrate will be trucked to the port of Prince Rupert where it will be loaded onto ocean going vessels. The concentrate is scheduled to be treated at the Onahama Smelter in Japan.

Infrastructure needs for the project include upgrading portions of the existing forestry access road plus the construction of an eight kilometer extension to the existing road. As well, a 122 kilometer powerline is required from the B.C. Hydro grid in Houston B.C. to the mine site. Allowance has been made to construct concentrate storage and ship loading facility in Prince Rupert. These infrastructure requirements are being financed through a commercial type loan from the B.C. Government.

Site facilities include a conventional concentrator, two open pits - the Main zone and East zone plus a tailing management facility. Mining will start in the East zone for the first couple of years and then switch to the Main zone until its reserves are exhausted. The empty Main zone pit will be used to dispose of the barren waste rock from the East zone. Ultimately, the Main zone pit will be flooded with tailings, covering that mining area.

Production from the Huckleberry operation will average 65 million pounds copper, 300 thousand ounces silver, 6 thousand ounces gold and 1.3 million pounds of molybdenum per year for the initial 10 years. Annual sales, net of smelting and refining charges, will be approximately $75 million per year.

Economic benefits from this project will be significant for British Columbia. Construction workers will peak at 300 persons, while the operation will employ approximately 200 people. Distribution of the funds from the project over a 16 year life at a copper price of US $1 per pound copper will total slightly more than $1 billion.

The Approval Process

Environmental baseline monitoring began at Huckleberry in 1992 and continued through 1994. In May 1995, the company submitted a nine volume, 1100 page project report to the Environmental Assessment office of the British Columbia government. This report detailed all aspects of the mine development proposal, predicted potential impacts and how negative impacts could be mitigated. A project committee was appointed to review the company's environmental impact assessment that was prepared by independent consultants. This committee consisted of more than 60 members representing; federal, provincial, regional and municipal governments as well as First Nations people. The company met with the project committee over a six month review period to provide clarification to questions or concerns and to make changes to the development plans based on the committee's recommendations. A committee report was submitted to the responsible ministers, Minister Sihoto and Minister Edwards, on December 15, 1995 recommending approval. The Project Approval Certificate was approved by the Ministers on December 22, 1995.

Because of the federal government's participation in the provincial assessment process and the "Harmonization Agreement" between these senior levels of government, we expected concurrent review and approval. However, the federal government added a CEAA review period which started on January 25, 1996 with the CEAA process completed by late March and the Authorization issued under the Fisheries Act on May 17, 1996.

The Huckleberry project was the first major mining project to pass through the new B.C. Assessment Process and the newly acclaimed Canadian Environmental Assessment Act (CEAA). The provincial assessment process was 13 weeks longer than the legislated timelines. The jurisdictional overlap and lack of "Harmonization" at a difficult time of year created an additional six months delay for the federal government to finalize their approval.

Based on the Huckleberry experience, I have the following observations:

Environmental Assessment

The new environmental assessment process changed considerably in 1995. Previously, a select committee of civil servants with technical expertise provided the assessment reviews but this has changed to a large committee of people with various degrees of, or no expertise coupled with the use of consultants.

1. The new provincial environmental assessment process is very open with maximum stakeholder participation.

2. A project approval is dependent on a positive project committee report along with an approved recommendation to the Minister.

3. The committee members, including about 60 representatives from federal, provincial, municipal and regional levels of government as well as First Nations people, may not all be focused on the assessment based on scientific facts and engineering design. Some may have an alternate agenda.

4. Legislated timelines for the provincial assessment were adhered to as closely as could be expected if it were not for the overlapping federal involvement. Three Ministerial extensions were granted to accommodate the committee members.

5. Federal - Provincial jurisdictional overlap in the assessment process created the most unnecessary time delay. Federal representation was maintained in the provincial process and should have eliminated any need for duplication of assessment under CEAA.

In January 1996, I participated with the MABC to present the Huckleberry Case to the Resource Committee of the Federal Liberal Caucus meeting in Vancouver. Our message was clear - adopt the conclusions of the G. Kirby Report of December 1995. "...Thereby reducing costly delays and remove jurisdictional overlap."

It was refreshing to hear Minister Miller at his recent luncheon talk to the MABC on October 16th address the issue and emphasize the need for streamlining regulations and completing the Harmonization Agreement with the federal government to eliminate the overlap in the assessment process.

Financing Effects

Presentations and projections initially provided to financial institutions in preparation of Princeton's equity financing were based on the legislated timelines for environmental approval in mid September 1995. The delay of the approval to December 22, 1996 created a number of difficult situations for Princeton which included:

a) a loss in credibility for Princeton in being able to meet the scheduled dates for permits and the start of construction;

b) a fostering of the uncertainty that B.C. would in fact approve an open pit mine, supporting the allegations of some analysts in the wake of the Windy Craggy and Kemano decisions;

c) a loss of shareholder confidence about the project moving forward to production.

Federal approval under CEAA and the Fisheries Act was not received until May 17, 1996 which added an additional 6 months delay to the environmental approval process. The effects of this additional delay were further damaging for the same reasons given above.

Effects on Investment and Financing

At the start of my address, I outlined the conditions precedent that applied to obtaining the foreign investment necessary for the Huckleberry project to advance. I would like to comment on these main items and the effect the approval delays created on meeting these conditions.

Most startling is that none of the opposing groups appeared to have the correct facts nor did they bother to ask us - the borrower, for any details or explanation.

In closing I have to say that while there are many impediments to opening a mine in B.C., it can be done - as we are proving in the case of Huckleberry. The government of B.C. has not turned its back on the mining industry. Clearly, however, steps need to be taken to reduce costly duplication and delay, and to create a positive image to dispel the uncertainty which plagues prospective mine development in B.C. If that can be done, a more stable investment climate will follow and B.C. will once again reap the economic benefits of a healthy mining industry.

HMCASE.DOC. October 18, 1996

***Huckleberry** was visited with Tom Schroeter and New Canamin project manager Kelly Illerbrun on Aug 25. Drilling has concluded for the year (1994 drilling =52,000 ft), unfortunately with the Far East and North zone exploration targets incompletely tested. New Canamin has elected to focus its limited financial resources on completing the feasibility study started in early summer. Expenditure to date this year is $3 million. Two important geological concerns pertinent to development have been alleviated. First, mineralized fractures are steep and all early drilling was vertical. It is reassuring that copper grade of angle holes is stated to correlate within 2% of vertical holes. Second, early drilling of the East zone was marred by very poor recovery (and hence grade uncertainty) in a 10-20 meter thick broken interval at the subcrop surface caused by dissolution of gypsum from the hard hornfels. Time and money were expended to achieve 80% recovery in recent drilling. Mineable reserves are 80 million tonnes at 0.453% Cu with a starter pit of 18 million tonnes at 0.65% Cu (economics appear marginal). Production rate of 13,500 tpd and capital cost of $120 million is proposed. Concentrate shipment via Kemano has been ruled out, due to lack of support by Alcan, and would be trucked to the rail line in Houston. Possible scenario: project financing by Hudson Bay Smelting to earn an equity interest and guaranteed supply of copper concentrated for Flin Flon.