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Western Canadian Coal revs up Dillon

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Burnt River
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Photo credit: Western Canadian Coal

The first train-load of metallurgical coal from Western Canadian Coal's Dillon mine. On top, from left: Rail operators Bruce Zimmers and Dale Groves with fellow operators René Rochon (bottom left), Robert Vandale, Dillon Mine Superintendent Michael LaCarte, and operator Jerry Tobin.

BY STEVEN STAKIW

TUMBLER RIDGE, B.C. — **Western Canadian Coal** (WTN-V) has started up the Dillon mine, part of the Burnt River project, near Tumbler Ridge in northeastern British Columbia.

The company produces coal classified as PCI (pulverized coal injection), which has low sulphur and ash content and is used in place of more-expensive coking coal in steel production.

Already, a 102-car trainload has been shipped to Ridley Terminals at the northern port of Prince Rupert. This initial shipment is headed to **Posco**'s (PKX-N) steel mills in South Korea, with subsequent production headed to other customers.

"We'll be setting up arrangements with a number of different customers in Asia and Europe," says WCC President Gary Livingston. "Posco is a key player, but there will be other steel mills. Roughly two-thirds of our product will be shipped to Asia; the

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Bema ma offer for A

BY BARBARA THOMAE

VANCOUVER — On the heels Albert Friedberg's apparent vi tory at wresting control of **A zona Star** (AZS-T) from affilia **Bema Gold** (BGO-T) comes t latest twist in the raging battle f control of the junior. This tin Bema has launched a takeover b in the form of a share swap th values the junior at $283 million

Bema, which already owns 5 of Arizona Star's common shar is offering to exchange 1.85 of shares for each share of Arizo Star.

Based on a Dec. 20 share pri in Toronto, the offer values A zona Star at $7.01 per share, whi

Glamis bid for

BY JOHN CUMMING

Glamis Gold (GLG-T) has launch a hostile, all-share bid for **Goldc** (G-T) that is contigent on the lat scrapping its own all-share, frien takeover of **Wheaton River Min als** (WRM-T), announced earlier December.

Glamis is offering 0.89 of Glamis share for each Goldc share. The offer values Goldcorp US$17.80 per share (ab C$21.77) and represents a premi of 22.6% based on the volur weighted average trading price

Argyle diamond mine enters transitional period

BY STEPHEN STAKIW

KIMBERLEY PLATEAU, WESTERN AUSTRALIA — The future of **Rio Tinto**'s (RTP-N) Argyle diamond mine is in question now that the open-pit operation is starting to wind down.

Discovered in the late 1970s and started up in the mid-1980s, Argyle became the world's pre-eminent supplier of diamonds. No other single operation anywhere even comes close to matching the output from the AK1 pipe.

But with the huge pit nearing exhaustion (anticipated for 2007-2008), Rio Tinto decided to test the

lamproite by carrying out extensive drilling. The decline has advanced 1,700 metres along its planned length of 2,800 metres; it should terminate roughly 85 metres beneath the floor of the AK1 pit.

Throughout the 1970s, numerous companies searched for the source of alluvial diamonds in the eastern portion of the Kimberley region. In October 1979, after more than a decade of exploring in the area, the Ashton joint venture (managed by CRA, which was later acquired by Rio Tinto) tracked the alluvials to their source — the partially eroded

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put, they account for a significant fraction of the mine's value. A t 90-95% of the world's pink diamonds come from Argyle, and in some cases these exceed many tens of thousands of dollars per carat.

Most of Argyle's output consists of small, near-gem quality diamonds, which, by and large, are

About 850 people, mostly locals, are employed at the actual mine site.

Diamond production from Argyle represents about 25% of the gross regional product (GRP) of the Kimberley region. As well, the operation contributes to state coffers through taxes and royalties. Rio Tinto has lobbied heavily for con-

oper n (provided an independen view shows that mining could not proceed without it).

Underground plans call for elaborate block caving, sub-level caving, and the installation of an underground crusher, the total cost of which is pegged at about A$800 million.

Dillon

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remainder, to Europe."

The capital cost of developing the Dillon mine was about $7 million, and salable reserves are pegged at 1.6 million tonnes. Coal mined from the Dillon open pit is trucked 94 km to the Bullmoose load-out facility under a multi-year agreement with **Teck Cominco** (TEK-T) whereby WCC can use a ground storage yard, twin 12,000-tonne silos, and rail-car loading facilities. The branch rail line, built by BC Rail, runs from the loading facility, through the Wolverine Valley, and connects with the main Canadian National line.

WCC is completing a 10-year agreement with Ridley Terminals to provide services through its bulk coal-handling facility. Twelve million tonnes are capable of being shipped from the terminal per year, and there is potential for doubling this capacity. In addition, Ridley has a stockpile capacity of 1.2 million tonnes.

Dillon's reserves are in two separate seams, an upper and a lower, which have a relatively low waste stripping ratio of 2.2-to-1. The upper seam averages 2.4 metres in thickness with a 9.5% ash content. The lower seam, which contains most of the reserves, averages 5.2 metres and has a low ash content of 3.4%. The seams are mined separately and can be blended to produce the desired product, depending on the requirements of customers.

Initially, up to 60,000 tonnes per month are being mined on a contract basis. WCC currently has a small-mine permit for 250,000 tonnes annually but will be applying to increase this rate.

Adjacent to Dillon is the Brule deposit, which has historic reserves of 32 million tonnes, based on work carried out by Teck in 1981. Production from Brule is anticipated for 2006 to the tune of 1.5 million tonnes of PCI coal annually.

About 50 km southeast of Burnt River — between the dormant Bullmoose and Quintette mines — sits WCC's Wolverine project, which comprises three deposit areas: Perry Creek, Mount Spieker/EB Trend, and Hermann. Drilling, trenching and underground development (adits) have outlined a proven and probable resource of 49.3 million tonnes in the Perry Creek and EB Trend. The amount of run-of-mine coal recoverable from these areas is estimated to be 25.2 million tonnes, from which 15.6 million tonnes of clean metallurgical coal could be derived.

Development at Wolverine is expected to start in mid-2006. The mine will produce hard coking coal at an initial annual rate of 1.6 million tonnes, eventually rising to 3 million tonnes, says Livingston.

Meanwhile, WCC and partner **NEMI Northern Energy & Mining** (NNE.A-V) have agreed to explore and develop the Saxon and Belcourt coal projects, southeast of Wolverine.

In October 2004, WCC added a London Stock Exchange Alternative Investment Market (AIM) listing for its securities, in conjunction with a $20-million private placement financing. AIM-listed and London-based mining finance and investment house **Cambrian Mining** holds a 46.5% interest in WCC, whose chairman, John Byrne, is also CEO of Cambrian.

WCC has 55 million shares outstanding and a capitalization of $350 million. At presstime, the stock was trading at $6.40.

Glamis

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whereas a Glamis-Goldcorp merger would retain the pure-gold-play nature of both companies.

As a further enticement to any fence-sitters, Glamis's management emphasizes that it believes there are many ways to streamline operations and boost output at Goldcorp's prized Red Lake mine, though Glamis is most-experienced as an open-pit gold miner.

There is some drama behind the scenes: Glamis had been reviewing Goldcorp's assets for a year or so, and had already made the same bid to an independent Goldcorp committee in the week of Nov. 22. That offer was declined by Goldcorp's board of directors, and the Wheaton deal was unveiled on Dec. 5.

Glamis has already carried out two due diligence reviews of Gold-

Wheaton deal is scrapped.

Glamis will mail its takeover bid circular to Goldcorp shareholders in early January, with an expiry date 35 days thereafter. Glamis will hold its own shareholders' meeting on Feb. 9, 2005.

A successful takeover by Glamis would see Goldcorp's flagship Red Lake mine in Ontario merged with Glamis's high-quality gold assets: the rejuvenated Marigold mine in Nevada; the newly producing El Sauzal mine in Mexico's Chihuahua state; the San Martin mine in Honduras; and the advanced-stage Marlin project in Guatemala.

Total gold production from these five assets alone could grow by 66% to 1.4 million oz. annually by 2007, with cash costs in the neighbourhood of US$120 per oz.

Gold production would be

when it is advantageous to do so.

The reserve base of the combined companies would be 11.6 million oz., and another 11 million oz. would lie in the resource category. Cash and equivalents would stand at US$500 million, and Glamis reckons that free cash flow could top US$1 billion by 2008.

The market capitalization of the new Glamis would be just under US$6 billion, it which case it would supersede **Kinross Gold** (K-T) to claim fourth spot among North American gold majors, behind **Newmont Mining** (NEM-N) (US$20 billion), **Barrick Gold** (ABX-T) (US$12.7 billion) and **Placer Dome** (PDG-T) (US$7.8 billion).

Speaking at an investors' meeting in Toronto following the bid's unveiling, Glamis President Kevin McArthur said he's "aware that

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