North of 60 Mining News inside

Capex in oil sands heading for stratosphere, C$93.5B next 8 years

Oil sands spending could top C$6 billion this year, but that will pale alongside the C$93.5 billion the Alberta government is projecting for the next eight years.

The province’s Economic Development Department released a study in June that forecast the mind-boggling capex budget for new and expanded projects by 2012 — a figure that dwarfs the estimated C$28 billion invested in the sector so far.

If the projections are accurate, the government said production could reach 1.8 million barrels per day of synthetic crude and 1.2 million bpd of bitumen — about triple the expected output this year. For this year, the Athabasca Regional Issues Working Group, an industry coalition, is counting on spending of C$6.1 billion, edging out last year’s C$5.5 billion and falling only slightly short of the record C$6.6 billion in 2002.

Currently, 61 projects are in the pipeline for the vast northeastern Alberta resource of 175 billion barrels.

—GARY PARK, Petroleum News Calgary correspondent

CNG ships an option

Newfoundland university sets up research center for CNG development

Compressed natural gas carriers, operating without the super-cold temperatures, high pressure and expensive liquefaction and regasification terminals required for liquefied natural gas, could be an answer for moving stranded gas short distances, though proponents say the first full-scale commercial operation is five to six years away.

Most of the investment would be in ships, not immovable terminals to turn gas into and out of liquid state, a plus for CNG transport from smaller fields, supporters say. Although the ships wouldn’t be able to carry as much gas as an LNG tanker, at shorter distances CNG could be an affordable answer, advocates say.

—PETROLEUM NEWS

Bank on it

Chevron winner in Mackenzie sale; acreage close to well drilled last winter

By DON WHITELEY
Petroleum News Contributing Writer

...the company was losing its enthusiasm for Canada."
—David Pommer, Chevron Canada

The project leader for the Mackenzie Valley natural gas pipeline said June 15 that all the regulatory applications for the line will be filed “later this summer,” a more definite timetable than the “sometime in the second half of the year” previously announced.

The announcement came in a speech by K.C. Williams, director and senior vice-president of Imperial Oil, to the Canadian Association of Petroleum Producers Investment Symposium in Calgary.

Imperial is the project leader and operator for the proposed gas-gathering system and the Mackenzie Valley Pipeline. The pipeline consortium also includes ConocoPhillips, Shell Canada and ExxonMobil, which owns almost 70 percent of Imperial.

—CHEVRON page A18

Mackenzie gasline applications to be filed later this summer

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see GASLINE page A18

B R E A K I N G  N E W S

7 EnCana raises estimates: Independent bumps up its resources, sales estimates for 2004; North America is its hot spot

12 Global says no to price cutting: Company says it will no longer slash prices in Gulf of Mexico rig market just to satisfy operators

14 Alaska gets mixed reviews: Views differ on proposed sale of royalty in kind gas from Cook Inlet; Agrium urges state to pursue sale

Cooling the gas below zero, but nowhere near the minus 259 degrees required for LNG, and pumping it into shipboard tanks at 1,300 to 1,800 pounds per square inch wouldn’t require much more than a compressor operation at an offshore loading terminal, said John Dunlop, vice president for business development.

**Rig Owner/Rig Type**  
**Rig No.**  
**Rig Location/Activity**  
**Operator or Status**

### Alaska Rig Status

#### North Slope - Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doyon Drilling</td>
<td>North Slope - Onshore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dreco 1250 UE</td>
<td>14 (SCR/TD)</td>
<td>Mibile Point, rotary MPL-43</td>
<td>BP</td>
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<tr>
<td>Sky Top Brewater NE-12</td>
<td>15 (SCR/TD)</td>
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<td>Dreco 1000 UE</td>
<td>16 (SCR)</td>
<td>Vi pad workover W-11</td>
<td>BP</td>
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<td>Dreco D2000 UEBD</td>
<td>19 (SCR/TD)</td>
<td>Alpine, drilling CD-31</td>
<td>ConocoPhillips</td>
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<tr>
<td>OIME 2000</td>
<td>141 (SCR/TD)</td>
<td>Infield Kuparuk, drilling E-123</td>
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### Alaska Rig Status

#### North Slope - Offshore

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</thead>
<tbody>
<tr>
<td>Nabors Alaska Drilling</td>
<td>Oilwell 2000</td>
<td>33-E (SCR/TD)</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Emisco Electro-Hoist Canrig 1050E</td>
<td>27-E (SCR/TD)</td>
<td>Kerr-McGee</td>
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### Cook Inlet Basin - Onshore

<table>
<thead>
<tr>
<th>Rig Owner/No. Rig</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<tbody>
<tr>
<td>Aurora Well Service</td>
<td>AWS 1</td>
<td>Nicola Creek, NCSU workover</td>
</tr>
<tr>
<td>Evergreen Resources Alaska</td>
<td>Wilson Super 38</td>
<td>36-19</td>
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</thead>
<tbody>
<tr>
<td>Cudd Pressure Control</td>
<td>340K</td>
<td>Workover, Osprey Platform</td>
<td>Forest Oil</td>
</tr>
</tbody>
</table>

### Unocal (Nabors Alaska Drilling labor contractor)

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
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<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nabors Alaska Drilling</td>
<td>National 1320 A</td>
<td>098</td>
<td>XTO</td>
</tr>
<tr>
<td></td>
<td>National 110 C (TD)</td>
<td>099</td>
<td>XTO</td>
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</table>

### Mackenzie Rig Status

#### Mackenzie Delta-Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AXTIA Epyukt</td>
<td>62 (SCR/TD)</td>
<td>Stacked Taksoyak, NT</td>
<td>EnCana</td>
</tr>
<tr>
<td>Dreco 1250 UE</td>
<td>63 (SCR/TD)</td>
<td>Stacked, Lucie Point, NT</td>
<td>Chevron Canada</td>
</tr>
<tr>
<td>National 370</td>
<td>64</td>
<td>Stacked, Inuvik, NT</td>
<td>Available</td>
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</tbody>
</table>

### Central Mackenzie Valley

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AXTIA/SANTU Oilwell 500</td>
<td>51</td>
<td>Stacked in Norman Wells, NT</td>
<td>Available</td>
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<tr>
<td>Nabors Canada</td>
<td>62</td>
<td>Racked</td>
<td>Available</td>
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### Cook Inlet Basin - Offshore

<table>
<thead>
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<td>098</td>
</tr>
<tr>
<td></td>
<td>National 110 C (TD)</td>
<td>099</td>
</tr>
</tbody>
</table>


**TD** = rigs equipped with top drive units  **WO** = workover operations  **CT** = coiled tubing operation  **SCR** = electric rig

This rig report was prepared by Wadeen Hepworth

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**Baker Hughes North America rotary rig counts**

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>June 4</th>
<th>June 11</th>
<th>Year Ago</th>
</tr>
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<tbody>
<tr>
<td>US Highest</td>
<td>4530</td>
<td>December 1981</td>
<td></td>
</tr>
<tr>
<td>US Lowest</td>
<td>488</td>
<td>Aprill 1999</td>
<td></td>
</tr>
<tr>
<td>Canada Highest</td>
<td>558</td>
<td>January 2000</td>
<td></td>
</tr>
<tr>
<td>Canada Lowest</td>
<td>29</td>
<td>April 1992</td>
<td></td>
</tr>
</tbody>
</table>

*Issued by Baker Hughes since 1944

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**Rig start-ups expected in next 6 months**

<table>
<thead>
<tr>
<th>Rig Owner/No.</th>
<th>Rig Location/Activity</th>
<th>Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora Gas A651</td>
<td>Will be moving to Kana 3 and then to Long Lake 1 for re-entry</td>
<td>Aurora Gas</td>
</tr>
</tbody>
</table>

**XTD Energy A & C**

The rig on platform C will be reactivated in late June 2004.
WASHINGTON, D.C.

House passes refinery expansion bill, ANWR dropped from mining bill

House Republicans pushed through legislation June 17 that supporters said would speed construction of new refineries to ease tight gasoline supplies. Opponents said the bill would reduce environmental protection and do little to stem high fuel costs.

The legislation was approved by a vote of 239-192 as House Republican leaders sought to dramatize the congressional impasse over energy legislation by bring up for votes a series of energy-related bills.

The refinery legislation would make the Energy Department the key agency dealing with refinery permits for plants proposed in designated development zones where there is high unemployment or where a refinery had been closed. It also would require that permit decisions be made within six months after applications are received.

GOP leaders also unexpectedly abandoned plans to take up once again the issue of oil drilling in Alaska's Arctic National Wildlife Refuge after it became uncertain they had enough votes to get the bill passed.

To attract more Democrats, the bill earmarked revenue from the refuge's oil for funding of a miners' health care plan. However, the miners' union said it opposed the provision, prompting Rep. Richard Pombo, R-Calif., to withdraw the legislation. The House repeatedly had approved oil drilling in the Alaska refuge, only to see the measure killed in the Senate.

ANWR could re-emerge

Brian Kennedy, spokesman for House Resources Committee Chairman Richard Pombo, said a revised mining bill could re-emerge as this issue of Petroleum News goes to press.

"One of the unions that we were trying to help in this endeavor decided at the 11th hour not to support the bill," Kennedy said. "So Chairman Pombo pulled it from consideration.

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ALASKA

RCA lowers trans-Alaska pipeline tariffs for 2001-2003, sets permanent, lower rate

The Regulatory Commission of Alaska has ruled against the owners of the trans-Alaska pipeline system, finding their intrastate rates for shipping oil from 2001 through 2003 to be unreasonably high. The order, which can be found online at http://www.state.ak.us/rca/orders/2004/p03004_34.pdf, was in response to a June 3, 2003 rate filing by the TAPS carriers that used a methodology established in a 1986 settlement between the carriers and state and federal regulators.

Enviro study ordered for Great Sand Hills

Oil and gas exploration of Saskatchewan's Great Sand Hills area will await a $4 million environmental study, the provincial government announced June 16. At the same time, the government quadrupled the area already declared off-limits to resource extraction, to 365 square kilometers.

The Great Sand Hills is a 1,900 square kilometer collection of naturally occurring sand dunes and peeper grass considered an ecological jewel by conservationists. Located just north of the Trans Canada Highway and on the Alberta border, the dunes are estimated to be nearly 10,000 years old.

Drilling can continue in areas where oil companies have already staked their claim, but no more mineral rights will be sold until after the study has been completed.

"We are looking at the whole landscape and that is very important," Saskatchewan Environment Minister David Forbes told Canadian Press. "There may be stakeholders who feel we could have gone further — people who think that this wasn't enough — but I think this is a very good start."

Industry Minister Eric Cline said he expects the review will be also be well-received by the oil and gas industry. "What industry wants is clarity - they want to understand what the rules are," he said.

—DON WHITELEY, Petroleum News contributing writer
The peak oil debate — lessons from Europe?

By ROGER HERRERA
For Petroleum News

The debate on the timing of when the world's oil production will peak has not been resolved. This is proving to be a frustration to many countries and international businesses whose plans demand a reasonable expectation of secure oil supplies at an acceptable price. When should an electricity generating company elect to change its fuel from oil or gas to coal or even some renewable energy form? When should a merchant banker lighten up on a multi-billion-dollar oil stock portfolio? When should an average citizen sell his SUV for a small, more efficient automobile? All these decisions are made easier if one has accurate foreknowledge of when the peak in oil production will occur.

Unfortunately the answer is in dispute, but the nations that constitute the European Union have taken the attitude that peak oil is inevitable and if it doesn’t happen for 20 or 30 years, much too better than that leaves more time to plan and make the necessary changes in the region’s energy mix. In contrast, in America, which uses twice as much energy per capita as Europe and consumes about 25 percent of the world’s oil, there seems little concern about future supplies. We are fighting a war and $2 a gallon gasoline is a worry, but nuclear power is not acceptable, new refineries cannot be built, natural gas is OK, but is already in decline, and wind power should not be considered in my backyard.

America has little to worry about

The truth of the matter is that if one considers this issue in a selfish, nationalistic fashion, America has little to worry about for a long time to come. Simple conservation could eke out our oil for decades. We have untold coal and if we continue to ignore CO2 emissions, peak oil might not be a major economic problem irrespective of when it occurs. The same is not true in Africa, Asia or Europe. The rest of the world is very worried about peak oil.

Asia, the world’s most populous continent, is in the middle of head-spinning annual growth and China is now the second biggest user of oil and the second largest generator of electricity. Both China and India are building new coal-fired electricity generating stations as fast as they can despite the obvious pollution associated with burning coal. They are also constructing new nuclear power stations and an energy mix is more important to them than environmental concerns. Japan and South Korea, both Kyoto Protocol signatories, are also building nuclear plants, but they can afford the expensive environmental benefits that nuclear represents.

In Africa, any rise in the price of oil for whatever reason, will be yet another disaster for a region barely out of the wood and dung fuel age. Africa does have lots of sunlight and renewable energy must be part of its future if its population is ever to thrive.

European Energy Policy largely absent

A European Energy Policy is largely absent from the European Constitution despite attempts to formalize an energy plan in that document for the whole region. The British were not willing to reduce their control of their North Sea oil and gas and it was largely British opposition that gutted the energy section of the Constitution.

But one thing which is common to all European countries is the firm embrace of the Kyoto Treaty, which makes CO2 public enemy number one. The French have shamed the rest of the world with their unwavering commitment to nuclear electricity. It supplies 75 percent of their needs, but they, together with Finland, are the only Europeans who are willing to educate or ignore public opinion on building new nuclear facilities for the future.

The rest of Europe will not accept nuclear as a clean energy source and uses the unconvincing argument that the finite nature of uranium ore makes it an unacceptable choice. Germany, in particular, has disallowed nuclear because of the marriage of convenience of most of its political parties with the minority Green Party. The Green Party has demanded the phase out of nuclear power stations as part of its deal with the dominant parties and has persuaded the parliament to embrace wind power as its future clean energy source.

Germany embraces wind power

Today Germany produces a third of all the wind power in the world, but wind, nevertheless, constitutes a mere 6 percent of its electricity needs. The new generation of wind turbines are a massive 600 feet tall and while earlier versions bring back the image of Don Quixote in some landscapes, the latest generation monsters are very intrusive. Germany is seriously planning to grow renewable biomass, because they can benefit from their sources on 15 to 20 percent of the agricultural land in the country. At the moment none of these clean, renewable energy forms are economically competitive with hydrocarbons and they are effectively subsidized, but people in Europe seem to be willing to pay the price. Gasoline in Britain presently costs between $5.80 and $6.00 per American gallon—a trend that is repeated despite the fact that most of it is composed of tax.

One cannot dismiss all the European energy plans as unsuitable for America. An obvious difference between our two continents is the laudable efficiency of public transportation in most of Europe. It makes ours look sad, and one day we will have to face up to the reality that car ownership is not a right, and that trains and buses can be made to be efficient and convenient. If Europe makes a success of its renewable energy forms, the United States can benefit from their experience, so having Europe lead the way with renewables is no bad thing.

We have been debating an Energy Bill in Congress since 1992 without a successful conclusion. Thus we have no energy blueprint to map out our future in this country. The peaking of world oil production was not part of that debate, or, more accurately, was not taken seriously in that debate. Perhaps its newly recognized importance may eventually result in a better, more realistic, Energy Bill.

Europe and America go separate ways on many issues from climate change to Middle Eastern policy, but we are marketplace competitors for oil and gas. We should understand what Europe will do for its energy future. It is relevant to ours.

Editor’s note: Roger Herrera attended a Berlin workshop meeting of The Association for the Study of Peak Oil May 25-26. See his initial impressions in the May 30 issue of Petroleum News.

Calpine trust mulls strategy for reserves

In the wake of Calpine Corp.’s decision to evaluate the sale of its reserves in Canada, Calpine Natural Gas Trust said it will consider strategic alternatives for public unit holders in the trust. California-based Calpine is weighing the possible disposal of assets in Canada and the United States along with the restructuring of some of its power contracts from a fixed price arrangement to a capacity and variable energy agreement.

The Alberta reserves on the block include about 230 billion cubic feet equivalent of proved reserves yielding about 70 million cubic feet per day of production.

The evaluation includes Calpine’s 25 percent stake in about 80 billion cubic feet equivalent of proved reserves owned by CNG Trust.

Calpine Chief Financial Officer Bob Kelley said in a news release June 10 that the company’s equity gas reserves have “provided us with an attractive hedge to our fixed-price contract portfolio. With a restructuring of certain of our fixed price power contracts and the potential sale of these natural gas reserves, we not only enhance our liquidity position, but we also expect to preserve the margin of our power contracts.”

CNG Trust has hired independent financial advisers to help pinpoint and evaluate all potential strategic alternatives.

Those could see the trust continue as an independent entity, a potential sale or merger of the trust or other options for enhancing public unit holder value.

“CNG Trust is currently producing 7,300 barrels of oil equivalent per day, above management’s target for the year of 6,700-7,200 barrels per day.”

—GARY PARK, Petroleum News Calgary correspondent

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OP-ED/ON DEADLINE

PETROLEUM NEWS

—we-see-250-

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What's ahead for Alaska oil and gas industry?

Highlights from the annual Alaska Oil and Gas Association-Anchorage Chamber of Commerce Jubilee June 14 with predictions of what the industry could look like in the state in 2014 (full story will be in June 27 issue).

Rebecca Watson

"As I look into my crystal ball for 2014, I see us building on the successful sale we had in the National Petroleum Reserve-Alaska," said Assistant Secretary of the Interior Rebecca Watson. She predicted "continued sales," production from NPR-A Alpine satellites, and "Northstar entering its second decade of production, Liberty oil flowing down the pipeline."

Like President Bush, the Department of the Interior believes "that energy production and environmental protection are not competing priorities. We think they're aspects of a single purpose — and that is to live well and wisely upon the earth," she said. So along with increasing oil and gas development in Alaska, Watson said, the future for Alaska includes "birds continuing to nest, caribou herds migrating freely and the North Slope residents continuing to hunt successfully."

Frank Murkowski

Alaska Gov. Frank Murkowski said he expects to see a gas pipeline in operation by 2014, and thinks the potential is "very strong" for spur lines to Valdez and Southcentral, and said he thinks "that you will see the state participating in the gas pipeline as an equity owner" of up to 12.5 percent, equal to state royalty gas.

On the oil side, the governor said, companies producing in the state "need to reinvest more of their profits in the state."

He predicted "a major discovery on the Alaska Peninsula," and also "a major discovery offshore of ANWR, which will require the Department of Interior to drill ANWR to prove from whose reserves the oil is being pumped."

I also predict major discoveries in NPR-A, and then we'll be looking at boiling the oil through Taps, instead of merely holding it steady."

Ken Sheffield

Ken Sheffield, president of Pioneer Natural Resources Alaska, said he predicts "modest step-out exploration with increasing participation from the independent companies on the central North Slope, "paced westward expansion with infrastructure" in NPR-A, low activity for the OCS and frontier basins — while the future of the Arctic National Wildlife Refuge is "in the hands of politicians."

On the far-fetched side of the agenda, Sheffield said that if "operators achieve a significant capital cost reduction," if we "have a period of higher oil prices" and Alaska "initiates additional tax and royalty incentives" to spur development, "you could see greatly increased exploration activity, and an influx of independent operators."

Exploration wells in the state, currently some 10 to 15 a year, could increase "up to 40 or 50 wells a year."

John Barnes

John Barnes, Alaska asset team manager for Marathon Oil, noted the Cook Inlet only has 10 years of natural gas supply left. "The Cook Inlet needs a step change in natural gas exploration and development activity," he said. Companies need some certainties to make investments, he said, and while companies understand subsurface risk, accept commodity price risk and work to control project risk, Barnes said he believes "regulatory and tax uncertainties" are now "the most notable risk companies face in Alaska."

If these uncertainties can be resolved and "if sufficient exploration occurs, and sufficient success is achieved, enough gas may be found to meet local utility and industrial demands," he said, but it will require a higher price for natural gas to attract capital.

Steve Marshall

Steve Marshall, president of BP Exploration (Alaska), talked about the success BP has had with viscous oil development at Milne Point and Orono, where "the latest well… was a quad-lateral, with four wells going off it" and "26,000 feet of reservoir contact — five miles in one well."

"As for the future, the industry today is producing 50,000 bpd of viscous oil from the North Slope. "We see potential for that to triple by 2014, or maybe more." That will require an investment of some $10 billion, he said.

"The industry is looking for technology to improve viscous production, he said, but capital remains an issue because of the high operating costs in Alaska, and because "capital flows to the investments with the greatest returns."

BP will continue to work the technology challenges, Marshall said, and future successes in that area will impact what North Slope activity is like in 10 years. But that future activity, he said, "depends just as much on decisions being made today in Juneau."

Kevin Meyers

Kevin Meyers, president and CEO, ConocoPhillips Alaska, said the potential of a gas pipeline is what is most exciting to Alaskans. The 4.5 billion cubic feet a day of natural gas coming off the North Slope will be the equivalent of 700,000 barrels per day of crude oil, he said.

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Kevin Meyers, president and CEO, ConocoPhillips Alaska, said the potential of a gas pipeline is what is most exciting to Alaskans. The 4.5 billion cubic feet a day of natural gas coming off the North Slope will be the equivalent of 700,000 barrels per day of crude oil, he said, and "will open up a whole new business for us here in Alaska," the business of looking for natural gas.

But the financial commitment remains huge, he said, with the tariff estimated to cost shippers about $10 million a day.

Fossil oil is worth $70 billion, he said. ConocoPhillips is working on federal fiscal legislation, and federal enabling legislation is also required, he said, as is cost cutting and a fiscal contract with the state of Alaska. But Alaska’s fiscal gap is also an issue… if the state raises taxes, he said, "it will mean less investment, fewer jobs, less production, a poorer economy — and in the long run, less revenues for the state."

This board is one in a million.

In the past year, Carlile shipped over one million board feet of finished lumber throughout the Last Frontier. But when you get right down to it, the most important board we deliver is the one you need for your project. And that’s the Carlile difference. We ship more lumber in Alaska than anyone, but we never forget about all the hard-working Alaskans who need to nail down that one project, one board at a time...
BP reserves may change under U.S. rules

Company defends reserves estimates, but leaves open possibility reserves may differ somewhat when restated for SEC

By BRUCE STANLEY
Associated Press Business Writer

BP PLC on June 14 defended its method of estimating oil and gas reserves, and said that its figures would not show a "material" change when it recalculates them for submission to regulators in the United States.

However, London-based BP left open the possibility that its reserves might differ somewhat when it restates them in a filing with the U.S. Securities and Exchange Commission later this month.

Reserves are a vital asset for most oil companies, and firms have come under scrutiny for the way they estimate their reserves this year, shocking the markets and forcing the resignation of several top Shell executives.

Although BP has its headquarters in the United Kingdom, it is registered to do business in the United States and must therefore file its annual financial statements and details about its reserves with the SEC. BP listed its reserves at 18.3 billion barrels of oil and oil equivalent in its 2003 annual report.

"We are confident in the reserves numbers that were booked in our UK annual report, and we are confident that these numbers are compliant with SEC regulations in all material respects," a company spokesman said, speaking on condition of anonymity.

BP regularly files with SEC

BP plans to submit information to the SEC in a document known as a 20-F. In its filing, BP will reconcile reserves currently booked under British accounting rules with U.S. standards, which analysts say are slightly more stringent.

BP has made 20-F filings for many years, but a person knowledgeable about the filings said there have so far been no differences when the company reconciled its reserves from the British accounting method to the American system.

U.S. investment bank Goldman Sachs has warned that BP's reserve estimate for the SEC might come in 3 percent lower than the estimate it made under British rules — the UK Statement of Recommended Practice.

"We don't view either base of accounting as being superior to the other. They are simply different," the bank said in an investor report it issued last week.

The bank said a 3 percent difference in reserve estimates would probably have no financial implication for BP but said that it could affect investor sentiment, given the recent uproar over Shell. It was unclear how Goldman Sachs estimated that BP's reserves might vary by 3 percent. The bank did not immediately return phone calls seeking an explanation.

Market reaction would depend on the size of any downgrade in BP's reserves, said Deutsche Bank analyst J.J. Christensen.

The agency said oil demand surged past expectations this spring in Brazil and India.

Increased production from the member nations of the Organization of the Petroleum Exporting Countries will help meet the growing demand, the agency said, but noted that global terrorism concerns and uncertainty over supplies have kept prices high.

"We take the commitments of these producers seriously," the agency report said of OPEC's pledge to boost production.

OPEC already producing over quota

OPEC production in May averaged 26.1 million barrels a day, almost 3 percent higher than April and about 11 percent above the cartel's official quota. The member nations have agreed to boost their quota by 2 million barrels a day to 25.5 million barrels in July and to 26 million barrels in August, but even that would be short of their actual production.

Most of the OPEC boost in May came from Saudi Arabia and the United Arab Emirates, the report said, with the world looking to those two and other OPEC members to increase their flows as much as possible to help hold down prices.

The International Energy Agency in May offset declines elsewhere in the world.
EnCana raises resource estimates, sales forecast

By DON WHITELLY
Petroleum News Contributing Writer

With its money placed squarely on unconventional natural gas and oil sands development, Calgary-based EnCana Corp. announced on June 15 that it had raised significantly both its resource estimates and its 2004 sales forecast. The largest oil and gas producer in Canada, company engineers now believe EnCana’s properties contain an estimated resource of 16 trillion cubic feet, up 70 percent from a year ago. Crude oil resource estimates have been raised by 40 percent to 850 million barrels.

It is important to understand that these are resource estimates, not proven reserves, and are subject to additional work and the vagaries of oil and gas prices. Nevertheless, they indicate the company’s growing asset base through both the drill bit and through acquisitions.

EnCana also raised its 2004 sales forecast to between 725,000 and 765,000 barrels per day of oil and gas equivalent, up from 650,200 boe per day in 2003. In 2005 the company expects to produce between 810,000 and 860,000 boe per day.

The company had originally forecast organic sales growth of 10 percent in 2004. But after a deeper look, EnCana hiked the organic growth rate to 12 percent in 2004, before the inclusion of the recent acquisition of Tom Brown Inc. and additional planned asset sales.

North America gas spotlight

While EnCana is active in both the North Sea and Ecuador, North America is currently in the company spotlight for both unconventional oil and natural gas development. However, EnCana continues to peddle conventional Canadian properties that produce about 35,000 barrels of oil equivalent per day.

“Our resource play strategy is delivering strong sustainable production growth,” said EnCana Chief Operating Officer Randy Eresman. “Natural gas production in the U.S. Rockies is up more than 25 percent in the past year, before the inclusion of Tom Brown production. In Western Canada, gas production is gaining momentum, up about 14 percent in the past year. In-situ oil sands production continues to grow, up about 35 percent in the past year.”

Eresman went on to say that the increase in the company’s sales forecast can be tied directly to “strong performance from our resource plays.” Already in 2004 EnCana pumped up its resource estimates on its own Greater Sierra lands, from an original 5 trillion cubic feet of gas in place and 2.5 tcf recoverable to 6.5 tcf in place and 4 tcf recoverable. Graham estimates that the entire formation could have more than 10 tcf.

“Last year, we drilled 270 net wells in B.C., or about 25 percent of the provincial total,” Morgan said in a speech to the British Columbia Board of Trade. “This year, we’ll do about the same.”

Within five years, EnCana expects longer-life, lower-risk projects like the two British Columbia properties will account for 80 percent to 90 percent of the company’s North American gas production, compared with less than 60 percent last year.

At Nabors Alaska Drilling, we’ve never been content with standing still.

And we never will be.

From our first rig at Prudhoe Bay in 1963, we’ve grown to become the largest drilling contractor in Alaska.

We did it by out-thinking, out-hustling and out-innovating the competition. And we did it by hiring the best people, listening to our customers and adopting the best practices on the North Slope and in Cook Inlet.

It’s no mystery what got us where we are. The experience and expertise we’ve gained will carry us into the future.

In fact, you might say we’re on our way...
**GULF OF MEXICO**

**Current Deepwater Activity**

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<thead>
<tr>
<th>Operator</th>
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**ROCKY MOUNTAINS**

Rockies energy firms targets for acquisition

By HEATHER DRAPER

Denver, June News... oste

In early June Prima Energy Corp. became the fourth Denver-based inde-

pendent oil and gas producer to be acquired since April. Analysts say it illu-

strate that large energy companies rec-

ognize the resource potential in the Rockies.

"It just shows you that mid- to larger-

sized independents (oil and gas companies)

desperately for growth and there aren't

many places left you can get it," said Dave

Tameron of Stifel Nicolaus & Co. in Denver.

The Rocky Mountain region is the only

area left in the continental United States

that hasn't already had its oil and gas re-

sources extensively exploited, he said.

Petro-Canada, of Calgary, Alberta,

agreed to pay $534 million, or $39.50 a

share, for Prima.

"I think Petro-Canada overpaid, to be

honest with you," Tameron said. "But I think

they really wanted to expand their Rocky

Mountain assets.

The deal follows the recent acquisitions

of Denver energy companies Tom Brown

Inc. by EnCana Corp.; Westport Resources

Corp. by Kerr-McGee Corp.; and Evergreen

Resources Inc. by Pioneer Natural Resources.

Patina, Western Gas may be next

The Prima acquisition June 9 turned the

spotlight on the few remaining independent

oil and gas-producing companies left in the

Rockies. The two that Tameron thinks are

next to go are Patina Oil & Gas Corp. and

Western Gas Resources Inc., both based in

Denver.

"As the list continues to dwindle, we

believe visibility will continue to increase for

both Patina and Western Gas," Tameron wrote in a research note June 10. "Both of

these companies are takeover targets, and we

view both as undervalued given recent trans-

action prices."

Tameron doesn't own shares in any of the

companies mentioned and Stifel Nicolaus

hasn't provided investment banking services

to them in the last 12 months.

Other potential Rocky Mountain targets

include Ultra Petroleum Corp. of Houston

and St. Mary Land & Exploration Co. of Denver.

Analyst Stu Wagner of Petrie Parkman & Co., an energy research and investment

banking firm in Denver, didn't want to guess

which gas company might go next.

But he said the recent consolidation is

part of an ongoing cycle in which executives

of small private oil and gas firms take their

companies public, build up value in the

company, sell it and then look to start anoth-

er private company.

"There is no doubt some of those man-

agements (who recently sold their compa-

nies) are looking to start up private compa-

nies," Wagner said. "I would be surprised if

we don't see some new private entities

formed in the next six months."

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**DENVER, COLO.**

Delta Petroleum, Alpine Resources reach deal on 140 Bcfe of reserves

Delta-based Delta Petroleum has agreed to buy more than 140 billion cubic

feet of natural gas reserves from Alpine Resources, Delta said June 16.

Specific terms of the transaction were not disclosed, but Delta said it is paying

about $1.40 per thousand cubic feet of gas equivalent for the reserves. The deal is

expected to close by June 30.

Alpine's properties currently produce about 20 million cubic feet of gas equiv-

alent per day. Alpine operates properties that account for 95 percent of proved

reserves that exceed 90 million cubic feet of equivalent. Total reserves were

pegged at over 140 billion cubic feet of equivalent.

About 50 percent of current daily production is natural gas and 50 percent oil,

with oil representing about 55 percent of total proved reserves.

Financing arrangements are expected to include an increase in bank debt and the

possible sale of non-core properties, Delta said, adding that other alternatives

either are being explored.

—RAY TYSON, Petroleum News Houston correspondent

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Contact Kim Pedersen - Phone: 713-529-8422 Email: kimpedersen@roganesq.com
North American rig count up by 36 to 1,460 in weekly report

The number of rigs operating in North America rose by 36 from the previous week to 1,460 during the week ending June 11, according to rig monitor Baker Hughes. The overall rig count was up by 74 versus a year ago.

Canada’s rig count alone increased by 17 to 273 from the prior week, but was down by 42 rigs compared to the same period last year.

The number of rigs operating in the United States during the recent week increased by 19 to 1,187 versus the previous week, and was up by 116 versus a year ago.

Land rigs alone rose by 16 to 1,070 from the previous week, while offshore rigs increased by six to 98 and inland water rigs decreased three to 19.

Of the rigs operating in the United States during the recent week, 1,024 were drilling for natural gas and 162 for oil, while one was being used for miscellaneous purposes.

Of the total, 744 were vertical wells, 312 directional wells and 131 horizontal wells.

Among the leading producing states in the United States, Texas gained the most rigs during the recent week, up by seven to 501. New Mexico’s rig count increased by five to 71. Wyoming picked up three rigs for a total of 77, while California picked up three rigs to total 25 for the week. Louisiana’s rig count increased by two to 171, while Oklahoma’s was up two to 170. Alaska was unchanged at seven rigs.

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State releases results of ANS facility sharing study

By RAY CASMAN
Petroleum News Publisher & Managing Editor

On June 15 the Alaska Division of Oil and Gas released the results of a study that subject matter is considered critical to the future of oil production from Alaska’s North Slope.

Conducted for the state by Petroleum Resources of Alaska, the North Slope of Alaska Facility Sharing Study was the first undertaking of its magnitude — producing a hefty manual that describes existing North Slope facilities and their processing potential.

The 60-page report, with as many pages of attachments, identifies the needs and desires of both facility owners and non-owner companies interested in producing oil on the North Slope and lays the groundwork for designing a facility access for non-owners which benefits all parties.

Facility sharing is considered critical to the North Slope’s continued oil production. Major facility owners and producers such as BP Alaska, ExxonMobil and ConocoPhillips have gone through the process of designing a template for facility access for non-owners which benefits all parties.

The North Slope of Alaska Facility Sharing Study was the first undertaking of its kind in Alaska, looking for the 50-500 million barrel fields the state needs to keep oil production high enough to avoid major fiscal deficits.

Lots of cooperation

Among the companies providing information and perspectives for the pilot project were facility owners BP Exploration (Alaska), ConocoPhillips Alaska, ExxonMobil, and independents Winstar, Armstrong, Pioneer Natural Resources, Talisman (Fortuna), AVCG, Kerr-McGee and Devon Canada.

PRAs Tom Walsh said he was surprised at the amount of cooperation his firm received from North Slope facility owners, who initially expressed some concerns about the study.

We got a lot of cooperation from the facility owners, the North Slope producers. More than we expect- ed. We didn’t get particulars on current facility sharing agreements with the exception of Ballot No. 255 for Kuparuk, but we did get the means to work that out,” Walsh said.

When asked if the North Slope facility owners were initially resistant to providing information, Walsh said, “Yes, it’s fair to say there were parties con- cerned that the state was stepping in at all and won- dering what the state’s role was. They got over that...

Example of Potential Costs

Although each case will have its own specifics, as an example of potential costs, a non-facility owner might expect to pay the following fees for Kuparuk River unit facilities:

- Capital access $1.00-1.80 per BBL oil
- Abandonment $0.10-0.20 per BBL oil
- Plant liquid $0.09-0.15 per BBL liq.
- Plant gas $0.03-0.06 per MCF
- Drill site $0.11-0.15 per BBL liq.
- Excess water $0.04-0.07 per BBL ex.wtr.
- Ad valorem $0.10-0.16 per BBL liq.

Note: Backout could range from as low as 2% to as high as 30%. The Prudhoe Bay unit satellites range 2-6%; the Kuparuk River unit satellites range from 3-30% with an average of 9%.
North Slope Units and Processing Facilities

Above is a generic facility flow diagram. The manual produced by PRA with the result of the North Slope facility sharing study contains facility flow diagrams for a number of North Slope processing facilities.

**STUDY**

hurdle pretty quickly ... when we made it clear that this had to be a cooperative effort or it wasn't going to happen. That really eased people's tensions.

As the study progressed, he said “it became obvious that the study was good for everyone.”

The end result, Walsh said, is, “We came up with a very factual and technical study that provides a platform for individual companies to undertake their own economic analysis.”

Two individuals from the division, Bill Van Dyke and William Nebesky, worked closely with PRA on the study. Nebesky, a commercial analyst, was also pleased with the results of the study and in the process of putting the manual on the agency’s web page (http://www.dog.dnr.state.ak.us/oil/) as a set of pdf files. He said the state will also produce CBs and printed versions.

**Most facilities have reached capacity for oil, gas or water**

While many North Slope processing facilities have spare room for oil, water or gas handling, the study concluded that most of the facilities have reached capacity for at least one of the three. For example, Prudhoe Bay, Endicott, Kuparuk and Lisburne have room for additional oil, but all three have either reached capacity, or will soon reach capacity, for water and gas handling.

As fields mature they tend to produce more water and gas than oil, Nebesky said.

The new fields that would be produced by non-facility owners, he said, would tend to produce a higher proportion of oil per barrel, holding it to produce later. That could cost the facility owners a bundle of money, especially if oil prices drop in the future.

The report also said the state of Alaska “has options to help defray the impact of backout fees” and that implementing those options “may prove to be a decisive factor in the success of North Slope facility sharing.”

**Pipeline capacity also addressed**

Pipeline capacity was also reviewed as part of the study. The results showed Alpine full, Kuparuk, Milne Point, Northstar and Lisburne room for additional oil, but all three have either reached capacity, or will soon reach capacity, for water and gas handling.

As fields mature they tend to produce more water and gas than oil, Nebesky said.

The new fields that would be produced by non-facility owners, he said, would tend to produce a higher proportion of oil per barrel, thus likely necessitating backout some of the facility owners’ oil from more mature fields and, because of its higher percentage of water and gas per barrel, holding it to produce later. That could cost the facility owners a bundle of money, especially if oil prices drop in the future.

PRA’s report said it was critical to reach an agreement between all parties for a “simplified backout methodology.”

The report also said the state of Alaska “has options to help defray the impact of backout fees” and that implementing those options “may prove to be a decisive factor in the success of North Slope facility sharing.”

PRA also recommended that “further investigation and communication should be pursued.”

Other recommendations and conclusions from PRA included the following:

- Nearly all of the existing North Slope facilities have the potential for developing a precedent for facility sharing agreements. The potential producers should expect to be able to negotiate an acceptable agreement. The negotiations should be initiated by the potential producers as early as possible.
- The potential producers need to provide the facility operators with a well thought out development plan with as many crude characteristics as possible.
- The most critical technical issue is the calculation of the backout volumes. The operators need to communicate the backout methodology and be able to respond to requests in a timely manner.
- The potential producers need to recognize backout as a valid concept, representing real lost or deferred barrels to the facility owners.
- Both parties need to be ready to compromise on the backout methodology to simplify the calculations for fields without a detailed dynamic plant model.
- PRA also recommended that “further investigation and communication should be energetically pursued to assure continuation” of the progress made by conducting the pilot study.

Editor’s note: Watch for part two of this story in the June 27 issue of Petroleum News.

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**PRA**

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In 1978...
Who was governor of Alaska?
Who coached the Seahawks?
Who played In-A-Gadda-Da-Vida?
Who delivered freight to Alaska?

Answers: J.S. Hammond, Jack Patera, Iron Butterfly and SPAN-ALASKA Consolidators. Of these four only one original remains today, Span-Alaska. In 1978 Span-Alaska set the standard for surface transportation to and from Alaska. Timely delivery, customer service and fair pricing was as important then as it is now. So when you need to get things to or from Alaska call the company that has been doing it better and longer. Even longer than the drummer with Iron Butterfly, Span-Alaska.

Global: No to further price cutting in U.S. GOM rig market

BY RAY TYSON
Petroleum News Houston Correspondent

Offshore service company Global Industries, which lost a chunk of lost money in the 2004 first quarter because of sagging rig markets, says it will no longer slash prices in the U.S. Gulf of Mexico just to satisfy operator demands and their “often onerous terms and conditions.”

In a letter to its customers, Global said that due to the depressed market and operator pressures, it decided to restructure company operations and bidding practices in the U.S. Gulf. Details were not disclosed.

“As our market indicators reflect continued lack of near-term offshore construction opportunities, we must take .. measures to ensure reasonable levels of profitability,” William Dore, Global’s chief operator officer, said June 8.

Global Industries provides pipeline construction, platform installation and removal, diving services, and other marine support to the oil and gas industry in the Gulf of Mexico, West Africa, Asia Pacific, the Mediterranean, Middle East and India, South America, and Mexico’s Bay of Campeche.

Down 10 rigs from a year ago in Gulf

The number of drilling rigs operating in the U.S. Gulf stood at 95 during the week ending June 11, down 10 rigs compared to the same period last year. In contrast, the number of land rigs operating in the U.S. ending June 11, down 10 rigs compared to the same period last year. In contrast, the number of land rigs operating in the U.S. ended June 11, down 10 rigs compared to the same period last year.

Global already has transferred assets from the U.S. Gulf of Mexico to the Bay of Campeche and the Mediterranean, and the company said it would continue to redeploy assets as markets warrant.

For one, Global said it plans to submit rig day rate proposals in response to construction tonnage and would selectively respond to lump-sum tenders.

Additionally, the company said it consolidated its shallow-water pipe laying division, relocated the division to Carlyss, Louisiana, and released “significant office staff and field personnel.”

However, Global’s diving and liftboat operations remain unchanged and based in New Iberia, Louisiana, the company said.

“We wish to thank those operators who are currently in support of ensuring the stability and availability of the construction industry,” Dore said.

Tobok big hit in first quarter

Global took a significant financial hit in the first quarter last year, reporting a net loss of $8.3 million or 8 cents per diluted share. That came on the heels of a $1 million loss in the 2003 first quarter.

Revenues for the 2004 first quarter took a bashing, plummeting 43 percent to $48.4 million from $148.9 million for the same period a year earlier. The company said quarterly results were impacted by reduced activity in all of its operating areas except Latin America.

However, during the first four months of 2004, Global said it booked about $300 million in new work and that its backlog at April 30 was approximately $285 million compared to $146.9 million on the same date a year earlier.

Dore told analysts in its quarterly conference call that the company “was making many positive changes in our organization, which include streamlining operations and enhancing project execution.” He said the company expected to return to profitability in 2004.

WASHINGTON, D.C.

DOE seeks 'small-footprint' technologies

On June 16, the U.S. Department of Energy unveiled a major new research and development initiative to develop “microhole” technologies — those that use portable drilling rigs with a smaller footprint and lower environmental impact. The program is designed to bring about faster, cheaper and safer oil and gas projects, DOE said.

The total value of the six projects is nearly $5.2 million with DOE providing $3.7 million and industry partners contributing more than $1.4 million.

The six new projects are:

- Gas Production Specialties — This project will develop technology to overcome the problems of mature, low-pressure reservoirs that have high amounts of remaining gas by using an artificial lift system consisting of pumps to produce the gas.
- Solar Research — Researchers will develop technologies to guide the drill bit when drilling horizontal wells and transmit rock and fluid information to the surface as it is collected. Radar will be used to determine the location of the drill bit.
- Baker Hughes Inteq — The project will design and fabricate a drill bit steering device and a tool that measures the electrical resistivity of the rock. Development of these tools will provide a modular and effective coiled tubing drilling system that enables higher, more effective production from existing domestic oil fields.
- Schlumberger IPC — Researchers will develop and build a microhole coiled tubing drilling rig that is designed specifically for the abundant shallow oil and gas reservoirs found in the lower 48 states. The rig will be designed to improve the environmental and economic performance of shallow well drilling.
- Western Well Tool — The project will develop a downhole tractor tool that helps transport the drill bit and measurement tools into long (1,000+ feet) sections of horizontal wells. The tractor is expected to cost $25 percent to 50 percent less than conventional drilling methods and allow faster drilling of small-diameter horizontal sections.
- Bandera Petroleum Exploration — Researchers will develop and fabricate a drilling technique that uses a highly abrasive slurry jetting technique to drill through rock. One advantage of this technique includes faster drilling through a range of rock hardness.

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- Schlumberger IPC — Researchers will develop and build a microhole coiled tubing drilling rig that is designed specifically for the abundant shallow oil and gas reservoirs found in the lower 48 states. The rig will be designed to improve the environmental and economic performance of shallow well drilling.
- Western Well Tool — The project will develop a downhole tractor tool that helps transport the drill bit and measurement tools into long (1,000+ feet) sections of horizontal wells. The tractor is expected to cost $25 percent to 50 percent less than conventional drilling methods and allow faster drilling of small-diameter horizontal sections.
- Bandera Petroleum Exploration — Researchers will develop and fabricate a drilling technique that uses a highly abrasive slurry jetting technique to drill through rock. One advantage of this technique includes faster drilling through a range of rock hardness.
Deh Cho threatens to block Mackenzie gas line if not on environmental review panel

The Deh Cho First Nations, whose land covers 40 percent of the proposed 800-mile Mackenzie Valley pipeline route, says it will block the natural gas pipeline unless it gets a seat on an environmental joint review panel. (See related story on page 1.)

According to a June 11 press release by the Deh Cho, the pipeline review agencies broke an “agreement-in-principle” reached on May 28 to include the Deh Cho “as a full party” in the joint review panel that will conduct an environmental assessment of the proposed gas line.

A news release from the May meeting said, “Both sides have agreed to form a working group that will examine ways to involve the participation of the (Deh Cho) in the joint review panel.” A recent news story in the Calgary Sun reported that Mackenzie Valley board director Vern Christensen said Norwegian misunderstood the intent of the working group.

“The agreement was an undertaking to examine ways in which the Deh Cho could participate in the process,” he said. “I think the (Deh Cho) took it as a commitment when there just wasn’t enough knowledge or analysis to go there.”

At a follow-up meeting held June 11 in Yellowknife, “representatives of the Canadian Environmental Assessment Agency, the Mackenzie Valley Environmental Impact Review Board and the National Energy Board refused to even discuss including the Deh Cho First Nations as a party to the Joint Review Panel,” the Deh Cho said in the release.

“This is a classic case of negotiating in bad faith. We had a deal with the chairs of all the review boards to appoint a technical working group to figure out how to include the Deh Cho as a full party to the environmental assessment. Our members of the technical working group went to the June 11 meeting expecting to draft an agreement based on the May 28 understanding,” Grand Chief Herb Norwegian was quoted in the release.

“If the review boards sign an agreement that excludes the Deh Cho, we will be going to court. Unless the Deh Cho becomes full partner in the environmental assessment, the pipeline might as well stop at the Sahtu border,” added Chief Keyna Norwegian of Liidlii Kue First Nation in Fort Simpson.

The release said court action “may include an assertion of aboriginal title and rights, as well as a charge that the review boards are failing to consider cumulative effects of the future gas fields needed to feed the pipeline over its 25-year plus lifespan.”

According to a June 11 press release by the Deh Cho, the pipeline review agencies broke an “agreement-in-principle” reached on May 28 to include the Deh Cho “as a full party” in the joint review panel that will conduct an environmental assessment of the proposed gas line.

But the project isn’t there yet, says Bob Hunter of ASRC Energy Services. Hunter, formerly with BP Exploration (Alaska), updated the Alaska Geological Society in early May on phase 1 of the project, due for completion this October.

Phase 1 is a desktop study, he said, and only if results are positive from that phase would the study move on, with a possible test project in phase 3 in 2006.

Gas hydrates — natural gas combined with water in a clathrate structure — have been known on the North Slope since the 1970s, Hunter said, and the U.S. Geological Survey “has led hydrate research on the North Slope for over two decades.”

In a spring 2004 DOE newsletter Hunter said Timothy Collett of the USGS has estimated that there may be as much as 590 trillion cubic feet of natural gas trapped in clathrate hydrates on the North Slope, with an estimated 44 tcf to 100 tcf of resource under existing North Slope infrastructure.

While gas hydrates are not a priority for BP worldwide, Hunter told the Alaska Geological Society, BP Exploration (Alaska) is interested because of the potential for gas hydrates under existing fields.

Most technically and economically challenged

“Gas hydrates do have the best storage capacity of all unconventional gas resources, but they are also the most technically and economically challenging,” Hunter told the society, and he noted they are the only unconventional gas resources not yet economic.

While gas hydrates “contain four to more than 40 times the amount of gas as seen in other unconventional gas resources,” like any gas resource they see HYDRATES page A16.

Can gas hydrates become part of North Slope gas portfolio?

Collaborative work by BP Exploration (Alaska) and the U.S. Department of Energy aimed at assessing potential of unconventional resource

Want to know more?

If you’d like to read more about gas hydrates in the Arctic, go to Petroleum News’ Web site and search for some of the articles published on the subject in the newspaper in the last few years.


2004

• May 30 Anadarko temporarily trims Alaska staff

• March 28 How much is left?

• March 7 Hot ice finds gas, but no gas hydrates

• Feb. 29 Alaska on the brink

• Feb. 15 Proposed bill would change leasing rules

2003

• Dec. 28 Technical ‘breakthrough’ in hydrates turns head

• Dec. 14 Participants call Mallik gas hydrate well success

• Aug. 17 Tilt the season for drilling

• April 27 BP quantifies gas hydrates

• April 13 Tapping hot ice

• April 6 Gas pipeline incentives back in federal energy bill

• March 9 Anadarko’s Arctic platform assembled, Hot ice...

2002

• Nov. 17 DOE funds CO2 injection research

• Nov. 10 Hot ice project: Anadarko to core hydrate well...

• Nov. 10 Feds hand out $1.17 million in energy grants...

• Oct. 27 A portable exploration solution

• Oct. 20 Anadarko cuts hydrate project back one well

• Sept. 15 B.C. fishermen land huge energy source

• May 8 BP-led research project investigates gas hydrate

• May 5 CO2 demonstration project proposed at Milne Point

• Aug. 4 Wainwright’s coalbed methane potential huge...

• April 21 ‘Very encouraging’ results from Mackenzie Delta...

• March 10 Maurer, Anadarko to drill gas hydrate well...

How much is left?

Anadarko’s Arctic platform assembly.

State gets mixed reviews on proposed Cook Inlet sale of royalty in kind natural gas

Agrium urges state to pursue sale, citing economic importance of fertilizer plant to Alaska’s Kenai Peninsula

By KRISTEN NELSON
Petroleum News Editor-in-Chief

T
he volume of Cook Inlet natural gas is not changed by state ownership of a royalty interest, typically 12.5 percent. But if the state sold its royalty gas, rather than accepting payment for the gas when producers sell it, the volume of natural gas available to individual customers could change.

If the state sold its royalty gas to Agrium that might help keep the Nikiski fertilizer plant open, but it wouldn’t solve long-term supply problems, the Alaska Department of Natural Resources Division of Oil and Gas was told when it asked for “expressions of interest” from parties who would be interested in—or opposed to—a sale of the state’s Cook Inlet royalty gas.

The state can either sell its royalty gas or take it in value; it currently takes it in value, i.e. the royalty gas is sold by producers along with their own gas, and the producers pay the state for the portion of the gas that is royalty.

Responses were due at the beginning of April, and the state received a number of them.

Mixed responses

Agrium U.S. Inc., which needs low-priced natural gas for its Nikiski fertilizer plant, and has said it may be forced to close the plant because of a decline in the gas it produces, said it might have to be invested in storage facilities and increased seasonality of gas use, money may be required to run the facility.

Other than Agrium and the Kenai Peninsula Borough, those in favor of at least beginning any royalty gas sales. They fear the state's best interest and citing transportation difficulties in moving royalty gas.

Mixed responses

Agrium would like to buy the state's Cook Inlet royalty gas, and cited a report the company had done by the McDowell Group on the impact closing the fertilizer plant would have on the Kenai Peninsula's economy.

Since 2001, Agrium told the state, it has experienced a 30 percent decline in its production “due to an inability to secure adequate gas supply.” The company said it projects it may have to close the Nikiski plant by the end of 2005 if it can't purchase enough natural gas to keep the plant running.

Natural gas is the feedstock for ammonia and nitrogen, fertilizers which Agrium sells on the world market.

The company said it believes transportation “could represent the largest impediment” to the sale of the state’s Cook Inlet royalty gas, because many of the gas pipelines in the Cook Inlet basin “are not common carriers and would not be available to all potential purchasers of RIK gas on an equitable basis.”

Agrium said it would seek the state of Alaska’s “support in having all required lines designated common carriers in a timely manner.” And, it said, it would expect that designation to have occurred before the beginning of any royalty gas sales.

If, however, the state sold royalty gas to a party other than Agrium, it “could jeopardize Agrium’s existing gas supply” because the gas available to the plant would be reduced by the loss of royalty gas the company receives under its sales agreement with Unocal and would interrupt other commercial purchases the company makes.

“Both could hasten the demise of the Kenai plant,” Agrium told the state.

Interest for fuel gas, LNG

The Kenai Peninsula Borough told the state that, while a royalty sale to Agrium might not solve the plant's supply problems, the borough believes “it is important that this option be fully explored through the process of a best interest finding and solicitation for offers.”

Agrium urges state to pursue sale, citing economic importance of fertilizer plant to Alaska's Kenai Peninsula.

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NATURAL GAS
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Agrium — proud to add value to Alaska.

Agrium's Nikiski fertilizer plant

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Gas authority to focus on spur line, LNG
Alaska Natural Gas Development Authority will share some contract work with Alaska Stranded Gas Development Act

By KRISTEN NELSON
Petroleum News Editor-in-Chief

Petroleum News Editor-in-Chief

Heinze said he will have access to results of the stranded gas act studies, and “there are several things they are now looking at that I don’t need to look at anymore on our own initiative and our own nickel.”

The Alaska Natural Gas Development Authority board was told June 14 by its chief executive officer, Harold Heinze, that some of the contract work the authority has proposed to do will be done under the Alaska Stranded Gas Development Act.

Heinze said at the board’s monthly meeting in Anchorage that while contracts specific to liquefied natural gas and a spur line to Southcentral should be signed off on by Deputy Commissioner of Revenue Steve Porter the week of June 21, a number of other proposals “related to business structure” and finance will be done as part of the state’s stranded gas studies.

Heinze said he and Porter, who must sign off on authority contract work, have sorted out which work needs to do and which work will be done as part of work for stranded gas act negotiations.

The development authority has issued contracts total- ing $138,600 and most of that work has been completed.

The authority was established by Ballot Measure 3 in the November 2002 election to determine feasibility of a state liquefied natural gas project at tidewater and a spur line to bring natural gas to Southcentral Alaska.

Authority will share in stranded gas act

Of $700,000 in the authority’s Heine said he had “total concur- rence from the administration” to move ahead with a number of con- tracts: liquefied natural gas plant concept design ($25,000); Yukon Pacific Corp. permit review ($25,000); spur line to Keith ($25,000); spur line to Glennallen ($25,000); Jones Act alternatives ($25,000); spur line rights of way and permits ($25,000); and spur line utility financing ($25,000).

Heinze said issues around business structure are ques- tions the state is asking “in a much more general way,” and so a lot of the fundamental work on business struc- ture and finance will be part of what will probably be some major projects for the stranded gas act negotia- tions. “It’s not worth spending $50,000 or $75,000 when we will probably spend a couple of hundred thousand dollars,” he said.

Heinze said he will have access to results of the stranded gas act studies, and “there are several things they are now looking at that I don’t need to look at anywhere on our own initiative and our own nickel.”

138 of $700,000 in the development authority’s con- tracting plan, $300,000 in proposed work will probably not be done by the authority because of stranded gas work.

LNG and spur line the focus

The authority will focus on a spur line to bring natural gas to Southcentral Alaska and the LNG project, Heinze said “Steve (Porter) and I have agreed that we’re going to do everything we want to move that spur line project forward. So that is a priority,” he said. “The other thing that we are also looking at is the LNG project, and those con- tracts that are necessary to move it forward, and the reason for that is that all that work covers both us and one port authority,” so LNG studies will provide the state with informa- tion applicable to both projects.

Board member John Kelsey of Valdez asked Heinze if he was “satisfied that there’s not a bias in the stranded gas act work?”

Heinze said that if he isn’t comfortable with the scope of work, or the contract, he has the ability to go out on his own, and he assured Kelsey that he has “been scrupulously careful to avoid the advice of any of those who have indicated a strong bias against the LNG project.”

Porter has the responsibility, Heinze said, to make sure that there isn’t duplication on contracts relat- ed to the gas issue. The state is going to spend a lot of money studying overall financing issues, and the authority will be able to share the results of that work.

“But when it comes to financing the spur line I will hire my own contractor to do that work.”

Spur line issues

On spur line routing issues, the development authori- ty will focus on Glennallen to Sutton, Heinze said, because the state has on file some $1.5 million worth of work done by Mapco when it was considering a product line from Fairbanks to Anchorage. That information pro- vides sufficient information “to define an alignment of the pipe” for that route, he said, but what is lacking is...
continued from page A1

CNG
gas per day to New England states. The pipe carries Sable Island offshore gas from its undersea pipe landing at Nova Scotia south into Massachussets. Though CNG tankers could conceivably carry more than 1 billion cubic feet of gas, most expect the typical ship to hold about 700 million to 800 million cubic feet of gas, Wright said. That compares to almost 3 bcf aboard a typical LNG tanker. CNG ships probably would cost about the same as an LNG tanker, he said, which is why it’s important to keep the delivery distance within an affordable range.

Short distance is best for CNG ships

For example, it would take two CNG tankers to average 500 million cubic feet of gas per day from the offshore fields east of Newfoundland to the end of the pipe system in Nova Scotia, Wright said. From there, one could take the gas to U.S. East Coast markets. Shipping the gas by CNG carrier directly to Boston or New York City could take three or four ships, he said.

Anther factor could mean too much of an investment in the ships.

“For CNG, the economics are very strongly correlated with distance,” said Matthew Palmer, CNG project manager for ChevronTexaco Global Gas, based in San Ramon, Calif. LNG projects tie up 80 percent of their investment in the liquefaction and regas facilities, Palmer said. “With CNG, it’s just the opposite. … You have very small investments at the two ends of the chain.”

Because 90 percent of the cost of a CNG project is tied up in the ships, it’s essential to keep the tankers moving and making money with short deliveries instead of sailing long distances at sea as LNG tankers, he said.

And because most of the investment is in ships, not shore-based facilities, the assets could be moved to new markets to follow the need or as smaller fields start producing.

ChevronTexaco following CNG development

ChevronTexaco believes a small, barge-mounted CNG prototype could be operational in maybe two years, but it will be 2008 to 2010 before full-scale commercial venture could get under way, Palmer said. “I would hope ChevronTexaco would be an early mover.”

Although the company isn’t doing its own research into CNG transport, it is following the work of others and sees possible applications in moving gas between African nations, within the Mediterranean Sea, from Caribbean production fields to Europe, said ChevronTexaco’s Palmer.

The Phase 1 objective is to characterize reservoirs and fluids, “leading to estimates of the recoverable reserve and commercial potential, and the definition of procedures for gas hydrate drilling, data acquisition, completion and production.”

Bob Hunter, ASRC Energy Services
Companies involved in North America's oil and gas industry

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A17 of the companies listed above advertise on a regular basis with Petroleum News
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PETROLEUM NEWS • WEEK OF JUNE 20, 2004

CHEVRON

mitten to Canada,” he said. “We have activities and strong interests in Atlantic Canada, offshore Newfoundland, Nova Scotia, the Delta, and oil sands, and we’re still very much interested and active in a number of areas.”

Pommer said the newly acquired delta properties are only five kilometers west of a well — Ellis I-48 — that was drilled with partners last winter. Asked if the results of that well triggered the bids, Pommer said the well was “tight” and would offer no further details.

Petro-Canada also a prominent bidder

Petro-Canada also played a prominent role in the lease sale, snaring more than 27,000 hectares of leases in the Mackenzie Valley.

Company spokesperson Susan Braungart said the company’s expenditure remained “confidential,” but the Directorate’s website says Petro-Canada has committed to spend C$22 million on the leases.

“Before this purchase, we had 76,000 net acres (30,769 hectares) in the Colville Hills area,” she said. “This purchase of 27,488 hectares adjacent to those holdings means we now hold 58,257 hectares.”

Braungart said the company will evaluate the properties this summer before outlining a work program for the following winter season.

“The north is one of our key areas, and this is a long term growth area for us, Braungart said. “We want to take advantage of the pipeline when it is built.”

All the agreements with Indian Affairs and Northern Development specify that the work will be done within five years, closely paralleling the timeline for completion of the $3 billion Mackenzie pipeline in 2009.

Other successful bidders include Northrock Resources, Husky Oil, EOG Resources, International Frontier Resources, Pacific Roderia Energy, Paramount Resources, and Apache Canada.

The new entrants are all outside the original Mackenzie sponsor group, consisting of Imperial Oil, Shell Canada, Conoco-Phillips Canada and ExxonMobil Canada. Those companies have discovered properties from the 1970s they’d like to tie in first.

Deh Cho threatens to go to court

Meanwhile, there may be trouble on the pipeline front, as the Deh Cho First Nation is threatening to go to court if it is excluded from a panel reviewing environmental issues around the pipeline. Grand Chief Herb Norwegian insists the Deh Cho have two seats on the joint review panel.

Discussions about the Deh Cho’s involvement broke down more than a week ago when it appeared to Norwegian that the government was backing away from that commitment.

“It was a gentlemen’s agreement and obviously these people weren’t gentlemen when they came to the table,” Norwegian said. “We need to look for some other arrangements on how we can move this whole process forward. We leave us no room to maneuver in that we have to seriously look at court action.”

About 40 percent of the pipeline passes through Deh Cho territory, and Norwegian believes the environmental panel offers the only opportunity for the Deh Cho to have any say in how the project develops.

continued from page A1

GASLINE

“The application for the Mackenzie is enormous,” Williams said in a Calgary Sun story.

“Through more than two years of project development and field work, comprising more than 1.3 million work hours, we have not had a single recordable injury,” he said. Additional geotechnical work was completed this past winter in the Gwich’in region and the K’hasho Got’e district in the Sahtu region.

To “build and maintain significant aboriginal direct involvement” with the Mackenzie project more than 600 meetings were held by the end of 2003, Williams said.

The last and most recent was on June 3, when the draft environmental impact statement terms of reference were issued by regulators, with comments due back from stakeholders by mid-July. (See related story on page 13 of this issue.)

“We expect to have the final terms of reference by the end of July,” Williams said.

continued from page A3

HOUSE

sideration today and we’re back at the drawing board.”

Many coal worker benefits are currently paid by the Combined Benefits Fund, which Congress created in the early 1990s to cover a combination of old agreements between UMWA and coal companies.

The fund is supported by coal company contributions, but those haven’t been high enough to keep up with costs. Congress paid $34 million into the fund last year to keep it afloat.

Congress has also allowed benefits to be paid with money from another fund — one set up to pay for cleanup of abandoned mine lands using industry fees. But Congress only allowed that fund to support benefits for “unphaned” miners — those whose former employers no longer exist. Miners want interest on the abandoned mine lands money to also prop up the Combined Benefits Fund.

ANWR revenues could help do that, Kennedy said.

“All the stakeholders have a big incentive to come back to the table,” he said. “As you know, we have not been reluctant to support ANWR bills in the past,” Roberts wrote, “and we certainly have vigorously supported (abandoned mine lands) reform in this session of Congress.”

Reps. Nick Rahall, D-WV, and Robert Ney, R-Ohio, have introduced legislation that would allow transfers from the Abandoned Mine Lands Fund to cover any shortfalls in the miners’ Combined Benefit Fund. The UMWA backs that bill. But the language added to the ANWR bill was too uncertain, Roberts said.

“If companies are to be relieved of liability, there must be provisions to guarantee that the beneficiaries will continue to receive their health benefits,” he wrote.

Rep. Don Young, R-Alaska, agreed that the Senate probably wouldn’t take up the ANWR bill if it passed the House. He said it was worth passing anyway for the statement it makes. He said he hadn’t been involved in the redrafting of the bill to include the coal miner benefits.

—THE ASSOCIATED PRESS
TARIFFS

The commission, which is mandated by state statute to keep oil and gas transportation rates “just and reasonable” for both the owners and the shippers, ruled in November 2002 that the 1986 TAPS settlement methodology allowed for excessively high rates. RCA said that rates charged between just 1977 and 1996 provided TAPS carriers “the opportunity to recover $9.9 billion more than the reasonable cost of providing service.”

The commission said maximum rates filed by the carriers for intrastate service from 1997 through 2000 exceeded cost-based rates by an average of 57 percent. In its June 10 order, RCA said that the current rates “will be permanent for 2001, 2002, 2003, and 2004 and the future until we approve revised rates pursuant to AS 42.06.” Those rates are: GVEA $1.25, Petro Star $1.96, and Valdez $1.96.

In comparison, the highest rates charged by any carrier came from BP: $1.56 (GVEA) $2.45 (Petro Star) $2.46 (Valdez). And the lowest rates came from Unocal: $1.18 (GVEA) $1.87 (Petro Star) $1.88 (Valdez).

Unacceptable methods used for test year

In its order the commission said the carriers’ filings do not justify their proposed rates and that most of the carriers used “unacceptable methods to normalize the test year we directed them to use.”

The order said the carriers had averaged costs over “selected years . . . not a reasonable method for normalizing the pipeline’s costs associated with repairs, despite the fact that a carrier witness confirms that the pipeline is designed to withstand this type of earthquake and that over the last 23 years only three other earthquakes between 6.7 and 7.3 have occurred.

The carriers also paid $4.3 million to repair a civil suit related to a pipeline visitor center and included it in the cost of service.

The commission concluded that while this may be a “cost of doing business that management might approve, it is not reasonably necessary to the shipment of oil on TAPS and should not be included in cost of service.”

RCA’s order also said, among other things, that the carriers “failed to meet the standard of proof for affiliated transactions,” including not adequately supporting Alyeska affiliate costs and owner direct affiliate costs.

“When affiliated companies providing services to pipeline carriers are also producing companies that pay royalties and taxes, public policy considerations require that we closely examine affiliated costs,” the commission said. “Higher transportation costs on TAPS result in lower taxes and royalties for the TAPS carriers’ affiliates and also may create an economic barrier for shipping by unaffiliated shippers who cannot reap these ancillary benefits. The TAPS carriers therefore may lack incentives to insure that affiliated costs are reasonable.”

The TAPS carrier-owners named in RCA’s order are Amerada Hess Pipeline, BP Pipelines (Alaska), ExxonMobil Pipeline, Phillips Transportation (Alaska), Unocal Pipeline and Williams Alaska Pipeline.

Since the June 3, 2003 filing ownership has changed. Current owners are: BP Pipeline (Alaska), Phillips Transportation Alaska, ExxonMobil Pipeline, Koch Alaska Pipeline and Unocal Pipeline.

The pipeline owners are appealing the November 2002 order in superior court.

The average tariff for interstate shipment of North Slope barrels was about $2.25 per barrel.

Prompted by RCA’s 2002 ruling, Alaska Attorney General Greg Renkes and the pipeline owners signed a memorandum of understanding Jan. 22-23, calling for negotiations to renegotiate the tariff structure, starting this past February. They said the talks could take as long as two years.

The memorandum says negotiations will cover the tariff structure for interstate and intrastate shipment of North Slope oil.

Any reduction in pipeline tariffs could be a plus to the state treasury, with lower transportation costs resulting in higher wellhead values and larger production tax and royalty payments to the state based on those higher values.

Advocates of lower tariffs also say it could encourage additional oil development by lowering the cost for new entrants on the North Slope.

“Tariffs have been a controversial and litigated topic throughout the (pipeline’s) life,” the memorandum says, explaining that a negotiated settlement is preferable to fighting the issue before regulatory agencies and eventually in court.

The state and pipeline owners will not negotiate an actual tariff but rather a method for calculating the tariff, which would then be subject to approval by the Federal Energy Regulatory Commission, which regulates interstate oil pipeline tariffs, and RCA for in-state deliveries of oil.

—KAY CASHMAN, Petroleum News

publisher & managing editor

Want to know more? If you’d like to read more about the trans-Alaska oil pipeline tariff, go to Petroleum News web site and search for these articles:


2004

● Jan. 25 The North Slope: A geologist’s dream, an investor’s nightmare

2003

● Oct. 19 Alaska Superior Court rejects state’s request for stay in TAPS tariff case

● Oct. 12 State talking about tariff with TAPS owners:

○ April & Alaska bound by TAPS settlement, can’t lower tariff...

○ March 23 Oil Patch Insider: Governor to meet with ANS producers . . . about . . . TAPS tariff

● May 23 Alyeska report shows pipeline owners cut $3.25 per barrel.

● March 23 Oil Patch Insider: TAPS tariff battle resumes.

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UpFront

A group of greater white-fronted geese settle near Nabors drilling rig 9-ES during their spring migration to Alaska's North Slope.

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Aeromed’s vital air ambulance service

Speed and efficiency become of paramount importance in life-threatening situations

By ALAN BAILEY
Petroleum Directory contributing writer

In Alaska’s vast territory the air ambulance has become a critical component of health services — if someone falls seriously ill or suffers a major injury, air travel often provides the only means of timely access to hospital care. Anchorage-based Aeromed International has built a successful business to meet this vital air ambulance need, with critical-care air ambulance services in Alaska and between Alaska and the rest of the world.

Aeromed was formed in 1997 and is a department of the Yukon Kuskokwim Health Corp., a member of the Alaska Native Tribal Health Corp.

Origins

The formation of Aeromed stemmed from the need to transport patients from the Yukon Kuskokwim Delta region to hospital in Anchorage.

“When we first started we used to fly a Citation,” Wall said. “But we could only fly 800 miles with it. We needed something that could fly further and carry more people.”

In 1997, as a consequence of the Valujet crash in Florida, the FAA tightened the rules for carrying oxygen on aircraft. Consequently, the Yukon Kuskokwim Health Corp. found that it could no longer transport patients on scheduled passenger flights. So, to ensure that patients could continue to fly from Bethel to Anchorage and to provide air ambulance services within the Yukon Kuskokwim Delta, the corporation decided to establish its own air ambulance service — Aeromed came into existence.

Steady growth

Since its creation Aeromed has expanded into a major operation handling about 550 missions per year in the Yukon Kuskokwim Delta and about 950 missions per year to and from Anchorage.

The company’s Aeromed Delta branch uses a dedicated Cesna Grand Caravan, operated by Grant Aviation, for ambulance services between Bethel and rural villages in the Yukon Kuskokwim Delta. The Grand Caravan can easily operate in and out of the small gravel airstrips in the villages.

“That’s how we usually evacuate seriously ill patients out of the villages and get them into Bethel,” Wall said. “If there’s a medical condition that the hospital in Bethel can’t handle, Aeromed’s Anchorage branch transfers the patient by jet aircraft to Anchorage or elsewhere — the Anchorage branch uses two Lear 35A jets and one Citation II jet operated by American Air Network Alaska Inc.

“We staff two of the jets 24 hours a day, seven days a week year round, with the capability of staffing the third jet when we need to,” Wall said.

A critical component of operating a business in Bethel, Aeromed’s Anchorage branch provides service for other tribal health regions throughout Alaska.

“There is a contract that we have with the Alaska Native Tribal Health Consortium to provide air ambulance service to all the other members of the consortium,” Wall said.

Aeromed has equipped all of its aircraft as fully operational air ambulances with the life-support technology that is needed for a successful patient transfer.

Specialized aircraft

Aeromed has equipped all of its aircraft as fully operational air ambulances with the life-support technology that is needed for a successful patient transfer.

“Aeromed is already equipped to handle the special medical needs of critically ill patients,” Wall said. “With our crew trained to equip the aircraft, we can evacuate a patient to hospital in Anchorage.”

For patients that require emergency transport services, Aeromed’s Cessna Grand Caravan can be equipped with a portable medical cabinet, used for emergency transport services to any hospital in Anchorage.

Rapid response

With speed being so critical to saving a patient, Aeromed takes great pride in launching its missions rapidly. As an independent operator, Aeromed can muster its crews without having to pull people from other duties — that gives the company a great advantage in achieving optimum response times.

“If a call came in we could launch almost immediately if we had the aircraft ready,” Wall said. “We staff our equipment and flight crews to ensure that we are able to dispatch as quickly as possible.”

Aeromed has a total of eight full-time flight nurses and four full-time paramedics, all specially trained in treating critically ill patients. And Aeromed isn’t tied to one particular hospital, so the company can ferry a patient to any hospital in Alaska or the Lower 48.

Challenging business

Achieving rapid response times in the unpredictable world of medical emergencies does bring some business challenges — it’s necessary to balance the need for adequate service capacity at peak demand with the need for cost efficiency.

“In our business it’s usually either feast or famine,” Wall said. “We have to balance the business with the peak demands and ensure that we can deliver a quality of service that is needed.”

Aeromed provides a variety of services to transport patients from Anchorage to the Lower 48, to hospitals in other parts of the world, and even for international medevac services.

Aeromed isn’t tied to one particular hospital, so the company can ferry a patient to any hospital in the Yukon Kuskokwim Delta region or the Lower 48.

Business expansion

Wall sees opportunities to further expand these international operations, including the potential to partner with air ambulance operators in the Lower 48. Aeromed has expanded its services to transport patients to and from Anchorage to the Lower 48.

“International operations are a major component of our business,” Wall said. “We transport patients to and from Anchorage to the Lower 48, and we transport patients from Anchorage to the Lower 48.”

Aeromed was formed in 1997 and is a department of the Yukon Kuskokwim Health Corp., a member of the Alaska Native Tribal Health Corp. The formation of Aeromed stemmed from the need to transport patients from the Yukon Kuskokwim Delta region to hospital in Anchorage.

Aeromed’s extensive Alaska experience, efficient services and worldwide reach can really help industrial customers, Wall says. But Wall’s positive outlook on Aeromed doesn’t just stem from the company’s flourishing business. He finds the air ambulance business very satisfying because it involves saving or improving people’s lives.

And perhaps this impact on people is what really matters.

Editor’s note: Alan Bailey owns Badger Productions in Anchorage, Alaska.
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By SUSAN BRAUND
Petroleum Directory Contributing Writer

Nasa space flight designers and engineers are acutely aware that successful missions require the most exacting technology and the best in human capital — the right stuff. When it comes to meeting project needs, Baker Hughes INTEQ also makes sure to provide the right stuff — top notch technology and advanced services. By providing integrated solutions from its oilfield group, INTEQ increases efficiency, well by well.

“We can apply the experience and capabilities of the entire Baker Hughes organization to provide the right product, design the right system or plan an integrated solution to meet your objectives,” says INTEQ’s Alaska Area Manager Dave Reimer. “When a project calls for technology and service from more than one Baker Hughes company, INTEQ and any of our divisions can provide integrated solutions and develop partnerships with customers and contractors. We represent all of Baker Hughes and can commit the company’s full resources to meeting the needs of your project.”

According to company literature, Baker Hughes has developed technology for every phase of well construction and maintenance and built an organization to deliver solutions that reduce the cost of developing oil and gas. “For example, your project may call for a comprehensive drill bit program from Hughes Christensen, directional well planning from INTEQ, completions systems and methods designed by Baker Oil Tools, electric submersible pump systems engineered by Centrilift or a chemical treatment program from Baker Petrolite. In addition, OASIS — a division within Hughes Christensen — is the Baker Hughes engineering and consulting service for drilling optimization. OASIS specialists are drawn from a company-wide pool to evaluate difficult drilling situations. And, during project planning, company information specialists use custom software and data base capabilities to prepare the best well bore design to optimize reservoir production.”

INTEQ increases well efficiency and productivity

Formed through a merger of individual directional drilling and measurement-while-drilling companies, INTEQ has been in Alaska for more than 20 years. Adding value to the drilling process through its products and services, INTEQ delivers advanced drilling technologies and services that increase efficiency and enable precise well placement. Major capabilities include directional drilling, measurement-while-drilling, logging-while-drilling and well-site information management services.

Directional drilling — INTEQ is an industry leader in directional and performance drilling applications, enhanced by the AutoTrak® rotary closed loop drilling system and Navi-Drill® Ultra Series tools. The company’s drilling systems have been used in thousands of vertical, horizontal and directional wells around the world.

Measurement-While-Drilling (MWD) — INTEQ offers services and downhole, information and evaluation technology to help control well placement. “Our systems provide accurate information to help oil companies enhance drilling performance, optimize well placement and gather quantitative information about the reservoir,” says Reimer. Logging-While-Drilling (LWD) — LWD systems provide quantitative, wireline-replacement logs in directional, horizontal or exploration wells for optimal placement.

Well-site information services — Using an array of sensors, hardware, software and Internet technology, the new RigLink data communications service enables clients to access real-time rig site data from any location.

Products and Services

Applications for Baker Hughes INTEQ drilling systems include offshore development and exploration wells, extended reach wells, horizontal wells, geosteering, performance-drilled straight wells, re-entry wells and coiled tubing drilling.

INTEQ offers a full range of drilling products: directional only, acoustic, nuclear, gamma ray and resistivity. Recent technology developments include:

- TestTrak® for formation testing
- AutoTrak® Rotary Closed Loop System — an integrated rotary steerable drilling and MWD/LWD system that provides precise directional control with continuous drill string rotation
- NaviTrak®/NavGamma® services — MWD systems that deliver real-time directional and directional/gamma ray information for drilling operations
- Complete line of LWD tools that provide gamma ray/resistivity and nuclear services for complete formation evaluation
- APX® (Acoustic Properties Explorer) — LWD acoustic logging tools
- Modular Advanced Pressure (MAP™) tool provides advanced downhole pressure measurements
- VertTrak® — drills perfectly straight holes, self-monitoring
- CoilTrak® — coiled tubing drilling
- Xtreme Motors® — new extreme downhole mud motors for directional drilling in a wide range of sizes, configured for directional and straight-hole drilling, hole sizes from 3 7/8 inches to 23 inches.

“We engineer and provide our drilling technology as part of a customized system, including directional and horizontal drilling motors, bit bits, measurement-while-drilling and completions,” says Reimer. “This integrated approach can enhance overall drilling performance and maximize the production potential of each well.”

Reimer, an engineering graduate from Colorado School of Mines, has been with the company for 22 years. “INTEQ is dynamic — it’s always been proactive in providing proper technology and services to help customers drill well and in making sure technologies needed for the next generation are being developed. It’s interesting to see how the energy business changes and progresses,” he says.

“The company that was born new when I started is now common-place. The advancing technology keeps it exciting and interesting. There are always new challenges. It’s rewarding to help customers solve problems that add value at every step of the process — drilling, completion and production.”

Editor’s note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.
A new era in energy-related construction

ASRC Energy Services Pipeline, Power and Communications diversifies its business to meet new market conditions

By ALAN BAILEY

The company’s more notable achievements include the first Arctic subsea pipeline for the Northstar field. The Northstar project involved bundling several pipelines together and laying them from the sea ice, Laasch said. The company also handled the construction of the Alpine pipeline on the North Slope—the first pipeline in the Arctic that involved directional drilling.

In the construction of the Badami pipeline on the North Slope the company participated in pioneering the alliance team approach to a project.

“Badami was the first alliance project on the North Slope,” Christian said. “We completed the project on time and within budget.”

Recent pipeline work

ASRC Energy Services Pipeline, Power and Communications is also continuing Houston Contracting’s tradition of pipeline construction.

“We successfully completed the Kenai Kachemak Pipeline (for Marathon and Unocal) last year,” Christian said.

In another recent Alaska project the company replaced a section of the Enstar gas line that runs from Cook Inlet to the Matanuska-Susitna Valley. The replacement section required a 4,300-foot directional drill under the Susitna River.

The company has extended its business in the Lower 48—it has offices in the Pacific Northwest and Houston, Texas, in addition to those in Anchorage, Fairbanks and Deadhorse, Alaska.

In the Lower 48, the company is currently working for Williams on an eight-and-a-half mile gas pipeline in Everett, Wash. In its recent work the company has drawn on its experience in directional drilling on its projects—most pipeline projects nowadays use directional drilling techniques to string pipelines under natural and man-made obstacles such as rivers and roads. Christian explained:

“There is a very small footprint at the construction site,” Christian said. “They drill under the river and the drilling mechanism grabs the pipe and pulls it through.”

Power and communications

The company’s Power and Communications subsidiary builds power transmission lines, fiber optic communications systems, power distribution systems and commercial electrical installations.

“We’ve built electrical transmission projects like the Golden Valley Intertie—that was a rather unique and challenging project,” Christian said. “We installed the tallest and heaviest structures used in Alaska during the last 10 years, and the span across the Tanana River was the longest during that same time period.” The company also builds and maintains electrical distribution systems including systems for the North Slope Borough and the Department of Defense.

Power and Communications is also the locate contractor for the Anchorage area. Company specialists use utility maps and special equipment to locate buried electrical lines and other utility structures.

Power and Communications has amassed several years of experience in laying fiber optic cable. Although there’s relatively little installation of new fiber optic line at the moment, the company is doing some communications work for the Department of Defense and recently signed a contract for communications work for Copper Valley Telephone Cooperative in Alaska.

Diversification

As part of its diversification strategy, ASRC Energy Services Pipeline, Power and Communications is performing electrical and mechanical construction for the Department of Defense at Fort Greely, Alaska, and at Vandenberg Air Force Base in California.

The company is also the maintenance contractor for the trans-Alaska pipeline and the Valdez Marine Terminal.

“We perform maintenance and execute projects along the entire 800 miles of the trans-Alaska pipeline,” Christian said.

Periodically the pipeline is shut down, enabling the company to perform specific maintenance work, which is not possible during normal operations. Careful planning and efficient work minimize down time for the pipeline system.

And so, ASRC Energy Services Pipeline, Power and Communications is using a wide variety of assignments to ride the current dip in oil and gas construction projects in Alaska. However, with plenty of potential for future oil and gas development in the state, Christian and Laasch think that activity in Alaska will return, although not at such a large scale as in the past and with more involvement from the independent oil companies.

“the infrastructure is in place now and the big fields are in decline, so the magnitude of the projects that come up is going to be significantly smaller than what we’ve experienced in the past,” Laasch said.

Meantime, ASRC Energy Services Pipeline, Power and Communications continues to pursue its diversification strategy.

“Right now our focus is going to be mostly on our diversification efforts until the Alaska oil and gas market rebounds,” Christian said. “Ninety-eight percent of our work was on the North Slope six years ago. This year it’s zero.”

In fact, all of the businesses within ASRC Energy Services have positioned themselves to respond flexibly to whatever energy-related services the market needs.

And that flexibility seems to be the way of the future.

Editor’s note: Alan Bailey owns Badger Productions in Anchorage, Alaska
Hanover Canada: Comprehensive, innovative oil patch solutions

By SUSAN BRAUND

S

ince the world’s first oil well was drilled in Oil Springs, Ontario, Canada, in 1857, Canadians have had oil fever. They have designed, built and now operate a huge network of pipelines and a natural gas pipeline system that supplies 45 percent of North American natural gas requirements, according to the Alberta Department of Economic Development, and they continue to be at the forefront of technological change in the industry.

With its vast reserves of oil and natural gas, Alberta ranks as one of the world’s top energy producers, trading with more than 150 countries. The province’s economy and technology infrastructure is based on the oil and gas industry. One Alberta company keeping pace with needs of the oil patch is Hanover Canada, a manufacturer and worldwide supplier of quality oil and gas production equipment, natural gas compression services, treatment services, compressor fabrication, and measurement services. Operating in the Western Hemisphere, including Argentina, Venezuela, Mexico and Canada, the company is expanding into Europe, Asia, and Australia.

Since 1997, the Calgary, Alberta-based Hanover Canada, in association with fabricator Hanover Maloney, has been doing business in complementary arenas: natural gas compression leasing and used unit sales and oil and gas production equipment. “We’re dedicated to the rental, leasing and lease-purchase of compression and production equipment for the Canadian oil and gas industry,” says Hanover’s Country Manager Rod Saville. “We have a variety of compressors, both screw compression packages and reciprocating gas compressors and we’re capable of providing the process, mechanical and instrument design engineering for any production equipment projects, including industry standard separators, heaters, and dehydrators. Just tell us what you need and we’ll get it done. Hanover has the resources for your natural gas compression and processing needs.”

Saville started in the engineering services industry in 1991, doing vibration/pulsation control on reciprocating gas compressors. After several years he took a position at the Sable Offshore Energy Project as mechanical engineer with responsibilities in design, construction, installation and commissioning. He joined Hanover three years ago as operations manager overseeing the lease fleet and received a promotion to country manager in 2004.

Hanover Maloney fabrication shop

In July 2000, Hanover acquired the Calgary-based 40-year-old Canadian company Maloney Inc., forming Hanover Maloney. The fabrication shop, with its staff of qualified engineers, designers, drafts people, manufacturing personnel and support staff, has established a reputation worldwide for its skid mounted dehydration units, sulphur recovery plants and gas treating facilities. Hanover Maloney’s product line consists of medium to large comprehensive oil and gas production facilities including heaters, separators, dehydrators, oil emulsion treaters, free water knockout units, slug catchers, coalescers, precipitation systems, gas sweetening units, sulphur recovery plants, dew-point control and hydrocarbon recovery plants, and custom design processing packages. Technology engineers and designers have developed extensive computer-based process and design programs to ensure the highest quality and most reliable end products. In-house quality assurance staff facilities are above and beyond specifications required by Alberta Boiler and Safety Association and American Society of Mechanical Engineers. Also, API and ASME code equipment can be manufactured to comply with NACE and 14C offshore specifications.

“In the design expertise in the Calgary shop. It’s one of several in the Hanover system that can produce design/manufacturing services for domestic and international customers. That’s one of the advantages of being part of a large company — the depth of services. The shop is a cost center that can build things expertly for customers all over the world. It’s known as a high-spec, capable shop. Hanover Canada is actually a customer of the shop.”

Lease fleet

Hanover Canada owns and operates a fleet of 170 compressor units, ranging from 50 hp to 1600 hp. “Hanover has the largest compressor lease fleet at 3.7 million hp worldwide. We’re a little piece of that with 85,000 hp, 50 hp to 1600 hp. “Hanover has the largest compressor lease fleet at 3.7 million hp worldwide. We’re a little piece of that with 85,000 hp, the largest lease fleet in Canada,” says Saville. “Leasing is a growing field in Canada. We’re hoping it will follow the U.S. model with end users doing much more gas compressor leasing. Compressors are depreciating assets, and site specific. If the end users will lease vehicles, they should start looking at it when it’s attractive to lease compression. We’re always working towards understanding the lease vs. purchase point better ourselves to help our customers.”

Stocking program

Years of experience has provided Hanover with data about the most common industry needs, which led to the company’s newly launched stocking program, offering packaged, ready-to-go standard dehydration and separation packages for quick delivery. “If a client says they need it in two weeks, we can now offer delivery right away. If they need a set up with a two-inch ball valve and we have a stock package with a 1.5-inch valve, they’ll usually say OK. It’s a good product with good prices in a competitive market. Hanover’s business is solving customers’ problems and assisting them to improve their operations and meet their goals.”

Saville contends that Hanover Canada stands above its competition in three ways: availability, amounts of equipment and quick delivery. “Our lease fleet has the most equipment ready to go of anyone in the game and we’re working towards the same with our stocking program. As quick as customers can get a truck to the yard, they’re ready to go. Hanover can provide a range of products. Eventually we’ll be a one-stop shop.”

Challenges

Hanover started small in 1990 and quickly grew their lease fleet in the United States. This further led into acquiring similar companies, 49 acquisitions in 11 years. Now the company has reached critical mass and it’s time to standardize.

“Our biggest opportunity is bringing the company together. Hanover is a big machine with offices in the U.K., Italy, Venezuela, Argentina, Canada and the United States among others,” says Saville. “Our CEO, Chad Deaton, is implementing a large measure to help the company act as one well-oiled machine and we want to be able to channel our expertise through our international VPs and be more cost effective in more developed arenas. It’s an ongoing effort.” The cornerstone of the effort is a new computer system that allows bearers of company expertise to travel from one venue to another and be familiar, consistent processes.

“We’ve basically implemented it in Canada, and are starting to see some of the synergy happening, some cross pollination of offices using the same processes.”

Editor’s note: Susan Braund owns Firstar Media Services in Anchorage, Alaska.
COMPANY NEWS

Chuilista Camp Services acquires Mayflower Catering

Chuilista Camp Services said May 20 that it has purchased the assets and operations of Anchorage-based Mayflower Catering, effectively expanding the company’s line up of camp and exploration services to include catering in Anchorage and several other communities across the state.

A subsidiary of Calista Corp., Chuilista provides remote site camp services for the petroleum, mining, fishing and construction industries. “Chuilista is proud to now add specialty catering to our growing list of products and services,” said Chupilista President George Gardner said. “It gives us an Anchorage presence, fits in very well with our overall plans for growth in Alaska, and will soon be very useful as a tool to promote training for Calista Corp. shareholders that are interested in careers in the culinary arts field.”

Calista, the second largest ANCSA corporation in the state, represents 56 villages in the Yukon-Kuskokwim Delta and is owned by more than 13,000 Yup'ik, Cup'ik and Athabascan shareholders with ancestral ties to Southwest Alaska.

Calista also has the rights to 6.5 million acres of subsurface and 300,000 acres of surface estate in the Alaska. The corporation’s primary areas of business are government and private sector contracting, real estate, camp and exploration services, oil industry, newspaper publishing and printing and natural resource development.

Calista, along with project manager Placer Dome US, is working to develop Donlin Creek into an operating gold mine. For information, or to access Mayflower Catering menus, go to www.anco- biz.com/mayflowercatering, or call 907-274-2223.

New sales executive at Northern Air Cargo

Dorothy Diamond has been added to the sales and marketing staff at Alaska's Northern Air Cargo. She will be an account manager for several of the company's cargo hubs, and will work in marketing to governmental clients.

Diamond has worked most of her career in government, sales, management in Anchorage and Ketchikan. She has a degree in business administration from the University of Alaska Anchorage.

Her hiring was announced May 20.

New president for VECO Alaska

Charles F. (Chuck) O'Donnell has been promoted to president and general manager of VECO Alaska Inc. O'Donnell's role will include responsibility for all VECO Corp. operating entities within the Alaska region.

O'Donnell worked for Alyeska Pipeline Service Co. for 23 years before joining VECO in 2000 as a senior project manager. He became vice president of project operations for VECO Alaska in 2002.

O'Donnell is replacing Val Molyneux, who is moving to a role in the parent VECO Corp. Molyneux, a 30-year employee, led VECO Alaska for five years. The promotion was announced by VECO Corp. President Pete Leathard on April 23.

WesternGeco completes first Q-marine survey in Danish sector of North Sea

WesternGeco said June 8 that it has completed acquisition of a Q-Marine seismic survey for the Danish Oil and Natural Gas Co. over the Siri field in the North Sea. The 128-square-kilometer, high-resolution Q survey was acquired in May over a 1969 heritage survey, and will include 4D processing of the vintage data.

"WesternGeco Q-Technology was selected for this monitor survey because of the high activity level in the area where the increased spatial Q-marine sampling could enhance resolution," said Ingo Wissendorf, Hansen, operations geophysicist with Danish Oil and Natural Gas. "Furthermore, the steerable streamers added a safety element to the work around the installations in the area, in addition to the advantage with Danish Oil and Natural Gas. "Furthermore, the steerable streamers added a safe-enhance noise reduction," said Jesper Wissendorf Hansen, operations geophysicist.

The survey was conducted in two phases, WesternGeco said. First, the Q-Maline production survey included 40,000 line km of streamers, with 1,000 lines of land streamers. Second, the Q-Maline imaging survey included 60,000 line km of streamers, with 1,000 lines of land streamers. The survey will include 4D processing of the vintage data.

Decision Team adds a new suite of intelligent reservoir surveillance software to the Schluenberger arsenal. The software, called DECIDE!, "intelligently captures, analyzes, conditions and transforms both historical and real-time production data into actionable operational decisions," according to a press release from Schluenberger.

The software's notification systems provide ranking lists of those wells that are under performing, and automated event detection replaces routine field surveillance, resulting in significant time saving, according to the company.

Decision Team has been based in Baden, Austria.

Schluenberger buys software, consulting firm

Schluenberger Information Solutions has acquired the assets of Decision Team, an Austrian company that provides oil and gas software and consulting services. Schluenberger didn't disclose the price it paid for the acquisition, announced May 13.

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Decision Team has been based in Baden, Austria.

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Phone: (907) 279-0602
Fax: (907) 478-7008

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Website: www.kenworthalaska.com
Fairbanks office: 3730 Braddock St.
Fairbanks, AK 99701
Contact: Jeff Lewis, branch mgr.
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Fax: (907) 562-5420
Phone: (907) 563-9060
Fax: (907) 562-5062
Contact: Mica Van Buskirk
Seward, AK 99664
Contact: Leif Simcox, owner/oper. mgr.
Contact:  Don Ingraham, owner/mgr.
Anchorage, AK 99518
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ASRC Northstar pipe loading operations in Prudhoe Bay, Alaska.

Baker Hughes AutoTrak™ entering the hole.
4 De Beers, Tahera partner in NWT
West of Jericho site in Nunavut, four diamondiferous kimberlites, sizeable Muskox pipe

6 Woewodski drilling nearly done
Bravo funds core program to test massive sulfide prospects, initial work encouraging

8 Neighbors get new look
Kinross plans early-stage exploration on gold occurrences near Fort Knox, True North
Kinross adds equipment, ups spending

Fort Knox owner plans $60M capital budget to remove waste rock for Phase 6 mining to carry mine life into 2010

By PATRICIA LILES
Mining News Editor

Work began this spring on a three-year, $60 million capital project at the Fort Knox gold mine northeast of Fairbanks, Alaska, a project that will ultimately access 1 million ounces of deeply buried gold, ensuring production at Alaska's largest mine through 2010.

Called Phase 6, the mine expansion entails removing 55 million tons of non-gold bearing rock, or waste rock, in order to access an estimated 1 million ounces of gold already included in the mine's reserve used to estimate the remaining amount of production life. Toronto-based Kinross Gold, which owns the Fort Knox mine, decided earlier this year to proceed with the Phase 6 project. The work was briefly described in the company's 2003 year-end report, and was further detailed in Kinross' first-quarter report, released May 10.

"Results from Fort Knox in-pit work confirmed sufficient continuity of the mineralization to justify a major pit wall layback on an assumed gold price of $325 per ounce," the report said. "This major layback is comprised of a three year, approximately $60 million capital expenditure program mostly in the form of strip-ping to liberate ore to prolong the economi-cal life of the Fort Knox Mine."

When the waste rock is finally removed, at a rate of about 60,000 tons per day, the remaining strip ratio for mining gold-bearing rock is 1.8 to 1, according to Fort Knox General Manager John Wild. Miners will be able to access that gold, starting in 2007, allowing mining to con-tinue through 2009. The final ore stock-piles will be processed in 2010, according to Wild.

New equipment requires more workers

This year, Kinross plans to spend $39 million on capital investments at Fort Knox. Of that, $19 million will go toward purchase or lease of new dirt-moving equipment. " Twenty million is for the capital investment in Phase 5 and Phase 6," Wild said, in an interview with Mining News on June 1. "We're really pleased to have this budget approved."

Six new haul trucks are due to be deliv-ered to Fort Knox in late July or early August. The six Caterpillar 789 haul trucks each provide a 150-ton capacity. A new loader has been added to the mine fleet, and more loading equipment is being considered. The company purchased a new 27.5 cubic yard shovel in 2003, spending $3.7 million. Adding new equipment and the increased mining work per day will require more workers, Wild said, adding to the 385 currently working at Fort Knox.

"We're adding new employees already," he said. "We'll be back up to the 424 range toward the end of the year."

The Phase 6 waste rock removal is pre-dominantly on the south side of the Fort Knox pit. Some of the strip-ping work wraps around the pit sides to the east and to the west, Wild said. Plans call for the pit's final size to be roughly 265 acres, measuring 5,200 feet by 2,600 feet, by June 1. "We're really pleased to have this budget approved."

Tailings dam lift started

In addition, dirt-moving crews at Fort Knox have also been working to complete a 25-foot lift on the tailings dams impound-ment, extending the amount of storage for non-mineralized rock, Wild said. The $5 million spent on the tailings dam lift this year will give Fort Knox another two years of tailings storage at the mine's 2003 milling rate of 14 million tons per year.

"The tailings dam is doing quite well. So far we are definitely on track for comple-tion and on budget," he said.

The lift, which is being constructed using equipment and personnel from the recently shuttered True North satellite mine, should be complete in about two months, weather permitting, Wild said.

Kinross announced its decision to sus-pend mining at True North, about 10 miles northwest of Fort Knox, in early March. Plans call for mining to resume at True North sometime in the fourth quarter of 2004, Wild said.

"If we have an opportunity to do it a little earlier, we'll do it," he said.

Lowered production, higher costs in first quarter

Adding ore from True North, combined with mining moving into an area with a higher grade of gold per ton of rock, will improve Fort Knox's production and cash costs, Wild said.

In the first three months of 2004, Fort Knox produced 75,980 ounces of gold, a decrease from the 91,214 ounces produced in the first quarter of 2003. Total cash costs were $290 per ounce, compared to the $260 per ounce posted in the first quarter of 2003.

"Production levels for the first quarter of 2004 were marginally ahead of plan and total cash costs were 6 percent below plan," the company said in the first quarter report. "During the first half of the year, mill feed grades are low due to the mining sequence at Fort Knox and the deferral of True North mining to the second half of 2004."

That will change in the second half of the year, as new equipment begins to help move more waste rock, miners move into a higher-grade area, the tailing dam project is completed and work resumes at True North.

"The grades are typically better, softer, and it blends better through the mill," Wild said. "The net effect is lower operating costs. You'll see our operating costs drop."

Kinross projections call for production to increase from 145,000 ounces expected in the first half of 2004 to 195,000 ounces in the second half. Total cash costs for the first half of the year are expected to aver-age $280 per ounce, decreasing to approximately $176 per ounce in the second half.

The company expects total 2004 pro-duction to be 340,000 ounces, with an average cash cost at $220 per ounce of gold. The average grade of gold mined during the first three months of 2004 was 0.91 grams per tonne, compared to 1.11 grams per tonne in the first quarter of 2003. Kinross reported a recovery rate of 81 percent, compared to 83 percent in 2003. Depreciation, depletion and amorti-zation costs dropped to $82 per ounce, compared to $165 in the first quarter of 2003.

Total production costs in the first three months of 2004 were $376 per ounce of gold produced at Fort Knox, compared to $369 per ounce in the first quarter of 2003.
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Address: P.O. Box 231651
Anchorage, AK  99523-1651

Editorial: Fairbanks
pliles@petroleumnews.com
907.522.9469

Anchorage
907.522.9469

Juneau
907.586.8026

Circulation Email: circulation@petroleumnews.com
907.770.5592

Advertising Email: scrane@petroleumnews.com
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North of 60 Mining News

INTERIOR ALASKA

AngloGold files drilling permits for ER, Eagle properties near Pogo project

AngloGold (U.S.A.) Exploration filed exploration permits with the Alaska Department of Natural Resources in late May, requesting permission to drill up to 60 core holes this summer on two different properties near the Pogo gold project in Interior Alaska.

The company plans to drill up to 30 holes on the ER project, just west of Pogo, in the upper Goodpaster River drainage. Vancouver, British Columbia-based Rimfire Minerals initially staked some of that property and has optioned its holdings to AngloGold.

The two companies staked additional ground in the area in recent months, increasing the land package to a 16.5-square mile claim block, according to Rimfire.

Helicopter-supported diamond core drilling is tentatively scheduled to start at ER between June 15 and July 1, according to AngloGold’s exploration permit application. The actual number of drill holes depends on the initial results, according to a letter submitted to the department by AngloGold’s North America Exploration Manager Jeff Pontius. Maximum depth of the core holes will be 2,000 feet.

The Eagle property, several miles southwest of Pogo between the Goodpaster River flats and the Shaw Creek flats, will also be drilled this year. Recent claim staking by the two companies also increased the size of the Eagle block, to 24.6 square miles.

AngloGold submitted an exploration application with the state, requesting permission to drill up to 30 core holes on Eagle this summer. Again, the work will be conducted by helicopter. Maximum depth of the holes will be 2,000 feet.

AngloGold plans to spend $2 million on exploration in Alaska this year, Pontius told Mining News in early April. The amount of drilling will increase from the seven holes punched in the ER property in 2003.

The company has expanded its presence in the Pogo area through claim staking. Including lands staked with partners and by itself, AngloGold’s total acreage is 61,000 hectares, Pontius said. That translates to 150,731 acres, or 235 square miles.

Total claims staked in the Pogo area are more than 500 square miles, or 322,920 acres, according to records kept by the Alaska Department of Natural Resources. Of those claims, about 200,000 acres of land — 312.5 square miles — have been staked since late 2002, throughout 2003 and in the first months of 2004.

—PATRICIA LILES, Mining News editor

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De Beers, Tahera to develop adjacent to Jericho diamond project

Tahera to spend $11M by ’08 to earn 50% interest in property; De Beers will operate larger projects

By DON WHITELEY
Petroleum News Contributing Writer

International diamond giant De Beers and Canadian junior mining company Tahera Corp. have signed an agreement to jointly explore and develop 36,000 hectares of De Beers’ land adjacent to the Jericho diamond project in Nunavut. According to the terms of the agreement, Tahera will spend $11 million by 2008 to earn a 50 percent interest in the property. The agreement has been structured so that each company can act as operator, as the development grows, depending on the size of the project.

“There is a natural fit between De Beers and Tahera Corp. for this property and this partnership seeks to optimize opportunities for both parties through the synergies we have identified,” said Richard Molyneux, president and CEO of De Beers Canada. “The significance of this agreement is its flexibility regarding who will be the operator and how the product will be marketed.”

Each company can raise its interest in individual development projects depending on the project value. For projects of C$750 million or less, Tahera will be the operator and can increase its interest to 75 percent by making certain payments to De Beers.

For larger-scale projects, De Beers will be the operator, and coordinate the construction of a processing plant. De Beers can increase its interest to 70 percent by making payments to Tahera.

Four kimberlites on property

The property, 14 kilometers west of Jericho, has four diamondiferous kimberlites, including the sizeable Muskox pipe. and this will put us firmly on the map with project development in Nunavut,” Molyneux said in a statement.

De Beers’ land holdings in Canada total 163,000 square kilometers, with 139,000 kilometers in Nunavut. Two mining projects are under development, Snap Lake in the Northwest Territories and Victor in Northern Ontario. The company will spend 43 percent of its US$92 billion global exploration budget in Canada.

In that vein, De Beers is also launching a C$1 million exploration program Nunavut’s Kivalliq region. The company has already held public meetings in Rankin Inlet and Chesterfield Inlet.

Project Manager Paulo Pereira said in a release the company will be taking 3,000 samples from two areas north of Baker Lake this summer. “That’s the new frontier for diamond exploration in Canada,” he said.

Meanwhile, Tahera’s $50 million Jericho Mine — the first diamond mine in Nunavut — has moved a step closer to reality. The Ministry of Indian Affairs and Northern Development has accepted the Nunavut Impact Review Board’s report on the proposed Jericho Mine. Tahera now moves to the permit stage.

The mine, about 350 kilometers southwest of Cambridge Bay, is expected to employ up to 175 people during mine and plant construction, in the open-pit and underground operations as well as in its processing plant. The company hopes to have Inuit make up almost two-thirds of its staff.

Company officials say the mine could be operational as early as 2005.

The property, 14 kilometers west of Jericho, has four diamondiferous kimberlites, including the sizeable Muskox pipe.

The program has defined five high-priority geophysical targets with bull’s-eye magnetic geophysical signatures ranging between 50 to 100 meters in diameter.

The property, 14 kilometers west of Jericho, has four diamondiferous kimberlites, including the sizeable Muskox pipe.

“The we believe that this partnership with Tahera is the most efficient means to move these kimberlite discoveries forward...”

—DON WHITELEY, Petroleum News contributing writer

Targets identified at Black Lake diamond project

Results from a preliminary ground geophysical exploration program on the Black Lake diamond project in the Northwest Territories identified five high priority geophysical targets for drilling, the joint venture operating the project announced June 8.

Kalahari Resources Inc. and joint venture partners Southern Era Resources Ltd. and Island Arc Mining Corp. said the program tested two kimberlitic indicator mineral trains — North Margaret Lake and South One.

The program has defined five high-priority geophysical targets with bull’s-eye magnetic geophysical signatures ranging between 50 to 100 meters in diameter. The five targets will be ground checked and sampled during July followed by drill testing of targets that return positive results from the follow-up program.

—DON WHITELEY, Petroleum News contributing writer
Major drilling kicks off at Galore Creek

NovaGold and its Canadian subsidiary SpectrumGold increase exploration spending at remote gold-silver-copper property, new resource shows more metals and better grades

By PATRICIA LILES
Mining News Editor

N
ovaGold Resources and its Canadian subsidiary SpectrumGold are increasing spending this year for the company’s Galore Creek property in remote northwestern British Columbia, kicking off a large, aggressive drilling and advanced exploration program in late May.

Galore Creek, about 37 miles west of the Cassiar Highway and about 46 miles east of Wrangell, Alaska, is a large, well-defined gold-silver-copper resource previously worked by Kennecott.

Three core rigs will work through the summer, completing more than 60,000 feet of samples. NovaGold has increased its exploration budget for Galore Creek, with plans to spend more than $8 million Canadian in 2004.

Last year, NovaGold optioned the property through its Canadian subsidiary SpectrumGold, and completed an eight-hole, 10,000-foot drill program in the fall. That initial work was combined with data taken from more than 300 historical holes to produce a new resource calculation announced May 5.

That new geological estimate, calculated by an independent engineering firm, increased in both the amount of metals contained in the deposit and the amount of higher-grade material that would help pay back initial capital costs of a mine project.

“This updated resource estimate clearly demonstrates that Galore Creek is a very large, high quality, porphyry-related gold-silver-copper deposit,” said Rick van Nieuwenhuyse, president and CEO of NovaGold and SpectrumGold. “The study also confirms that we have already achieved 70 percent of our initial 100 million tonne higher-grade target.”

An industry benchmark for large copper deposits involves identifying a minimum of 100 million tons of mineralization grading 1 percent higher or higher. That initial high-grade material typically will cover initial capital costs, providing the ability to later mine lower grades of mineralization. Galore Creek’s new resource identifies 70 million tons of material with grades of one gram per tonne of gold and 1 percent copper.

**Estimate grows in copper and gold mineralization**

The deposit remains open along strike and down dip. More nearby targets remain unexplored or under explored. Only two of 12 mineralized zones on the property were included in the new resource, according to NovaGold’s vice president of exploration, Joe Peekenbrock. “We believe that there is excellent potential to add significantly to the overall resource and expand the higher-grade mineralization this season.”

NovaGold ramps up for Ambler; first season on volcanogenic massive sulfide deposit

NovaGold plans its initial 2,000-meter (6,400 feet) drilling work at the Arctic deposit, the most advanced target on the Ambler property. Previous exploration identified an inferred resource at Arctic, containing 817,000 ounces of gold, 62.1 million ounces of silver, 3.2 billion pounds of copper, 4.2 billion pounds of zinc and 640 million pounds of lead.

Ambler property in northwestern Alaska

NovaGold Resources plans to work on its other large metal deposits this summer, the Ambler property located in the remote part of northwestern Alaska, filing a permit with the state to drill up to 21 core holes.

The company announced a $1.5 million budget for the property earlier this year, shortly after signing an agreement with Kennecott to acquire a 51 percent interest in the gold, silver, copper and base metals deposit.

Helicopter-supported exploration work will take place between June 15 and Sept. 30, according to the company’s annual exploration application filed with the Alaska Department of Natural Resources on May 17.

Crews of up to 15 people will be staged out of the Bornite Camp, in an existing facility owned by the NANA Corp. about 14 miles southwest of the Arctic deposit.

Drill holes will range in depth from 500 feet to 2,000 feet, according to exploration plans outlined to the state by project manager Stan Dodd. Most of the work, 17 holes and 2,700 feet of constructed drill trails, will be on private patented claims. Three holes and 1,100 feet of trail will be on unpatented federal claims and one hole will be on state of Alaska claims.

NovaGold plans its initial 2,000-meter (6,400 feet) drilling work at the Arctic deposit, the most advanced target on the Ambler property. Previous exploration identified an inferred resource at Arctic, containing 817,000 ounces of gold, 62.1 million ounces of silver, 3.2 billion pounds of copper, 4.2 billion pounds of zinc and 640 million pounds of lead.

That puts the Arctic deposit in the top volcanogenic massive sulfide deposits in the world based on in-situ metal value, according to the company’s statement.

NovaGold can earn its 51 percent interest in Ambler by matching Kennecott’s historical spending on the property, which totals $20 million. NovaGold has until 2016 to do so, although the agreement requires a minimum of $5 million on exploration and development spending during the first five years.

—PATRICIA LILES, Mining News editor
S pending about $250,000 on its first phase of drilling this year, Bravo Venture Group hit the ground mid-
May with a core drill to test three prospects on the Woewodski Island prop-
erty in Southeast Alaska about 18 miles southwest of Petersburg.

The 3,000 meter drill program will be completed mid-June, according to Jay
Oness, vice president of investor relations for the Canadian junior, part of the Manex Group of mineral exploration companies.

“We might increase that (drill work),” he said.

“We might increase that (drill work). We’re getting some excellent results — some nice material at both the Mad Dog and Lost Lake deposits.” — Jay Oness, vice president of investor relations, Bravo Venture Group

Oness told Mining News June 7. “We’re getting some excellent results — some nice material at both the Mad Dog and Lost Lake deposits.” Crews punched four holes at the Mad Dog prospect then moved the drill rig to the Lost Lake prospect, where three holes were drilled. Average depth of the holes is 200 to 300 meters, Oness said.

The third prospect, Crab Bay, will receive the remaining drill footage in this first phase of exploration at Woewodski, a polymetallic deposit containing gold, silver, zinc, lead and copper.

“We feel we’ve got a tremendous opportunity to advance a massive sulfide deposit on the island,” Oness said. “We’re hoping Mother Nature is kind to us and assay results will reflect that.”

Depending on results from this early summer exploration program, Bravo Venture could return to Woewodski later this year for more work, Oness said.

“We might be doing another financing,” he said. “We raised $1.4 million in Bravo, so we have the funds available for the different properties.”

In April 2003, Bravo Venture optioned the Woewodski Island claims from Olympic Resources, a Southeast Alaska-
based privately held exploration company, providing access to nearly the entire four-

“Because of the size of the project, we would not afford to fund (ground work) at that time, due to market conditions and the price of our stock.”

Another exploration company in the Manex Group, Rio Fortuna, has dropped its remaining Alaska property, announced in late May. That property, called Divide, was 28 miles north of Nome in western Alaska.

“It was a very expensive project and due to market condi-
tions, we were not able to get back up there,” Oneness said. “The price of our stock dropped in 2003, another Nome-area road-accessible explora-
tion property, called Full Auto. Manex also has two other companies which are working on properties in Mexico.

—PATRICIA LILES, Mining News editor
High costs, no benefits, says report

Canada’s mining industry raises hackles by attacking valued-added diamond cutting and polishing requirements

By GARY PARK
Petroleum News Calgary Correspondent

THE cutting and polishing sector of Canada’s much-touted diamond industry needs some trimming and buffing of its own, suggests a new report from the mining industry that has angered the Northwest Territories government.

The study, entitled National Diamond Strategy: An Industry Response, said efforts to build a value-added component to the thriving diamond mines has resulted in “short-term, unsustainable policies” that penalize primary producers and in mone-
ylosing ventures that employ too many for-
egn workers.

“My any cost-benefits analysis of efforts to enter the cutting and polishing industry in Yellowknife would paint a stark picture,” the study said.

It was compiled by three industry heavy-
weights — the Mining Association of Canada, the Northwest Territories and Nunavut Association of Mines and the Prospectors and Developers Association of Canada.

Findings inflame Northwest Territories premier

The recommendations were distributed to Canada’s 13 provincial and territorial gov-
ernments, which are working on a national strategy.

The findings inflamed Northwest Territories Premier Joe Handley, who said that if the industry is not ready to work with his government on a value-added sector, then “we’ve got to look at what the alterna-
tives are.”

He said that because the resource royalties from diamonds go directly to the Canadian government, a secondary industry in the only way the Northwest Territories can diversify the benefits of diamond mining.

Failing that, Handley warned, the only option is for the Northwest Territories to impose a tax on production.

“We entered into agreements with dia-
mestone companies to have their support in setting up a (cutting and polishing) industry in lieu of us levying some sort of tax,” he told the Globe and Mail.

“If the diamond industry does not want to participate with us in supporting the dia-
mestone polishing sector and the jewelry industry, where the real profit is, then it’s time for us to sit down and talk.”

Handley said the industry’s thinking is flawed, because the territory does not get any resource royalties.

Other producing countries and the power of spin-off industries

Stephen Hess-Olief, president of the Canadian Diamond Manufacturers Association, lent weight to Handley’s argument, noting that other diamond producing countries are also demanding a slice of the output to build their spin-off industries.

He said that to focus on labor costs is short-sighted, making no allowance for increasing automation in the industry.

The Northwest Territories government requires mining companies to sell 10 per-
cent of their select, high-quality rough diam-
onds to local factories to derive some direct economic gains from the Ekati and Diavik mines, which have made Canada the world’s third-largest producer behind Russia and Botswana.

The government last year estimated that the two mines, plus the Snap Lake mine scheduled to start oper-
ations in 2008, are expected to generate C$7.5 billion in gov-
mement revenues over their operating lives. But that report said the Northwest Territories will gain only C$290 million.

There are four cut-
ting and polishing fac-
tories in Yellowknife, which “have had to rely on government subsi-
dies and industry sup-
port to remain in business,” while employing fewer than 150 workers in “relatively low-
paying jobs,” the mining industry study said.

“If we’re looking at valued-added indus-
tries downstream, we have to make sure that they are sustainable and make sense in the economic reality of doing business in Yellowknife,” said Mike Vaydik, general manager of the Chamber of Mines.

“The benefits to diamond mining are tremendous and we’re only just beginning,” he said.

Exploration called key to long-term supply

Tony Andrews, executive director of the prospectors and developers association, said “exploration is the key to assuring the long-
term supply of Canadian diamonds, which will underpin the growth of other parts of the diamond pipeline.”

The study, which described Canada as a “diamond powerhouse” said that by provid-
ing the right mix of fiscal and regulatory policies, governments can ensure diamonds benefit all Canadians.

It called for governments to:

• Improve the investment climate for exploration and mining by reducing the uncertainty and complexity of Canada’s reg-
ulatory environment.

• Invest in northern geoscience and infra-
structure and human resource skills develop-
ment and to modernize the tax system.

• Conduct a thorough economic analysis of the competitiveness and cost structure of the diamond cutting and polishing industry to properly identify the economic opportu-
nities to develop the downstream activity.

• Avoid the use of short-term, unsustain-
able policies to stimulate the development of cutting and polishing.

• Eliminate the federal excise tax on jew-
eley.

The report said that De Beers, which is developing the Snap Lake mine, has award-
ed C$29.2 million in contracts, of which C$22 million went to companies partly owned by aboriginals.

continued from page 5

GALORE CREEK

The new resource at Galore Creek con-
tains two categories, both using a 0.5 per-
cent copper equivalent cut-off grade. The indicated resource is estimated to contain 4 million ounces of gold, 52.2 million ounces of silver and 4.6 billion pounds of copper. Additional mineralization in the inferred category includes 1.2 million ounces of gold, 17.2 million ounces of sil-
ver and 1.3 billion pounds of copper.

The resource increased in the gold cat-
egory by 15 percent, and in copper, by 14 percent, compared to the historical geo-
ological estimate.

Drilling work begins

Drilling work this summer is targeted, in part, to upgrading the inferred resources to the indicated category, as well as expanding the current resource. The company also plans to drill to define the initial 100 million tons of mineralization with 1 gram per tonne of gold and 1 percent copper for the initial payback of mine capital.

Novagold has also prioritized high-
grade targets at Copper Canyon, Junction and the South Zone, as well as on the adjacent Grace property. Finally, the company plans to explore for additional mineral-
ization on several recently identified geophysical targets and known mineral-
ized occurrences.

In addition to the 60,000 feet of drilling, Novagold plans to complete a detailed, property-wide MAG, CSMAT and 3-D induced polarization geophysical survey program to generate additional drill targets.

Environmental consultants will also be working on the property this summer, according to Novagold. The Tahltan Nation Development Corp. and Rescan Environmental Services have formed a new joint company called RTEC to carry out baseline environmental work, in preparation for the project’s environmen-
tal assessment report.

As many as 70 people are expected to be working at Galore Creek this summer, Novagold said, in preparation for a pre-
feasibility study expected to be completed in mid-2005.

Later this summer, Novagold expects to release a preliminary economic assess-
ment study, being completed by Hatch of Vancouver, the independent engineering firm that calculated the new Galore Creek resource. That new study will consider mine development options, infrastructure, the power and access options, site layout, metallurgy, development timetables and capital and operating costs.

Work this summer also will expand the on-site camp facilities, as well as improv-
ing existing infrastructure. The existing airstrip will be rehabilitated, a series of bridges will be replaced and road access to the Main and Southwest deposits will be repaired.

Company consolidation continues

Novagold is continuing with plans to acquire the remaining 44 percent of com-
mon shares of its Canadian subsidiary, SpectrumGold, bringing the assets of both companies under the Novagold banner.

A SpectrumGold shareholder meeting and vote is planned for July 8. With the appro-
mate affirmative vote, the plan to combine the companies will be concluded between July 15 and Aug. 15, the compa-
y said in its June 3 press release.
Neighboring prospects get new look

New Alaska exploration manager for Kinross plans early-stage exploration work on gold occurrences near Fort Knox, True North

By PATRICIA LILES
Mining News Editor

In his first season as the Alaska and Russia exploration manager for Kinross Gold, Rich Harris will be spending about $2.5 million on exploration in 2004, mostly for early-stage prospects neighboring the company’s Fort Knox and True North mines northeast of Fairbanks, Alaska.

Final budgets for several projects, including three prospects neighboring True North and three others in the Fort Knox/Gil area, are still pending, Harris said in interviews June 1 and June 5.

“Everything is being reevaluated locally. We’re looking at the whole approach to see if we need to make some changes,” he said. “It’s a time of big changes ... we’re re-looking at the whole district and properties to see the possibilities out there.”

In late April, Kinross lured Harris away from his most recent position as minerals development specialist for the Alaska Department of Commerce and Economic Development, counting on his past experience in the Interior with Newmont Gold, primarily as project geologist at True North before Kinross acquired the property.

His fresh view of Kinross properties provides some broader thinking, geologically, that he hopes will translate into some new discoveries.

“Now one had stepped back to look at the bigger picture. You get so you can’t see the forest for the trees — so burrowed in,” he said. “I think that’s one reason why I got the position, to provide a new look — to have someone with another view and different background.”

One significant change is scaling back development work and infill drilling at Gil. Instead, work this summer will focus on finding nearby mineralized areas for additional targets. (See sidebar.)

In-pit exploration expands

Exploration work that has already started includes a $1 million drilling program to further define targets within and adjacent to the existing Fort Knox pit.

Harris said about 15,000 feet of core samples and 5,000 feet of reverse-circulation samples will be drilled this year as part of the in-pit exploration effort. Some holes will be drilled from the lowest level of the pit, to see if recoverable mineralization exists at depth. Other holes will be drilled to look for extensions of mineralization to the east, south and west. The goal is to find additional gold to mine and mill, extending the life of Fort Knox beyond the current 2009-2010 ending currently projected.

“A conservative number might be 50,000 to 100,000 ounces (of additional gold), but obviously we hope to increase that as much as we can,” Harris said.

“Some drilling is directed towards increasing the size of the ultimate pit ... a little deeper and pushing out a bit, but there are a lot of variables.”

Last year, Kinross said it spent $710,000 on its in-pit exploration program, part of the company’s $3.2 million spent on exploration in Alaska. This year’s program is changing slightly, with some expansion drilling, Harris said.

“Most of the core drilling is directed toward pit expansion,” he said. “The reverse circulation holes are on the perimeter ... (they are) expansion targets. We’re stepping out from the pit.”

Those extension holes will include two drill holes to the west, where the Fort Knox claim block adjoins federally controlled land associated with the National Environmental Satellite, Data and Information Service, also called NOAA.

Kinross’ subsidiary, Fairbanks Gold Mining Inc., drilled seven reverse circulation holes on that property in 2003. While specific results were not released, the company said in late January that mineralization traced to the adjacent NOAA property could not be pulled into the Fort Knox pit.
Kinross Gold scales back Gil project, refocusing on discovery exploration

Work on Kinross Gold's most advanced exploration property in Interior Alaska, the Gil deposit, will scale back considerably this year.

Rich Harris, Alaska and Russia exploration manager for Kinross Gold, said the focus has shifted from drilling the known deposit of Main and North Gil, about seven miles from the Fort Knox mine complex, to looking for mineralized zones in the surrounding area.

“We’re looking to test the complete target outside the known deposit ... to explore along the Gil trend,” he said. “The emphasis is on evaluating the potential of the larger area. I feel it hasn’t been aggressively explored in recent years.”

Soil sampling and trenching will kick off that effort later this summer, and may be followed up with drilling.

Right now, the company plans to drill about 1,200 feet of core samples and 5,700 feet of reverse circulation samples at or near Gil, Harris said. A final budget has not yet been approved.

Those new prospects include Last Chance, between the mine and the Gil deposits and Fourth of July Creek, north of the Gil project. The goal is to find additional sources of mineralization near Gil to justify opening the area as an additional satellite mine.

Given the current geological knowledge about Gil, the deposit isn’t large enough to tap, according to Harris and to past Kinross corporate statements.

“In the 11 years that they’ve been working on Gil, off and on, the resource has gotten smaller,” Harris said. “They started out with some lofty expectations and those numbers become smaller. Then people become disappointed when the results didn’t come back as expected.”

Estimates for Gil, now in a reserve category, are about 150,000 ounces in the two deposits.

“It’s shrunk down too small to be attractive to put a road out there,” Harris said.

Last year, Kinross and its partner on the Gil property, Teryl Resources, spent about $1.6 million on the advanced exploration project. That included 127 reverse circulation holes totaling 28,000 feet, 31 core holes totaling 8,917 feet, four trenches totaling 1,150 feet and 358 rock samples collected for assaying, according to an April 21 press release from Teryl.

Rather than spend more money for infill drilling, Harris said the project could be improved with new discoveries along the Gil/Fort Knox trend.

“It’s a pretty compelling trend and in my view, very prospective,” he said. “It’s almost 20 miles long with a major deposit and throughout it gold occurrences and significant placer occurrences, but only fairly lightly explored. It represents a real opportunity and is viewed as a significant exploration asset with the opportunity to make a major discovery.”

—PATRICIA LILES, Mining News editor

continued from page 8

PROSPECTS

pit design.

True North area prospects

New attention will be given this year to four prospects neighboring the True North mine, a satellite deposit about 10 miles from Fort Knox that has provided additional mill feed at Fort Knox since 2001.

Harris came to Alaska in the early 1990s to work on the True North prospect for Newmont Gold, which later sold its interest in the deposit to Kinross. Now the exploration has a specific goal—to provide additional mill feed at Fort Knox.

“We’re working in an area that if we identify something, we could fast-track it to the mining stage," Harris said.

Those neighboring prospects include Treasure Creek and Vault Creek, 15 to 20 miles northwest of Fort Knox and west of True North, west of the Elliott Highway.

The third prospect, Newjoy, is on the north side of Pedro Dome, adjacent to the Steese Highway. Harris described it as a “fairly robust soil anomaly,” which should see some reverse circulation drilling this year, as well as at Treasure Creek and Vault Creek.

The fourth prospect is adjacent to True North, south of the existing mill site lease boundary, according to the company’s exploration application filed with the Alaska Department of Natural Resources on May 20.

A fifth prospect, Alder Creek, is considered more of a grassroots exploration property. It is roughly 10 miles north of Fort Knox. Harris plans some soil sampling on that property this year.

In its state exploration application, Fairbanks Gold requested permission to drill up to 30 holes annually, with a maximum depth of 600 feet, on these five prospects. They also requested permission to cut up to 10 trenches, up to 50 feet long, 20 feet wide and 10 feet deep.

“Plans for this year are some soil sampling and mapping where possible, perhaps some drilling,” Harris said. “These are grassroots properties ... an area with some obviouslyplacer goal potential, where Chatanika terrain rocks are poorly exposed.”

CENTRAL ALASKA

MAX Resource acquires Gold Hill property in central Alaska

Vancouver, British Columbia-based MAX Resource Corp. announced on May 17 its acquisition of the Gold Hill exploration property in central Alaska, near Cantwell.

The company plans to begin an extensive exploration and drilling program in June, subject to acceptance for filing of the acquisition option and weather conditions in the area, MAX said in its press release.

MAX entered into an option agreement with Zazu Exploration Inc., a privately held Texas corporation, which holds a lease on the Gold Hill claims from General Crude Oil Minerals Co. General Crude Oil acquired the property in 1983, according to MAX’s press release, and conducted some geologic and geophysical work, including drilling five core holes. The best intercept was 11.5 feet, averaging 0.668 ounces of gold per ton of rock.

Amax Gold, looking for a bulk tonnage gold occurrence in the late 1980s, conducted other previous exploration work. Amax completed 5,885 feet of reverse circulation drilling in 21 holes, hitting some high-grade intervals but no thick intervals of lower grade mineralization.

Gold Hill was originally drilled for molybdenum in the early 1970s, but some of the holes were not assayed for gold then. A large soil geochemical anomaly exists both on Gold Hill and the neighboring West Hill on the west side of the property.

Hydrothermal alteration is pervasive throughout the property, MAX said in its press release. Area creeks contain placer gold and have been worked in the past.

—PATRICIA LILES, Mining News editor

KETCHIKAN, ALASKA

Work starts at Union Bay property 35 miles northwest of Ketchikan; Lonmin funds $1.2M for platinum exploration

Fregold Ventures and Pacific Northwest Capital announced plans June 1 to begin drilling mid-June at the company’s Union Bay property about 35 miles northwest of Ketchikan, Alaska, a $1.2 million exploration program being funded by Lonmin Plc.

“Exploration will commence immediately with a detailed geological mapping and sampling program and an airborne magnetic and electromagnetic survey,” the company said in its press release. Crews will complete 9,000 feet of drill samples during this summer’s season, according to Fregold, initially targeting the Continental and Chevelle zones, where rock samples taken last year returned values ranging from 1 to 14 grams per ton of platinum.

The Continental zone, some five kilometers west of where 2003 drilling took place, is a recently discovered mineralized area.

Fregold President Harry Barr said last year that the Continental “looks very significant, in terms of surface samples.” Mineralization at Continental and Chevelle is hosted by similar rock types to the previously reported occurrences at the North and Jaguar Zones, where drills completed 4,496 feet of diamond core drilling in 2003. Lonmin funded that work, also, the platinum producer’s first foray in Alaska.

If results look good, more could be spent this year.

 Lonmin’s agreement with Fregold and Pacific Northwest calls for annual spending of a minimum of $1 million in 2004, 2005 and 2006, with a minimum of $750,000 afterward.

“Should the results of the data review prove to be sufficiently positive, Lonmin may elect to incur further expenditures before the end of the 2004 field season,” Fregold said in its press release.

Lonmin did bump its exploration spending midway through the 2003 work program, allowing geologists to spend an extra 30 days on the property, Barr said then.

In a Jan. 20 press release, Fregold and Pacific Northwest released some drill results from the 2003 program, calling it “most encouraging.” Drilling at Jaguar produced some of the largest, high-grade intercepts, including a 3.8 feet section grading 9.2 grams of platinum per ton of rock.

The Zone North produced a 1.7 feet intercept, grading 10.59 grams of platinum per ton of rock.

Another success of that 2003 program was discovery of a separate zone of copper, platinum and palladium bearing sulfides at Cannery Creek on the western rim of the Union Bay project, close to the margin of the complex. That zone remains open to the north and east, according to Fregold’s June 1 press release.

—PATRICIA LILES, Mining News editor

Another success of that 2003 program was discovery of a separate zone of copper, platinum and palladium bearing sulfides at Cannery Creek on the western rim of the Union Bay project, close to the margin of the complex. That zone remains open to the north and east, according to Fregold’s June 1 press release.

—PATRICIA LILES, Mining News editor
Pogo gold project shows progress

Developers OK final feasibility study, production program; construction costs increase, initial gold production expected in March ’06

By PATRICIA LILES
Mining News Editor

Partners in the Pogo gold project northeast of Delta Junction, Alaska, have officially approved the final feasibility study and production program, announcing plans on June 4 to complete construction and begin initial gold production in March 2006.

Production will ramp up to commercial rates by the end of August, 2006, the three partners said in a joint press release.

Development partners in the Pogo project, 40 miles northeast of Delta Junction in the upper Goodpaster River valley, include Teck Cominco Ltd., Sumitomo Metal Mining Co. Ltd. and Sumitomo Corp.

Construction of Pogo was expected to be complete late in 2005, prior to a permitting delay that arose earlier this spring. A Fairbanks-based environmental group in April filed an administrative appeal of the project’s final water discharge permit, issued by the Environmental Protection Agency. Work stopped at the project until early May, when the issues were resolved and the appeal was withdrawn.

Now, crews are filtering back to the remote work site, currently accessible by air. In late May, 225 people were working on site, according to Karl Hanneman, manager of public and environmental affairs and special projects for Teck-Pogo Inc. “That will gradually increase over the next few weeks,” he said, peaking at 500 workers this summer and next.

Construction work on a 49-mile all-season road, connecting Pogo and the upper Goodpaster River valley to the Richardson Highway, should be complete this September, according to Teck Cominco’s June 4 press release.

Approximately 600 truckloads of materials and supplies have already been hauled to the remote site on the temporary ice road constructed in January and early February. Remaining supplies will be brought in after the all-season road is completed this fall, Hanneman said.

Capital costs increase

Estimates for Pogo’s capital costs have increased since the project’s interim feasibility study was completed in late 2002, according to Teck Cominco. The weaker U.S. dollar and changes in steel and oil prices have bumped the estimated capital costs to $280 million, up $30 million from prior estimates.

That increased capital cost does not include expenses for interest, escalation and suspension and remobilization costs associated with the permit appeal, Teck Cominco said. The three companies intend to finance Pogo’s capital costs through cash on hand and corporate credit facilities.

Once completed, Pogo’s estimated production rate will be 460,000 ounces per year for the first full three years of production. Mill crews will process 2,500 tons of ore per day. Updated reserve and resources at Pogo contain 4.5 million ounces of gold, with grades averaging slightly below one-half ounce per ton of rock. The partners consider that there is “substantial potential for additions to reserves through near mine exploration,” they said in the press release.

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Thomas K. Budtzen, President
King Coal returning to the throne

Blackouts, natural gas prices open way to first coal-fired plants since early 1990s; debate rages between ‘clean-coal’ believers, advocates of environmental controls; MIT’s Loren Cox says coal plants can be as clean as a gas-fired plants

By GARY PARK
Petroleum News Calgary Correspondent

L ong the symbol of a “dirty” economy and seemingly destined for oblivion in the age of global warming, coal is making a resurgence in the United States and Canada, propelled by the big blackout last summer and the volatility of natural gas prices.

It is a small advance, but $4.900 megawatts of coal-fired generation is under construction or in advanced development in the United States and another 11,000 megawatts is in early development, according to a Standard & Poor’s report in March.

Beyond that, 90 new coal-fired power plants are in the drawing boards, with a combined capacity of 50,000 megawatts and a price tag of $75 billion. Currently, total U.S. electricity capacity is 900,000 megawatts.

Even those projects that are under way are the first coal-fired plants in about a dozen years and stem directly from the growing uncertainty around gas prices, said Loren Cox, associate director of the Center for Energy and Environmental Policy Research at the Massachusetts Institute of Technology.

“When gas prices were volatile and high, then there are enormous incentives to switch to coal because the price of coal is very stable and the resource base is so huge,” he told a Calgary conference this year.

Although dual-fired power generation has capacity shrunk over the last 15 years, that trend could easily be reversed, Cox said.

“The owners of generation facilities want to stay in business,” he said. “The one thing that no generator ever wants to experience is being shut down because the supply is not there.”

Gas-fired plants built when gas cheap

When natural gas was cheap and plentiful in the 1990s, North America embarked on a wave of building gas-fired generating plants.

Now the pendulum has swung back, with fuel costs for gas generation as high as 4 cents per kilowatt-hour, compared with 1 cent for coal plants. The threshold price for gas production is estimated at $3 per million British thermal units, barely half current gas prices and sufficient to make coal-fired power a bargain.

“Two or three years ago we would have said sooner rather than later,” said Thomas Shockley, chief operating officer of American Electric Power Co., the largest U.S. electric utility, referring to the likelihood of coal-fired generation shutting down. “But $5 gas pushed that out.”

Brushing off the tarnished environmental tarnish of coal, Cox said the market for gas-fired plants can be “virtually as clean as a gas-fired plant” by eliminating all sulfur emissions.

Jim Dinning, an executive with a Alberta-based utility TransAlta, said the term clean-coal is not a misnomer, noting that the coal gasification in use at several U.S. power plants turns coal into synthetic gas, hydrogen, sulfur, chemicals and a “relatively pure stream” of carbon dioxide that can be shipped to depleted oil fields for sequestration, or for enhanced oil and coal bed methane recovery.

“Referring to the “wayayers,” Dinning likened them to “the folks who said we’d crash at Y2K.”

Duke du Plessis, a researcher manager at the Alberta Energy Research Institute, said there are now technologies that can “remove most or all emissions of concern” from coal in the production of power.

Still critics of clean-coal technology

However, the critics are not swayed, arguing that investment in clean-coal technology is a diversion of money from established electricity supply sources that already meet climate change and environmental protection targets, such as wind power.

At the nub of the debate in the United States is the extent to which coal can be a factor in national energy security.

The Department of Energy gives a strong vote of confidence by rating coal as “one of the true measures of the energy strength of the United States.”

The Bush administration’s energy strategy has endorsed that view by including coal as a key element of the energy mix and describing coal-fired generating plants as the cornerstone of the United States’ central power system.

Adding to the momentum, a preliminary report on natural gas submitted to the DOE by the National Petroleum Council helped the goal of “alternative energy sources” for industrial consumers and some power plants by opening the door to “greater flexibility in fuel-switching and fuel choice.”

Still problems for coal

It’s not all plain sailing for the coal industry, however.

Mark Zand, a principal at Westco Capital, an investment company with interests in energy and natural resources, told Petroleum Economist that one of the problems with continuing low coal prices is that “producers don’t make any money.”

He said smaller, low-cost producers are being driven out by large-scale operations as they lose the battle to “make enough to cover liabilities such as future land reclamation and legacy costs — pensions and disability coverage.” And, once producers enter bankruptcy, “they can’t just come back,” he said.

On the other hand, he said utilities must have to make do with what the price, thus the “fire-free” for consumers may be over.

While adopting a coal-friendly stance, the Bush administration has also acknowlged the environmental concerns by introducing legislation targeting further cuts in nitrogen oxides and sulfur dioxide emissions and, for the first time, proposing a cap on mercury emissions.

It is not yet clear what form those changes will take or when they might be imposed, but if plants are required to lower mercury emissions by 70 percent by 2018, coal-fired generators would face a severe challenge as would western U.S. producers whose coal has mercury content that is difficult to remove.

Hanging more heavily over the industry is the prospect of controls on emissions of carbon dioxide, identified as the greatest contributor to greenhouse gases.

The administration, because of its opposition to the Kyoto Protocol, does not touch the CO2 issue, but there has been movement in Congress to regulate CO2 — a threat that some analysts believe could kill one-third to one-half of the U.S. coal industry because there is no technology available to remove CO2 from coal-fired plants.

Want to know more?

If you’d like to read more about coal published in North of 60 Mining News or Petroleum News’ mining section, go to Petroleum News’ web site and search for these articles in the Petroleum News archives that were published in the last year. The Petroleum News archives hold all the North of 60 Mining News articles, as well as a mining section that appears within Petroleum News when news can’t wait for the monthly North of 60 Mining News publication.

2004
● June 6 Offer for coal plant rejected by state agency
● June 6 Alaska mine power options down to three
● May 23 Natural gas set to displace oil on world stage
● May 9 Calista Corp. chooses Canadian coal
● April 25 Coal project spurred by world demand
● March 28 As gas prices rise, utilities plan new coal-fired plants
● March 28 Ontario aims to close coal-fired plants by 2007, use renewable energy
● March 14 Improving mineral development
● Feb. 1 Ubisiell puts coalbed on hold

2003
● Nov. 16 Mining industry tops $1 billion — again
● Nov. 2 Struggle simmers over power source
● Sept. 28 Contracts signed to ship coal to Korea once again
● Aug. 20 Coal — the king lives
● Aug. 3 Power from Creek mine, Bethel, villages might come from local shallow gas, not B.C. coal
● Aug. 3 Ubisiell shifts to Two Bull Ridge
● July 29 Stranded coal needs transportation
● July 25 GVEA prepares power plant plans for construction bidding
● June 15 Movement on Healy plant
● March 14 Improving mineral development

Note: Curt Freeman’s monthly mining update, which carries briefs about coal, is not included in the above list. To find Freeman’s column in Petroleum News’ archives search for Curt Freeman and all the columns will pop up.
YUKON TERRITORY

Yale options Dawson area property, to test high-grade, bulk tonnage gold

Vancouver, British Columbia-based Yale Resources Ltd. announced its option on the Golden Revenue property in southwestern Yukon Territory, accessible by a secondary highway branching off of the Yukon Highway.

In a May 17 press release, Yale said it is currently planning its drilling program to test both high-grade and bulk tonnage gold occurrences on the property in June and July. The company plans to spend a minimum of $400,000 on the property in 2004, and has already obtained exploration permits, according to Yale’s website.

The 1,800-acre property consists of three contiguous claim blocks, called Nucleus, Revenue and Big Creek in the Dawson Creek mining district, the company said.

Two types of mineralization exist at the Golden Revenue property. One is a vein structure with high-grade gold and variable copper values. The second is gold stockwork and breccia zones with bulk-tonnage potential. Ten different prospects have been identified to date, two of which have some past exploration work, the company said.

The Nucleus Zone contains a swarm of subparallel porphyry dykes that cover an area 1,400 meters long and 500 meters wide. Drilling to date has been confined to a 200-meter square area. The best individual diamond drill intervals include 49.5 meters of 1.76 grams of gold per ton of rock, 36 meters of 1.36 grams of gold and 57.76 meters of 1.32 grams of gold.

High-grade gold structures were tested using a percussion hole drilling program. The best intercepts included a 13.72 meter intercept grading 34.86 grams of gold per ton, 16.77 meters grading 4.58 grams per ton and 6.1 meters grading 11.15 grams of gold per ton of rock.

The Discovery Zone prospect hosts both high-grade veins and stockwork zones with bulk tonnage potential, the company said. Three main vein structures have been identified, but they are poorly defined and have not been systematically drilled with modern equipment and technology, the company said. High grades of gold and copper were reported in an old adit and in trenches.

Yale can earn up to 70 percent interest in the property, subject to a 2 percent net smelter return applicable to two of the three property blocks.

—PATRICIA LILES, Mining News editor

Expatriate buys Atna’s stake in Wolverine

Expatriate Resources says it has struck a deal with Atna Resources to purchase Atna’s 39.4 percent interest in the Wolverine joint venture in the Yukon Territory. The deal, if approved by regulators, gives the company 100 percent ownership in the precious metals deposit and surrounding exploration properties.

The terms of the agreement, Expatriate will pay C$3.2 million in cash, issue 10 million shares and 5 million share-purchase warrants and provide a royalty on silver and gold production from the proposed mine. At current share prices, excluding royalty payments, the deal is valued at about C$56 million. Atna will walk away with about 11.7 percent of Expatriate.

The May 31 announcement “paves the way for advancing the completion of a feasibility study and development of Wolverine as an important new silver-gold-zinc-copper-lead mine,” Expatriate said.

Wolverine contains about 75 million ounces of silver and 352,000 ounces of gold, as well as large amounts of zinc, lead and copper, Expatriate said.

“Recent improvements in the zinc concentrate markets and the rapid increase in selenium price has changed the market outlook for concentrates from the Wolverine deposit,” the company said in a release. “The outlook for silver is also positive.”

Logan exploration set aside

“Changing market conditions now make it feasible to reevaluate Wolverine as a stand-alone mine,” the company said.

Expatriate said it has resumed planning and permitting of the proposed Wolverine underground test-mining and exploration program to provide the additional information required to finalize the Wolverine portion of a bankable feasibility study.

Expatriate said the Wolverine deposit is “key to development of the Finlayson district as a major base-precious metal mining camp.”

The company has been evaluating the development of Wolverine in conjunction with the Logan deposit in southern Yukon. Expatriate said it intends to “expand exploration on its extensive claim holdings concurrently with ongoing engineering studies and economic evaluation of Wolverine.”

Exploration and engineering of the Logan deposit will be set aside until the evaluation of Wolverine is complete, the company said.

Expatriate is a base and precious metals exploration and development junior with projects in Yukon, Nunavut, Ontario, California and Chile.
State bonding considered for Kensington
Alaska Legislature approves bill allowing up to $20 million in AIDEA bonding for southeast gold mine development

By PATRICIA LILES
Mining News Editor

Doctors of the Kensington gold project in Southeast Alaska received a solid vote of confidence from Alaska's state government, with nearly unanimous legislative approval of a bill that would allow up to $20 million in tax-exempt bonding for port and tailings impoundment facilities.

The bill was passed by the Alaska Legislature in early May and signed into law in early June. It's the first step in a six-month to year-long process of approving bonds issued by the Alaska Industrial Development and Export Authority for Coeur d'Alene Mines Corp. in its development of the Kensington hard rock mine and mill 45 miles north of Juneau.

Coeur has permit applications pending with state and federal regulators to build an underground mine and mill facility, which would produce an estimated 100,000 ounces of gold each year. The company's current estimated cost for construction is $85 million, according to Coeur's website describing its final updated feasibility results for the project. A final supplemental environmental impact statement for Kensington, along with authorizing permits, is scheduled for release Oct. 29 according to the U.S. Forest Service, the lead regulatory agency for the project. Coeur anticipates construction starting late this year, with completion and gold production expected in 2006.

Kensington project details
Coeur plans to build a hard rock mill and administration facilities in the Johnson Creek drainage, in the vicinity of the Jualin Mine, which is a little more than two miles south of the Kensington deposit.

A 12,000-foot tunnel connecting the Jualin and the Kensington mineralized areas is also proposed, allowing mill facilities to be located farther inland, out of view of Lynn Canal. The Kensington Gold Project will create 300 construction jobs and will provide an annual estimated payroll and benefits of about $16 million. The project will also create more than 181 additional indirect jobs and result in $7.5 million in direct local purchases during construction, according to Coeur.

Reserves for Kensington are estimated at one million ounces of gold.

There are an additional 7.2 million tons of mineralized material, averaging 12 ounces of gold per ton of rock. "Not all Kensington ore zones have been fully delineated at depth and several peripheral zones and veins remain to be explored," Coeur said on its website project description. "Coeur still views its interests in the district as holding up to five million ounces of gold."

Cash costs to produce gold at Kensington are estimated at $195 per ounce, according to the company's final updated feasibility results. The expected mine life is approximately 10 years, for the initial one million ounces of reserves.

Bonds for port and tailings storage
AIDEA bonds may be used to construct port facilities, providing coastal access for the Southeast Alaska project. Those bonds require government ownership and availability of public use to meet Internal Revenue Service tax-free status, McMillan said. Coeur's current development plans call for port facilities at Cascade Point and Slate Creek Cove, about five miles from the proposed mill site. A marine terminal to receive supplies and to ship ore would be constructed in Slate Creek Cove off of Berners Bay.

Employees will be transported to the mine via ferry from Cascade Point, near the northern end of the Juneau Veterans Memorial Highway. Coeur plans daily bus service between Cascade Point and Juneau, eliminating on-site employee housing in camp facilities.

AIDEA bonds may also be used in constructing the mine's tailings impoundment. Because the tailings facility would be regulated under the state's solid waste disposal permits, tax-exempt bonds could be used without AIDEA ownership, according to Becky Gay, AIDEA spokeswoman.

Coeur plans to store tailings in waters of Lower Slate Lake, keeping a minimum of nine feet of water over the highest level of rock. That, combined with planned tailings dam raises, will ultimately create a larger lake and more habitat for wildlife, Gay said. Tailings will be transported from the mill to the lake via a 3.5 mile buried pipeline.

Reimbursable agreement needed
Now that the Legislature and the governor have signed off on the bonding proposal, AIDEA has begun the process of approval. In addition to seeking a letter regarding the IRS ruling on whether tax-exempt bonds can be issued, AIDEA is seeking a cost reimbursement agreement with Coeur. That will require the mining company to pay for AIDEA's costs incurred in the bonding approval process, McMillan said, which will cover the state's due diligence review of the project.

“We contract with third party consultants to do that (due diligence),” he said. “If the bonds are issued, that cost is covered by the bonds. But if they do not go forward with the bonds, (Coeur) will pay back our expenses.”

Undermining the state's due diligence concern is the high potential for development costs. "The only reason they came to us is for the potential that the tax-exempt bonds provide lower cost funds than the company's internal funding,“ —Jim McMillan, AIDEA's deputy director of credit and business development.

They have the capital to do the entire project — the only reason they came to us is for the potential that the tax-exempt bonds provide lower cost funds than the company's internal funding.” —Jim McMillan, AIDEA's deputy director of credit and business development.
BRITISH COLUMBIA

B.C. mining industry poised for next boom, says PricewaterhouseCoopers’ study

British Columbia’s mining sector continued its five-year recovery trend last year and is on the brink of an Asia-fueled boom, according to an annual British Columbia mining study conducted by PricewaterhouseCoopers.

An increase in coal, copper, silver, gold and lead prices helped to push total industry net income up 166 percent in 2003, reported the study, which was released in May. The Mining Industry in British Columbia — 2003, an annual survey and assessment of the mining industry’s overall performance, summarized the 2003 year-over-year financial information of British Columbia’s 13 producing mines and one smelter. It reported that the industry had a net income of C$285 million compared with C$107 million in 2002.

Gross mining revenues were up by 3.5 percent to C$31.65 billion in 2003 over the 2002 figure of C$31.53 billion. Coal was the biggest player last year, accounting for 36 percent or C$964 million of the British Columbia mining industry’s net operations of C$2.7 billion.

PricewaterhouseCoopers survey results found that cash flow from operations in 2003 was C$98 million, an increase of C$31 million or 5 percent from the C$567 million cash flow from operations in 2002. And last year’s return on shareholder investment was 10.9 percent as compared to 4.1 percent reported in 2002.

Tempered by stronger Canadian dollar

“Although 2003 was generally a positive year for the B.C. mining industry, the benefits of higher metals prices were tempered somewhat by the stronger Canadian dollar,” said Michael Cinnamond, senior manager for PricewaterhouseCoopers’ British Columbia mining practice. “The global industry prices its products in U.S. dollars, so a 1 cent change in the value of the Canadian dollar translates to a shift in gross revenues for B.C. producers of C$26 million.”

“The province’s mining industry seems to be finding its feet after some tough years — higher metals prices are certainly helping and may lead to the re-opening of some existing operations. Exploration expenditures, a must for long-term sustainability, were up last year and reached C$555 million province-wide and are expected to be in the C$100 million range in 2004,” said John Bowles, PricewaterhouseCoopers’ British Columbia mining practice leader.

Exploration spending has been on the rise every year since 1999. If it breaks the C$100 million mark this year it will be the first time since 1996. Between 1980 and 1990, when 23 mines opened in the province, an average C$162 million was spent on exploration in the province each year, he said.

Provincial minister of state for mining Pat Bell told the Globe and Mail that it is important to move quickly to find and develop new mineral deposits while demand from China and India is at its peak.

“We’re sitting on a 15-year window of opportunity that many of us may never see again,” he was quoted as saying.

--MINING NEWS

EASTERN INTERIOR ALASKA

Freegold buys Tolovana gold project

Freegold Ventures Ltd. said June 16 it has entered into an agreement with Nautilus Alaska Inc. that allows it to acquire Nautilus’ rights to a 20 year lease on the Tolovana Gold project in the Fairbanks mining district of eastern Interior Alaska. The lease may be extended for an additional 10 years on the same terms, Freegold said.

The Tolovana Gold property lies southwest of the historic Cleary Hill Mine and will form part of the Golden Summit property under the Freegold/Meridian Joint Venture, Freegold said.

Previous drilling on the Tolovana property “intersected high grade gold values in intrusive and associated metamorphic rocks. An extensive hydrothermal system is present on the property with mineralization open to the west, east and to depth,” Freegold said.

Exploration is expected to begin within the next month.

Under the terms of the agreement Freegold will assume all of Nautilus’ obligations under the lease, which include making annual payments of C$1,000 per month for first 23 months, increasing to C$1,250 per month for months 24 to 48, and increasing to C$1,500 after the 48th month and for duration of the lease.

The property is subject to a sliding scale NSR as follows: 1.5 percent NSR if gold price is below C$300, in the event the price of gold is between C$300-$400 a 2.0 percent NSR and for first 23 months, increasing to C$1,250 per month for months 24 to 48, and increasing to C$1,500 after the 48th month and for duration of the lease.

Freegold believes there is a 15-year window of opportunity that many of us may never see again,” he was quoted as saying.

--MINING NEWS

Companies involved in Alaska and northern Canada’s mining industry

Aeromap U.S.
Anchorage, Alaska
Contact: Holly Holmes, Marketing Phone: (907) 272-4495 Fax: (907) 276-3265 Email: holmes@aeromap.com Web site: www.aeromap.com Aeromap provides geospatial information about the earth utilizing land, airborne and satellite sensors.

Arctic Controls
Anchorage, Alaska
Contact: Scott Stewart, president Phone: (907) 277-7755 Fax: (907) 277-9295 Email: stewart@arcticcontrols.com Web site: www.arcticcontrols.com Arctic Controls has been highly successful as a manufacturer representative in the Process Control and Instrumentation field.

Arctic Foundations
Anchorage, Alaska
Contact: Ed Yarmak Phone: (907) 562-2741 Fax: (907) 562-0153 Email: info@arcticfoundations.com Web site: www.arcticfoundations.com Arctic Foundations has owned and operated catering company in Anchorage, Alaska.

Chiulista Camp Services
Anchorage, Alaska
Contact: Gaior B. Gardner Phone: (907) 278-2208 Fax: (907) 676-7261 Email: gbgardens@calistacorp.com The 100 percent Alaska Native owned and operated catering company on the North Slope, catering and housekeeping to your tastes.

CN Aquatrain
Anchorage, Alaska
Contact: Laurie A. Gray, agent Phone: (907) 279-2757 Toll free: (800) 999-0541 Fax: (907) 272-3963 CN Aquatrain has provided Alaska with dependable access to Canadian and Lower 48 markets for 38 years.

Golder Associates
Anchorage, Alaska
Contact: Bob Bugdan, mgr. Phone: (907) 344-6001 Fax: (907) 344-6026 Website: www.golder.com Providing geotechnical engineering, water resource, and geosciences services in support of resource development projects in Alaska and the Arctic.

Judy Patrick Photography
Anchorage, Alaska
Contact: Judy Patrick Phone: (907) 258-4704 Fax: (907) 249-4265 Email: jsp@hto@tmoaonline.net Web site: judypatrick@photography.com Creative images for the resource development industry.

Lynden
Anchorage, Alaska
Contact: Jeanie St. John Phone: (907) 245-1544 Fax: (907) 245-1744 Email: cuists@lynden.com Web site: www.lynden.com Truckload highway connections, scheduled barge, intermodal bulk chemicals, air freighters, domestic and international air and sea forwarding.

MRO Sales
Anchorage, Alaska
Contact: John Powell Phone: (907) 248-8808 Fax: (907) 248-8878 Email: Sales@MROsalesInc.com Web site: www.MROsalesInc.com MRO Sales offers products and services that can help solve the time problem on hard to find items.

Northern Air Cargo
Anchorage, Alaska
Contact: Nick Karnos Phone: (907) 249-5163 Fax: (907) 249-5194 Email: nkarnos@nacro.aero Web site: www.nacro.aero NAC moves nearly 100 million pounds of cargo on scheduled flights to 17 of Alaska’s busiest airports.

Totem Equipment & Supply
Anchorage, Alaska
Contact: Mike Haskin, vp Phone: (907) 276-2585 Fax: (907) 258-4265 Email: sales@toteminc.com Web site: www.toteminc.com Totem Equipment & Supply supplies light, medium and heavy equipment. Specializing in temporary and permanent heating solutions.

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--MINING NEWS
Little Squaw Gold Mining Co. released results in early May from an independent geological analysis of the company’s holdings in the Chandalar Mining district, which include both lode and placer prospects.

Recommendations for future lode exploration includes targeting a potential bulk tonnage deposit, based on including lenses of multi-ounce gold quartz veins with auriferous splays and subparallel, shortened quartz vein systems.

Placer development recommendations suggest targets in the lower Big Squaw Creek and the Little Squaw Creek valleys, which could contain up to 300,000 ounces of gold, according to the company’s May 3 press release.

Little Squaw commissioned Pacific Rim Geological Consultants Inc., of Fairbanks, to analyze the historical database for the Chandalar area property and to complete an independent report and recommendation. Pacific Rim’s report “offers a scientific basis that verifies the high quality of its Chandalar property as an exploratory gold prospect that could well contain a major gold deposit,” Little Squaw said in its press release.

Richard Walters, president of the recently reorganized company, said current plans for the Chandalar property in 2004 will be minimal, “nothing more than claim maintenance this summer — that is unless we accomplish an equity financing (private or public) or secure a joint venture partner (one of the big gold companies).”

Little Squaw is working on both options, he added, and has been in serious discussions with two majors. Walters put together a deal last summer to acquire the Chandalar mining district property, with the intention of putting Little Squaw’s gold holdings back into production. Little Squaw holds about 8,200 acres of mining claims on state land, and 425 acres of patented federal land, which covers the main gold-quartz lodes and the principle placer deposit. About 13.4 square miles of land is staked in the district, mostly north and east of Chandalar Lake.

Seeking winter trail upgrade to road

Access is by air or by winter trail, from the Dalton Highway east to Chandalar, a route over which the state has announced its intent to file a quiet title action for the unencumbered right of way, Walters said.

“The long-term key to the economic success of the Chandalar mines is going to be realization of road access. The most practical route for consideration is the 61-mile long Coldfoot to Chandalar Lake winter trail.” — Richard Walters, president, Little Squaw Gold Mining

Consultants Thomas Bundtzen and James Barker reviewed historical data to produce their analysis. Little Squaw’s lode gold mineralization is “orogenic, mesothermal, low-sulfide deposits hosted in shear zones that have strike lengths of at least four miles.”

Technical report released

Pacific Rim’s report is the first ever analytical independent technical report conducted on the property and the mining district, according to Walters.

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Little Squaw releases independent report

Geological analysis suggests potential bulk tonnage deposit, placer mining opportunities on far northern Alaska property
 Exploration, placer mining activity up

Permits sought by exploration, placer mining operators increase by 43 compared to 2003, state geologist predicts 17% increase

By PATRICIA LILES
Mining News Editor

“Last year, a lot of people were just treading water — continuing to submit their application but not actively mining. This year, there are many more people planning to do some serious mining.”

— Brent Martellaro, geologist with Alaska Department of Natural Resources, Division of Mining, Land and Water


Claim staking up dramatically

A precursor to exploration and mining activity is claim staking, and the department reported dramatic increases earlier this year, work that began in earnest in 2003 and continued into early 2004. Hot spots for claim staking included the Pogo area northeast of Delta Junction in Alaska’s Interior, the Denali block just north of the Alaska Range near Paxson and the Pebble area, northwest of Iliamna on the Alaska Peninsula in Southcentral Alaska.

Department records indicate those three lode prospecting areas make up 903,240 acres of active claims, equal to 1,411.3 square miles of ground. That’s roughly one-third of the total amount of land in Alaska staked for mineral exploration and development. In 2003, 307 square miles of state and federal land were staked, about double the amount of claim staking in 2002. (See April 18 issue of Mining News.)

Continued from page 15

LITTLE SQUAW

miles, widths of up to 400 feet and vertical extents of at least 1,600 feet,” according to the report.

“There are at least four, parallel, quartz-sulfide-vein-and-shear zone structures that control the past productive Mikado, Eneveloe, Summit and Little Squaw gold deposits, and more than 20 additional lode gold prospects, the latter of which have received very little exploration work.”

The report also analyzed placer occurrences on the property, recommending development of a gold placer operation capable of producing 15,000 to 25,000 ounces of gold per year. The authors recommend an initial $1.5 million work program that would jointly target a first-phase appraisal of both placer and lode deposits. Potential exploration prospects are numerous on the property, where gold was first discovered on Little Squaw Creek in 1905. Past production in the district exceeded 84,000 ounces, Walters said. Identified lode gold resources are more than 17,000 tons, with an average grade of 1.5 ounce per ton, for 26,493 ounces of gold.

Walters estimates there is “near-surface potential for more than one half million ounces of high grade on the six main structures, as well as multi-million ounce potential that could come with deep exploration of them and some nine other known veins.”

“Placer mining and lode exploration activity in Alaska is picking up this year, according to applications filed with the Alaska Department of Natural Resources. A total of 299 permit applications have been filed with the department’s Division of Mining, Land and Water in 2004, an increase of 43 applications compared to the number filed in 2003, according to geologist Brent Martellaro, in the department’s Northern Regional office in Fairbanks.

“We’re projecting the number of permits filed will be 17 percent higher. We’re on target to see about 360 applications by the end of the year,” Martellaro told Mining News on June 7.

Placer miners and hard rock exploration companies using heavy-duty equipment must complete an annual placer mining application to receive permission from the state for their activities. Exploration activity that does not use heavy equipment, such as soil sampling, geophysical surveys or even suction dredging, does not require the annual permit.

The one year permit cost is $100, although companies can file multi-year applications for ongoing programs, for up to five years. Multi-year applicants pay a $100 fee the first year, then $50 for each subsequent year.

Many more people mining this year

The recent increase in annual applications doesn’t fully reflect the increased activity on Alaska’s mineral prospects, Martellaro said.

“Last year, a lot of people were just treading water — continuing to submit their application but not actively mining. This year, there are many more people planning to do some serious mining.”

In addition, the increase in applications is accompanied by a number of new operators submitting plans, Martellaro said.

“Hopefully gold prices will stay in there.”

—Brent Martellaro, geologist with Alaska Department of Natural Resources, Division of Mining, Land and Water

By 43 compared to 2003, state geologist predicts 17% increase

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